

Mount Holly ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
400 East Tryon Road, Raleigh, NC 27610
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ABC
COMMISSION
NORTH CAROLINA

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ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

CHAIRMAN:
A. D. "ZANDER" GUY, JR.

June 12, 2017

COMMISSIONER:
MICHAEL C. HERRING
West Jefferson

Mount Holly ABC Board
Mr. Gary Neely, Chairman
2100-B Spring Street
Mount Holly, NC 28120

ADMINISTRATOR:
ROBERT A. HAMILTON

Dear Chairman Neely,

LOCATION:
400 East Tryon Road
Raleigh NC 27610

We are pleased to submit this performance audit report on the Mount Holly 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.

MAILING:
4307 Mail Service Center
Raleigh NC 27699-4307

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.

PHONE: (919) 779-0700
<http://abc.nc.gov/>

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 are commendable.

Moniqua S. McLean
ABC Board Auditor
919-779-8365

Your written response to the audit has been noted and will be acted on. 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

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 INFORMATION

G.S. 18B-601 (c) authorized the town of Mount Holly to hold an election for an ABC store and to allow for mixed beverage sales. The referendum was held on June 6, 2003 and passed 1,045 to 638 for an ABC store and 1,676 to 546 for mixed beverage sales. The first retail sales occurred on October 1, 2005.

Upon vote passage, the town was required to create an ABC board consisting of a chairman and two board members. Current board members include Gary Neely, chairman, Angela Blackwood, and Janice McRorie.

In 2005, the Mount Holly ABC Board entered into an agreement with the Gastonia ABC Board allowing the board to provide administrative services, such as full accounting and back-office support, human resource and administrative functions, limited purchasing functions, and records retention.

The Mount Holly ABC Board employs one full-time and six part-time employees. All store personnel have a primary responsibility to include providing customer service, store upkeep, and regular inventory 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 fiscal year 2016, the Mount Holly ABC Board had gross sales of \$2,074,233; income from operations was \$215,976. Profit percentage to sales for FY2016 is 10.4%.

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 city.

In FY2016, the Mount Holly ABC Board made the required minimum distribution of \$60,682 to the town. The Mount Holly ABC Board paid a total of \$467,645 in excise and other taxes to the North Carolina Department of Revenue, the Department of Health and Human Services, and the town.

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%) of profits toward alcohol education.

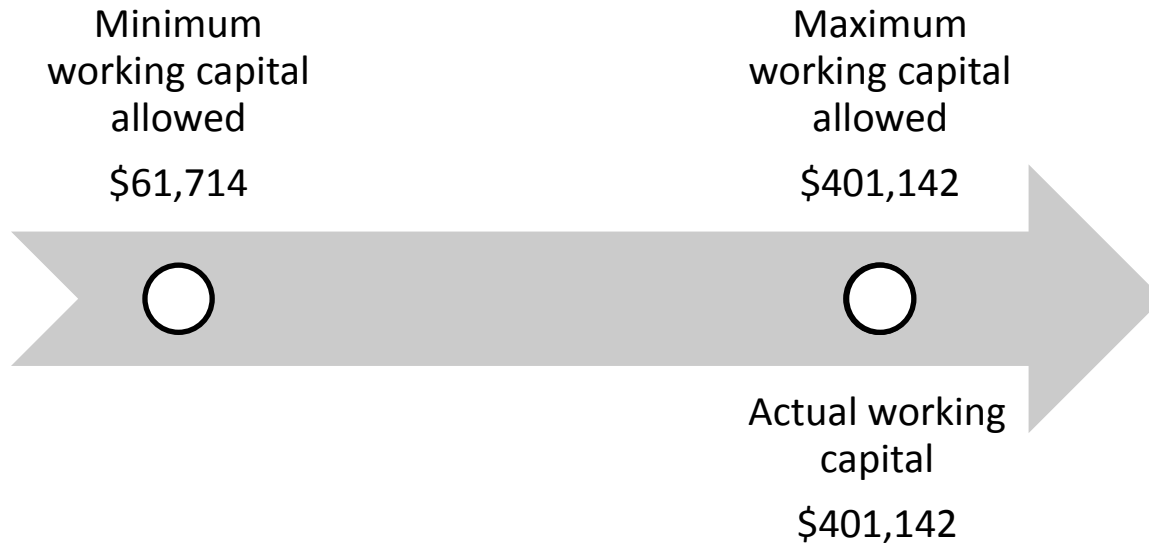
At the time of the audit fieldwork, a contract was not in place to determine where the law enforcement distributions were being sent. Since the audit fieldwork, the ABC board has contracted with the Mount Holly Police Department. Law enforcement distributions totaled \$7,820 in FY2016. Alcohol education distributions totaled \$10,948 for the same time period.

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 Mount Holly ABC Board had gross sales of \$2,072,076 in FY2016. The board's working capital is at the maximum amount allowed to retain of \$401,142.



RECOMMENDATIONS

1. Discuss options in the event the board exceeds the maximum working capital requirement. Options may include additional distribution to the appointing authority or seeking approval from the appointing authority to retain the excess for a specific capital improvement plan.

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 Mount Holly ABC Board operates one retail store with retail and mixed beverage sales. Mixed beverage sales make up 1.1% of total gross sales. In FY2016, the Mount Holly ABC Board's operating cost was 0.52. Sales increased 7.7% over fiscal year 2015. Expenses increased 3.5% over the same time period.

Factors affecting the operating cost:

- The board owns the store location reducing significant overhead expenses
- The board entered into a contract with the Gastonia ABC Board to pay for administrative services. The contract stipulates a 10 year agreement for \$30,000 per year.

FINDINGS AND RECOMMENDATIONS

STORE APPEARANCE AND OPERATIONS

As a routine procedure, the ABC Board Auditor tours ABC store locations, evaluates interior and exterior store appearance, verifies product pricing and interviews store personnel. The store's shelf linear footage averages approximately 1,000 linear ft.

- The store appeared clean and free of trash. Counter areas were neat and well-organized. Store shelves were well-stocked with a variety of products.
- The store displayed neat and visible signage. The Fetal Alcohol Syndrome poster is displayed and visible to the public.
- Landscaping around the store 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 stores
- Sales clerks often refer to the North Carolina Liquor Quarterly 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. In inspecting bank documentation, it was evident that store deposit slips were matched with corresponding daily register reports. Bank reconciliations are completed by the Gastonia ABC Board administrative staff.
- Physical inventory counts are performed quarterly. Spot checks are conducted more frequently. If discrepancies are found, the general manager and another employee will investigate and recount. Counts are forwarded to the Gastonia administrative staff to made adjustments to the inventory system.
- Out of approximately 1,100 product codes in the store, approximately 75 product codes were sampled to ensure accurate pricing. All were correct.

NO RECOMMENDATIONS

PERSONNEL AND ABC TRAINING

- All board members, the general manager, and the finance officer have completed the initial ethics training as required. At the time of the audit fieldwork, one board member had not yet been reappointed and one board member had been reappointed but not yet completed the required ethics training. Each board member is required by statute to complete the training within one year of reappointment status.
- Cross training opportunities have been extended to other employees in the event that key personnel are unavailable.
- Additional training is provided to new and existing staff on key areas such as product knowledge, customer service, and clerk responsibilities.
- Employee personnel files are available and secured. Required human resource documentation and other information are available and appropriately filed.

RECOMMENDATIONS

1. Have all reappointed board members complete the ethics requirement within 12 months of reappointment. *Refer to Appendix A (1) for statute.*

ABC BOARD POLICIES

G.S. 18B-702 requires the board to annually adopt a budget and budget message. G. S. 18B-702 (s) requires the board to submit an annual independent audit of its operations to the appointing authority and the Commission. The Mount Holly ABC Board's policies and manual have been updated to include, but are not limited to, the following:

- Mount Holly ABC Board Employee Manual
- Mount Holly ABC Board Credit Card Usage Policy
- Mixed Beverage Policy
- FY2017 Budget (Proposed and Adopted)
- FY2016 Financial Audit

Policies not adopted included the following

- Code of Ethics
- Travel Policy
- Sale to Underage Policy
- Price Discrepancy 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.

RECOMMENDATIONS

1. Adopt a code of ethics to guide local board members and employees of the local board. *Refer to Appendix A 2 for statute.*
2. Adopt a travel policy that conforms to the state travel policy or the appointing authority. If adopting the appointing authority's travel policy, ask for a written approval from the town allowing the board to adopt the policy. Send a copy of the written approval from the town, a copy of the town's travel policy, and a copy of the ABC board's travel policy to the Commission. *Refer to Appendix A (3) for statute.*
3. Adopt an addition to the employee handbook/manual detailing what would occur in the event an employee were found to have sold to an underage person.
4. Adopt a policy that specifies the procedures when a product price varies between the shelf and the register. *Refer to Appendix A (4) for rule.*

INTERNAL CONTROL AND ADMINISTRATIVE OPERATIONS

- Board information on the Commission website is not current for board member appointment dates. However, salary information for all members is correct.
- Employee work schedules are created by the general manager. All employees utilize a time sheet to record hours worked. Timesheets are verified and signed by the general manager and forwarded to the finance officer for processing. The finance officer manages and reconciles the payroll reports to create appropriate entries within the accounting system.
- In reviewing a sample of board credit card transactions, payment procedures were followed according to the adopted credit card usage policy.
- 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 not been submitted to the Commission for September 2016 as required by G.S. 18B-501 (f1).
- All purchases are authorized by the general manager and pre-audited by the finance officer utilizing the certificate as required in G.S 18B-702 (m). Pre-audit procedures are indicated through use of a purchase order or vendor invoice. Purchase payments are made by petty cash on hand, board credit card, and/or business checks.
- 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. Other parties are authorized to sign checks as indicated through bank documentation.

RECOMMENDATIONS

1. Update the Commission's website to reflect current board member appointment dates, compensation amounts, and other information as it comes available.
2. Submit all law enforcement activity reports by the 10th of the month. *Refer to Appendix A (5) for statute.*

ABC BOARD COMPLIANCE

- 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 included a conflict of interest statement asking board members if conflicts existed with items on the meeting agenda.
- The board does not notify the public about when, where, and the time of board meetings.
- Board member and general manager compensation is in compliance with G.S. 18B-700 (g1).
- The board is in compliance with G.S. 18B-700 (k) as there are no known relationships between staff, any board member, and the general manager employed within the system.
- 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. Post a schedule of board meetings to notify the public, when, where, and the time meetings are held. *Refer to Appendix A (6) for statute.*

SUMMARY

The Mount Holly ABC Board has responded to the performance audit recommendations as outlined. Policies have been adopted and submitted to the Commission. Procedures have been implemented to ensure compliance with the general statutes and ABC Commission rules and to ensure efficient operations while maintaining sufficient controls.

MOUNT HOLLY ABC BOARD



February 9, 2017

Having reviewed the Performance Audit Report conducted by Moniqua McLean, the Mount Holly ABC Board has found the report to be fair and helpful. We appreciate Ms McLean joining our monthly board meeting by phone on January 25 to further clarify with our board the issues that were cited.

We have acted on the recommendations that were made and are submitting copies of actions that we have adopted. In addition, we understand the timing requirement for ethics training and will monitor that schedule going forward; are aware of the need to update appointment dates of our board members on the website; have submitted the missing law enforcement activity report; and will consistently post the meeting dates of our board meetings.

Our board wishes to share its concern about the location of the new Belmont ABC store, less than 5 miles from our store. We feel a more suitable site would be one that is closer to their population center and downtown area, and farther removed from our store and the Cramerton ABC store on the same highway.

Finally, our board would like to have a representative from the state board join us at one of our meetings to explore ways that we might better promote alcohol education in our community.

Thank you once again for sharing with us through this audit process.

Gary Neely, Chairman

Janice McRorie, Board Member

Angela Blackwood, Board Member

Tammy Thomas, Store Manager

Enclosures (5)

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."*
- 2) *G.S. 18B-706 (a) states, "Each local board shall adopt a policy containing a code of ethics consistent with the provisions of G.S. 18B-201, to guide actions by the local board members and employees of the local board in the performance of their official duties."*
- 3) *G.S. 18B-700 (g2) states, "...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 the4 appointing authority's written confirmation of such approval to the Commission and a copy of the travel policy authorized by the appointing authority."*
- 4) *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."*
- 5) *G.S. 18B-501 (f1) states, "To ensure accountability to the appointing authority and the Commission, every local board's ABC officers and those law enforcement agencies subject to an enforcement agreement entered into pursuant to subsection (f) of this section shall report to the local board, by the fifth business day of each month...The local board shall submit a copy of the enforcement report to the appointing authority and the Commission not later than five business days after receipt of the enforcement report by the local board."*
- 6) *Operations Manual states "North Carolina General Statute 143-318.12 requires the following from public bodies:*
 - a. *Must have regular meetings*
 - b. *Post schedule with the Town Clerk (if the regular schedule changes, notice must be given to the clerk)*
 - c. *If a meeting is to be held at a time other than the regular time*
 - i. *Announce the time and place during a meeting or*
 - ii. *Written notice stating the purpose – bulletin board, and notice mailed to the media and interest persons who have requested notice*
 - iii. *Notice given at least 48 hours in advance*
 - iv. *If an emergency meeting is called because of generally unexpected circumstances that require immediate attention, and then notice to the media and interested persons shall be made by telephone or other means."*