

Triad Municipal 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

CHAIRMAN:
JAMES C. GARDNER

COMMISSIONERS:
JOEL L. KEITH
Wake Forest

KEVIN M. GREEN
Greensboro

ADMINISTRATOR:
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Moniqua S McLean
ABC Board Auditor
919-779-8365

January 6, 2015

Triad Municipal Alcoholic Beverage Control Board
Mr. George Clark, Chairman
3127 Starlight Drive
Winston-Salem, NC 27107

Dear Chairman Clark,

We are pleased to submit this performance audit report on the Triad Municipal Alcoholic Beverage Control 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 General Manager's 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. Thank you for implementing policies and procedures to ensure compliance with the North Carolina statutes and Commission rules.

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 store annual audit for the fiscal year 2014;
- Visited all stores;
- Interviewed key ABC board personnel.

BACKGROUND INFORMATION

Chapter 291 of the 1951 Session Laws authorized the City of Winston-Salem to hold an election upon a petition signed by at least ten percent (10%) of registered voters. The referendum was held on July 14, 1951 and passed 8,411 to 7,336. The first retail sale occurred on October 23, 1951. Since 1990, numerous municipalities have voted to have an ABC store and have merged with the existing system to form the Triad-Municipal ABC Board. Below are the election dates and results of townships who voted in an ABC store:

- Town of Clemmons – September 18, 1990 passed 811 to 587,
- Town of Lewisville – November 2, 1999 passed 1,223 to 764,
- Town of Bermuda Run (Davie County) – November 2, 1999 passed 438 to 205,
- Town of Yadkinville (Yadkin County) – September 12, 2006 passed 265 to 179,
- City of Kernersville – January 29, 1991,
- Town of Oak Ridge (Guilford County) – November 4, 2003.

Mixed beverage elections for the following:

- Forsyth County – March 6, 1979 and passed 14,865 to 7,496. The first mixed beverage sale occurred on March 20, 1979.
- Town of Clemmons – September 18, 1990 and passed 727 to 670,
- Town of Lewisville – November 2, 1999 and passed 1,201 to 783,
- Town of Bermuda Run – November 2, 1999 and passed 581 to 200,
- Town of Oak Ridge – November 6, 2001 and passed 573 to 432,
- Town of Yadkinville – September 12, 2006 and passed 280 to 163.

With the merger agreement, a new board was created consisting of three board members appointed by the City of Winston-Salem and one board member from each town. Current board members are George Clark, board chairman, Les Buchan, Perry Snow, Keith Green, Richard Herring, Rushanna McNair-Wright, Willie Clark, Jr., Edgar Warren, board members, and one vacant seat awaiting appointment by the appointing authority. Since the initial fieldwork, a new board member has been appointed and one vacant seat remains.

The Triad-Municipal ABC Board operates fourteen retail stores and one mixed beverage outlet. The administrative office personnel consist of an administrator, human resource manager, finance manager, distribution manager, administrative assistant, administrative secretary, accounting technician, and fiscal services technician. Functions of the administrator pertain to the oversight of the ABC system in policy implementation, store operations, personnel supervision, and asset and investment management. The human resource manager assists the administrator in policy implementation, store operations, and other human resource functions. The finance manager is responsible for maintaining all financial information related to the ABC system and budget maintenance. The administrative assistant performs various secretarial duties for the ABC board and the administrator. The accounting technician assists the finance manager with tasks pertaining to accounts payable, payroll, general ledger maintenance, and employee benefits. The distribution manager is responsible for the ordering and distribution of products throughout the system. All store employees' primary duties include providing friendly customer service and general store upkeep.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On September 15, 2014, ABC Board Auditor, Moniqua S. McLean, visited the Triad-Municipal ABC Board administrative office complex and stores and interviewed Gregory W. Bradsher, administrator, Patricia Britton, human resources manager, Cindy L. Wooten, finance manager, Jeffrey Cloud, distribution manager, Christy Whicker and Amelia Spencer, accountants. 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 Triad-Municipal ABC Board had gross sales of \$36,923,775; income from operations was \$3,966,796, a 9.88% profit percentage to sales.

Factors affecting profitability:

- Estimated population for Forsyth County is 361,220 in 2013, a 3.0% increase since 2010;
- Estimated population for the City of Winston-Salem is 236,441 in 2013, a 3.0% increase since 2010;
- Estimated population for Bermuda Run is 1,725 in 2010;
- Estimated population for Oak Ridge is 6,519 in 2013, a 3.9% increase since 2010;
- Surrounding areas with ABC stores include Greensboro, Walnut Cove, Cooleemee, High Point, and Lexington.

DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, mixed beverage, and bottle tax. G.S. 18B-805 (c) (1) requires the board to make a minimum quarterly distribution of the 3 ½% markup rate to the appointing authority. In FY2014, the Triad-Municipal ABC board made the required minimum distribution to the cities totaling \$2,545,979. \$8,653,873 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, the cities and county.

G.S. 18B-805 (c) (2) and (3) requires the board to distribute at least five percent (5%) of profits to law enforcement. The board staffs their own law enforcement. A law enforcement expense analysis is located on the following page.

The remaining profits are to be distributed as follows:

- Winston-Salem stores – Seventy-five percent (75%) to the City of Winston-Salem General Fund of which thirty-three and one-third percent (33 1/3%) to debt serve, and twenty five percent (25%) to the Forsyth County General Fund,
- Kernersville store – 100% to the Town of Kernersville General Fund,
- Clemmons store – 100% to the Village of Clemmons General Fund,
- Lewisville store – 100% to the Town of Lewisville General Fund,
- Oak Ridge store – 100% to the Town of Oak Ridge General Fund,
- Bermuda Run store – 100% to the Town of Bermuda Run General Fund,
- Yadkinville store – 100% to the Town of Yadkinville General Fund.

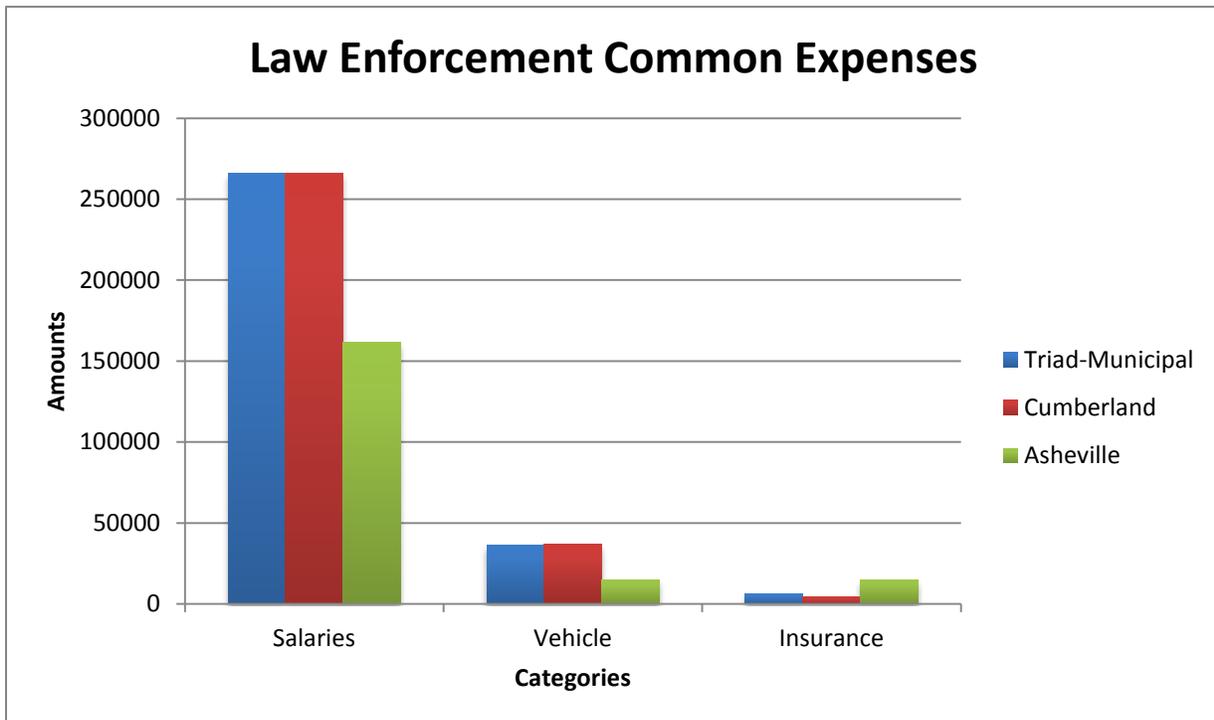
Below is FY2014 distribution of income to the appointing authorities.

Cities	Distribution of Income
City of Winston-Salem	\$1,278,470
Forsyth County	\$426,157
Village of Clemmons	\$250,647
Town of Kernersville	\$294,663
Town of Lewisville	\$87,757
Town of Oak Ridge	\$79,897
Town of Bermuda Run	\$67,659
Town of Yadkinville	\$60,729

LAW ENFORCEMENT

The Triad-Municipal ABC Board staffs four full-time and three part-time law enforcement officers to aid in alcohol law enforcement. In FY2014, the Triad-Municipal ABC Board law enforcement operating expenses totaled \$481,914. Law enforcement expenses are budgeted based on expenses from previous years.

Below is an analysis of common law enforcement expenses of similar boards. Note: Staffing of law enforcement officers varies by board. Cumberland County ABC Board staffs six full-time officers and Asheville staffs three full-time officers.



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 Triad-Municipal ABC Board had a working capital of \$2,891,660, which is less than the maximum allowed to retain of three months gross sales (\$7,046,733) and is within the limits of NCAC 02R.0902.

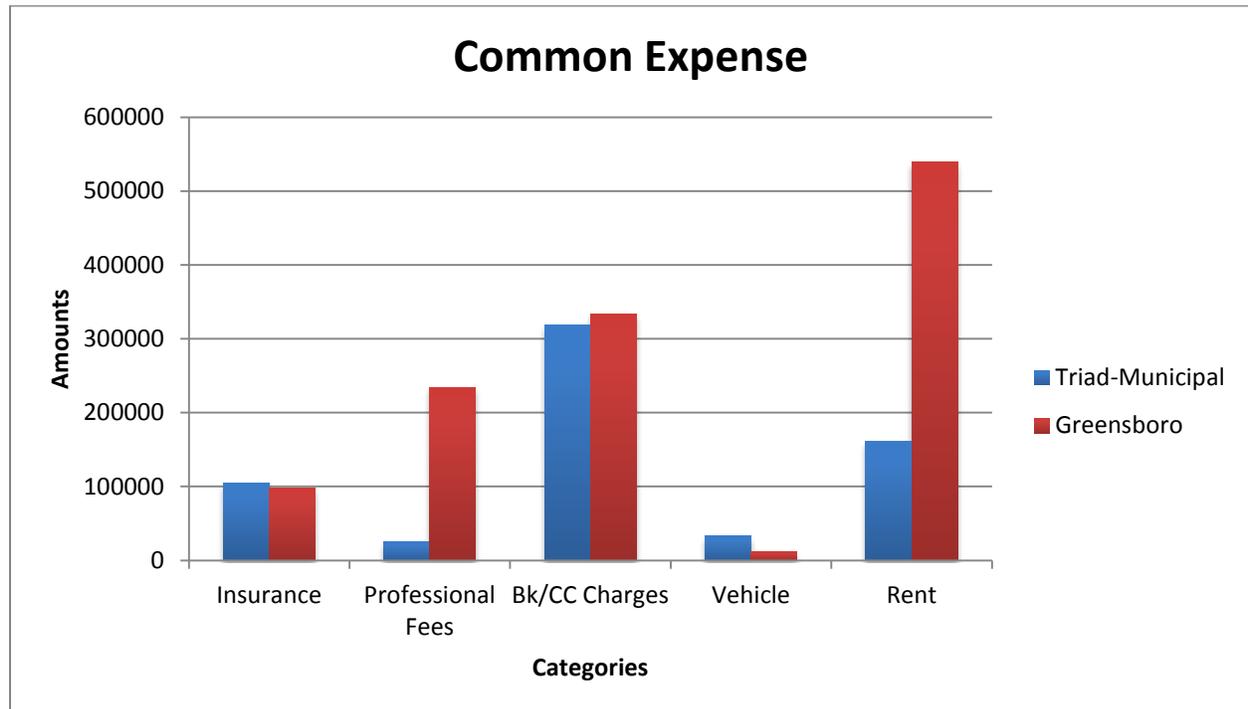
OPERATING COST RATIO

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):

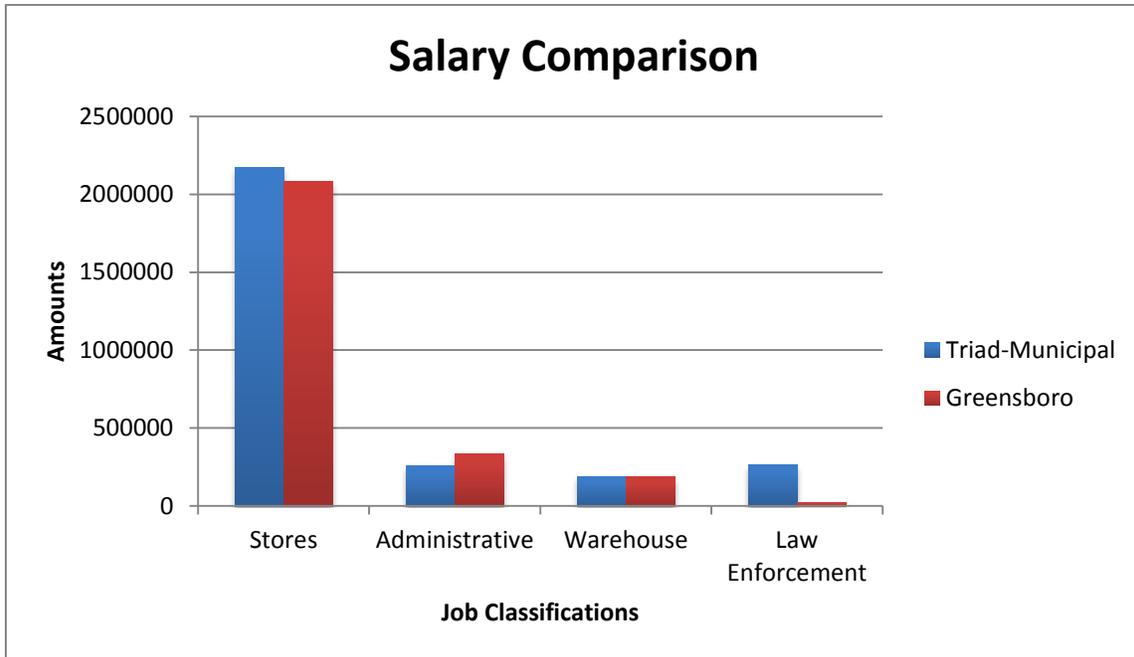
- Single store boards with MXB sales that are equal to or greater than 25% of gross sales – cost ratio 0.75
- Single store boards with MXB sales less than 25% of gross sales – cost ratio 0.85
- Single store boards without MXB sales – cost ratio 0.85
- Boards with 2 stores with and without MXB sales – cost ratio 0.74
- Boards with 3 or more stores with and without MXB sales – cost ratio 0.64

The Triad-Municipal ABC Board operates fourteen retail stores and one mixed beverage outlet: the operating cost ratio is 0.56. Mixed beverage sales make up 16.5% of total gross sales. In fiscal year 2014, sales increased 5.26% over fiscal year 2013 as expenses increased 1.87% over the same time period.

A common expense analysis shows that the Triad-Municipal ABC board expenses compared with other similar size boards are not out of line. The board leases two stores. Rental expenses for both locations total \$161,229. Significant overhead savings has been generated by owning other store locations.



Below is a salary expense comparison by board. Note: Further comparison of law enforcement is analyzed on page 5. The total number of employees for the Triad-Municipal ABC Board is 56 full-time and 75 part-time and for the Greensboro ABC Board is 65 full-time and 20 part-time employees.



NO RECOMMENDATIONS.

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 Triad-Municipal ABC Board receives deliveries weekly. Each store receives deliveries from the Commission at scheduled intervals during the month. The inventory turnover rate is 6.9. The average inventory turnover rate for similar boards with the same delivery schedule is 6.4.

NO RECOMMENDATIONS.

STORE APPEARANCE

The Triad-Municipal ABC Board operates fourteen retail stores with a mixed beverage outlet location. Average shelf space for all retail stores is 1,164 linear feet and carries a wide variety of product at each location.

- All stores are clean and free of trash. Counter areas within all stores were neat and well-organized.
- Stores displayed clean and neat signage. The required Fetal Alcohol Syndrome poster is displayed and visible to the public in all locations.
- Landscaping around the stores is well-maintained with no evidence of trash.
- Each product is displayed within its designated category. Bottles are fronted and dusted.
- A shelf management plan is utilized/in use that exhibits a strategy following the premium products at eye level and lowest price products on the bottom shelves. Product placement is consistent with sizes going from largest on the right and smallest to the left. Vertical brand blocking is shown for similar products at all locations. Cross merchandising is utilized in all areas to encourage impulse shopping.
- The state price book is available in all locations should customers ask for a specific product. 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. The information is also available on the ABC board's website.
- Sales clerks' interaction with 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 ethics training required by the statute. Board members have since been reappointed and have completed the ethics training.
- Cross training opportunities on key administrative duties are being extended to key employees in the event the administrator was suddenly unavailable.
- Training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities on a continual basis. Employee training is held at various times during the year on topics such as harassment, risk management, safety, and benefits.
- Management often attends the NC Association of ABC Board General Manager and Summer Conferences for additional training opportunities on these specific issues and statute updates.
- Personnel files are available and include the required human resource documentation and other personnel information as needed.

NO RECOMMENDATIONS

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Travel Policy (Appointing Authority Approval Submitted for 2015)
 - FY2014 Annual Audit
 - Employee Handbook
 - FY2015 Budget (Proposed and Adopted)
 - Mixed Beverage Policy
 - Price Discrepancy Policy
 - Shelf Management Policy

NO RECOMMENDATIONS

INTERNAL CONTROL PROCEDURES

- Each store manager schedules the employees for work shift hours. Time sheets are used for all clerks. During payroll, the employees fill out the time sheets and the store managers' sign off for hours worked. Time sheets are forwarded to the administrative office for review and processing.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures to handle 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 accountants with the finance manager's assistance.
- Physical inventory counts are completed monthly at all stores by whoever is scheduled to work. Once the initial count is completed, counts are forwarded to the administrative office to check for variances. Once variances are checks, an additional count is conducted to ensure accuracy. The administrative office personnel will adjust the main inventory management system for the exact inventory held in each store. Breakage adjustments are included in this process.
- The board owns six vehicles, including law enforcement vehicles to aid in transportation of liquor and visiting stores. A vehicle usage policy has not been adopted and implemented by all staff. Vehicle usage is being reported as a fringe benefit and follows the appropriate payroll deductions as outlined by the Internal Revenue Service.
- Out of an average of 1,000 product codes per store, approximately 600 product codes were sampled to ensure accurate pricing and four were found to be incorrect.
- In viewing travel expenses, law enforcement travel documentation was not available and showed that some spending was outside the travel policy specifications.

RECOMMENDATIONS

1. Adopt a vehicle usage policy that would specify the following:
 - Who is able to use the vehicle,
 - Requirement that all drives must have a valid driver's license
 - What purposes vehicle may be used for
 - Requirement that a mileage and/or gas log be filled out for every trip, if applicable.
2. To ensure correct pricing on the store shelves and in the computer system, audit shelf tags on a regular basis by incorporating this practice during or in between the regularly scheduled inventory counts.
3. When conducting business travel, law enforcement should use the board's travel policy guidelines as stated. Copies of all documentation including detailed itemized receipts, hotel accommodations receipts should be forwarded to authorized personnel for reimbursement.

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 administrator compensation is current on the Commission website.
- Board member and administrator compensation is in compliance with G.S. 18B-700 (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 administrator, and the finance manager are bonded for \$100,000, above the minimum requirement as stated in G.S. 18B-700 (i).
- Orders for liquor and other miscellaneous orders bear the pre-audit certificate as required by G.S. 18B-702 (m).
- All checks bear the approved certificate indicating that the item has been approved by the finance officer or an authorized person for payment. Two signatures are located on all paid checks: that of the finance officer and the human resource manager. In the event the finance manager or human resource manager is unavailable, the administrator is authorized to sign checks.

NO RECOMMENDATIONS

AUDITOR'S SUMMARY

ABC Board Auditor, Moniqua S. McLean, presented the performance audit recommendations on December 16, 2014. The board has since responded to the performance audit recommendations and continues to implement strategies to maintain and improve profitability while maintaining or reducing costs and meeting 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.



TRIAD MUNICIPAL ALCOHOLIC BEVERAGE CONTROL BOARD
3127 Starlight Drive, Winston-Salem, NC 27107
Website: www.triadabc.org Telephone: (336) 788-7141 Fax: (336) 784-0243

December 26, 2014

Ms. Moniqua McLean, ABC Board Auditor
North Carolina ABC Commission

4307 Mail Service Center
Raleigh, NC 27699-4307

Dear Moniqua:

On behalf of the Triad Municipal ABC Board members and staff, we would like to thank you for attending the December 16, 2014 board meeting to present your final performance audit report. The board is committed to uphold the mission (goals) to control the distribution and sale of spirituous liquor, generate revenue for the member municipalities and provide service to all customers. We will use your recommendations and comments to continue improving our ABC system.

Upon your recommendation, and prior to your final report, the TMABC Board members adopted and approved on October 21, 2014 a Vehicle Usage Policy as well as a Credit and Gas Card Policy.

Law enforcement agents have been advised to use the board's travel policy guidelines when traveling on board business. The Chief, Law Enforcement and Finance Manager will review all expense reports and verify that receipts are attached to each form.

The Board will continue to ensure that the correct pricing on the store shelves and in the computer system are correct by auditing shelf tags on a regular basis especially after each quarterly price change. Also, the board will communicate with the ABC Commission of price adjustment of discontinued items that are no longer printed in the quarterly price books for accuracy.

We will continually strive to meet the mission of the TMABC to control the sale of underage persons, generate revenue for the member municipalities and serve our customers with friendly, professionalism and shopping ABC store environment.

Again, thank you for your performance audit and recommendations.

Best regards,

A handwritten signature in cursive script that reads "Gregory W. Bradsher".

Gregory W. Bradsher
Administrator

RECEIVED

JAN 05 2015

NC ABC COMMISSION

Board Members
George Clark, Chairman
Rushanna McNair-Wright* Patti Paslaru* Richard Herring*
* Edgar Warren * Les Buchan * Perry Snow * Willie Clark, Jr * Keith Green

Gregory W. Bradsher, Administrator

APPENDIX A

Illustration 1



Shelf management/product placement

Illustration 2



Shelf management/product placement

APPENDIX B

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>ABC Board Policies:</p> <p>Adopt the following policies and forward to the Commission:</p> <ul style="list-style-type: none"> • Vehicle/Gas Card Usage Policy • Credit Card Usage Policy 	<p><input 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 ____% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management has implemented procedures and adopted all policies mentioned.</p>