

Siler City 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

Town of Siler City ABC Board
Mr. Otis Martin, Chairman
1404 East 11th Street
Siler City, NC 27344

Dear Chairman Martin,

We are pleased to submit this performance audit report on the Town of Siler City 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 2015;
- Visited the store;
- Interviewed key ABC board personnel.

BACKGROUND INFORMATION

G.S. 18B-601 (c) authorized the town of Siler City to hold an election for an ABC store. The referendum was held November 8, 1983 and passed 796 to 752. A subsequent mixed beverage election occurred on May 5, 2009 and passed 5,187 to 2,756. The first retail sale occurred on February 13, 1984.

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 for three year staggered terms. Current board members include Otis Martin, board chairman, Jimmie Pugh and Louise Adcock, board members.

The Siler City ABC Board operates one retail store with mixed-beverage sales. The board staffs three full-time, three regular part-time, and one seasonal part-time employee. 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 who provides financial reports and other duties as required by the ABC statutes. Store employees' primary responsibility includes providing friendly customer service to all retail and mixed beverage customers, general store upkeep, and stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On August 27, 2015, ABC Board Auditor, Moniqua S. McLean, visited the Siler City ABC store and interviewed Nancy Gooch, 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 2015, the Siler City ABC board had gross sales of \$1,310,958; income from operations was \$76,692, a 5.85% profit percentage to sales.

Factors affecting sales and profitability:

- Estimated population reported to the US Census Bureau as 8,263 in 2014, a 5% increase since 2010;
- Other ABC boards within the county include: Pittsboro and Chatham County ABC Boards;
- Surrounding ABC boards within a twenty-mile radius include Asheboro and Sanford.

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) requires the board to make a minimum quarterly distribution of the 3 ½% markup rate to the town. In FY2015, the Siler City ABC Board made the minimum distribution of \$38,272, plus additional distribution of \$4,585. \$297,381 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) 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 remaining profits are to be distributed to the Town of Siler City General Fund.

In FY2015, the Siler City ABC Board distributed to the town \$2,253 to law enforcement and \$3,153 toward alcohol education. The ABC Board does not have a law enforcement contract.

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 FY2015, the Siler City ABC Board had working capital of \$206,990 which is less than the maximum allowed to retain of four months gross sales (\$337,133) and is within the limits of NCAC 15A .0902.

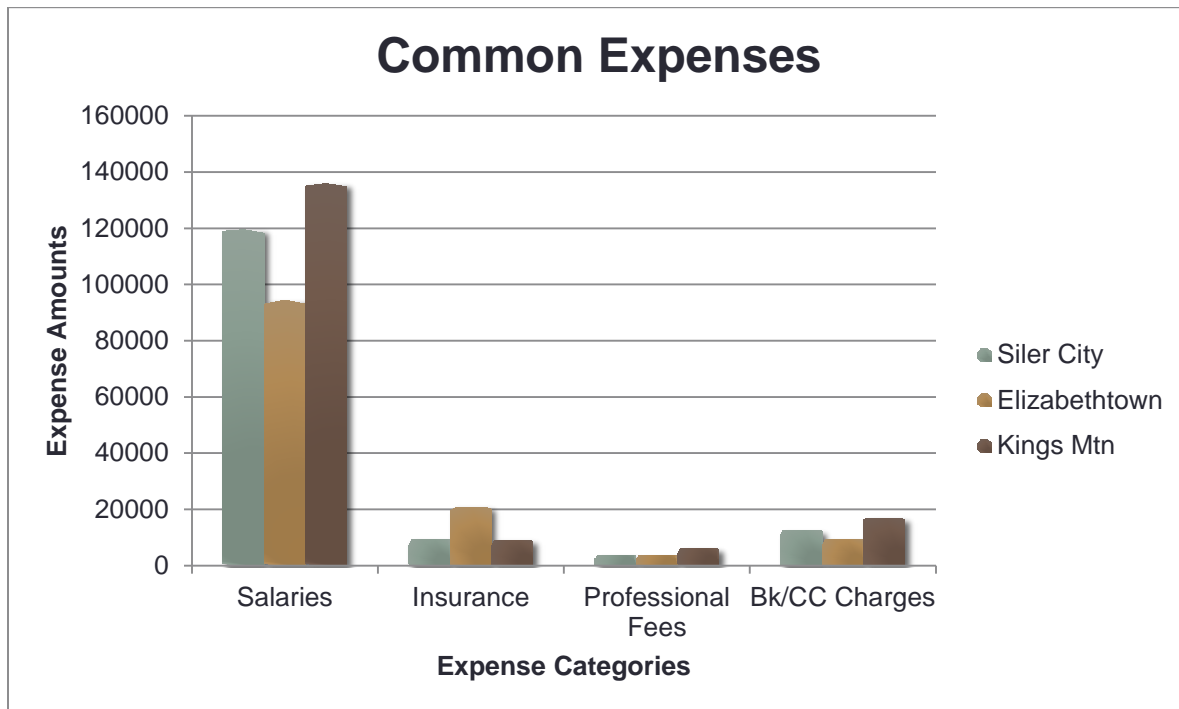
OPERATING COST RATIO

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):

- 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 Siler City ABC Board operates one retail store with mixed-beverage sales: the operating cost ratio is 0.68. Mixed-beverage sales make up 2.7% of total liquor sales. Compared with the state's increase in sales of 7.59% in fiscal year 2015, the Siler City ABC Board's sales increased 8.5% over fiscal year 2014. Expenses increased 5.3% over the same time period.

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



Staffing by board: Siler City – 3 full-time, 3 regular part-time, and 1 seasonal part-time employees; Elizabethtown – 2 full-time and 3 part-time employees; Kings Mountain – 2 full-time and 4 part-time employees.

STORE APPEARANCE

The Siler City ABC Board operates one retail store with 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 with limited signage.
- The store displayed neat and well-visible signage. The Fetal Alcohol Syndrome poster is in an area visible to the public.
- Landscaping around the store is well-maintained with no appearance of trash.
- Shelf management and product placement shows the following
 - Each product is displayed within its designated category.
 - Premium products at eye level and lowest price products on the bottom shelves.
 - Sizes are consistent going from largest on the right and smallest to the left.
 - Cross merchandising is utilized where possible to encourage impulse shopping.
 - Bottles are fronted and dusted throughout the store.

CUSTOMER SERVICE

- 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.

NO RECOMMENDATIONS

PERSONNEL AND TRAINING

- All board members, the general manager, and the finance officer have completed the initial ethics training as required by the ABC statutes. However, one board member has since been reappointed to the board and has not yet completed the ethics requirement.
- 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 and the NC Association of ABC Boards.
- Personnel files are available and include the required human resource documentation and other personnel information as needed, except the I-9 documentation.

RECOMMENDATIONS

1. Have all reappointed board members complete the ethics requirement within 12 months of appointment. *Refer to Appendix A (1) for statute.*
2. Consider additional training opportunities through the Commission, such as the Responsible Alcohol Sellers Program, and other Commission-approved courses.
3. Update all personnel documents to include the I-9 form.

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - FY2015 Annual Financial Audit
 - FY2016 Budget (Proposed and Adopted)
 - Mixed-Beverage Policy
 - Price Discrepancy Policy

- Policies not adopted include:
 - Law Enforcement Contract
 - Sale to Underage Policy
 - Employee Handbook

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 distribution. *Refer to Appendix A (2) for statute.*
2. Adopt the above policies that incorporate customer friendly practices and current personnel practices. Once adopted, submit a copy to the Commission and communicate to all employees should the need arise. *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. Below are internal control findings that were observed during the audit fieldwork.

- The general manager makes the schedule, notifies employees of work schedule, and forwards to the finance officer. Time sheets are used for all employees. Management requires two persons at all times on each shift. Management usually works the day shift hours. In the event an employee is absent, the general manager is notified and adjusts the schedule or finds a replacement. At the end of the payroll week, all time sheets are forwarded to the finance officer for payroll processing. Adjustments to payroll are made at the end of the month.
- Cash drawers are maintained by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures in handling cash drawer overages/shortages.
- Bank deposits are made regularly by the ABC Commission rule. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed by the finance officer.
- In reviewing a sample of travel reimbursements, procedures were followed according to the travel policy submitted.
- In reviewing a sample of board credit card transactions, procedures were followed according to the adopted credit card policy.
- In review of petty cash transactions, procedures were followed according to the disbursement requirements as required by G.S. 18B-702.
- Except in December, 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 general manager. Unsalable merchandise is adjusted from inventory monthly.
- Breakage forms have not been submitted recently but the auditor has collected the most recent during the audit fieldwork.
- Out of approximately 1,200 product codes, approximately 110 product codes were sampled to ensure accurate pricing and all was correct.

RECOMMENDATIONS

1. Submit breakage forms quarterly as required by the Commission rule. *Refer to Appendix A (4) for rule.*

ADMINISTRATIVE COMPLIANCE FINDINGS

- Board meeting minutes were viewed and did not followed the order of proceedings, providing sufficient detail that a reasonable person would be able to follow what transpired. Board meeting minutes do not include a conflict of interest statement asking board members if conflicts exist with items on the meeting agenda.
- Date/time/location of board meetings are not posted for public knowledge.
- Board member appointment dates and compensation amounts are 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 for the following month have not been submitted: June 2015.
- 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, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- In reviewing a sample of liquor invoices, payments were made within thirty days.
- In reviewing the budget to actual expenses as referenced in the financial audit of FY2015, the board overspent in expense line items.
- Liquor orders and miscellaneous purchases are pre-audited by the finance officer. 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).
- 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 general manager. In the event the finance officer or general manager is unavailable, one board member is authorized to sign checks.

RECOMMENDATIONS

1. Have detailed board minutes that a reasonable person would be able to follow what transpired. Eliminate judgmental statements and opinions recorded in minutes.
2. Have the board chairman read the conflict of interest statement to all board members at the beginning of each meeting. Reference the conflict of interest statement was read in the board minutes. *Refer to Appendix A (5).*
3. Post signage at the store and Town Hall notifying the public, when, where, and the time meetings are held. *Refer to Appendix A (6) for statute.*
4. Update board appointment information on the Commission website.
5. 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.

AUDITOR'S SUMMARY

On November 30, 2015, ABC Board Auditor, Moniqua S. McLean, presented the performance audit findings and recommendations to the board. Discussions were held regarding future strategies and plans of the ABC system. The board strives to improve profitability while maintaining budget appropriations and reducing costs. Policies and procedures have been implemented to ensure compliance with statutes and Commission rules. Internal controls are used to ensure efficient operations while maintaining sufficient checks and balances.

TOWN OF SILER CITY
ALCOHOL BEVERAGE CONTROL BOARD
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Otis Martin, Chairman
Jimmie C. Pugh, Secretary
Louise Adcock, Member

Nancy Gooch, General Manager
Joe McEvoy, Finance Officer

April 28, 2016

Response to the Siler City ABC Board Performance Audit

As per the recommendations made by Moniqua Mclean, ABC Board Auditor:

- The town website has been updated with the correct date and time of board meetings.
- All board information has been updated on the NCABCC website.
- All unsalable merchandise reports will be sent in quarterly.
- A board meeting schedule has been posted in the store.
- The law enforcement contract has been obtained from the town.
- All current employees have an I-9 form on file.
- The board is working on updating the employee manual.

Thank you,
Nancy Gooch
General Manager

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 15A .1006 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 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."*
- 5) *OP 4.19.4 states, "In an effort to avoid possible conflicts of interest it is recommended at the beginning of each meeting the Chairman ask fellow board members if there are any potential conflicts of interest. This can be done by reading the following ethics reminder:*

'In accordance with G.S. 18B-201, it is the duty of every Board member to avoid both conflicts of interest and appearances of conflicts. Does any member have any known conflict of interest or appearance of conflict with respect to any matters coming before the Board today? If so, please identify the conflict or appearance of conflict and refrain from any undue participation in the particular matter involved.' "

- 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, and then notice to the media and interested persons shall be made by telephone or other means."*

APPENDIX B

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 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>All board members have completed the required ethics training.</p>
<p>ABC Board Policies</p> <p>Adopt policies that follow current practices.</p> <p>Have a law enforcement contract.</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 checked="" type="checkbox"/> Partially implemented 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The board has filed a copy of the existing law enforcement contract to the Commission. The board is in the process of updating the employee manual/procedures to incorporate current practices.</p>

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Board Compliance:</p> <ul style="list-style-type: none"> • Have detailed board minutes of the board meetings. • Post signage notifying the public when, where, and the time board meetings are held. • Monitor expenses regularly to maintain a balanced budget. 	<p> <input checked="" type="checkbox"/> Yes <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 <input type="checkbox"/> Partially implemented 50% complete. (Explain below.) <input type="checkbox"/> Not implemented (Explain below.) </p> <p>Management has implemented procedures to bring in compliance with the statutes.</p>