

Rowland 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

July 10, 2015

Rowland ABC Board
Mr. Eddie Smith Jr., Chairman
PO Box 205
Rowland, NC 28383-0205

Dear Chairman Smith,

We are pleased to submit this performance audit report on the Rowland 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

Chapter 405 of the 1967 Session Laws authorized the Town of Rowland to hold an election upon a written petition of at least twenty-five percent (25%) of registered voters. The referendum was held on July 26, 1967 and passed 213 to 80. The first retail sale occurred on September 27, 1967.

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 Eddie Smith, Jr., board chairman, Jean A. Love and Walter Hodge, board members.

The Rowland ABC Board operates one retail store. The board staffs one full-time general manager. The general manager is responsible for all daily operations pertaining to the store, inventory management, accounts payable and implementation of other administrative decisions for the board. The board has hired an external accountant to provide additional checks and balances and to perform monthly adjustments, payroll, and taxes.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On January 27, 2015, ABC Board Auditor, Moniqua S. McLean, visited the Rowland ABC store and interviewed Eddie Smith, Jr., board chairman, and Glenda Hunt Locklear, general manager. 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 Rowland ABC board had gross of \$201,531; income from operations was -\$2,685; a -1.33% profit percentage to sales.

Factors that affect sales and profitability:

- Surrounding towns within a fifteen mile radius with ABC stores include Maxton, Pembroke, and Lumberton;
- Reopening of neighboring store (Pembroke);
- Close proximity to the South Carolina border and within a ten mile radius to a South Carolina liquor store;
- Population of town 1,037 in 2010.

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 3½% markup rate to the town. In FY2014, Rowland ABC did not make the required minimum distribution to the town totaling \$6,452. \$45,289 in excise and other taxes were paid to the NC Department of Revenue and the Roberson County Department of Health and Human Services.

G.S. 18B-805 (c) (2) requires the board to distribute at least five percent (5%) of profits to law enforcement. The remaining profits are to be distributed as follows:

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

In FY2014, the Rowland ABC Board did not make law enforcement or city/county distributions.

RECOMMENDATIONS

1. If unable to make the distributions, seek approval from the appointing authority to withhold the 3½% and bottle tax distributions for a limited time or until a specific percentage of sales is achieved.

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 FY2014, the Rowland ABC Board had a working capital of \$20,626, which is less than the maximum allowed of four months gross sales (\$51,981) and is within the limits of NCAC 02R .0902.

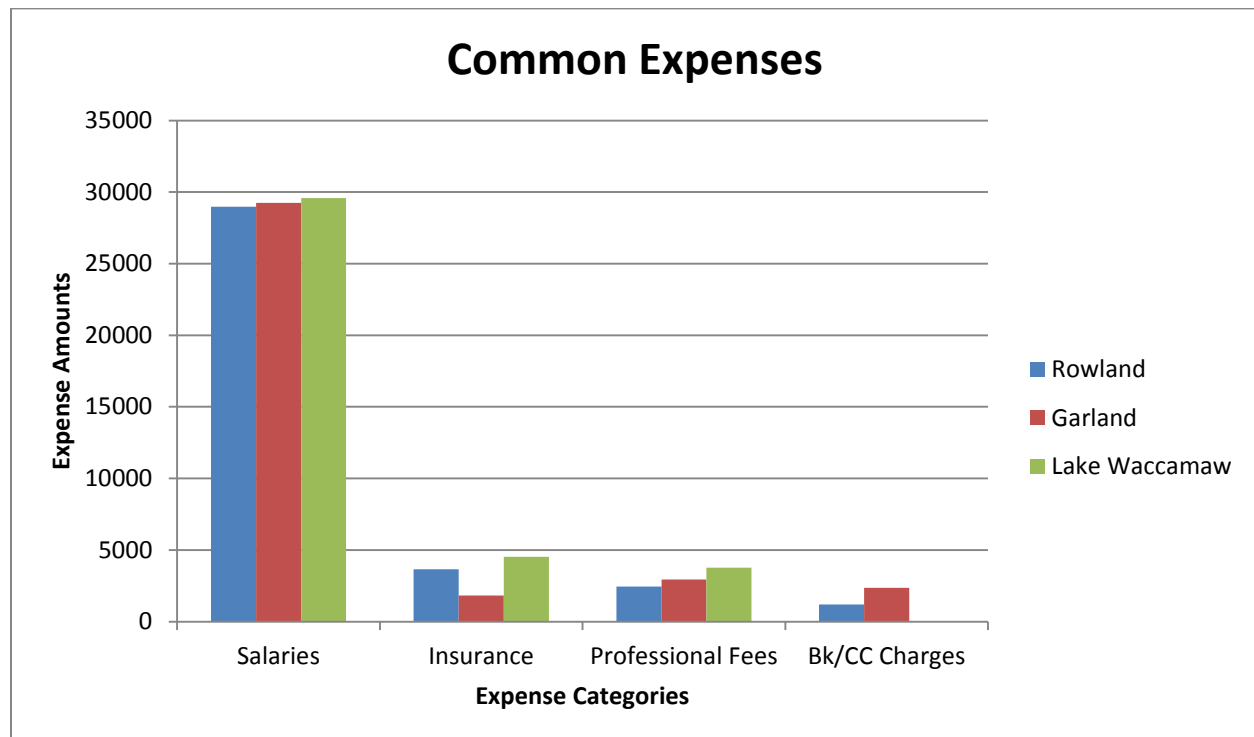
OPERATING COST RATIO

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):

- Single store boards with MXB sales that are equal to or greater than 25% of gross sales – cost ratio 0.75
- Single store boards with MXB sales less than 25% of gross sales – cost ratio 0.85
- Single store boards without MXB sales – cost ratio 0.85
- Boards with 2 stores with and without MXB sales – cost ratio 0.74
- Boards with 3 or more stores with and without MXB sales – cost ratio 0.64

The Rowland ABC Board operates one retail store without mixed beverage sales: the operating cost ratio is 1.05. In fiscal year 2014, sales decreased 8% over fiscal year 2013 as expenses increased 7.7% over the same time period. To meet the goal and remain at current revenue levels of \$201,531, expenses must be reduced to \$41,750, a 19% decrease. To meet the goal and remain at current expense levels of \$51,685, revenues must be increased to \$252,000, a 25% increase.

A common expense analysis shows that the Rowland ABC Board's expenses are lower than other boards. Note: Lake Waccamaw does not accept credit card purchases which is why there are no charges.



RECOMMENDATIONS

1. Consider merging with another system to reduce costs such as professional fees, bonding insurance and to aid in providing employee assistance.

INVENTORY TURNOVER

The inventory turnover is calculated by dividing the cost of liquor by the average inventory in the system (Cost of Liquor/Average Inventory).

The Rowland ABC Board receives deliveries one time a month: the inventory turnover rate is 3.1. The average inventory turnover rate for similar boards with the same delivery schedule is 4.5.

RECOMMENDATIONS

1. Consider the following to increase inventory turns:
 - a. Converting the store to a self-service store. Recent conversions state-wide have shown boards have increased sales by at least ten percent (10%),
 - b. Eliminating poor performing items to drive category sales,
 - c. Splitting cases with other boards to increase product variety and to reduce the liability for the whole case.

STORE APPEARANCE AND CUSTOMER SERVICE

The Rowland ABC Board operates one retail counter store and carries approximately 900 product codes.

- The store appeared clean and free of trash. Counter areas were neat and well-organized.
- The store displayed neat and well visible signage. The Fetal Alcohol Syndrome poster is displayed and visible to the public.
- Bottles were fronted and dusted.
- Landscaping around the store is well-maintained with no evidence of trash.
- A shelf management system would not apply in this type of store. However, products are arranged within their designated category.
- The state price book is made available should customers ask for specific product. Monthly sales information is shared with retail customers on a consistent basis.
- Clerk interaction with customers is attentive, courteous, and eager to meet the needs of the customers.

RECOMMENDATIONS

1. Consider converting to a self-service store. Recent conversions state-wide have resulted in increased sales by at least ten percent (10%).

PERSONNEL AND TRAINING

- Current board members have completed the initial ethics training. One board member has been reappointed and has not completed the ethics training.
- Because the board staffs one employee, the board chairman performs limited administrative duties in the event the employee is unavailable. Additional compensation is not awarded for these duties.
- Personnel files are available for current and previous employees and included all payroll tax withholding and other human resource documentation is included.

RECOMMENDATIONS

1. Have reappointed board members complete the ethics requirement within 12 months of reappointment. *Refer to Appendix A (1) for statute.*
2. Update personnel files to include the employee verification form and other pertinent information as needed.

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Travel Policy (State Travel Policy Approved)
 - FY2014 Annual Audit
 - FY2015 Budget (Proposed and Adopted)

- Policies not adopted include:
 - Law Enforcement Contract
 - Employee Manual

RECOMMENDATIONS

1. Have an agreed upon law enforcement contract and submit to the Commission. All local boards are required to have an agreement, even if the agreement results in no enforcement activity without pay. *Refer to Appendix A (2) for statute.*
2. Update the employee manual to reflect current practices and policies. Adopt policies that incorporate customer friendly practices. *Refer to Appendix A (3) for rule.*

INTERNAL CONTROL OBSERVATIONS

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 board staffs one employee to perform all daily store operations including accounts payable, purchasing, payroll, and clerk functions. The board chairman works as a nonpaid employee to relieve the manager.
- Deposits are not made daily as required by the Commission rules. A waiver from the Commission has not been received.
- An accounting program is not available for store use. However, the manager uses spreadsheets to assist with cash management. The external accounting firm receives monthly information from the manager to accurately account for cash management and performs other financial duties including bank reconciliations.
- Physical inventory is conducted monthly by the general manager. If discrepancies occur, the general manager will investigate and recount for accuracy and verification before the inventory system is updated. The general manager will adjust the inventory system to match with the actual store counts every other month.
- Breakage forms are routinely submitted to the Commission once signed by the distiller representative and when product is purchased from the same company to apply the credit. Breakage forms have not been submitted since July 2014.
- Out of approximately 900 product codes, approximately 53 product codes were sampled to ensure accurate pricing. The results reflected two codes to be incorrect that of discontinued products.

RECOMMENDATIONS

1. Having one employee performing all duties as outlined creates a system of weak internal control. Consider hiring one part-time employee to strengthen internal control and to serve as a back up to the general manager in the event of unavailability.
2. Daily deposits are required by the Commission rules. *Refer to Appendix A (4) for rule.*
3. Have board members routinely spot check inventory to ensure accuracy and to be held more accountable.
4. Forward breakage forms to the Commission quarterly when the distiller representative signs and disposes of the product. *Refer to Appendix A (5) for rule.*
5. 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. When requesting to reduce prices, request approval from the Commission.

ADMINISTRATIVE COMPLIANCE FINDINGS AND OBSERVATIONS

- Board meetings are not regularly scheduled as required by the NC Public Meetings Law. Therefore, public notification of meetings is not presented.
- Board meeting minutes are current and available and provided 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 certificate of accountability includes former board members' signatures.
- Board member appointment dates and compensation are current on the Commission website.
- Board member and general manager compensation are in compliance with G.S. 18B-800 (g) and (g1).
- The general manager serves as the finance officer. A request for a waiver has not been received by the Commission.
- 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 related to board members or general manager.
- In reviewing the budget to actual expenses as referenced in the financial audit, sales did not meet the budgeted amounts for the fiscal year 2014.
- All board members and the general manager are bonded for \$50,000 as required by G.S. 18B-700 (i).
- Liquor orders created by the board reflect the pre-audit certificate and signed by the general manager. For all other common orders, the board is usually invoiced by vendors for purchases.
- All checks bear the approved certificate indicating that the item has been approved by the general manager for payment. Two signatures are present on all paid checks; that of the general manager and the board chairman. In the event that the general manager and/or board chairman is unavailable, other board members are authorized to sign checks.

RECOMMENDATIONS

1. Hold regularly scheduled board meetings as required by the NC Public Meetings Law. *Refer to Appendix A (6) for statute.*
2. Once meetings are determined, post signage notifying the public when, where, and the time meetings are to be held. *Refer to Appendix A (7) for statute.*
3. Request a waiver from the Commission allowing the general manager to serve as finance officer. *Refer to Appendix A (8) for statute.*
4. Monitor budget more closely, particularly towards the year end, to determine whether amendments are needed. Amendments are needed when expenses are over budget or have not been budgeted for and when sales are not meeting or are exceeding budgeted amounts.

AUDITOR'S SUMMARY

ABC Board Auditor, Moniqua S. McLean, presented the performance audit recommendations on March 26, 2015. The board has since responded to the performance audit recommendations and continues to create strategies to increase profitability. 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.

April 29, 2015

Moniqua S. McLean:

In reference to the our Performance Audit:

Distributions: We are in the process of attaining approval from appointed authority to withhold the 3.5% bottle tax for a limited time.

Operating cost ratio: Giving our current location and situation, no other system/s are willing to merge with us at this time.

Inventory Turnover: When it comes to converting the store to a self-service store. We will not feel safe in doing so in the location we now reside in. The reason for keeping counter service is for safety of employees. Counter service was recommended our local enforcement because of the number of robberies we had in the past, which we no longer have. We are seeking relocating our store to a better location with more population. Upon relocating, we will offer self-service. As of poor performing items, we are trying to get those items written off so that we can make space for other product that can sell. However, we are considering splitting cases with other store/ boards to increase productivity.

Store appearance and customer service: It has been recommended to convert our store into a self-service store. It is our plan to relocate our store and then offer self-service. We borrowed money to replace the roof on our store. After the repayment of the current loan, we will consider relocating our store in a new location. As for right now we plan to keep the store at counter service. In order to convert the store to self-service the interior has to be restructured with lower shelving. As the shelving system is now, the shelves are too tall. We cannot see shoppers while in the store.

Personnel and Training: Our reappointed board member is in the process of completing the ethics requirement. There is an updated personnel file that includes the employee verification form with necessary information.

ABC Board Policies: The police have completed the law enforcement contract and it will be submitted to the ABC Commission. The employee manual has been updated and will also be sent to the ABC Commission.

Internal Control Observation: Given our present financial situation, the board chairman or other board member will take part in internal control and serve as backups to the general manager.

Deposits are being made on a daily basis.

Board members will routinely spot check inventory to ensure accuracy and accountable.

Breakage forms are being forwarded to Commission on a quarterly basis, after being signed by a distiller representative.

Shelves are being audited for correct pricing between and on the days of inventory.

Administrative Compliance Findings and Observations: Board meeting will be held quarterly, with announcements being made to the public in form of posting. Telling the time and place of the meeting.

Waiver from the Commission has been made and approved to allow the general manager to serve as finance officer.

We are going to watch the budget so that adjustment & amendments can be made during the year, if any need for adjustments shall arrive.

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MAY 19 2015

NC ABC COMMISSION

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-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."*
- (3) *NCAC 02R .1009 states (a) "Each local board shall establish policies and rules governing each of the following:*
- (1) Initial employment of employees, including qualifications and requirements for new employees;*
 - (2) Compensation and benefits;*
 - (3) Hours and days of work, holidays, vacation, sick leave and other matters pertaining to the conditions of employment;*
 - (4) Promotion, transfer, demotion and suspension of employees;*
 - (5) Separation or termination of employees;*
 - (6) Granting of salary increases;*
 - (7) Employee grievance procedures; and*
 - (8) Any other programs or procedures as may be necessary to promote efficiency and to provide for a fair and reasonable system of personnel administration.*
- (b) A local board is encourage to model its personnel policies and procedures after those adopted by the county or municipality in which it operates. (c) A local board shall not adopt a rule or policy that conflicts with the provisions of Chapter 18B or these Rules."*
- (4) *NCAC 02R .0905 (a) states, "Each officer whose duty it is to collect or receive moneys of the local board shall deposit into an official depository the collections and receipts daily. If the local board gives its approval, deposits shall be required only when the moneys on hand are equal to or are greater than two hundred fifty dollars (\$250.00), but in any event a deposit shall be made on the last business day of the month. All deposits shall be made in an official depository. Deposits in an official depository shall be reported to the finance officer by means of a duplicate deposit ticket.*
- (d) The Commission shall waive or alter the daily deposit requirement for any local board where adequate security for the funds involved is demonstrated."*
- (5) *NCAC 02R .1701 (b) states "...A written copy of the report shall be sent to the distiller and a written or electronic copy shall be sent quarterly to the Commission..."*

- (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, then notice to the media and interested persons shall be made by telephone or other means.*
- (7) *G.S. 18B-702 (j) states "Except as otherwise provided, the local board shall designate (i) a part-time or full-time employee of the board other than the general manager or (ii) the finance officer of the appointing authority with consent of the appointing authority to be the finance officer for the local board. The Commission, for good cause shown, may grant a waiver to allow the general manager of a board also to be the finance officer...and any approval for the general manager also to be the finance officer shall apply until the board operates more than two stores; in any event, the approval shall be effective for 36 months. The Commission may grant one or more waivers to a board.*

APPENDIX B

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>ABC Board Policies:</p> <p>Adopt the following policies and forward to the Commission:</p> <ul style="list-style-type: none"> • Law Enforcement Contract • **Employee Manual 	<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 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The board has signed a contract with local law enforcement and forwarded to the Commission. The board is currently working on updating the employee manual. Once completed, a copy will be forwarded to the Commission.</p>
<p>Internal Control:</p> <ol style="list-style-type: none"> 1. Make daily deposits or ask for a waiver from the Commission seeking a different schedule. 2. Submit the required forms to the Commission at the scheduled times. 	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input checked="" type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management has implemented procedures to be in compliance with the rule.</p>

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Administrative Compliance</p> <ol style="list-style-type: none"> 1. Hold regularly scheduled board meetings. 2. Post a public notice when board meetings are schedule. 3. Request a waiver from the Commission allowing the general manager to serve as finance officer. 	<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 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management has implemented procedures and adopted all policies mentioned.</p>