

Thomasville 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

April 20, 2016

Thomasville ABC Board
Mr. Tom Holladay, Chairman
1033 Randolph St., Suite #32
Thomasville, NC 27360

Dear Chairman Holladay,

We are pleased to submit this performance audit report on the Thomasville 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 Thomasville to hold an election for an ABC store. The referendum was held March 9, 1999 and passed 2,150 to 1,843. A mixed beverage election occurred on the same date and passed 2,084 to 1,777. The first retail sale occurred on November 15, 1999.

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 Swope Montgomery, Jr., board chairman, Tom Hollady and William B Mills, board members.

The Thomasville ABC Board operates one retail store with mixed beverage sales. The board staffs four full-time and four part-time employees. The general manager's duties consist of providing oversight of all daily operations including policy implementation and human resource management. The board has hired a finance officer from within the organization to provide sufficient checks and balances and financial duties relating to ABC statutes and Commission rules. All store employees have a primary responsibility of providing friendly customer service, store upkeep, and regular stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On September 9, 2015, ABC Board Auditor, Moniqua S. McLean, visited the Thomasville ABC store and interviewed Leigh Anne Lowe, 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 Thomasville ABC board had gross sales of \$2,569,098; income from operations was \$257,612, a 10.03% profit percentage to sales.

Factors affecting sales and profitability:

- Estimated population reported to the US Census Bureau as 27,002 in 2014, a 0.9% increase since 2010;
- One other ABC board within the county, Lexington ABC;
- Other surrounding ABC boards include High Point and Albemarle ABC;
- High rent expense contributes to a lower profit percentage.

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 city. In FY2015, the Thomasville ABC Board made the minimum distribution of \$74,952. \$590,469 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, and the city.

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%) of profits toward alcohol education. The remaining profits are to be distributed to the City of Thomasville General Fund.

In FY2015, the Thomasville ABC Board distributed to the city \$9,133 to law enforcement and \$12,786 toward alcohol education. The ABC Board has contracted with the City of Thomasville Police Department.

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 Thomasville ABC Board had an actual working capital of \$606,384. However, the board obtained approval from the appointing authority for a capital improvement fund set aside for building a new store. The capital improvement amount is factored into the actual working capital calculation. The FY2015 audit calculates the actual working capital as \$126,375, which is less than the maximum allowed to retain of three months gross sales (\$494,654) and is within the limits of NCAC 15A .0902.

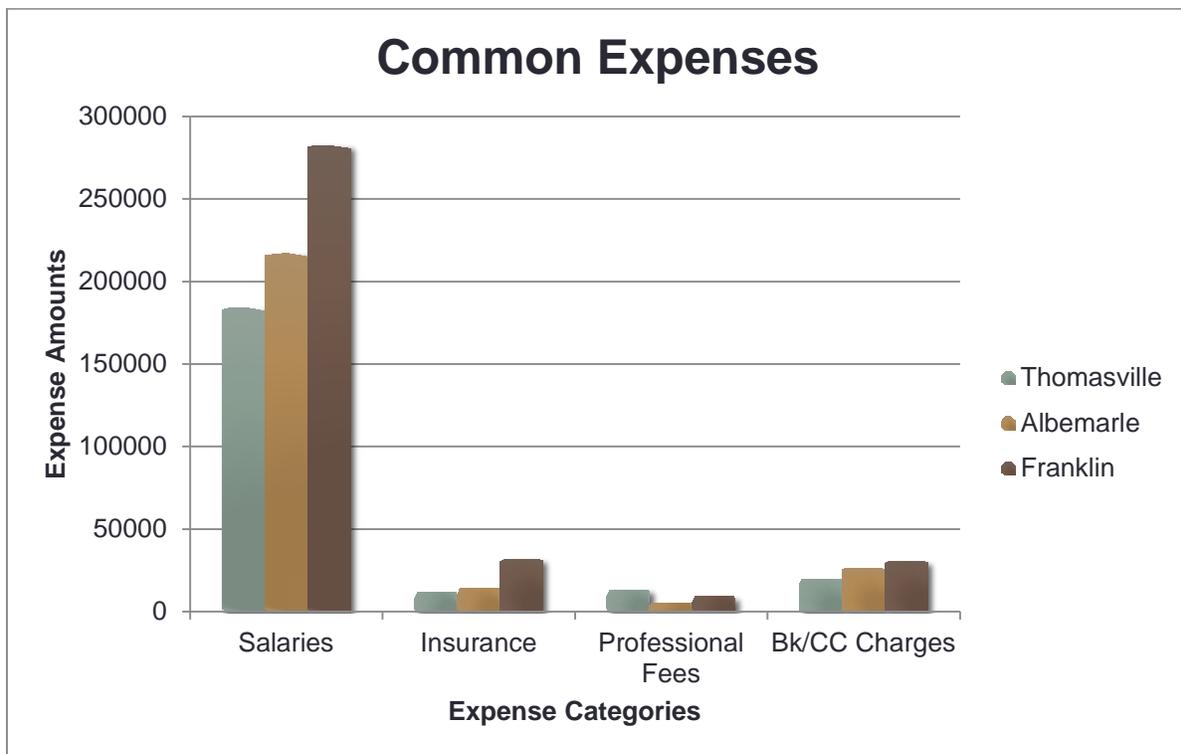
OPERATING COST RATIO

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 Thomasville ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.60. Mixed beverage sales make up 7.3% of total gross sales. Compared with the state's increase in sales of 7.59% in fiscal year 2015, the Thomasville ABC Board's sales increased 11.3% over fiscal year 2014. Expenses increased 2.5% over the same time period.

Below is a common expense analysis showing the Thomasville ABC Board's expenses compared with other similar size boards. Note: Franklin ABC's insurance expenses include general and employee insurance benefits.



Staffing by board: Thomasville – 4 full-time and 4 part-time employees, Albemarle – 3 full-time, 7 regular part-time and 2 seasonal part-time employees, Franklin – 2 full-time and 8 part-time employees.

STORE APPEARANCE

The Thomasville ABC Board operates one retail store with approximately 1,000 linear feet of shelf space and carries approximately 1,500 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.
- A shelf management plan is utilized that exhibits a strategy following the ultra-premium products on 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. Each product is displayed within its designated category. 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, two out of three board members have since been reappointed to the board and have not yet completed the ethics training.
- 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.

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.

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract (City of Thomasville Police Department)
 - Travel Policy (City of Thomasville Approval and Policy Submitted)
 - FY2015 Annual Audit
 - Employee Handbook
 - FY2016 Budget (Proposed and Adopted)
 - Mixed Beverage Policy
 - Price Discrepancy Policy
 - Shelf Management Policy
 - Sale to Underage Drinking Policy

NO RECOMMENDATIONS

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 cards 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 fails to clock in/out, the general manager is notified and adjusts the schedule or finds a replacement. At the end of the payroll week, the finance officer calculates manually and forwards to the general manager for verification. 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.
- 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 are submitted as required by the Commission rule. Management has implemented procedures in handling breakage when a customer/employee breaks product.
- Out of approximately 1,500 product codes, approximately 130 product codes were sampled to ensure accurate pricing and all were correct.

NO RECOMMENDATIONS

ADMINISTRATIVE COMPLIANCE FINDINGS

- 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. However, the board does not follow procedures when entering into closed session nor address the particular subject-matter as specified in the Public Meetings Law.
- Board meeting minutes included a conflict of interest statement asking board members if conflicts existed with items on the meeting agenda.
- Date/time/location of board meetings are 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).
- 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, 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.
- Liquor orders and miscellaneous purchases are pre-audited by the finance officer utilizing the certificate as required in G.S.18B-702 (m). Purchase orders are used for all common orders.
- 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 any board member. In the event the finance officer is unavailable, the general manager is authorized to sign checks.

RECOMMENDATIONS

1. Follow the proper procedures when entering into closed session and taking minutes. *Refer to Appendix A (2) for statute.*

AUDITOR'S SUMMARY

On December 15, 2015, ABC Board Auditor, Moniqua S. McLean, presented the performance audit findings and recommendations to the board. Discussions were held regarding the future relocation of the ABC system and the board's goals for increasing profitability. The board strives to improve profitability while maintaining budget appropriations. 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.

THOMASVILLE ABC BOARD

January 26, 2016

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

Dear Mrs. McLean:

We would like to thank you for the opportunity to meet with you to discuss the performance audit evaluation that you performed at our store in April 2015.

The Thomasville ABC Board opened the first location on National Highway in Thomasville in November 1999. The gross sales for the first seven months was \$742,239 with a profit of \$29,465. As the sales continued to grow over the next few years, the Board opened the second location on Randolph Street in November 2002. The gross sales for the 2003 fiscal year was \$1,613,553 with a profit of \$81,930. Sales continued to grow and eventually topped out in 2009 at \$2,582,995 with profits before distributions at \$102,266.

In 2010 the Board started seeing the sales slowly decline. In 2011, the profits after distributions were in the red at (\$8,016). Due to the cost of leasing both properties, expenses of staffing both stores, and the sales decreasing, the Board decided to close the location on National Highway and focus on the Randolph Street location. Also, the efficiency committee from the NC Association of ABC Boards confirmed the decision made by the Board to close the first location was appropriate. Approximately September 20, 2011 the store on National Highway was closed and all operations were consolidated to the store on Randolph Street.

In 2012 the gross sales were \$2,249,923 with profits before distributions at \$132,863. The Board had the general manager to research profitability with other systems similar in size with higher profitability to see how others operated. All the other systems had purchased their own buildings and did not lease their properties. The Board requested the Thomasville City Council to approve a capital improvement fund so the Board may begin to save money to purchase land and build a store. This was approved on May 21, 2012. In October 2013, the Board purchased two joining properties for the purpose of building a free standing store. The building is in process and will hopefully be open by spring of 2016.

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THOMASVILLE ABC BOARD

Ending the 2015 fiscal year the sales have increased to \$2,569,098 with the profits before distribution at \$235,693. As you had mentioned on the performance audit, the profit percentage to sales is 10.03%, which is within the NC ABC Commissions goal. Also the operating cost ratio is .60 which is within the Commissions goal as well.

Based on the recommendations of the performance audit, the Board would like to offer the RASP training to our employees and the MXB accounts for further training after the completion of our new store. The Board members will complete the ethics requirements within twelve months of their reappointment. The Board will also make sure that they follow the procedures when entering closed sessions during the Board meetings.

We appreciate your time working with us to help strengthen the Thomasville ABC Board. We also look forward to working with the NC ABC Commission in the future.

Thank you,



Tom Holladay
Thomasville ABC Board Treasurer

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JAN 29 2016

NC ABC COMMISSION

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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. 143-318.11 states, "...A public body may hold a closed session and exclude the public only when a closed session is required:*
 - a. To prevent the disclosure of information that is privileged or confidential...*
 - b. To prevent the premature disclosure of an honorary degree, scholarship, prize, or similar award.*
 - c. To consult with an attorney employed or retained by the public body in order to preserve the attorney-client privilege between the attorney and the public body...*
 - d. To discuss matters relating to the location or expansion of industries or other businesses in the area served by the public body, including agreement on a tentative list of economic development incentives that may be offered by the public body in negotiations.*
 - e. To establish, or to instruct the public body's staff or negotiating agents concerning the position to be taken by or on behalf of the public body in negotiation (i) the price and other material terms of a contract or proposed contract for the acquisition of real property by purchase, option, exchange, or lease; or (ii) the amount of compensation and other material terms of a n employment contract or proposed employment contract.*
 - f. To consider the qualifications, competence, performance, character, fitness, conditions of appointment, or conditions of initial employment of an individual public officer or employee or prospective public officer or employee...*
 - g. To plan, conduct, or hear reports concerning investigations of alleged criminal misconduct."*

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>Board Compliance:</p> <p>Follow procedures when entering into closed session and address the specific and particular subject-matter as specified in the Public Meetings Law.</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 50% complete. (Explain below.)</p> <p><input checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>Since the audit fieldwork, new information suggests that board members do address the specific topics in closed session.</p>