

West Columbus ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
400 East Tryon Road, Raleigh, NC 27610
p: 919-779-0700 | f: 919-661-5927 | <http://abc.nc.gov>



ABC
COMMISSION
NORTH CAROLINA

TABLE OF CONTENTS

ABC Commission Statement.....	3
Operational Observations, Findings, and Recommendations.....	6
Auditor’s Summary.....	15
West Columbus ABC Board Response.....	16
Appendices.....	17



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

CHAIRMAN:
JAMES C. GARDNER

KEVIN M. GREEN
Greensboro

MICHAEL C. HERRING
West Jefferson

ADMINISTRATOR:
ROBERT A. HAMILTON

LOCATION:
400 East Tryon Road
Raleigh NC 27610

MAILING:
4307 Mail Service Center
Raleigh NC 27699-4307

PHONE: (919) 779-0700
Fax: (919) 661-5927
<http://abc.nc.gov/>

Moniqua S. McLean
ABC Board Auditor
919-779-8365

August 3, 2016

West Columbus ABC Board
Mr. Tony N. Freeman, Chairman
PO Box 486
Chadbourn, NC 28431

Dear Chairman Freeman,

We are pleased to submit this performance audit report on the West Columbus 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

S.L. 1967-540 authorized the Town of Chadbourn to hold an election for an ABC store. The referendum was held on November 14, 1967 and passed 282 to 99. The first retail sale occurred on December 20, 1967.

G.S. 18B-703 authorized a merger agreement between the Towns of Chadbourn and Fairbluff to form the West Columbus ABC Board on May 7, 2002. On June 30, 2005, the Town of Fairbluff dissolved the merger agreement.

As a result of the disassociation, the town of Chadbourn created an ABC board consisting of a chairman and two board members to serve for three year staggered terms. Current board members include Tony Freeman, board chairman, T. Guy Long and Hattie Kelly, board members.

The West Columbus ABC Board operates one retail store with mixed beverage sales. The board staffs one full-time general manager and three 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 an external accountant as a finance officer to provide sufficient checks and balances and other 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 January 20, 2016, ABC Board Auditor, Moniqua S. McLean, visited the West Columbus ABC store and interviewed Larry Britt, 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 West Columbus ABC board had gross sales of \$640,290; income from operations was \$24,728, a 3.86% profit percentage to sales.

Factors affecting sales and profitability:

- Population of the Town of Chadbourn reported by the US Census Bureau in 2010 is 1,859;
- Estimated population of Columbus County reported by the US Census Bureau in 2014 is 56,953, a 2% decrease from 2010;
- Surrounding towns or cities with ABC stores include Whiteville, Fairmont, and Tabor City;
- Acquired a parcel of land to build a new store location;

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 West Columbus ABC Board did not distribute to the town. \$145,378 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%) of profits toward alcohol education. The remaining profits are to be distributed as follows:

- Fifty percent (50%) to the Town of Chadbourn General Fund,
- Forty-five percent (45%) to the Columbus County General Fund, and
- Five percent (5%) to the Town of Chadbourn Fire Department.

In FY2015, the West Columbus ABC Board distributed to the town \$285 to law enforcement. Alcohol education distributions have not been made.

RECOMMENDATIONS

1. Continue making quarterly distributions to the town as required in G.S 18B-805.

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 West Columbus ABC Board had a working capital of \$262,220, which is less than the maximum allowed to retain of four months gross sales (\$164,972) and is within the limits of NCAC 15A .0902.

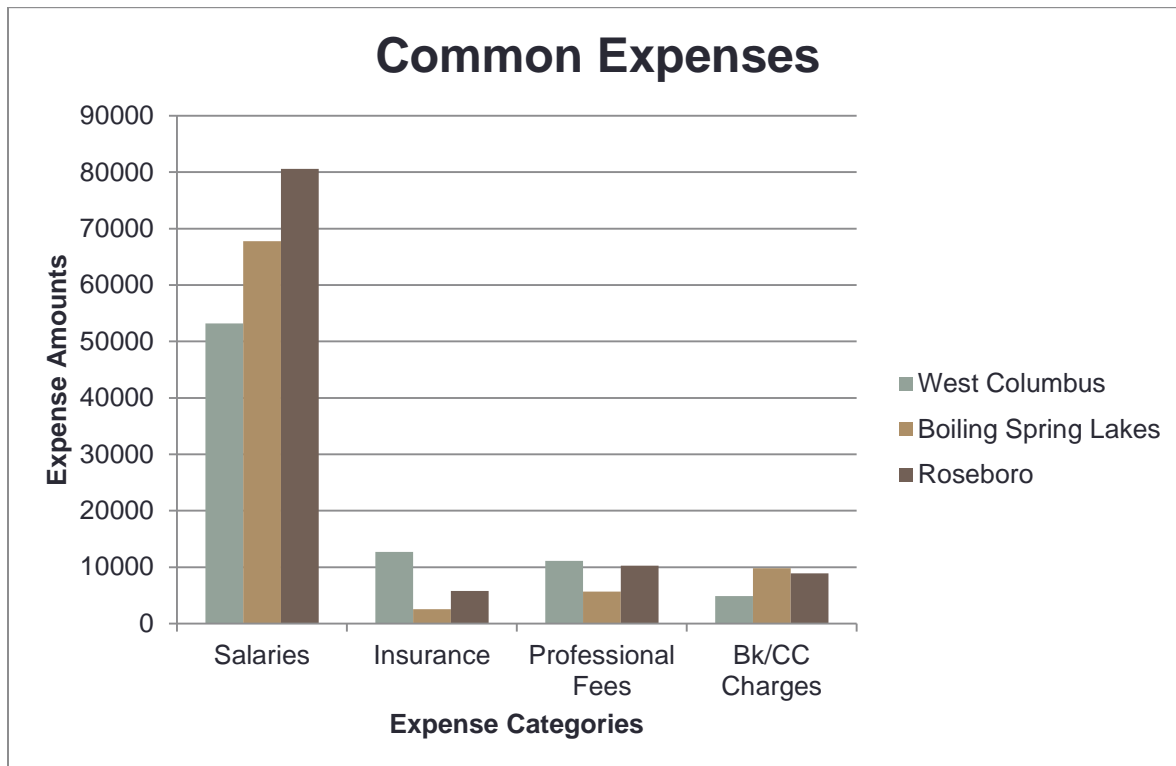
OPERATING COST RATIO

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 West Columbus ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.82. Mixed beverage sales make up 1.1% of total gross sales. Compared with the state's increase in sales of 7.59% in fiscal year 2015, the West Columbus ABC Board's sales increased 6.90% over fiscal year 2014 as expenses have increased 5.5% over the same time period.

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



Note: Staffing by board: West Columbus – 1 full-time and 3 part-time employees; Boiling Spring Lakes – 1 full-time and 3 part-time employees; Roseboro – 2 full-time and 2 part-time employees. Professional fees for West Columbus and Roseboro include bookkeeping services. Insurance expenses for West Columbus include health insurance.

STORE APPEARANCE

The West Columbus ABC Board operates one retail store with approximately 600 linear feet of shelf space and carries approximately 900 product codes.

- The store appeared clean and free of trash. However, lighting was dim making it difficult for customers to see the products available. The counter area was neat and well-organized.
- The store displayed neat and well-visible signage. The Fetal Alcohol Syndrome poster is displayed and visible to the public.
- Landscaping around the store is well-maintained with no evidence of trash. However, the parking area has potholes. The board rents the store and shares the space with neighboring stores.
- 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 value products on the bottom shelves. Product placement is consistent with sizes going from largest on the right and smallest to the left. Cross merchandising is not utilized due to limited shelf space.

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. In the event the shelf price is lower than the register price, the sales clerk follows procedures when handling price discrepancies.

RECOMMENDATIONS

1. Consider improving the store focusing on:
 - a. Seeking assistance from the owner to improve the parking area;
 - b. Replacing the light fixtures around the store;
 - c. Updating the shelves to incorporate a modern look.
2. Consider cross-merchandising by placing products that mix together on the same shelves. Intermingle North Carolina products within their specific category as well as having a designated area.
3. Utilize more of the end caps to incorporate valuable displays for new and bestselling items.

PERSONNEL AND TRAINING

- All board members, general manager, and finance officer have completed the ethics training as required by the ABC statutes.
- Cross training has not been extended on key administrative duties to employees in the event the general manager was unavailable.
- Additional training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities.
- Personnel files are not available for employees.

RECOMMENDATIONS

1. Consider cross training by designating certain duties to other employees.
2. Create personnel files for all employees. Include the employee's application, tax and I-9 documentation.
3. 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
 - Travel Policy (Town of Chadbourn Approval Submitted)
 - FY2015 Annual Audit
 - FY2016 Budget (Proposed and Adopted)
 - Employee Handbook
 - Shelf Management Policy
 - Price Discrepancy Policy

- Policies not adopted include:
 - Law Enforcement Contract
 - Mixed Beverage Policy
 - Sale to Underage Drinking Policy

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 (1) 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.

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.

- An employee creates the work schedule for all employees with the general manager's verification. Time sheets are used for all employees. In the event an employee is absent, the general manager will fill in for the employee. 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 not made daily as required by the ABC Commission rule. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed monthly by the finance officer.
- On some occasions, employees have cashed payroll checks at the store.
- In reviewing petty cash transactions, procedures were followed according to the disbursement requirements as required in G.S. 18B-702.
- Breakage forms have not been submitted to the Commission as required by the rule. The board has adopted a policy on how to handle the breakage if a customer or employee damages product.
- Physical inventory counts are performed monthly by the general manager and another employee. Spot checks are not conducted as frequently as needed. When discrepancies occur, the general manager will investigate and perform a recount. Adjustments are made by the general manager. Unsalable merchandise is adjusted from inventory immediately.
- Out of approximately 900 product codes, approximately seventy product codes were sampled and all were correct.

RECOMMENDATIONS

1. NCAC 15A .0905 requires boards to make daily deposits unless a waiver has been granted by the Commission. *Refer to Appendix C (2) for rule.*
2. Refrain from allowing employees to cash payroll checks in the store.
3. Submit breakage forms quarterly as required by the Commission rule. *Refer to Appendix A (3) for rule.*
4. Consider performing more frequent spot checks of inventory.

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. At each meeting, all board members sign a Certificate of Accountability clause.
- 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 appointments do not follow a staggered term as required by G.S. 18B-703.
- 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.
- In reviewing the budget to actual expenses as referenced in the financial audit of FY2015, the board overspent in expense line items.
- In determining if liquor purchases have been pre-audited by the finance officer, inquiry suggests that documentation is submitted to the finance officer. Documentation was unable to be verified. For other purchases, the board approves prior to purchase. Vendors often invoice the board when office and store supplies are needed. Finance officer receives invoices for processing. The pre-audit certificate is not used as required by 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 board chairman and general manager. In the event board chairman or general manager is unavailable, other board members are 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 (4) for statute.*
2. Ask the appointing authority to follow the staggered term requirements.
3. 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.
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 (5) for statute.*

AUDITOR'S SUMMARY

On February 16, 2016, ABC Board Auditor, Moniqua S. McLean, presented the performance audit findings and recommendations to the board. The board strives to improve profitability while maintaining budget appropriations and reducing expenses. Policies and procedures are being adopted and implemented to ensure compliance with statutes and Commission rules.

THE WEST COLUMBUS ABC BOARD
PERFORMANCE AUDIT REPORT

Having reviewed the Performance Audit Report with Moniqua McLean the West Columbus ABC Board agrees with the results. The Board will implement all recommendations presented in the report.


Larry Britt

General Manager

RECEIVED

MAY 31 2016

NC ABC COMMISSION

APPENDIX A

- 1) *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."*
- 2) *NCAC 02R .0905 (a) states, "Each officer whose duty it is to collect or receive moneys of the local board shall deposit into an official depository the collections and receipts daily. If the local board gives its approval, deposits shall be required only when the moneys on hand are equal to or are greater than two hundred fifty dollars (\$250.00), but in any event a deposit shall be made on the last business day of the month. All deposits shall be made in an official depository. Deposits in an official depository shall be reported to the finance officer by means of a duplicate deposit ticket."*
- 3) *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."*
- 4) *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."*
- 5) *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)