

Nash 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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January 6, 2017

Nash County Alcoholic Beverage Control Board
Mr. Wayne Hill, Chairman
1206 Eastern Avenue
Nashville, NC 27856-0455

Dear Chairman Hill,

We are pleased to submit this performance audit report on the Nash County Alcoholic Beverage Control 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

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

S.L. 1935-493 authorized Nash County to have an ABC store. The referendum was held on June 6, 1935 and passed 2,870 to 635. Subsequent mixed beverage elections occurred in Rocky Mount and Nashville of which both passed.

Upon vote passage, the county was authorized to create an ABC board consisting of a chairman and two members to serve for three staggered year terms. S.L. 1992-863 authorized the Nash County Commissioners to increase board membership from three to five. Current board members are Wayne Hill, chairman, Julia Congleton-Bryant, Maurice Massey, Ernestine Neal, Jerry Harris.

The Nash County ABC Board employs twenty-two full-time and twenty-two part-time employees. The administrative staff consists of the general manager, the assistant general manager, the finance officer and the warehouse staff. The general manager also serves as law enforcement chief to the ABC system. Store employees' have a primary responsibilities are to provide 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 Nash County ABC Board had gross sales of \$9,695,450; income from operations was \$1,003,005. This is a 10.35% profit percentage to sales. In FY2016, the Nash County ABC Board increased gross sales to \$10,244,449, a 5.7% increase over FY2015.

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 Nash County ABC Board made the required minimum distribution of \$282,234 to the county. The Nash County ABC Board paid a total of \$2,235,406 in excise and other taxes to the NC Department of Revenue, the Department of Health and Human Services, 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%) toward alcohol education or rehabilitation purposes.

The Nash County ABC Board employs the general manager to serve as the law enforcement chief for alcohol enforcement within the county. The law enforcement division is required to submit monthly activity reports to the Board and the Commission. The law enforcement distribution is an expenditure item used to fund the operations and totaled \$145,231 in FY2015.

The Nash County ABC Board distributed \$50,612 toward alcohol education/rehabilitation purposes to Eastpointe Human Services. A letter received from the recipient detailed specifics as to how the funds were used.

S.L. 1951-738 requires the Nash County ABC Board to distribute quarterly the remaining profit as follows:

- *Twenty-five percent (25%) of net profits to the towns with ABC stores*
- *Seventy-five percent (75%) to the Nash County General Fund.*

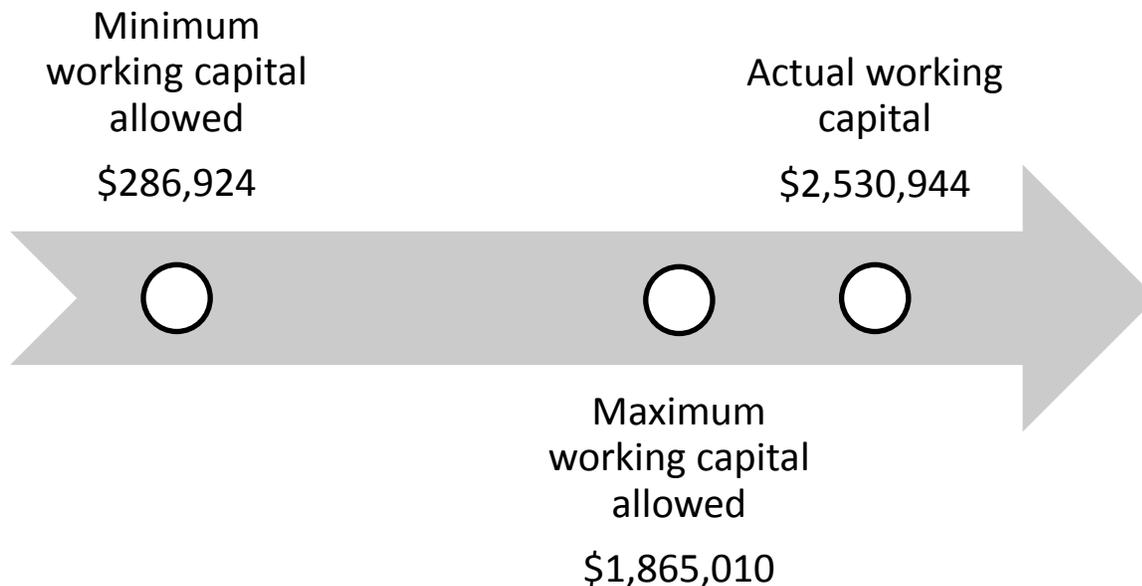
In FY2015, the Nash County ABC Board made an additional distribution of \$227,700 to the townships and the county.

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 Nash County ABC Board had gross sales of \$9,695,450 in FY2015. The board's working capital of \$2,530,944 is more than the maximum amount allowed to be retained. The Nash County ABC Board obtained an approval from the county commissioners allowing the board to set up a capital improvement fund in addition to maintaining working capital. A copy of the approval is on file with the ABC Commission.



OPERATING COST RATIO

The operating costs ratio is 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 Nash County ABC Board operates nine retail stores with mixed beverage. Two out of the nine stores service mixed beverage permit holders. Mixed beverage sales make up 8.9% of total gross sales. In FY2015, the Nash County ABC Board's operating cost ratio was 0.56. Sales have increased 8.09% since FY2014. Expenses have increased 1.13% over the same time period.

The Nash County ABC Board leases four stores. Rental expenses totaled \$76,411 in FY2015.

FINDINGS AND RECOMMENDATIONS

STORE APPEARANCE AND OPERATIONS

As a routine procedure, the ABC Auditor tours ABC store locations, evaluates interior and exterior store appearances, verifies product pricing and interviews store personnel. The Nash County ABC Board operates nine retail stores. The stores' linear footage averages approximately 813 ft. There are approximately 1,900 product codes between stores.

- 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
- 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 finance officer.
- Physical counts are conducted every week in the stores and the warehouse. Stores are not able to identify the system's count. Inventory counts are forwarded to the admin office where a variance report is generated. The stores' variance reports are returned for a second check. 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. Each board member is required by statute to complete the training within one year of reappointment status. Since the audit fieldwork, the board member has completed the required training.
- 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.

NO RECOMMENDATIONS

ABC BOARD POLICIES

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

- Code of Ethics
- Nash County ABC Board Travel Policy (Adopted the Office of State Budget and Management Travel Policy)
- Nash County ABC Board Employee Handbook/Manual and Addendums that include the following:
 - Price Discrepancy Policy
 - Nash County ABC Board Procurement Card Policy
 - Nash County ABC Board Sale to Underage Policy
 - Nash County Shelf Management Policy
- Nash County ABC Board Mixed Beverage 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 adopt a budget and budget message and an annual independent audit for the fiscal year. The Nash County ABC Board has submitted the following as required:

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

NO RECOMMENDATIONS

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.
- Schedules made by the store managers and forwarded to the general manager for verification. Timesheets are signed by the employee and the store manager and forwarded to the administrative office for processing.
- In reviewing a sample of travel reimbursements, procedures were followed according to the travel policy submitted.
- The board owns one delivery truck to help transport product between stores and from the warehouse. 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 use of petty cash on hand or vendor invoices
- 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.
- Out an average of 1,900 product codes throughout the system, approximately 400 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.

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 include a certificate of accountability signed by all board members at each meeting.
- Board notifies the public of board meetings at the county courthouse public information area.
- 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).

NO RECOMMENDATIONS

SUMMARY

A board meeting was held on September 29, 2016 with the Nash County ABC Board. Discussions were held regarding future improvements to existing stores and possibilities of more stores within the county. The board continues to discuss ways to improve profitability while maintaining budget appropriations and acquiring cost savings. 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.

NASH COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD

Wayne Hill
Chairman of the Board

1206 Eastern Avenue
Nashville, NC 27856-0455
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Michael Murray
GM/LE

October 4, 2016

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

Dear Ms. McLean:

The Board thanks you for attending our meeting on September 29, 2016 to present your performance audit report, findings, and recommendations. Our Board will use your recommendations and comments to continue improving our local system.

We have just purchased property that is centrally located between two of our current rental ABC stores. Our plans are to build a store on that property as we continually strive to improve our store and shopping environment for our customers.

The Board has adopted a vehicle use policy for our warehouse truck. The policy has been forwarded and approved by the North Carolina ABC Commission. Our credit card policy has been refined also and approved.

We are currently sending the required 7% substance abuse treatment funding to Nash/Edgecombe Mental Health. This program is currently managed by East Point, who is under contract with Nash County. We want our funding to stay local while benefitting our county and municipalities.

You should be commended for your professionalism and expertise while performing this audit. The Nash County ABC Board appreciates the time and effort required of you to prepare this audit.

Sincerely,

Michael Murray
General Manager/Law Enforcement