

# Scotland 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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**Moniqua S. McLean**  
**ABC Board Auditor**  
**919-779-8365**

May 13, 2016

Scotland County ABC  
Ms. Dee Hammond, Chairperson  
PO Box 1104  
Laurinburg, NC 28352

Dear Chairperson Hammond,

We are pleased to submit this performance audit report on the Scotland County ABC. 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**

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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 2015;
- Visited the store;
- Interviewed key ABC board personnel.

## **BACKGROUND INFORMATION**

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S.L. 1937-49 authorized Scotland County to hold an election for an ABC store. The referendum was held on February 1, 1969 and passed 2,584 to 1,580. The first retail sale occurred on October 9, 1969. A mixed beverage election occurred in Scotland County on May 8, 1984 and did not pass. A subsequent mixed beverage election occurred in the City of Laurinburg and passed 1,333 to 878.

Upon election of an ABC store, the county was authorized to create an ABC board consisting of a chairman and two board members to serve for three staggered year terms. The county has instituted term limits to the board members. Current board members are Dee Hammond, board chairperson, Bob Davis and Doreatha Swann, board members.

The Scotland County ABC Board operates one retail store with mixed beverage sales. The board staffs three full-time and 2 part-time employees. The general manager is responsible for the oversight of all store operations, policy implementation, inventory management, human resources, and other administrative decisions for the board. The board has hired a bookkeeper to serve as finance officer to perform duties as required by the ABC statutes. Store employees' main responsibility includes providing friendly customer service to all retail and mixed beverage customers, general store upkeep, and stock maintenance.

# **OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS**

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On January 27, 2016, ABC Board Auditor, Moniqua S. McLean, visited the Scotland County ABC store and interviewed William (Bill) Graves, general manager and Ann Shampy, finance officer. Below is a financial analysis followed by operational observations, findings, and recommendations related to the performance audit.

## **FINANCIAL ANALYSIS**

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### **PROFIT PERCENTAGE TO SALES**

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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 to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2015, the Scotland County ABC board had gross sales of \$1,806,220; income from operations was \$92,312, a 5.11% profit percentage to sales.

Factors affecting sales and profitability:

- Estimated population reported to the US Census Bureau as 35,576 in 2014, a 1.6% decrease since 2010;
- Other surrounding ABC boards include Hoke Co, Pembroke, Red Springs, and Maxton;
- Board renovated the interior in August 2015 and has since increased sales by 5.22%.

## **DISTRIBUTIONS**

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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) requires the board to make a minimum quarterly distribution of the 3 ½% markup rate to the county. In FY2015, Scotland County made the minimum distribution of \$54,938, plus additional distribution of \$32,916. \$411,201 in excise and other taxes were paid 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. The board is not required to distribute toward alcohol education. The remaining profits are to be distributed to the Scotland County General Fund.

In FY2015, the Scotland County ABC Board distributed to the county \$1,870 to law enforcement and \$2,618 toward alcohol education. The ABC Board has contracted with the Scotland County law enforcement.

## **NO RECOMMENDATIONS**

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## **WORKING CAPITAL**

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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 FY2015, the Scotland County ABC Board had working capital of \$174,511 which is less than the maximum allowed to retain of four months gross sales (\$465,006) and is within the limits of NCAC 15A .0902.



## OPERATING COST RATIO

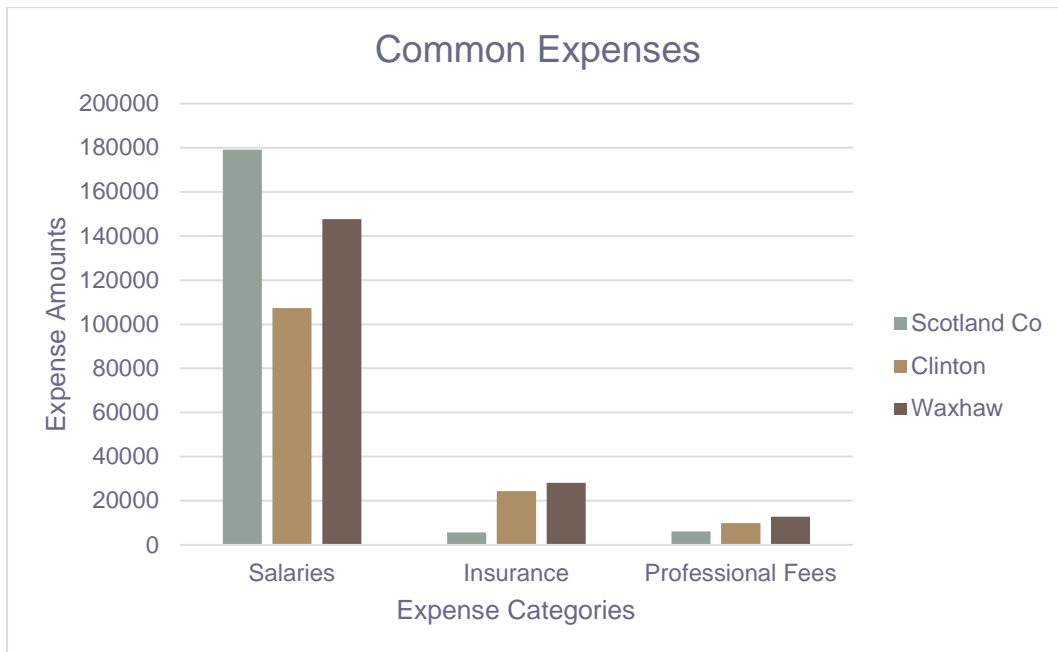
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Operating costs are calculated by dividing total operating expenses less depreciation by the gross profit on sales (Total Operating Expenses less Depreciation/Gross Profit). Below are the average cost ratios for boards with and without mixed beverage 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 Scotland County ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.77. Mixed beverage sales make up 3.5% of total gross sales. Compared with the state's increase in sales of 7.59% in fiscal year 2015, the Scotland County ABC Board's sales increased 4.80% over fiscal year 2014. Expenses increased 2.69% over the same time period.

Below is a common expense analysis showing the Scotland County ABC Board's expenses compared with other similar size boards.



## **STORE APPEARANCE**

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The Scotland County ABC Board operates one retail store with approximately 1,100 linear feet of shelf space and carries approximately 1,200 product codes.

- The store appeared clean and free of trash. Counter areas were neat and well-organized with limited signage.
- The store displayed neat and well-visible signage. The Fetal Alcohol Syndrome poster was not displayed. However, the poster was presented at the time of the audit fieldwork.
- Landscaping around the store is well-maintained with no appearance of trash.
- Management has adopted a shelf management plan that gives specifics on category management and product placement in the store. Each product is displayed within its designated category. Bottles are fronted and dusted throughout the store.
- Product placement shows the premium products at eye level and lowest price products on the bottom shelves. In some areas, shelves were empty. Sizes are consistent going from largest on the right and smallest to the left. Cross merchandising is not often utilized.

## **CUSTOMER SERVICE**

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- The state price book is available for retail and mixed beverage customers. 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.
- Sales clerks' interaction with retail and mixed beverage customers is attentive, courteous, and all are eager to meet the needs of the customers.

## **RECOMMENDATIONS**

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1. Consider exploring more efficient ways of handling empty shelves. One common practice is to incorporate a shelf display when there is a limited brand category.

## **PERSONNEL AND TRAINING**

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- A board member has been newly appointed to the board and has yet to take the ethics training. Other board members have completed the ethics training since reappointment was made by the county.
- Cross training has been extended on key administrative duties to employees in the event the general manager or finance officer were unavailable.
- Additional training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities. The general manager and finance officer have attended various training courses offered by the NC ABC Commission.
- Personnel files are available and include the required human resource documentation and other personnel information as needed.

## **RECOMMENDATIONS**

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1. Have all newly appointed board members complete the required ethics training within one year of appointment. *Refer to Appendix A (1) for statute.*

## **ABC BOARD POLICIES**

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- Policies adopted and submitted to the Commission include:
  - Code of Ethics
  - Law Enforcement Contract
  - Travel Policy (State Travel Policy Adopted)
  - FY2015 Annual Audit
  - Employee Handbook
  - FY2016 Budget (Proposed and Adopted)
  - Mixed Beverage Policy
  - Shelf Management Policy
  
- Policies not adopted include:
  - Price Discrepancy Policy

## **RECOMMENDATIONS**

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1. Adopt a price discrepancy policy that incorporates customer friendly practices. Once adopted, communicate to all employees should the need arise. *Refer to Appendix A (2) for rule.*

## **INTERNAL CONTROL OBSERVATIONS**

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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 and appropriate practices. Below are internal control findings that were observed during the audit fieldwork.

- The general manager schedules all employees for work shift hours. Employees enter hours worked with signature using a time sheet. The general manager verifies hours worked by all employees and forwards to the finance officer. Management requires two persons at all times on each shift. Management usually works the day shift hours. In the event an employee fails to attend a shift, the general manager adjusts the schedule or finds a replacement. At the end of the payroll week, the finance officer calculates and processes payroll through the accounting/payroll system.
- 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 following the ABC Commission rule. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed by the general manager.
- In reviewing a sample of travel reimbursements, procedures were followed according to the travel policy submitted.
- In reviewing of petty cash transactions, procedures were followed according to the disbursement requirements as stated in G.S. 18B-702.
- Physical inventory counts are performed monthly by category by all scheduled employees. Spot checks are conducted frequently. When discrepancies occur, the general manager and another person will investigate and perform a recount. Adjustments are made by the finance officer. Unsalable merchandise is adjusted from inventory monthly.
- Breakage forms have not been submitted as required by the Commission rule. Management has implemented procedures in handling breakage when a customer/employee breaks product.
- Out of approximately 1,200 product codes, approximately 100 product codes were sampled to ensure accurate pricing and all were correct.

## **RECOMMENDATIONS**

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1. Submit breakage forms quarterly as required by the Commission rule. *Refer to Appendix A (3) for rule.*

## **ADMINISTRATIVE COMPLIANCE FINDINGS**

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- 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. Each board member signs a Certificate of Accountability monthly.
- Date/time/location of board meetings are not posted for public knowledge.
- Board member appointment dates and compensation amounts are current on the Commission website.
- Board member and general manager compensation are 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 who are related to board members or the general manager.
- All board members and the general manager, except for the finance officer, are bonded for \$50,000 as required by G.S. 18B-700 (i).
- Although initial liquor orders do not bear the pre-audit certificate, each individual vendor invoice has the pre-audit certificate and is signed by the general manager.
- Vendors often invoice the board when office and store supplies are needed or the board credit card is used. All purchases are pre-audited by the finance officer utilizing the certificate as required in G.S. 18B-702 (m).
- In reviewing the budget to actual expenses as referenced in the financial audit of FY2015, the board overspent in expense line items. However, amendments were submitted to the Commission adjusting items.
- In reviewing a sample of liquor invoices, payments were made within thirty days.
- 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 board chairman. In the event the finance officer is unavailable, the general manager is authorized to sign checks.

## **RECOMMENDATIONS**

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1. Post signage at the store and Town Hall notifying the public, when, where, and the time meetings are held. *Refer to Appendix A (4) for statute.*
2. Update board insurance to include the finance officer as bonded for \$50,000. *Refer to Appendix A (5) for statute.*
3. To save time, eliminate stamping and signing each invoice; place the pre-audit certificate on the order to LB&B. Authorization should occur before the transaction takes place.
4. Monitor budget more closely, particularly towards the year end, to determine whether amendments are needed. Amendments are required when expenses are over budget or have not been budgeted for and when sales are not meeting or are exceeding budgeted amounts. Once amendments have been adopted, submit copies to the Commission, the appointing authority, and the CPA firm conducting the financial audit.

## **AUDITOR'S SUMMARY**

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On March 7, 2016, ABC Board Auditor, Moniqua S. McLean, presented the performance audit findings and recommendations to the board. The board continues to strive to improve profitability while maintaining budget appropriations. Policies and procedures have been implemented to ensure compliance with statutes and Commission rules. Efficient operations are established to maintain sufficient checks and balances.

SCOTLAND COUNTY ABC  
224 Lauchwood Circle  
Laurinburg, NC 28352

March 21, 2016

Ms. Moniqua S. McLean  
Alcoholic Beverage Control Commission  
400 East Tryon Road  
Raleigh, NC 27610

Dear Ms. McLean:

It was a pleasure to have you at our ABC Board meeting on March 7, 2016 to present your performance audit report, findings, and recommendations.

The Scotland County ABC Board is pleased with the audit conducted by you; the Board thought the results were factual and very positive.

The Scotland County ABC Board Performance Audit Report was very helpful in learning how we might improve the Store. We appreciate the recommendations and they are being addressed. Mr. Bill Graves, the store manager, began implementing some of the recommendations once the remodeling of the interior of the store was completed in August 2015.

We are scheduling a landscaping project for the outside of the store as soon as possible. We plan to coordinate with our local Chamber of Commerce to have a Business After Hours to "show off" our remodeled store as soon as the landscaping is complete.

Our newest Board Member is in the process of fulfilling the Ethics Training as soon as possible. The Board Member's first meeting was in January 2016.

At this time, we have no plans to add a second ABC Store in Scotland County. We will continue to monitor the need for a second store.

Our Board and the employees of the ABC Store always strive to improve our store's appearance, operations, customer service and environment for our customers.

The Scotland County ABC Board appreciates the time and effort you took to prepare and present the performance audit.

Sincerely,



Dee Hammond  
Chairperson, Scotland County ABC Board

**RECEIVED**

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**NC ABC COMMISSION**



## APPENDIX A

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- 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) *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."*
- 3) *NCAC 15A .1701 (b) states, "...A Destruction of Unsalable Merchandise Report shall be completed and signed by the witnessing parties. 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. The original shall be retained by the local board for a period of three years."*
- 4) *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."*
- 5) *G.S. 18B-700 (i) states, "Each local board member and the employees designated as the general manager and finance officer of the local board shall be bonded in an amount not less than fifty thousand dollars (\$50,000) secured by a corporate surety, for the faithful performance of his duties."*

## APPENDIX B

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Personnel and Training</b></p> <p>Have all appointed board members complete the required ethics training with 12 months of appointment</p>	<p><input type="checkbox"/> <b>Yes</b></p> <p><input checked="" type="checkbox"/> <b>No</b></p> <p><b>**Note:</b> 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 is planning to schedule the board member for ethics training. A copy of the ethics verification will be forwarded to the Commission once training is completed.</p>
<p><b>ABC Board Policies</b></p> <p>Adopt the following policies:</p> <ul style="list-style-type: none"> <li>• Price Discrepancy Policies**</li> </ul>	<p><input type="checkbox"/> <b>Yes</b></p> <p><input checked="" type="checkbox"/> <b>No</b></p> <p><b>**Note:</b> 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 a policy detailing the specifics if price discrepancies were to occur.</p>

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Internal Control/Administrative Compliance</b></p> <p>Submit breakage forms quarterly.</p> <p>Post signage notifying the public of the board meetings.</p> <p>Update board bonding insurance to include the finance officer.</p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p> <p><b>**Note:</b> 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 to incorporate these standards and rules in order to be in compliance with the statute.</p>