

Shallotte 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

March 6, 2015

Shallotte ABC Board
Mr. Roy Mintz, Chairman
PO Box 547
Shallotte, NC 28459

Dear Chairman Mintz,

We are pleased to submit this performance audit report on the Shallotte 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 maintain 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 519 of the 1959 Session Laws authorized the town of Shallotte to hold an election upon a written petition of at least fifteen percent (15%) of registered voters. The referendum was held on July 7, 1959 and passed 125 to 39. The first retail sale occurred on August 1, 1959. Special legislation allowed the board to hold mixed beverage sales.

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 Roy Mintz, board chairman, Bobby Ray Russ and Chris Lane, board members.

The Shallotte ABC Board operates one retail store. The board staffs four full-time and one part-time employee. The general manager is responsible for oversight of all daily operations pertaining to the store, inventory management, human resources, and implementation of other administrative decisions for the board. The finance officer is responsible for all accounts payable duties as required by the board and ABC statutes. The board has hired an external accountant to perform various bookkeeping duties and to provide additional checks and balances to the system. 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 October 28, 2014, ABC Board Auditor, Moniqua S. McLean, visited the Shallotte ABC store and interviewed Arthur Duncan, general manager, and Emory Joel Lovett, finance officer. 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 Shallotte ABC board had gross sales of \$1,579,459; income from operations was \$145,354, a 9.20% profit percentage to sales.

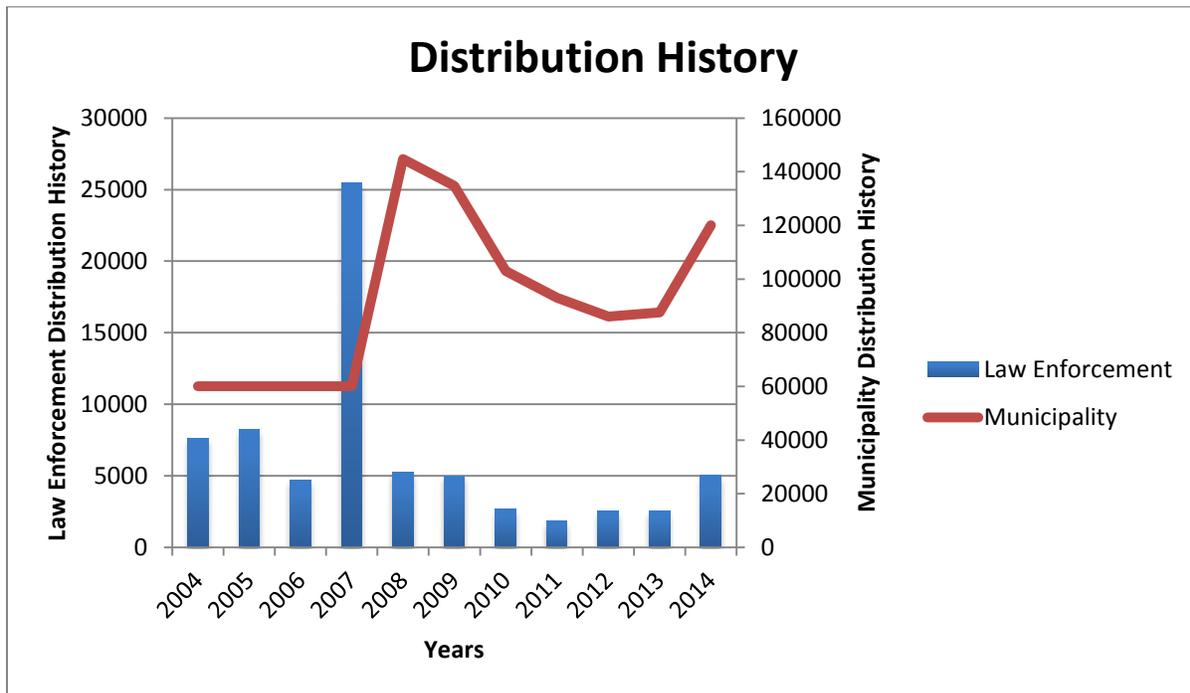
DISTRIBUTIONS

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 rate to the town. In FY2014, Shallotte ABC made the required minimum distribution to the town totaling \$45,230, plus additional distribution of \$74,770. \$365,429 in excise and other taxes were paid to 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. The local enabling act does not require the ABC Board to distribute for alcohol education. However, the board has approval from the appointing authority to fund an alcohol education program for the current fiscal year. The remaining profits are to be distributed as follows:

- Eighty percent (80%) to the Town of Shallotte General Fund,
- Ten percent (10%) to West Brunswick High School,
- Five percent (5%) to Shallotte Middle School,
- Five percent (5%) to Union Primary School.

Below is a law enforcement and municipality distribution chart analyzing the high-low trends of the Shallotte ABC Board for the past ten years.



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 Shallotte ABC Board had a working capital of \$379,977, which is less than the maximum allowed of four months gross sales (\$404,677) and is within the limits of NCAC 02R .0902.

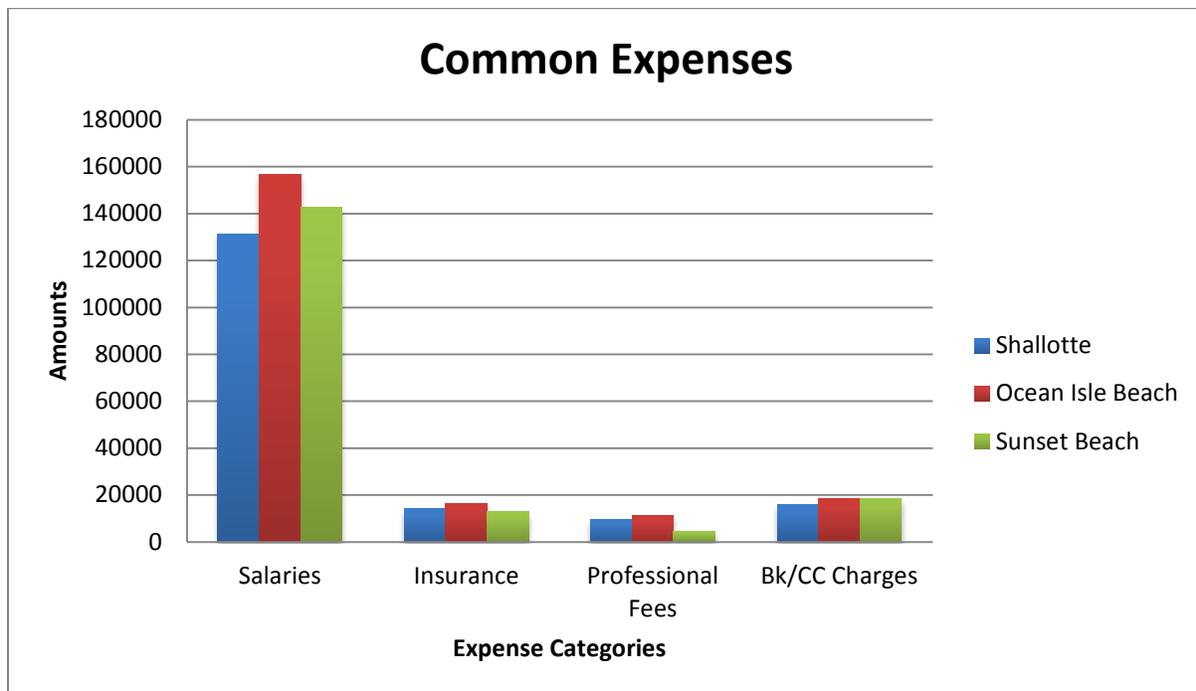
OPERATING COST RATIO

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 Shallotte ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.61. Mixed beverage sales make up 9.5% of total gross sales. In fiscal year 2014, sales increased 7.6% over fiscal year 2013 while expenses decreased 10.6% over the same time period.

A common expense analysis shows that Shallotte ABC Board expenses are in line with other similar size boards. Note: Insurance expenses include group health insurance.



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 Shallotte ABC Board receives deliveries two times a month: the inventory turnover rate is 3.2. The average inventory turnover rate for similar boards with the same delivery schedule is 5.6.

Note: The board has made a business decision to have a larger inventory of products at the expense of higher turnover to attract more business in a tourist area.

RECOMMENDATIONS

1. Consider the following to increase inventory turns:
 - Incorporating 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;
 - Splitting cases with other boards or taking advantage of the Special Purchase Allowance and the Boutique collections to increase variety;
 - Eliminating poor performing items to drive category sales and increase shopper satisfaction.
2. Consider renovating to create a larger footprint that would give customers more room to shop. Studies have shown that stores can increase sales by more than 10% simply by increasing their retail space and providing more display area-both of which benefit impulse shopping.

STORE APPEARANCE AND CUSTOMER SERVICE

The Shallotte ABC Board operates one retail store with shelf space of approximately 1,000 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.
- The store displayed neat and well visible signage. The Fetal Alcohol Syndrome poster is displayed and visible to the public.
- Landscaping around the store is well-maintained with no evidence of trash.
- Bottles were fronted and dusted.
- A basic shelf management plan is in use that exhibits a strategy following the premium products at eye level, ultra-premium on the top shelves, and value products on bottom shelves. Product placement is consistent with sizes arranged from largest on the right and smallest on the left. Each product is displayed within its designated category. End caps display new or bestselling items.
- The state price book is available should customers ask for specific product. Sales clerks often refer to the price book for verification of product and pricing. Monthly sales information is shared with mixed beverage and retail customers on a consistent basis.
- Sales clerk's interaction with customers is attentive, courteous, and all are eager to meet the needs of the customers.

NO RECOMMENDATIONS

PERSONNEL AND TRAINING

- Current board members have completed the initial ethics training. Board members have been reappointed since and have not yet taken the reappointment training.
- Cross training opportunities are being extended on key administrative duties to key employees in the event the general manager was suddenly unavailable.
- Training is provided continuously to new and existing staff on areas applicable to job performance. Management often attends the NC Association of ABC Boards General Manager conferences for additional training opportunities.
- Personnel files are available and include human resource documentation and other personnel information as required.

RECOMMENDATIONS

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

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract
 - FY2014 Annual Audit
 - FY2015 Budget (Proposed and Adopted)
 - Employee Manual
 - Mixed Beverage Policy
 - Travel Policy (State Approved)
 - Price Discrepancy Policy

NO RECOMMENDATIONS

INTERNAL CONTROL PROCEDURES

- The general manager schedules all employees for work shift hours. Time sheets are filled out by each employee. The general manager and/or finance officer will verify and calculate hours worked of each employee. Once verified, data is entered into the payroll system to process for payment by the finance officer. Tax payments and adjustments for the general ledger are made by the external accountant.
- 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 quarterly by everyone. 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.
- Out of approximately 1,200 product codes, approximately 100 product codes were sampled to ensure accurate pricing and all were correct.

RECOMMENDATIONS

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 is not 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 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).
- 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. The board is usually invoiced by vendors for purchases and payments are remitted.
- All checks bear the approved certificate indicating that the items have been approved by the finance officer for payment. Two signature are located on all paid checks; that of the finance officer and a board member. In the event the finance officer is unavailable, the general manager and other board members are authorized to sign checks.
- A filing system is not created that would follow the Records Retention Schedule.

RECOMMENDATIONS

1. 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.
2. Create a filing system that will make accounts payable and other information easily accessible.

AUDITOR'S SUMMARY

ABC Board Auditor, Moniqua S. McLean, presented the performance audit recommendations on January 7, 2015. The board has since responded to the performance audit recommendations and continues to implement strategies to improve profitability while maintaining or reducing costs. 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. The board realizes the need for enlarged space to accommodate new product. The board is evaluating options to either expand the current location or relocate to better accommodate the growing concern.

February 12, 2015

Moniqua S McLean, MAFM
ABC Board Auditor
4307 Mail Service Center
Raleigh NC 27699-4307

Dear Ms. McLean:

We are responding to your performance audit report dated November 24, 2014 and appreciate you meeting with our board on January 7, 2015.

We have carefully reviewed your report and acknowledge and accept your recommendations.

We will revisit our inventory policy and determine methods to improve it. Our staff will continue to learn new innovative methods of stocking our shelves and improving customer impulse purchases. The board will also continue to evaluate other options such as future locations or store enlargement. This has to be cost effective in todays market to implement.

The board will complete the ethics training as required as soon as possible. This was an oversight in interpreting the statue.

Authorization of the LB&B order acknowledgement has been corrected and a new filing system for invoices is being created.

Should you have any further questions, please do not hesitate to call.

Thanks!

Manager Arthur B Duncan III

Board Chariman Roy Mintz

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APPENDIX A

Illustration 1



External view

Illustration 2



Counter view

Illustration 3



Shelf management/product placement view

APPENDIX B

(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."

APPENDIX C

| RECOMMENDATION | REQUIRED BY STATUTE | IMPLEMENTATION STATUS |
|--|--|---|
| <p>Personnel and Training:</p> <p>Have all reappointed board members complete the ethics requirement within 12 months of reappointment.</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 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>As of 3/2/2015, board members have not yet completed training. Management is currently making plans to have all board members completed this requirement.</p> |