

# Mecklenburg 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**

August 2, 2016

Mecklenburg County ABC Board  
Mr. Cleveland H. Edwards, Chairman  
3333 North Tryon Street  
Charlotte, NC 28206

Dear Chairman Edwards,

We are pleased to submit this performance audit report on the Mecklenburg 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. It is understandable and commendable that many of the ABC Boards across the state aspire to be as successful as your Board.

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

Respectfully,

Robert A. Hamilton  
Administrator

CC: North Carolina Association of ABC Boards

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

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G.S. 18B-705 (a) authorizes the ABC Commission to ensure that all local ABC Boards comply with established performance standards by conducting regular or special audits, performance evaluations or taking other measures, which may include inspections by Commission auditors or alcohol law enforcement agents.

The audit scope includes performance 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.

To achieve the objectives of the audit, auditors:

- Reviewed applicable General Statutes, ABC Commission Rules, and administrative policies
- Reviewed applicable reports and studies of ABC boards with similar size and geography
- Consulted with specialists at UNC School of Government
- Verified compliance with Commission and Board policies
- Reviewed organizational chart and job descriptions
- Reviewed ABC board annual audit for the FY2015
- Visited the store(s)
- Interviewed key ABC board personnel.

As a basis for evaluating internal control, auditors applied the internal control guidance contained in professional auditing standards. Internal control consists of five interrelated components: (1) control environment; (2) risk assessment; (3) control activities; (4) information and communication; and (5) monitoring.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that the auditor plan and perform the audit to obtain sufficient and appropriate evidence. This evidence is to provide a reasonable basis for the findings and conclusions based on the audit objectives.

## **BACKGROUND**

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S.L. 1947-835 authorized Mecklenburg County to hold an election for ABC stores. The referendum was held on June 14, 1947 and passed 16,377 to 12,830. The first retail sale occurred on September 25, 1947. S.L. 1971-617 authorized the county to hold an election for mixed beverage sales. The referendum was held on September 8, 1978 and passed 65,624 to 30,193.

Upon vote passage, the county was authorized to create an ABC board consisting of a chairman and two members to serve for three-year staggered terms. S.L. 1981-331 allowed for the expansion of the board from three to five members. Current board members are Cleveland Edwards, chairman, David Conway, Earl Leake, Jennifer Stanton, and Lloyd Scher.

The Mecklenburg County ABC Board employs eighty-eight full-time and 130 part-time store employees. The administrative staff consists of the CEO, CFO, Operations Director, Human Resources Director, the Community Outreach Director, Law Enforcement Director, Accounting Specialist, Customer Experience Manager, and a Receptionist. Each store has a store manager and assistant manager whose primary responsibility is to provide customer service, store upkeep, and regular stock maintenance.

## FINANCIAL ANALYSIS

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### PROFIT PERCENTAGE TO SALES

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The profit percentage to sales is calculated by dividing the total income (loss) from operations by the total liquor sales (Total Income (Loss) 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 and \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2015, the Mecklenburg County ABC Board had gross sales of \$130,356,543; income from operations was \$18,397,670, a 14.02% profit percentage to sales. Sales revenue increased 8.9% over FY2014.

Key factors contributing to sales increases:

- Mecklenburg County borders an open state, South Carolina, that is flexible in product pricing but strict in hours of operation
- Attractions within the county provide an abundance of tourist opportunities
- Ability to provide a variety of products throughout twenty-four stores.

## DISTRIBUTIONS

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*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 3½% markup and .01/.05 cent bottle tax to the county.*

In FY2015, the Mecklenburg County ABC Board made the required minimum distribution of \$3,510,078 proportionately to the City of Charlotte and the county. The Mecklenburg County ABC Board paid a total of \$31,639,229 in excise and other taxes to the NC Department of Revenue, the Department of Health and Human Services, the city 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%) for alcohol education/rehabilitation purposes.*

The Mecklenburg County ABC Board staffs law enforcement officers (15) for alcohol law enforcement within the county. The law enforcement division is required to submit monthly activity reports to the Board and the NC ABC Commission. The law enforcement distribution is an expenditure item used to fund the operations. Law enforcement expenditures for FY2015 total \$1,929,069.

The Mecklenburg County ABC Board provides a grant program that “specifically deals with substance abuse prevention, education, treatment, or research in the field of substance abuse”.<sup>1</sup> In FY2015, the board awarded multiple agencies a total of \$4,178,843. The board is a major funding contributor to the Anuvia Prevention and Recovery Center. As a requirement of G.S. 18B-805 (h), each recipient submits a detailed annual report identifying how the funds were spent. Copies of the reports are available at the Mecklenburg County ABC Board.

S.L. 1947-835 requires the Mecklenburg County ABC Board to distribute quarterly the remaining profits to the following:

- Forty-seven and one-half percent (47.5%) to the Mecklenburg County General Fund of which two percent (2%) is to be distributed to each to the Towns of Mint Hill, Davidson, Cornelius, Huntersville, Pineville, and Matthews
- Forty-seven and one-half percent (47.5%) to the City of Charlotte General Fund
- Five percent (5%) to the city/county library commission.

In FY2015, the Mecklenburg County ABC Board made an additional distribution of \$4,971,483 to the municipalities and the county general funds.

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<sup>1</sup> The Mecklenburg County ABC Grant Program – [www.meckabc.com](http://www.meckabc.com)

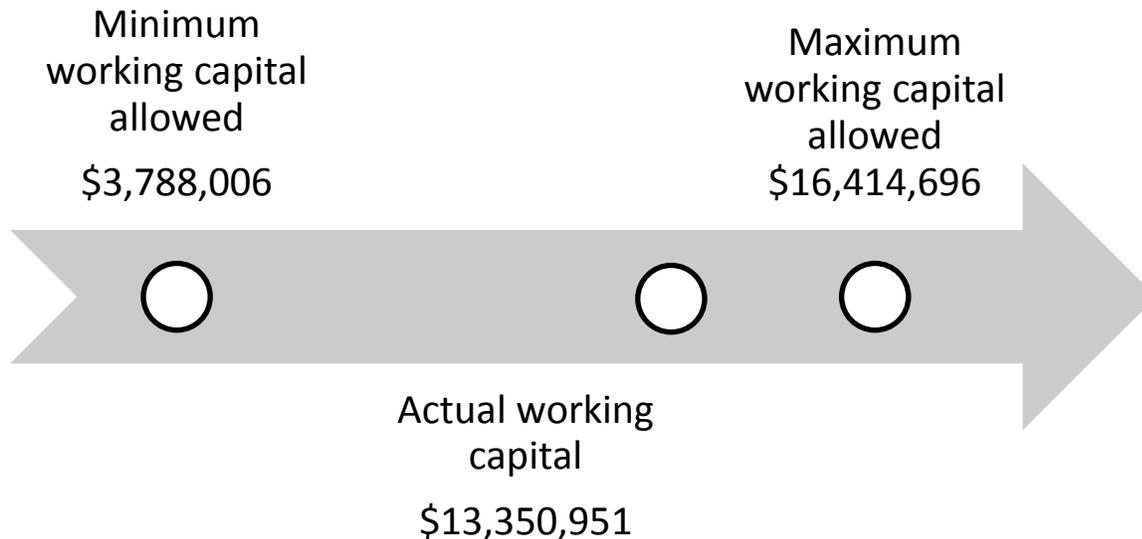
## WORKING CAPITAL

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*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 working capital and 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*

The Mecklenburg County ABC Board had gross sales of \$130,356,543 in FY2015. The board's working capital of \$13,350,951 is within the recommended range set by the rules of the Commission.



## **OPERATING COST RATIO**

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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 Mecklenburg County ABC Board operates twenty-four stores with a mixed beverage outlet store. Mixed beverage sales make up 34.3% of total gross sales. In FY2015, the Mecklenburg County ABC Board operating cost ratio is 0.41. Sales have increased 8.9% over fiscal year 2014. Expenses increased 4.65% over the same time period.

Key factors contributing to increased operating expense include:

- Increased costs of liquor to accommodate the increase in customer demand
- Salaries increased 4% over fiscal year 2014 to accommodate the increase in customers.

## **FINDINGS AND RECOMMENDATIONS**

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### **STORE APPEARANCE AND OPERATIONS**

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As a routine procedure, the ABC Auditor tours ABC store locations, evaluates interior and exterior appearances, verifies product pricing, and interviews store personnel. The Mecklenburg County ABC Board operates twenty-four retail stores with one mixed beverage outlet. The stores have an approximate average of 1,200 linear feet of shelf space and carry approximately 1,900 products within each store.

- The stores appeared clean and free of trash. Counter areas were neat and well-organized.
- The stores displayed neat and visible signage. The Fetal Alcohol Syndrome poster is displayed and visible to the public in all locations.
- Landscaping around the stores is well-maintained and trash free.
- Shelf management and/or product placement follows marketing industry standards and shows the following:
  - Each product is displayed within its designated category
  - Premium products show at eye level and lowest-price products on the bottom shelves.
  - Sizes are consistent going from largest on the right and smallest to the left
  - Cross merchandising is utilized where possible to encourage impulse shopping
  - Bottles are fronted and dusted throughout the store
  - Product placement based upon sales as a percentage of the category total.
- Sales clerks often refer to the price book for verification of products and pricing. Monthly sales information is shared with mixed beverage and retail customers on a consistent basis.
- Cash drawers are maintained by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures for handling cash drawer overages/shortages.
- Bank deposits are made regularly according to the ABC Commission rules. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed by the accounting specialist and verified by the CFO.
- Each store has a schedule to count all inventory determined by the admin office. Counts are conducted every month. Each count sheet is a report that does not notify what is supposed to be in the store so the stores must provide counts of each bottle. Count sheets are forwarded to the warehouse and they will send the store a variance report. The stores are to count the variances to determine if indeed there is a discrepancy. The variance reports are submitted a second time for cross-checking, verification, and accuracy.

### **NO RECOMMENDATIONS**

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## **PERSONNEL AND ABC TRAINING**

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- All board members, the general manager, and the finance officer have completed the ethics training as required.
- Additional training is provided to new and existing staff on key areas such as product knowledge, customer service, and clerk responsibilities. The general manager and other staff often attend various training courses offered by the NC ABC Commission and the NC Association of ABC Boards.
- Law enforcement staff conducts routine training for employees on ABC laws and other applicable laws pertaining to alcohol enforcement.
- Personnel files are available and include the required human resource documentation and other information as needed for payroll.

## **NO RECOMMENDATIONS**

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## **ABC BOARD POLICIES**

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The Mecklenburg County ABC Board's policies include, but are not limited to, the following:

- Code of Ethics
- Travel Policy (Adopted Mecklenburg County's Travel Policy)
- Employee Handbook/Manual
- Mixed Beverage Policy
- Sale to Underage Policy
- FY2015 Annual Audit
- FY2016 Budget (Proposed and Adopted)
- Price Discrepancy Policy

## **INTERNAL CONTROL AND ADMINISTRATIVE OPERATIONS**

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Internal control is the process by which the board and management provides reasonable assurance that operations are effective and efficient, reliable, and in compliance with applicable rules, laws and regulations. As a basis for evaluating internal control, the performance audit applied the internal control guidance contained in professional auditing standards. As discussed in the standards, internal control consists of five interrelated components, which are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

- Board information on the Commission website does not reflect current appointment dates for board members.
- The operations director schedules and notifies employees for work shift hours. Each employee uses a time entry system to record hours worked. The store manager generates a time report from the system to verify employee hours. The report is forwarded to the fiscal department for processing.
- In reviewing a sample of travel reimbursements, procedures were followed according to the travel policy submitted.
- The board owns a vehicle to deliver product between stores. Vehicle expenses were verified. A vehicle usage policy has been adopted.
- Breakage forms are submitted as required by the Commission rules. Management has implemented procedures for handling breakage when a customer/employee breaks product.
- Law enforcement activity reports have been submitted to the Commission as required by G.S. 18B-501 (f1).
- All purchases are pre-audited by the finance officer utilizing the certificate as required in G.S. 18B-702 (m). Purchases are indicated through use of a purchase order or vendor invoice.
- 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 CFO and the CEO. In the event the general manager or finance officer is unavailable, the operations director is authorized to sign checks.
- Out of approximately 1,900 product codes throughout the system, approximately 1,150 product codes were sampled to ensure accurate pricing. Three prices were incorrect.

## **RECOMMENDATIONS**

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1. Update board appointment dates on the Commission website.
2. 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.

## **BOARD COMPLIANCE**

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- Board meeting minutes were reviewed and found to provide sufficient detail that a reasonable person would be able to follow what transpired.
- Board meeting minutes include a conflict of interest statement asking board members if conflicts exist with the items on the meeting agenda.
- Board notifies the public of board meetings on the ABC Board 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 above the maximum specified in G.S. 18B-700 (g1). However, the appointing authority has approved the excess and a copy of the approval has been submitted to the Commission.
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- The board is in compliance with G.S. 18B-700 (k). There are no employees who are related to board members or the general manager. However, an employee is related to a supplier which is a conflict of interest. The board has submitted a waiver to the Commission detailing oversight and the specifics. The Commission has approved the waiver request.

## **NO RECOMMENDATIONS**

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## **AUDITOR'S SUMMARY**

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On May 24, 2016, ABC Board Auditor, Moniqua S. McLean, presented the performance audit findings and recommendations to the board. Discussions were held regarding the future improvements to existing stores and the board's goals for increasing profitability. 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.



# MECKLENBURG COUNTY ABC BOARD

CLEVELAND H. EDWARDS, CHAIRMAN  
DAVID W. CONWAY  
JENNIFER STANTON  
EARL LEAKE  
LLOYD SCHER

JASON S. HUGHES, C.E.O.

June 22, 2016

Ms. Moniqua McLean, ABC Board Auditor  
North Carolina ABC Commission  
4307 Mail Service Center  
Raleigh, NC 27699-4307

Dear Ms. McLean:

On behalf of the Mecklenburg County ABC Board, we would like to thank you for delivering your performance audit report at our May 2016 meeting. Our Board is committed to providing the citizens of Mecklenburg County control in the sale of spirituous liquor, outstanding customer service to our patrons, and efficient operations that allow revenue to go back to the City of Charlotte, Mecklenburg County, and our local library system. Your efforts in evaluating our organization validate that our work is effective in meeting these goals.

The recommendations made in your audit have been reviewed and have been addressed by our staff. Specifically, we have updated the Commission's website with our Board members' term information and we will immediately employ a system to regularly review the shelf pricing of all inventory items. In addition to requiring store managers to check all prices affected by monthly price adjustments, they will be required to ensure that all shelf pricing is audited quarterly. We will also assign an administrative staff member to audit sections of each store quarterly for accuracy.

We appreciate your work on this audit and your professionalism in working with our employees. It is the goal of our Board to continue to improve our service to the community in all phases of our operations.

Best Regards,

Jason S. Hughes  
Chief Executive Officer  
Mecklenburg ABC Board