

Albemarle 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
Albemarle ABC Board Response.....	16
Appendices.....	18



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

April 21, 2016

Albemarle ABC Board
Mr. John McIntyre, Chairman
P.O. Box 1880
Albemarle, NC 28002

Dear Chairman McIntyre,

We are pleased to submit this performance audit report on the Albemarle 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. 1979-259 authorized the City of Albemarle to hold an election for an ABC store upon a petition signed by at least fifteen percent (15%) of registered voters. The referendum was held on February 10, 1998 and passed 3,126 to 2,695. A mixed beverage election occurred on the same date and passed 3,118 to 2,675. The first sale occurred on November 2, 1998.

Upon election of an ABC store, the city was authorized to create an ABC board consisting of a chairman and two board members to serve for three staggered year terms. Current board members are John McIntyre, board chairman, Jeffrey Flake and Terry Morgan, board members.

The Albemarle ABC Board operates one retail store. The board staffs three full-time and seven regular part-time and 2 seasonal part-time employees. The general manager is responsible for the oversight of all daily operations including inventory management, human resource organization, and other administrative decisions for the board. Store employees' primary responsibility is to provide friendly customer service, general store upkeep, and stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On May 7, 2015, ABC Board Auditor, Moniqua S. McLean, visited the Albemarle ABC store and interviewed Karen Cranford, general manager, and Kim Parker, assistant 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 Albemarle ABC Board had gross sales of \$2,509,388; income from operations was \$224,522, a 8.95% profit percentage to sales.

Factors affecting sales and profitability:

- Estimated population reported to the US Census Bureau is 16,007 for 2013, a 0.7% increase over 2010;
- Surrounding townships with ABC stores within the county include Locust and Norwood.

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) (1) requires the board to make a minimum quarterly distribution of the 3 ½% markup and bottle tax to the city. In FY2014, the Albemarle ABC Board made the minimum distribution of \$72,098, plus an additional distribution of \$107,902. \$580,223 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) requires the board to distribute at least five percent (5%) of profits to law enforcement and at least seven percent (7%) toward alcohol education/rehabilitation purposes. S.L. 2003-187 amended the distributions to be paid to the City of Albemarle General Fund.

In FY2014, the Albemarle ABC Board distributed to the city \$7,625 for law enforcement. A law enforcement contract has been implemented and submitted to the Commission. Alcohol education distributions total \$10,675. The board has funded programs for alcohol education and rehabilitation purposes such as the Safe Kids Coalition. A financial report from the agency has not been given to the board.

RECOMMENDATIONS

1. Have the alcohol education agencies provide an annual financial report of how funds were spent. *Refer to Appendix A (1) for statute.*

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 Albemarle ABC Board had a working capital of \$292,908, which is less than the maximum allowed to retain of three months gross sales (\$482,291) and is within the limits of NCAC 02R .0902.

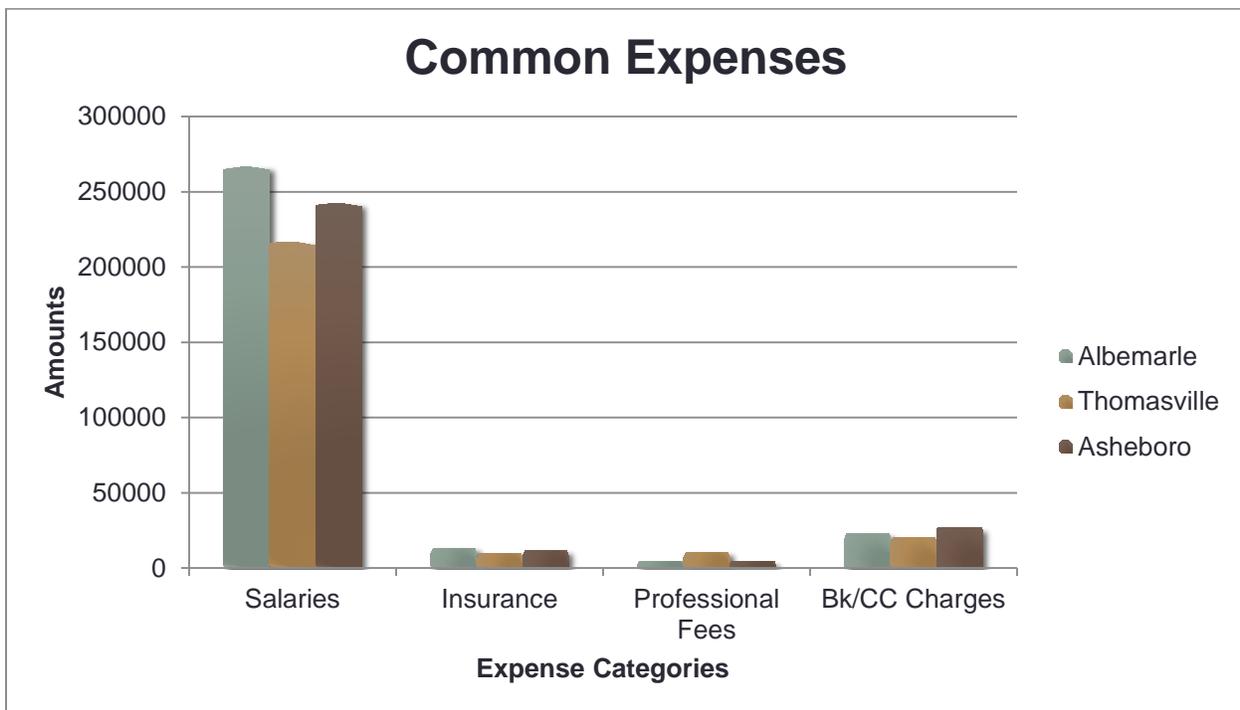
OPERATING COST RATIO

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):

- 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 Albemarle ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.57. Mixed beverage sales make up 9.6% of total gross sales. Compared with the state's increase in sales of 4.81% in fiscal year 2014, the Albemarle ABC Board's sales increased 5.55% over fiscal year 2013 as expenses increased 2.15% over the same time period.

Below is a common expense analysis showing the Albemarle 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.



Staffing by board: Albemarle – 3 full-time, 7 part-time, and 2 seasonal part-time employees, 4 full-time and 5 part-time employees, Asheboro – 4 full-time and 5 part-time employees.

STORE APPEARANCE

The Albemarle ABC Board operates one retail store with approximately 1,300 linear feet and carries approximately 1,000 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 designated category. However, cross merchandising is utilized to encourage impulse shopping specifically with North Carolina products. 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.
- As a marketing strategy, management creates gift bags of product.

NO RECOMMENDATIONS

PERSONNEL AND TRAINING

- Two out of three board members and the general manager have completed the initial ethics training required by the statute. One board member has since been appointed and has not yet completed the ethics training.
- Cross training has been extended on key administrative duties to employees in the event the general manager was suddenly unavailable. The assistant management serves as the backup to the general manager.
- Training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities. Management often attends conferences hosted by the NC Association of ABC Boards.
- Personnel files are available and include human resource documentation and other personnel information as required.

RECOMMENDATIONS

1. Have all newly appointed board members complete the ethics requirement within 12 months of appointment. *Refer to Appendix A (2) for statute.*

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract
 - Travel Policy (Board adopted the State's Travel Policy)
 - FY2014 Annual Audit
 - FY2015 Budget (Proposed and Adopted)
 - FY2016 Budget (Proposed)
 - Employee Manual (adopted 2000)
 - Mixed Beverage Policy
 - Price Discrepancy Policy
 - Shelf Management 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 and appropriate practices. Below are internal control findings that were observed during the audit fieldwork.

- The general manager and/or assistant manager schedules and notifies employees for work shift hours. All employees use time cards to record hours worked. General practice is two people are always on a shift. Management usually works the day shift hours. In the event an employee fails to clock in/out, the general manager or assistant manager is notified and corrects the discrepancy. At the end of payroll week, the manager calculates and processes payroll through the accounting/payroll system.
- 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 general manager.
- Physical inventory counts are performed monthly by all employees. Frequent spot checks are conducted in between scheduled inventory counts and when there are potential problems. If discrepancies occur, someone other than the person counting will recount. If a continuous discrepancy, the general manager or assistant manager will investigate and recount. 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.
- A credit card is issued to the board with the general manager as the authorized user. Board members review all transactions purchased with the card. A credit card policy has been adopted and implemented.
- Out of approximately 1,000 product codes, approximately 140 product codes were sampled to ensure accurate pricing and one was incorrect.

RECOMMENDATIONS

1. 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.

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 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.
- The general manager serves as the finance officer. The board has obtained approval from the Commission allowing the general manager to serve in this capacity for no longer than three years.
- 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 pre-audited by the finance officer/general manager. 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/general manager for payment. Two signatures are located on all paid checks; that of the finance officer/general manager and the assistant manager. In the event the general manager or assistant manager is unavailable, all board members are authorized to sign checks.

RECOMMENDATIONS

1. Begin to work on a plan to designate someone other than the general manager as finance officer. The intent is to generate stronger internal controls and checks and balances.

AUDITOR'S SUMMARY

On November 18, 2015, ABC Board Auditor, Moniqua S. McLean, presented the performance audit findings and recommendations. The board strives 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 having sufficient checks and balances.

Albemarle ABC Board

P.O. Box 1880
Albemarle, NC 28002-1880

December 22, 2015

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

Dear Ms. McLean;

Thank you for attending our meeting on November 18, 2015 and presenting the results of your performance audit of the Albemarle ABC Board. Included in your audit were some items the board needed to address. We will outline with a plan of action listed below:

With regard to your recommendation on Page 4 that Alcohol Education Agencies provide an annual financial report of how funds were spent, please be assured that this has been done for 2015 and will continue to be done in the future.

Have all newly appointed board members complete the ethics requirement within 12 months of appointment, all Board members have completed their training and our newest board member appointed in May 2015, completed his training at the Annual Conference held in Greensboro in July 2015.

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. Our ABC Board employees on a continuous basis work hard to ensure correct pricing on the store shelves and in the computer system. The employees will continue to audit shelf tags on a regular basis by incorporating this practice during and in between the regularly scheduled inventory counts.

Begin to work on a plan to designate someone other than the General Manager as Finance Officer. The intent is to generate stronger internal controls and checks and balances. Currently the General Manager is training the Deputy Finance Officer on daily operations of the store to relieve some of

the responsibilities of the General Manager. The Deputy Finance Officer is very involved in daily operations. A letter of extension sent to Robert Hamilton, Administrator of the NC ABC Commission was approved April 22, 2015 for a three year period.

The Board and General Manager appreciate your time and energy in preparing the performance audit. We were very pleased with the results and feel confident that the future of the Albemarle ABC Board is bright and likewise that the communities we will serve will continue to benefit from its efficient operation.

Sincerely,

A handwritten signature in cursive script that reads "John McIntyre".

John McIntyre
Chairman, Albemarle ABC Board

RECEIVED

JAN 25 2016

NC ABC COMMISSION

APPENDIX A

- 1) *G.S. 18B-805 (h) states, "...Any agency or person receiving funds from the county commissioners or local board under this subsection shall submit an annual report to the board of county commissioners or local board from which funds were received, describing how the funds were spent."*
- 2) *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."*

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>