

Pembroke 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

November 17, 2015

Pembroke ABC Board
Ms. Lae Ruth Alway, Chairperson
120 Vance Street
Pembroke, NC 28372

Dear Chairperson Alway,

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

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

S.L. 1967-405 authorized the town of Pembroke to hold an election based upon a written petition of at least twenty-five percent (25%) of registered voters. The referendum was held on August 21, 1967 and passed 84 to 73. A mixed beverage referendum occurred on January 11, 2005 and did not pass. A second mixed beverage election occurred on December 9, 2008 and passed 452 to 196.

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 Joseph M. Locklear, board chairman, La Ruth Alway and Lester Locklear, board members.

The Pembroke ABC Board operates one retail store. The board staffs two full-time and four part-time employees. 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. The board has hired within the organization the finance officer to provide checks and balances of the purchasing function of internal control. To increase financial oversight, the board has contracted with an external accounting firm. 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 April 15, 2015, ABC Board Auditor, Moniqua S. McLean, visited the Pembroke ABC store and interviewed Dora Evans, general manager, Michael Jacobs, finance officer, and La Ruth Alway, board member. 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 Pembroke ABC board had gross sales of \$896,201; income from operations was \$34,830, a 3.89% profit percentage to sales.

Factors affecting sales and profitability:

- Surrounding towns with ABC stores within a fifteen mile radius include Red Springs, Lumberton, and Maxton;
- Estimated population for the town of Pembroke was 2,793 in 2010;
- Renovated and reopened the store in May 2013.

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 and bottle tax to the town. In FY2014, Pembroke ABC did not distribute the minimum distribution to the town and the county totaling \$27,489. \$205,145 in excise and other taxes were paid 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. S.L. 1971-374 does not authorize alcohol education distributions. The remaining profits are to be distributed as follows:

- Sixty-five percent (65%) to the Pembroke General Fund for any governmental, library, recreational, or educational purposes; and
- Thirty-five percent (35%) to the Robeson County General Fund for any governmental, library, educational or hospital purpose.

In FY2014, the Pembroke ABC Board distributed \$967 to law enforcement.

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 FY 2014, the Pembroke ABC Board had a working capital of \$118,775, which is less than the maximum allowed to retain of four months gross sales (\$230,537) and is within the limits of NCAC 15A .0902.

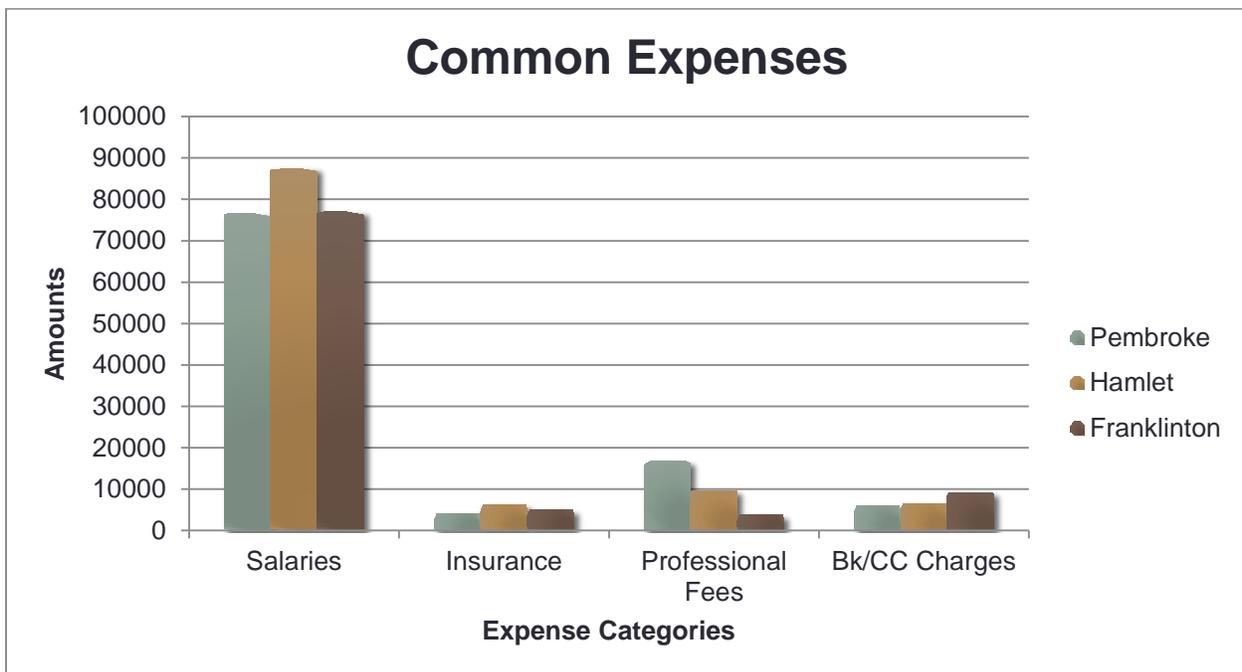
OPERATING COST RATIO

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):

- Board with 3 or more stores – cost ratio of 0.63 or less
- Boards with 1 or 2 stores with MXB – cost ratio of 0.73 or less
- Boards with 1 or 2 stores without MXB – cost ratio of 0.85 or less

The Pembroke ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.71. Mixed beverage sales make up 6.3% of total gross sales. Fiscal year 2014 is the first full year of sales history since the store reopened in 2013. The board has significant savings as a result of owning the store to reduce overhead expenses.

A common expense analysis shows that Pembroke ABC Board's expenses are in line with other similar size boards. Note: Professional fees include fees paid to the accounting firm for bookkeeping services and auditing fees.



STORE APPEARANCE

The Pembroke ABC Board operates one retail store with shelf space of approximately 950 linear feet of shelf space and carries approximately 750 – 800 product codes.

- The store appeared clean and free of trash. Counter areas are neat and well-organized.
- The signage was neat and clean. The Fetal Alcohol Syndrome poster is displayed and visible to the public.
- Landscaping around the store is well-maintained with no evidence of trash.
- Each product is displayed within its designated category. However, a shelf management plan that follows the industry and marketing guidelines is not utilized. The current shelf management displays product in a vertical set ranging from half gallon items at top or eye level to the pints on the bottom shelves. Because not all products have availability in all sizes, the plan is not consistent.
- The state price book is available should customers ask for specific product. Sales clerks often refer to the price book for verification of product pricing and availability.
- Sales clerk's interaction with customers is attentive, courteous, and shows eagerness to meet the needs of the customers.

RECOMMENDATIONS

1. Incorporate a shelf management plan that follows the latest trends and marketing strategies. Consider the following as a strategy:
 - a. Utilizing end caps and empty shelf space as much as possible to highlight slow moving and new products;
 - b. Moving stock within the store to increase visibility and to encourage more impulse shopping;
 - c. Cross-merchandising by placing products that mix together on the same shelves. Intermingle North Carolina products within their specific category as well as having a designated area;
 - d. Splitting cases with other boards or taking advantage of the Special Purchase Allowance and the Boutique collections to increase variety;
 - e. Eliminating poor performing items to drive category sales and increase shopper satisfaction.

PERSONNEL AND TRAINING

- Current board members have completed the initial ethics training as required. Board members have since been reappointed and all have completed the ethic training as required by G.S. 18B-706 (b).
- Cross training opportunities have been extended to employees in the general manager is unavailable.
- As new information comes available, training is provided to new and existing staff on key areas such as product knowledge, customer service, and clerk responsibilities on a continual basis.
- Personnel files are available and contained human resource documentation and other personnel information as needed.

RECOMMENDATIONS

1. Consider providing employees additional training opportunities through the Commission and other Commission-approved courses. *Refer to Appendix A (1) for rule.*

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - FY2014 Annual Financial Audit
 - FY2015 Budget (Proposed and Adopted)
 - Mixed Beverage Policy
 - Employee Handbook

- Policies not adopted include:
 - Code of Ethics
 - Law Enforcement Contract
 - Travel Policy (State or Town of Pembroke Approved)
 - Price Discrepancy Policy
 - Shelf Management Policy

RECOMMENDATIONS

1. Adopt all above policies as required by the ABC statutes and rules. *Refer to Appendix A (2-6) for statutes and rules.*

INTERNAL CONTROL PROCEDURES

Internal control is the process by which the board provides assurance that operations are effective and efficient, reliable, and in compliance with applicable rules, laws and regulations. Internal control is strongest when activities are segregated creating a system of checks and balances, and adopting policies and procedures that follow current practices and appropriate. Below are internal control findings that were observed during the audit fieldwork.

- The general manager schedules employees for work shift hours. Time sheets are completed by each employee. The general manager verifies and calculates hours worked by each employee. Once verified, timesheets are forwarded to the accounting firm for processing. Tax payments and adjustments are made by the accounting firm.
- 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 external accountant.
- Physical inventory counts are performed monthly by all scheduled staff. 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.
- Unsalable merchandise is adjusted from inventory as soon as the forms are completed. Breakage forms are routinely submitted to the Commission once signed by the distiller representative.
- A credit card is issued to the board with the general manager as the authorized user. A credit card policy has not been adopted.
- Out of approximately 750-800 product codes, approximately 93 product codes were sampled to ensure accurate pricing and one was incorrect.

RECOMMENDATIONS

1. To ensure strong internal controls for credit card purchases, adopt a written credit card usage policy. Document procedures for the usage including:
 - Who has authority to use the card,
 - What types of items the card may be used for,
 - Personal usage is prohibited;
 - An itemized receipt for every transaction is required,
 - Maximum limit allowed on purchases before approval is needed from the finance officer,
 - Receipts are to be submitted within 15 days of the purchase;
 - Have someone other than the persons authorized to make purchases reconcile the credit card statements.
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.

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 compensation are current on the Commission website.
- Board member and general manager compensation is in compliance with G.S. 18B-800 (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 who are related to board members or the general manager.
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- Liquor orders and miscellaneous purchases are not pre-audited by the finance officer. The board is usually invoiced by vendors for purchases or uses the board credit card.
- Checks do not 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 general manager. In the event the finance officer or general manager is unavailable, all board members are authorized to sign checks.

RECOMMENDATIONS

1. Place the pre-audit certificate with the finance officer's signature on the order to LB&B. When ordering supplies, have a purchase order, order confirmation, or vendor invoice for authorization from the finance officer before the transaction takes place. *Refer to Appendix B (7) for statute.*
2. Place the approved certificate on all checks, excluding payroll checks as referenced in G.S. 18B-702 (q). *Refer to Appendix B (8) for statute.*

AUDITOR'S SUMMARY

ABC Board Auditor, Moniqua S. McLean, presented the performance audit report and recommendations on May 18, 2015. The board has since responded to the performance audit recommendations and strives to implement strategies to maintain and improve profitability while maintaining or reducing current costs and meeting budget appropriations. Policies and procedures have been implemented to ensure compliance with statutes and Commission rules and to ensure efficient operations while maintaining checks and balances.

Since the initial audit fieldwork, turnover has arisen amongst board members. The board has hosted a Responsible Alcohol Sellers Program (RASP) and invited surrounding ABC boards and permit holders to attend.

Pembroke ABC Board

120 Vance Street

Pembroke, NC 28372

28 August 2015

Performance Audit

On April 15, 2015, ABC Board Auditor, Moniqua S. McLean, visited the Pembroke ABC store and interviewed Dora Evans, general manager, Michael Jacobs, finance officer, and Lae Ruth Alway, board member. During this visit, Ms. McLean observed a few things that the Pembroke ABC Board could improve on.

Once we received the final audit from Ms. McLean, members of the board and store employees agreed to adopt the following policies:

- Code of Ethics
- Law Enforcement Contract
- Travel Policy (State)
- Price Discrepancy Policy
- Shelf Management Policy
- Credit Card Policy

Since we receive tow deliveries a month, we plan to use the following suggestion to increase inventory turns:

- Slowly incorporate 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.

Here at Pembroke ABC, we strive to keep our store clean on the inside as well as the outside. Mr. Michael Jacobs and I plan to visit other locations to gain feedback and visit other stores for additional comments.

We also provide employees additional training opportunities through the Commission as they become available. Ms. McLean informed us in the meeting that we are required to place a pre-audit certificate with the finance officer's signature on the order to LB&B. When ordering supplies, have a purchase order, order confirmation, or vendor invoice for authorization from the finance officer before the transaction takes place. Also, place the approve certificate on all

checks, excluding payroll checks. We have since gotten the required stamps and have begun using them in accordance with the statute.

We were all thankful for the amount of help that Ms. McLean provided us during her audit. Many things that were discussed during our meeting together, we were unaware of. Ms. McLean explained in great detail which will enable us to do a better job for our customers and create a better work environment. Thank you for all of your help.

Dora Evans, GM

Pembroke ABC Board

APPENDIX A

- (1) NCAC 15A .2001 (a) (3) states, "After taking the initial Commission training course for local boards, all finance officers and general managers shall complete a Commission training course for local boards every three years that they are employed by a local board."
- (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. The policy shall address at least all of the following:
 - a. The need to obey all applicable laws regarding official actions taken as a local board member or employee,
 - b. The need to uphold the integrity and independence of the local board member or employee's position,
 - c. The need to avoid impropriety in the exercise of official duties,
 - d. The need to faithfully perform the duties of the position,
 - e. The need to conduct the affairs of the board in an open and public manner, including complying with all applicable laws governing open meetings and public records.
- (3) G.S. 18B-501 (f) states, "Instead of hiring local ABC officers, a local board may contract to pay its enforcement funds to a sheriff's department, city police department, or other local law-enforcement agency for enforcement of the ABC laws within the law-enforcement agency's territorial jurisdiction."
- (4) 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."
- (5) NCAC 15A .1705 (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."
- (6) NCAC 15A .1708 (a) states, "Each local board shall establish and maintain a shelf management plan. The local board shall establish policies within its plan that incorporates the following concepts:
 - a. Set the higher priced items on the upper shelves at eye level and set the lower priced items on the bottom shelves;
 - b. Block categories in vertical sets per their category;
 - c. Arrange bottle sizes so they increase left to right of the same item;
 - d. Create blank billboard by stacking all brand sizes together;
 - e. Set shelf space for products considering the following factors:
 - i. Market share;
 - ii. Promotions
 - iii. Traffic patterns;
 - iv. Seasonal sales; and
 - v. Cross merchandising;
 - f. Set and maintain all bottles at the front of the shelf; and
 - g. Discontinue low profit slow moving items.

(7) 18B-702 (m) states “...the contract, agreement, or purchase order shall include on its face a certificate stating that the instrument has been pre-audited to assure compliance. The certificate, which shall be signed by the finance officer or any deputy finance officer approved, shall take substantially the following form:

“This instrument has been pre-audited in the manner required by GS 18B-702.”

(Signature of finance officer)

(8) 18B-702(q) states “...each check or draft on an official depository shall bear on its face a certificate signed by the finance officer or a deputy finance officer approved for this purpose by the local board. The certificate shall take substantially the following form:

“This disbursement has been approved in the manner required by G.S. 18B-702.”

(Signature of finance officer)

APPENDIX B

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>ABC Board Policies:</p> <p>Update the following policies:</p> <ul style="list-style-type: none"> • Code of Ethics • Law Enforcement Contract • Travel Policy (State or Town of Pembroke Approved) • Price Discrepancy Policy • Shelf Management Policy • Board Credit Card Usage Policy 	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>**Note: Required by Commission rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>The board is currently updating and adopting all policies as mentioned. Once completed, copies will be forwarded to the Commission.</p>
<p>Administrative Compliance:</p> <p>Affix the pre-audit certificate on all orders before the transaction occurs.</p> <p>Affix the approved certificate on all payments.</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>**Note: Required by Commission rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input checked="" type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented 25% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management has implemented procedures to be in compliance with the statute.</p>