

Sparta 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

November 17, 2015

CHAIRMAN:
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KEVIN M. GREEN
Greensboro

ADMINISTRATOR:
ROBERT A. HAMILTON

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Moniqua S. McLean
ABC Board Auditor

Sparta ABC Board
Mr. Alan Wyatt, Chairperson
48 N Main St
Sparta, NC 28675

Dear Chairperson Wyatt,

We are pleased to submit this performance audit report on the Sparta ABC Board. The objective of this audit was to examine existing policies, practices, and controls and to provide recommendations on methods to improve operating efficiency at the ABC Board in accordance with new legislative mandates.

The report consists of an executive summary, background information, operational findings and recommendations along with your response to our recommendations. This report will be posted on the Commission's public web site.

We would like to thank you, the ABC Board and your staff for the assistance and cooperation provided to us during the audit. Additionally, we appreciate the efforts your Board has made to comply with the new performance standards along with your efforts to increase profitability and reduce expenses.

If we can be of assistance in the future, please advise.

Respectfully,

Robert A. Hamilton
Administrator

CC. North Carolina Association of ABC Boards

EXECUTIVE SUMMARY

By state law, the ABC Commission shall ensure that all local ABC Boards comply with established performance standards by conducting regular audit or performance evaluations. Performance standards shall include, but are not limited to, standards that address enforcement of ABC laws, store appearance, operating efficiency, solvency, and customer service. Performance audits are examinations of existing operating policies, practices, controls, and activities to determine those areas in which there may be a need for improvements. This audit was conducted in accordance with Government Auditing Standards. This report details findings and recommendations with regard to organizational and operational issues.

To achieve the objectives of the audit, ABC Commission staff

- Reviewed applicable General Statutes, ABC Commission Rules, and administrative policies;
- Reviewed applicable reports and studies of ABC boards with similar size and geography;
- Verified compliance with Commission and Board policies;
- Reviewed organizational chart and job descriptions;
- Reviewed ABC board annual audit for the fiscal year 2014;
- Visited the store;
- Interviewed key ABC board personnel.

BACKGROUND INFORMATION

S.L. 1961-1012 authorized the Town of Sparta to hold an election for an ABC store upon a petition of at least fifteen percent (15%) of registered voters. The referendum was held on June 27, 1961 and passed 297 to 200. Special legislation authorized a mixed beverage election. The first retail sale occurred on August 15, 1961.

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 year staggered terms. Current board members are Alan Wyatt, board chairman, Robert Andrews and Teresa Woodle, board members.

The Sparta ABC Board operates one retail store. The board staffs two full-time and one part-time employee. The general manager is responsible for the oversight of all daily store operations including human resource organization, inventory management, financial, and other administrative decisions for the board. The general manager serves as the finance officer only to sign checks. The board has hired an external accountant to provide bookkeeping services such as accounts payable, create financial statements and provide additional checks and balances as indicated by sufficient internal control functions. All store employees are responsible for providing friendly customer service, general store upkeep, and stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On May 13, 2015, ABC Board Auditor, Moniqua S. McLean, visited the Sparta ABC store and interviewed Barry Atwood, 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 Sparta ABC Board had gross sales of \$699,006; income from operations was \$47,609, a 6.81% profit percentage to sales.

Factors affecting sales and profitability:

- Surrounding townships with ABC stores include West Jefferson (Ashe County), and Wilkesboro (Wilkes County);
- Borders with Virginia are within a five mile radius;
- Population of Sparta is approximately 1,770 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) requires the board to make a minimum quarterly distribution of the 3 ½% markup to the town and county. In FY2014, the Sparta ABC Board made the minimum distribution of \$19,976, plus additional distribution of \$18,406 to the town and county. \$157,729 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 remaining profits are to be distributed as follows:

- Fifty percent (50%) to the Town of Sparta General Fund
- Fifty percent (50%) to the Alleghany County General Fund.

In FY2014, the Sparta ABC Board distributed to the town \$4,265 for law enforcement.

WORKING CAPITAL

G.S. 18B-805 (d) allows the board to set aside a portion of the remaining gross receipts, within the limits set by the rules of the Commission, as cash to operate the ABC system. Working capital is total cash, investments, and inventory less all unsecured liabilities. Gross sales means gross receipts from the sale of alcoholic beverages less distributions as defined in G.S. 18B-805 (b), (2), (3), and (4). The Commission has set efficiency goals based on the following breakdown:

- Four months for boards with gross sales less than \$1.5M
- Three months for boards with gross sales less than \$50M and greater than or equal to \$1.5M
- Two months for boards with gross sales equal to or greater than \$50M

In FY2014, the Sparta ABC Board had a working capital of \$165,834, which is less than the maximum allowed to retain of four months gross sales (\$179,272) and is within the limits of NCAC 15A .0902.

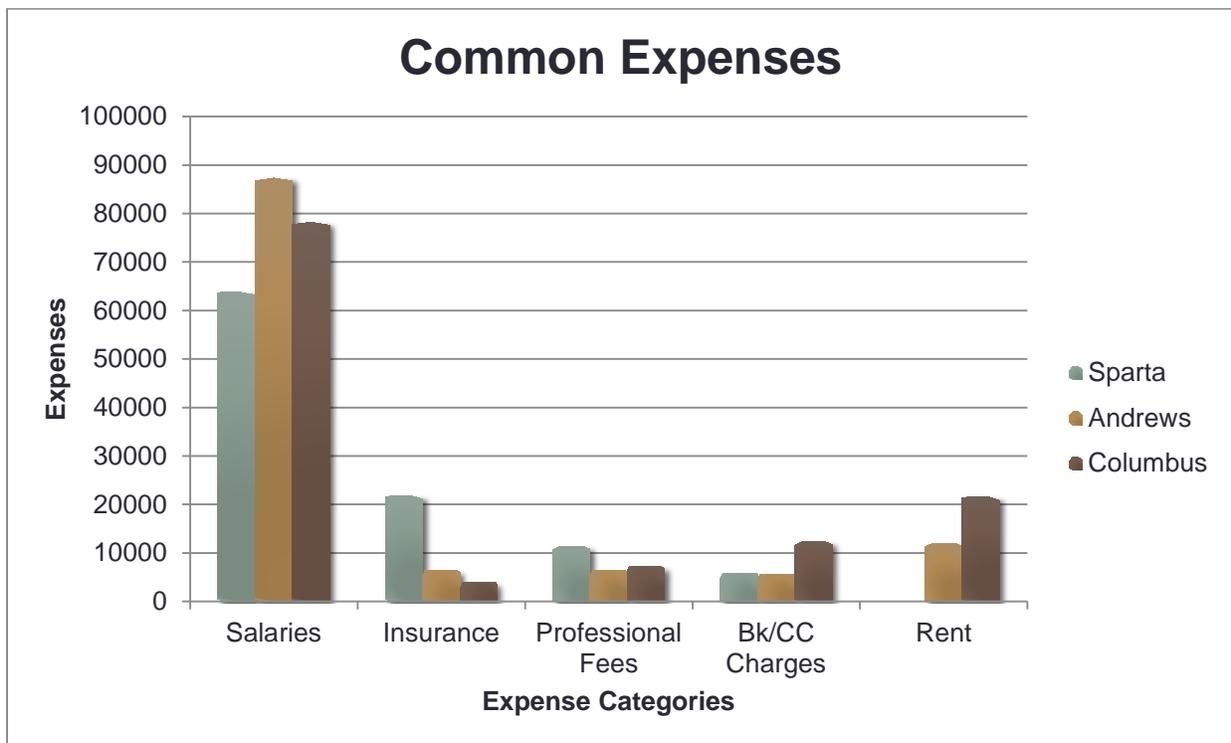
OPERATING COST RATIO

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 Sparta ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.70. Mixed beverage sales make up 9.1% of total gross sales. Compared with the state's increase in sales of 4.81% in fiscal year 2014, sales increased 3.78% over fiscal year 2013 as expenses increased 4.92% over the same time frame.

Below is a common expense analysis showing the Sparta ABC Board's expenses compared with other similar size boards. Significant savings are expected in the long run as a result of owning the store and reducing overhead expenses.



STORE APPEARANCE

The Sparta ABC Board operates one retail store with approximately 850 linear feet and carries approximately 800 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 in a designated area. The Fetal Alcohol Syndrome poster is displayed and visible to the public.
- Landscaping around the store is well-maintained with no evidence of trash.
- Each product is displayed within its category. However, management occasionally moves products for more visibility. Bottles are fronted and dusted.
- A shelf management plan is utilized that exhibits a strategy following the ultra-premium products on the top shelves, premium products at eye level, and value products on the lower shelves. Product placement is consistent with sizes going from largest on the right and smallest to the left. Horizontal brand blocking is shown for similar products.

CUSTOMER SERVICE

- 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 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 required by the statute.
- Cross training has been extended on key administrative duties to employees in the event the general manager was suddenly unavailable.
- Training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities. Management often attends conferences held by the NC Association of ABC Boards as well as webinars hosted by the Commission.
- Personnel files are available and include human resource documentation and other personnel information as required by the NC Department of Labor.

NO RECOMMENDATIONS

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract
 - Travel Policy (Approval submitted from the Town of Sparta)
 - FY2014 Annual Audit
 - FY2015 Budget (Proposed and Adopted)
 - FY2016 Budget (Proposed)
 - Mixed Beverage Policy
 - Price Discrepancy Policy

- Policies not adopted or needs updating include:
 - Employee Manual

RECOMMENDATIONS

1. Update the employee handbook to include current practices and procedures as applicable to the board. The Operations Manual outlines some items to be included in the handbook. *Refer to Appendix A (1) 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 and appropriate practices. Below are internal control findings that were observed during the audit fieldwork.

- The general manager schedules employees for work shift hours. All employees use time sheets to record hours worked. At the end of the payroll week, the general manager will verify all time sheets are completed and forward to the accountant for processing.
- Cash drawers are counted 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 accountant.
- Physical inventory counts are conducted three times a year with spot checks at random and are performed usually by the general manager and another employee. If discrepancies occur, the general manager and assistant manager will investigate and recount for accuracy and verification. Once completed, the general manager will adjust the inventory system to match with the actual store counts.
- Unsalable merchandise is adjusted from inventory when it occurs. Breakage forms are submitted as required by the Commission rule.
- Out of approximately 850 product codes, approximately 100 product codes were sampled to ensure accurate pricing and all were correct.

NO 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 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 current on the Commission website.
- Board member and general manager compensation is in compliance with G.S. 18B-800 (g) and (g1).
- A board member receives an additional compensation as an insurance benefit.
- 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.
- The general manager serves as the finance officer only for purpose of signing checks. The external accountant performs accounts payable and other financial aspects.
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- Liquor orders and miscellaneous purchases are not pre-audited by the finance officer. The board is usually invoice by vendors for purchases.
- 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 general manager/finance officer and a board member. In the event the general manager/finance officer and board member are unavailable, one board member is authorized to sign checks.

RECOMMENDATIONS

1. Post signage at the store and Town Hall notifying the public, when, where, and the time meetings are held. *Refer to Appendix A (2) for statute.*
2. Cease providing the insurance benefit to board members. *Refer to Appendix A (3) for statute.*
3. Seek approval from the Commission allowing the general manager to serve as the finance officer for the purposes of signing checks.
4. Place the pre-audit certificate with the finance officer's signature on the order to LB&B. When ordering supplies, have a purchase order or order confirmation that will have authorization from the finance officer before the transaction takes place. *Refer to Appendix A(4) for statute.*

AUDITOR'S SUMMARY

The performance audit recommendations were presented to the board on July 14, 2015. The board has since responded to the performance audit recommendations and strives to implement strategies to improve profitability. Policies and procedures have been implemented to ensure compliance with statutes and Commission rules and to ensure efficient operations while maintaining checks and balances.

Town of Sparta Board of Alcoholic Control
48 North Main Street
Sparta, NC 28675
August 20, 2015

Moniqua S. McLean
NC ABC Commission Auditor
4307 Mail Service Center
Raleigh, NC 27699-4307

Sparta ABC Store Audit

The Sparta Board and Store Manager has reviewed and implemented the following recommendation as outlined per our Audit Review:

Post Signage in Store and Town Office Web Site with meeting times of the Sparta ABC Board.
Pre Audit Certificate for purchase orders.

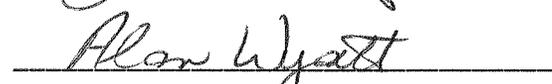
Approval has been granted by the ABC Commission for the General Manager to serve as Finance Officer for the period of three years till August 12, 2018.

Cease payroll deduction and Cancel Dental Insurance coverage for Board Member effective September 30, 2015. * See attached

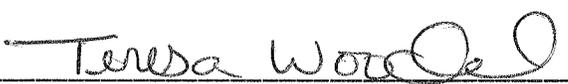
The Sparta ABC Board and Manager would like to Thank Ms. McLean for her Time and Professionalism during the Audit Process.

Respectfully Submitted,

Barry Atwood (General Manager) 

Alan Wyatt (Sparta ABC Board Chairman) 

Robert Andrews (Sparta ABC Board) 

Teresa Woodel (Sparta ABC Board) 

AUGUST 22, 2015

RE: TERMINATION OF TERESA WOODEL INSURANCE WITH THE SPARTA ABC STORE

To Whom It May Concern:

PLEASE BE ADVISED THAT AFTER THE AUGUST DEDUCTION FROM PAYROLL; THIS WILL CEASE.

HER TERMINATION EFFECTIVE SEPTEMBER 30,2015

SINCERELY,

ALAN WYATT Alan Wyatt

ROBERT ANDREWS Robert Andrews

TERESA WOODEL Teresa Woodel

APPENDIX A

(1) 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."

(2) 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."
- v.

(3) G.S. 18B-700 (g) states, "...No local board member shall receive any nonmonetary compensation or benefits unless specifically authorized by this section."

(4) 18B-702 (m) states "...the contract, agreement, or purchase order shall include on its face a certificate stating that the instrument has been pre-audited to assure compliance. The certificate, which shall be signed by the finance officer or any deputy finance officer approved, shall take substantially the following form:

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

(Signature of finance officer)

APPENDIX B

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>ABC Board Policies:</p> <p>**Update the employee handbook to reflect current practices.</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" 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>Management is currently updating all policies and procedures in the employee handbook. Once completed, a copy will be forwarded to the Commission for approval.</p>
<p>Administrative Compliance:</p> <ul style="list-style-type: none"> • Post signage notifying the public of all meeting times and locations. • Cease providing the insurance benefit to board members. • Seek approval from the Commission allowing the general manager to serve as the finance officer. • Affix the pre-audit certificate on all orders before the transaction occurs. 	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>**Note: Required by Commission rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input checked="" type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented 25% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management has implemented procedures to be in compliance with the statute.</p>