

Mooreville ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA

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OBJECTIVE, PURPOSE, AND SCOPE

G.S. 18B-705 (a) authorizes the ABC Commission or alcohol law enforcement agents to conduct regular, special audits, or performance evaluations on all ABC boards. 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 or evaluations are to ensure that all local ABC Boards comply with established performance standards pursuant to G.S. 18B-203 (a) (20). The audit scope includes performance standards that address compliance with ABC laws, store appearances, operating efficiency, solvency, and customer service.

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 independent financial audits
- 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 is the process by which the board and management provide reasonable assurance that operations are effective and efficient, reliable, and in compliance with applicable rules, laws and regulations. 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.

BACKGROUND

S.L. 1965-7 authorized the Town of Mooresville to hold an election upon receipt of a petition signed by at least fifteen percent (15%) of registered voters. The referendum was held June 12, 1965 and passed 1,044 to 927. The first retail sale occurred on October 1, 1965. A subsequent mixed beverage election occurred on March 18, 1997 and passed 1,123 to 932.

Upon the vote being passed, the town was authorized to create an ABC board consisting of a chairman and two members to serve for three staggered-year terms. Current board members are Ben Goins, chairman, Robert Amon and Mike Deaton.

The Mooresville ABC Board staffs three retail stores with four full-time and thirty part-time employees. The general manager is responsible for providing sufficient oversight of all daily operations including policy implementation and human resource management. The board has a finance officer who provides financial oversight and other financial duties as required by the ABC statutes and Commission rules. In providing additional checks and balances, the board contracts with a CPA firm who is responsible for bank reconciliations and reporting. Each store has a store manager whose primary responsibilities are to provide friendly customer service, store upkeep, and regular stock maintenance.

FINANCIAL ANALYSIS

PROFIT PERCENTAGE TO SALES

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 FY2015, the Mooresville ABC Board had gross sales of \$9,540,438; income from operations was \$1,289,114, a 13.54% profit percentage to sales.

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

In FY2015, the Mooresville ABC Board made the required minimum distribution of \$265,803 proportionately to the Town of Mooresville and the county. The Mooresville ABC Board paid a total of \$2,234,077 in excise and other taxes to the NC Department of Revenue, the Department of Health and Human Services, the city and county.

G.S. 18B-805 (c) (2) requires the board to distribute at least five percent (5%) of profits to law enforcement.

The ABC Board contracts with the City of Mooresville Police Department and has distributed \$51,058 for enforcement purposes.

S.L. 1965-7 requires the Mooresville ABC Board to distribute quarterly the remaining profit as follows:

- *Twelve and one-half percent (12.5%) to the Iredell County Board of Commissioners for school purposes*
- *Twenty-five percent (25%) to the City of Mooresville General Fund for public parks and recreation*
- *Twenty-seven and one-half percent (27.5%) to the City of Mooresville School Board*
- *Thirty-five percent (35%) to the City of Mooresville General Fund.*

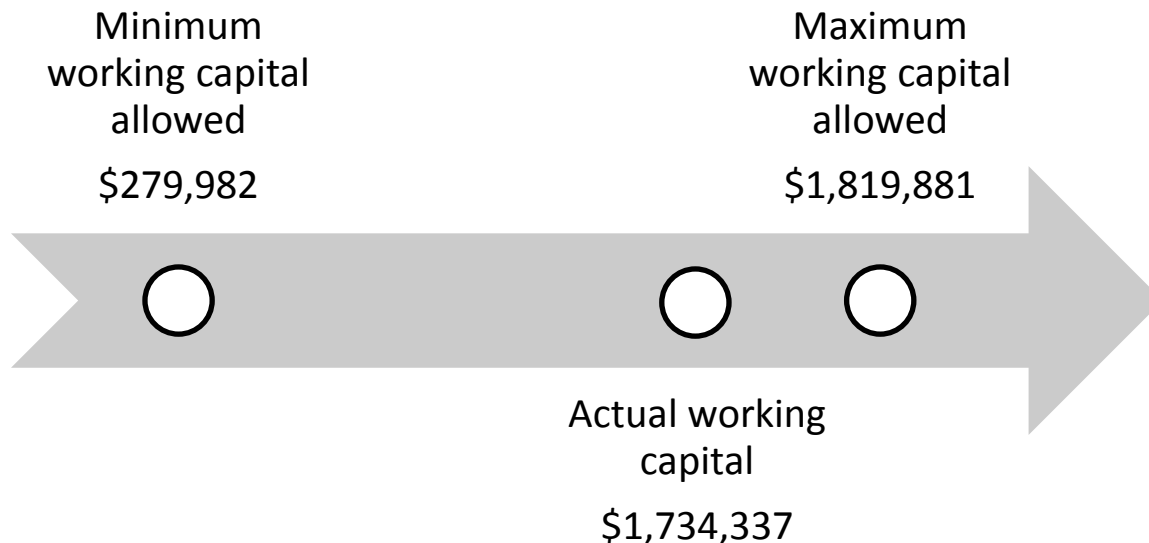
In FY2015, the Mooresville ABC Board made an additional distribution of \$734,197 to the city and the county.

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 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 Mooresville ABC Board had gross sales of \$9,540,438 in FY2015. In 2009, the Mooresville ABC Board obtained approval from the town allowing the board to create a reserve for a capital improvements account for \$50,000/year. The total in the stated account in FY2015 is \$188,459. This amount is deducted from the actual working capital, reducing it to \$1,734,337. The board's working capital of \$1,734,337 is within the recommended range set by the rules of the Commission.



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 Mooresville ABC Board operates three retail stores with mixed beverage. Mixed beverage sales make up 17% of total gross sales. In FY2015, the Mooresville ABC Board operating cost ratio was 0.42. Sales have increased 11.66% since FY2014. Expenses have increased 3.68% over the same time period.

The Mooresville ABC Board owns all store locations, thus reducing significant overhead expenses.

FINDINGS AND RECOMMENDATIONS

STORE APPEARANCE AND OPERATIONS

As a routine procedure, the ABC Auditor tours ABC store locations, evaluates interior and exterior appearance, verifies product pricing and interviews store personnel. The Mooresville ABC Board operates three retail stores. The stores' linear square footage averages approximately 1,305 square ft. There are approximately 1,900 product codes featured among locations.

- 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 are 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 is 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 an external CPA firm.
- Physical inventory counts are conducted every quarter. A scanner system enables the clerk to scan the barcode for the product number and indicate how many bottles are available per store. Stores are not able to identify how many bottles are on the shelf at the first count. Inventory counts are uploaded into the inventory system and a variance report is generated in the administrative office. The variance report is forwarded back to the stores for a recount. At this time, the stores are able to determine what should be available within the store. Once discrepancies are investigated and recounted on multiple occasions, adjustments are made to the inventory system.

NO RECOMMENDATIONS

PERSONNEL AND ABC TRAINING

- All board members, the general manager, and the finance officer have completed the ethics training as required. At the time of the audit fieldwork, one board member had since been reappointed and had not yet completed the ethics training. The board member is required to complete the training within one year of reappointment status.
- Cross training has been extended to employees in the event the store managers, general manager, or finance officer is unavailable.
- Additional 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 the required human resource documentation and other information.

RECOMMENDATIONS

1. Consider completing additional training opportunities through the Commission, such as the free Responsible Alcohol Sellers Program, and other Commission-approved courses.

ABC BOARD POLICIES

The Mooresville ABC Board's policies and manual have been updated to include, but are not limited to, the following:

- Code of Ethics
- Travel Policy (Submitted approval from the Town of Mooresville in March 2015)
- Price Discrepancy Policy
- Employee Handbook/Manual
- Law Enforcement Contract
- Mixed Beverage Policy
- Shelf Management Policy
- Sale to Underage Policy

Policies are required to be submitted to the Commission within fifteen days prior to adoption as required by the Commission rule, NCAC 15A .1102.

G.S. 18B-702 requires the board to create a budget and budget message and an annual independent audit for the fiscal year. The Mooresville ABC Board has submitted the following as required:

- FY2017 Budget (Proposed and Adopted)
- FY2015 Annual Audit

RECOMMENDATIONS

1. Ask approval from the appointing authority allowing the ABC board to adopt the town's travel policy. *Refer to Appendix A (1) for statute.*

INTERNAL CONTROL AND ADMINISTRATIVE OPERATIONS

- Board information on the Commission website is current reflecting board member appointment dates and salary information for all members including general manager.
- Due to the consistency of scheduling, employees are aware of their own schedules. Store manager will verify hours worked by employees and complete a time sheet to be forwarded to the administrative office. The administrative staff will process the time sheets through the payroll system.
- 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 not been adopted and submitted to the Commission.
- 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 vendor invoices. The general manager reviews and verifies payments using the check register generated by the finance officer. Repayments are generated through check reimbursement or petty cash reimbursement.
- 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 the general manager. In the event the finance officer and/or general manager is unavailable, board members are authorized to sign checks.
- Out of approximately 1,900 product codes between stores, approximately 235 product codes were sampled to ensure accurate pricing. All were correct.

RECOMMENDATIONS

1. Adopt a vehicle usage policy that would specify the following:
 - a. Who is able to use the vehicle,
 - b. Requirement that all drivers must have a valid driver's license
 - c. What purposes vehicle may be used for
 - d. Requirement that a mileage and/or gas log be filled out for every trip, if applicable.

BOARD COMPLIANCE

- Board meeting minutes were reviewed and found to provide sufficient detail that a reasonable person would be able to follow what transpired. However, the board did not follow the appropriate procedures when going into closed session at regular meetings.
- 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 town's 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 in compliance with G.S. 18B-700 (g1).
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).

RECOMMENDATIONS

1. As specified in G.S. 143-318, the board must enter into closed session proceedings through motion and vote. The purpose is to be specifically stated within the motion and only that topic may be discussed in the closed session. All actions discussed in closed session must be voted on in open session and included in the open session minutes.
2. The board must approve closed session meeting minutes. The required procedure is to hold a new closed session meeting specifically to approve the minutes of an earlier session.

SUMMARY

A board meeting was held on August 18, 2016 with the Mooresville ABC Board. Discussions were held regarding potential new stores within the system and a new store in a surrounding area. The board continues to discuss ways to improve profitability while maintaining budget appropriations. Policies have been adopted by the board and management that reflect current practices. Procedures are implemented to ensure compliance with statutes and ABC Commission rules and to ensure efficient operations are conducted while maintaining sufficient controls.



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

KEVIN M. GREEN
Greensboro

MICHAEL C. HERRING
West Jefferson

ADMINISTRATOR:
ROBERT A. HAMILTON

LOCATION:
400 East Tryon Road
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MAILING:
4307 Mail Service Center
Raleigh NC 27699-4307

PHONE: (919) 779-0700
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Moniqua S. McLean
ABC Board Auditor

(919) 779-8365

February 27, 2017

Town of Mooresville Alcoholic Beverage Control Board
Mr. Ben Goins, Chairman
P.O. Box 1065
Mooresville, NC 28115

Dear Chairman Goins,

We are pleased to submit this performance audit report on the Town of Mooresville 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. Your continued efforts to increase profitability and reduce expenses is commendable and should remain your most important goal.

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

Respectfully,

Robert A. Hamilton
Administrator

CC: North Carolina Association of ABC Boards

TOWN OF MOORESVILLE
ALCOHOLIC BEVERAGE CONTROL BOARD
436 PLAZA DRIVE • PO BOX 1065 • MOORESVILLE, NC 28115
704-663-6152

BOARD MEMBERS

BEN GOINS, CHAIRMAN
BOB AMON
MIKE DEATON

GENERAL MANAGER

IRVIN WALLS

October 10, 2016

To: Moniqua McLean, NCABC Board Auditor

From: Town Of Mooresville ABC Board

Subject: Town of Mooresville ABC Board Audit

On July 11th, 2016, Moniqua McLean, NCABC Board Auditor performed an Audit on the Town of Mooresville ABC Board. No issues or concerns of material value were identified, however, there were a few recommendations presented to the Mooresville ABC Board. Listed below are the recommendations and our response to each item.

1) Recommendation to offer additional training through the Commission, such as the free Responsible Alcohol Sellers Program, and other Commission-approved courses.

Response: Prior to December 31, 2016, we are having an Alcohol Sellers Training Program for all Mooresville ABC employees.

2) Recommendation that the Mooresville ABC Board adopt the Town of Mooresville travel policy.

Response: The Town of Mooresville appointing authority approved the Mooresville ABC Board adoption of the Town's travel policy.

3) Recommendation for the Town of Mooresville ABC Board to adopt a vehicle usage policy.

Response: The Mooresville ABC Board approved a vehicle usage policy. This policy was submitted to the NC ABC Commission and was approved for the Company vehicle to be used by Irvin Walls, General Manager, and Nathan Brown, Finance Officer for the Town of Mooresville ABC Board. The vehicle is to be used only for company business. Both Irvin and Nathan's photo copy of their driver licenses are maintained on file at the Town of Mooresville ABC Store #1. Both Irvin and Nathan are listed on the vehicle insurance policy.

4) Recommendation as specified in G.S. 143-318, the Mooresville ABC Board follow and enter into closed session proceedings through a motion and vote. The purpose must be specifically stated within the motion and only that topic may be discussed in the closed session. All actions discussed in closed session must be stated and / or voted on in open session and included in open session minutes.

The Board must approve closed session meeting minutes. The required procedure is to hold a new closed session meeting specifically to approve the minutes of an earlier session.

Response: The Town of Mooresville ABC Board will follow this recommendation effective immediately.

We were very pleased with the Town of Mooresville ABC Board Audit and have implemented the recommendations presented to us by Moniqua McLean. We appreciate the NCABC Commission's recommendations / oversight and look forward to working with the NCABC Commission in the future.

Sincerely,

Ben Goins

Ben Goins, Town of Mooresville ABC Board Chairman

Robert J. Amon

Bob Amon, Town of Mooresville ABC Board Member

K. Michael Deaton

Mike Deaton, Town of Mooresville ABC Board Member

APPENDIX A

1. *G.S. 18B-700(g2) states, "...unless the local board adopts a travel policy that conforms to the travel policy of the appointing authority and such policy is approved by the appointing authority. 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."*