

Troutman ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
400 East Tryon Road, Raleigh, NC 27610
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ABC
COMMISSION
NORTH CAROLINA

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ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

June 18, 2018

CHAIRMAN:
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Moniqua S. McLean
ABC Board Auditor
(919)779-8365

Town of Troutman ABC Board
Mr. Layton Getsinger, Chairman
P.O. Box 119
Barium Springs, NC 28010

Dear Chairman Getsinger,

We are pleased to submit this performance audit report on the Town of Troutman 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 the existing 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 this audit. Additionally, we appreciate the continued efforts by your Board to comply with the performance standards and to complete the suggested recommendations. Thank you for 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

OBJECTIVE, PURPOSE, AND SCOPE

In addition to regular and special financial audits, G.S. 18B-705 (a) authorizes the N.C. ABC Commission to conduct performance audits of all local ABC boards in the state. Performance audits are examinations of existing operating policies, practices, controls, and activities to determine those areas in which there may be a need for improvement.

The audits are designed to ensure that all local ABC Boards comply with established performance standards pursuant to G.S. 18B-203 (a) (20). The audits' scope addresses compliance with ABC laws and rules, store appearance, operating efficiency, solvency, and customer service.

To achieve the objectives of the audit, auditors:

- Review applicable General Statutes, ABC Commission Rules, and administrative policies
- Review applicable reports and studies of ABC boards with similar size and geography
- Consult with specialists at UNC School of Government
- Verify compliance with Commission and Board policies
- Verify results of previous performance audit recommendations
- Review organizational chart and job descriptions
- Review ABC Board annual independent financial audits
- Visits the store(s)
- Interview key ABC board personnel

PROFIT PERCENTAGE TO SALES AND OPERATING COST RATIO

In FY2017, the Troutman ABC Board had a profit percentage to sales of 6.3%. The ABC Commission profit percentage to sales standard for ABC Boards with gross sales less than \$2M is targeted at 5% or higher. Thus, the Troutman ABC Board met the targeted profit percentage.

The operating cost ratio for the Troutman ABC Board was 0.66 in FY2017. The ABC Commission standard for ABC boards with one or two stores with mixed beverage sales is less than 0.73. Thus, the Troutman ABC Board met the standard.

Note: The Troutman ABC Board began operations in December 2016.

BUDGET ANALYSIS

In reviewing the budget to actual analysis of the FY2017 financial audit, sales revenues were above budgeted projections by 2.5%. Overall expenses were within budget for the same time period. The below chart shows the final budget to actual amounts and the variances.

	FY2017 Budget Projections	FY2017 Actual	Variance \$	Variance %
Sales	\$690,900	\$708,108	\$17,208	2.5%
Total Operating Expenses including Capital Outlay	\$119,110	\$113,808	\$5,302	4.7%

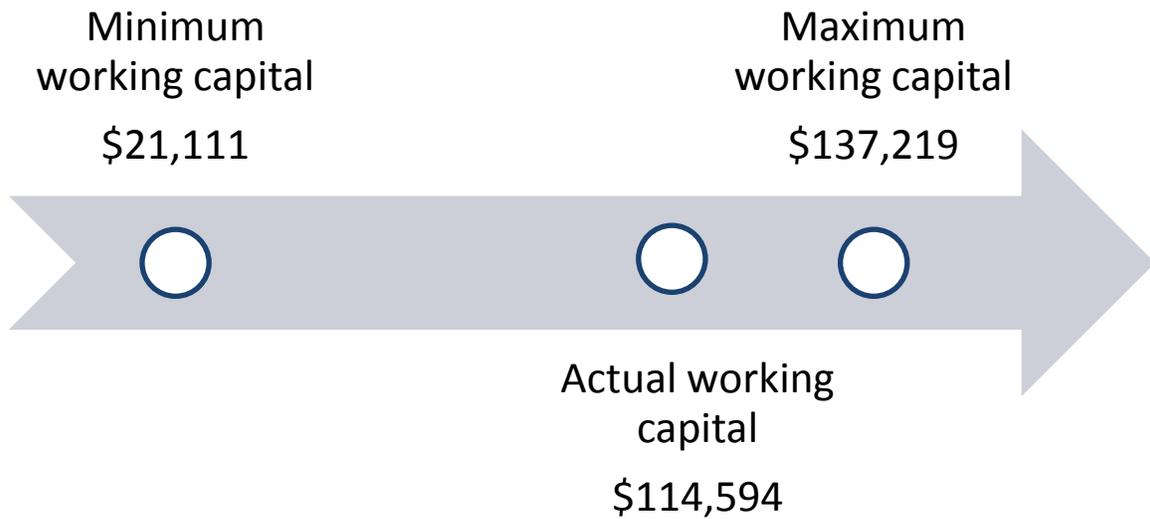
REQUIRED ACTION #1: *All ABC Boards are required to operate within a balanced budget. ABC Boards cannot appropriate items or spend money not included in the budget. If budgeted line items are not balanced, adopt budget amendments to correct specific items or add omitted line items. G.S. 18B-702(h) states, "Except as otherwise restricted by law, the local board may amend the budget at any time after adoption, in any manner, so long as the budget, as amended, continues to satisfy the requirements of this section...Amendments to the adopted budget shall also be provided to the appointing authority and the Commission."*

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.

Based on the existing rules, the Troutman ABC Board is allowed to maintain a minimum working capital of \$21,111 and a maximum working capital of \$137,219. The actual working capital the board has retained in FY2017 is \$114,594.

The NC ABC Commission has set a working capital standard for boards with gross sales less than or equal to \$1.5M to four months of sales revenue. The board's actual working capital has met the standard set by the NC ABC Commission.



DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts all expenses, mixed beverage and bottle taxes. G.S. 18B-805 (c) requires the board to make a minimum quarterly distribution of the 3 ½% markup and .01/.05 cent bottle tax to the municipalities and county. Below is a chart of taxes paid to the NC Department of Revenue, Iredell County and the Town of Troutman.

G.S. 18B-805 (c) (2) and (3) requires the board to distribute quarterly at least five percent of profits to law enforcement and at least seven percent (7%) of profits toward alcohol education or rehabilitation. Remaining profits are to be distributed to the Town of Troutman.

Revenues Less Taxes and Cost of Sales FY2017	
Sales (Retail, Mixed Beverage, and Wine)	\$708,099
Excise Tax	\$156,773
Mixed Beverage Tax Combined	\$239
Rehabilitation Tax	\$2,221
Net Sales	\$548,679
Cost of Liquor Sold	\$377,199
Gross Profit	\$171,480

	FY2017 Calculations	Actual Distributions
Gross Profit (Taken from Above)	\$171,480	
Total Operating Expenses	\$127,172	
Income from Operations	\$44,309	
Income (Loss) Before Distribution	\$30,401	
3 ½% Minimum Distribution	\$18,284	\$ -
Law Enforcement	\$606	\$606
Alcohol Education	\$848	\$848

The Troutman ABC Board did not make the minimum distributions as required by G.S. 18B-805. The board received an approval from the appointing authority withholding the minimum distribution until the maximum working capital is reached. The board expects to reach the maximum working capital in FY2018. A copy of the approval is on file with the NC ABC Commission.

A contract between the Troutman ABC Board and the Troutman Police Department is in effect and requires the board to distribute at least five percent (5%) of profits in quarterly installments if profits are generated.

STORE APPEARANCE

Management has incorporated a shelf management or category management plan that follows guidelines specified in the NC ABC Commission rules and incorporated industry standards to maintain and increase profits. Products are placed within designated categories; premium products are found at eye-level or top shelf and consumer loyal products are placed on the lower shelves. A consistent size flow shows a pattern from largest size on the right and smaller size on the left. New products and bestselling items are available and displayed throughout the store using displays and additional gondolas. Made-in-North Carolina selections is available in a designated area and are within their brand category.

OPERATIONAL AND ADMINISTRATIVE COMPLIANCE

- While inspecting the store, a random sample was collected to determine if uniform pricing is displayed on the shelves. Of those selected, one was incorrect.

REQUIRED ACTION: *Conduct a routine check of shelf prices along with the register to ensure accuracy. All prices must match what is in the register, the shelf, and in the NC Liquor Quarterly, and/or memorandums. Refer to the ABC Commission's website to verify product pricing.*

- The board follows the requirements of G.S. 18B-700 (k) whereas the board does not employ members of immediate family of the general manager and/or board members.
- Before fieldwork began, operational and administrative policies were not submitted to the NC ABC Commission. However, the board has since submitted copies of adopted policies.

REQUIRED ACTION: *As a reminder, submit policies to the NC ABC Commission prior to adoption. NCAC 15A .1102 states, "A copy of all rules or amendments thereto that may be adopted by a local board to govern the operation of ABC stores or the enforcement of the ABC laws shall be submitted to the Commission at least 15 days prior to the date on which it is proposed that those rules or amendments are to become effective."*

- The board has not adopted a travel policy that conforms to the NC Office of State Budget and Management or the Town of Troutman.

REQUIRED ACTION: *Seek approval from the town allowing the board to adopt the town's policy. Written approval must be submitted annually. The board can also choose to adopt the state's travel policy. The NC ABC Commission will provide copies of the state's travel policies to all ABC Boards if needed. G.S. 18B-700 (g2) states that "the local board adopts a travel policy that conforms to the travel policy of the appointing authority and such policy is approved by the appointing authority. The local board shall annually provide the appointing authority's written confirmation of such approval to the Commission and a copy of the travel policy authorized by the appointing authority."*

- Routine inventory is conducted by only the general manager and the assistant manager.

RECOMMENDATION: *To strengthen internal controls for inventory management and to ensure accuracy and completeness, have someone other than the person(s) ordering and purchasing inventory conduct frequent spot checks.*

- The board chairman serves as the finance officer to the board. The NC ABC Commission granted a waiver to the board for a period of one year or when the board operates two stores provided the chairman does not receive compensation.

- In reviewing the purchases or procurement process, the finance officer/board chairman approves purchases made by the board issued credit card.

RECOMMENDATION: *To further strengthen internal controls, have all board members view the monthly credit card statements ensuring accountability and providing overall oversight.*



TROUTMAN *North Carolina*

ABC BOARD

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Moniqua S. McLean, MAFM
ABC Board Auditor
400 East Tryon Road
Raleigh, NC 27610

May 17, 2018

Dear Ms. McLean:

RE: Town of Troutman ABC Board Performance Audit Report Response

On behalf of the Town of Troutman ABC Board I would like to thank you for your informative visit on March 6, 2018. Your thorough review of our operations validated those things we are doing properly as well as provided us with ways to do so much more in an accurate, thorough and efficient manner.

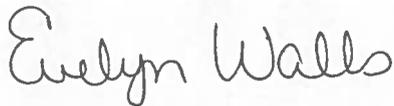
We are pleased to report that we have taken the recommended actions on those items noted in your Performance Audit Report needing improvement. It should be noted that we have not made any distributions to date to Drug and Alcohol Free Iredell (DAFI Coalition). They have been identified and approved for receipt of distributions for alcohol education going forward.

We now have weekly double checks of our prices to ensure that the register, the shelf, and NC Liquor Quarterly are in sync. All policies, rules, procedures and amendments that have been put in place since the board begin operations have subsequently been provided to the North Carolina ABC Commission. We now have a tickler system to remind us to submit future documents to the commission at least 15 days prior to their effective date. On May 10, 2018 the Troutman Town Council gave approval to the Town of Troutman ABC Board to use the town's travel policy. Annual confirmations will be submitted going forward. Alternatingly each week the morning sales clerk now conducts a spot check of a specific inventory section with the afternoon sales clerk conducting a spot check of a different section. This process is followed until the next full inventory is performed by the General Manager and Assistant Manager. We have found this method to greatly reduce the variances as well as the time to conduct a full and

accurate quarterly inventory. At the monthly board meeting a copy of the most recent credit card statement is now provided to the board for their review and acknowledgement. Lastly, we have recently completed and adopted a budget amendment for this fiscal year. Copies have been provided to the board budget/finance officer, the clerk for the Troutman Town Council and a copy mailed to the North Carolina ABC Commission.

As a new board we have found coming out of the starting gate to be a daunting task. We have received tremendous support from the ABC Commission as well as colleagues from the NC Association of ABC Boards. When questions didn't get asked it fell under the category of "we didn't know what we didn't know." No doubt we will remain a "work in progress" for a while to come. We are deeply appreciative of the support provided by you and Laurie Lee. We are proud of our store, our employees and our clientele. We eagerly look to the future and the potential it holds for the state and our community.

Sincerely,

A handwritten signature in cursive script that reads "Evelyn Walls".

Evelyn Walls
General Manager
Town of Troutman ABC Board