

# Cramerton ABC Board

## Performance Audit Report



Alcoholic Beverage Control Commission  
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**ABC**  
COMMISSION  
NORTH CAROLINA



# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

CHAIRMAN:  
JAMES C. GARDNER

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COMMISSIONERS:  
JOEL L. KEITH  
Wake Forest

KEVIN M. GREEN  
Greensboro

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ADMINISTRATOR:  
MICHAEL C. HERRING

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LOCATION:  
400 East Tryon Road  
Raleigh NC 27610

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**Moniqua S. McLean**  
ABC Board Auditor

January 14, 2014

Cramerton ABC Board  
Mr. Sam Carpenter, Chairman  
202-C Market Street  
Cramerton, NC 28032

Dear Chairman Carpenter,

We are pleased to submit this performance audit report on the Cramerton 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 the steps being taken to increase operating efficiencies at your ABC store.

If we can be of assistance in the future, please advise.

Respectfully,

Michael C. Herring  
Administrator

CC. North Carolina Association of ABC Boards

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## **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 2012;
- Visited the store;
- Interviewed key ABC board personnel.

The Cramerton ABC Board has responded to the performance audit recommendations and is continuing to create strategies to maintain and improve profitability through analyzing and reducing current costs while continuing to meet the demands of customers. Policies and procedures have been adopted and implemented to maintain compliance with statutes and Commission rules and to maintain stronger segregation of duties.

## **BACKGROUND INFORMATION**

G.S. 18B-601 (c) authorized the town of Cramerton to hold an election for an ABC store. The referendum was held on September 12, 2006 and passed 380 to 335. The first retail sale occurred on March 26, 2007. A mixed beverage election on September 12, 2006 and passed 399 to 311.

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 terms. Current members include Sam Carpenter, board chairman, Carolyn Helms and Mark Wilks, board members.

The Cramerton ABC Board operates one retail store. The board staffs one full-time general manager and eight part-time employees. The general manager is responsible for overseeing and managing daily operation of the store including supervision personnel, inventory control, and providing customer service. Store employees are primarily responsible for providing friendly customer service, store upkeep and inventory management. The board has hired an external accountant to serve as finance officer to assist in preparing financial statements, monthly bookkeeping services, and other duties as required by the ABC statutes and rules.

## **FINANCIAL ANALYSIS**

### **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 Cramerton ABC Board receives deliveries twice a month: the inventory turnover rate is 6.9. This rate compares favorably to the benchmark of 5.0 for boards with the same delivery schedule.

*No Recommendations.*

### **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 with MXB – cost ratio 0.67 or less
- Boards with 3 or more stores without MXB – cost ratio 0.94 or less
- Boards with 2 stores (with and without MXB) – cost ratio 0.83 or less
- Single store boards with MXB – cost ratio 0.77 or less
- Single store boards without MXB – cost ratio 0.93 or less

The Cramerton ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.65. Mixed beverage sales make up 12.1% of total gross sales. In fiscal year 2012, sales increased 0.99% since fiscal year 2011 while expenses increased 4.9% over the same time period. The board rents the current location which contributes to higher operating expenses. Total rent expense was \$27,462 at the end of fiscal year 2012. Additional storage space is rented at \$300 per month totaling \$2100 for the year ended June 2012.

*No Recommendations.*

### **Working Capital**

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 FY2012, Cramerton ABC had a working capital of \$210,421, which is equivalent to approximately three months gross sales and is within the limits of NCAC 02R .0902.

## Profit Percentage to Sales

The profit percentage to sales is calculated by dividing the total income before distributions by the total liquor sales (Total Income before Distribution/Total Liquor Sales). The Commission has set goals based on the following breakdown:

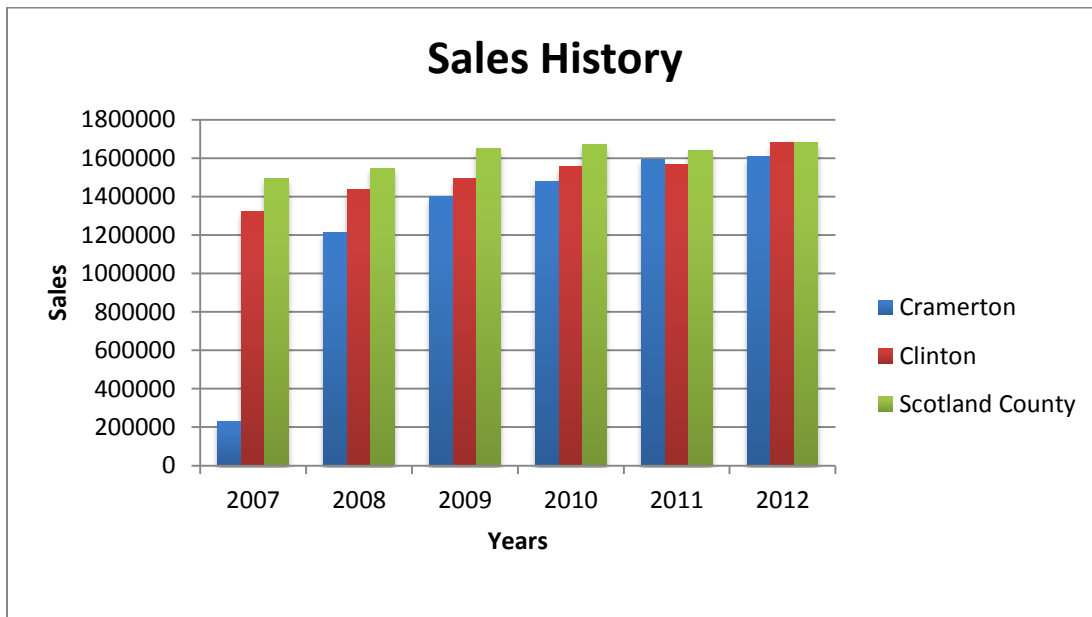
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Cramerton ABC Board had gross sales of \$1,609,066; income from operations was \$130,983, a 8.14% profit percentage to sales.

Factors affecting sales and profitability:

- US Census Bureau reports a population of 4,165 in 2010;
- Surrounding towns with ABC stores within a fifteen mile radius include Bessemer City, Mt. Holly, Gastonia, Cherryville.

Below is a sales history analysis of similar size boards compared with Cramerton ABC Board. This chart analyzes the sales trends for the past five years.



## Distributions

G.S. 18B-805 (c) (2) and (c) (3) requires the board to distribute at least five percent of profits to law enforcement and at least seven percent (7%) for alcohol education. The remaining profits are to be distributed to the Cramerton General Fund.

In FY2012, Cramerton ABC made the required minimum distribution totaling \$47,896 to Cramerton General Fund plus additional distribution of \$11,828. A total of \$373,313 in Excise and other taxes were paid to the NC Department of Revenue and \$4,408 to law enforcement and \$3,500 for alcohol education.

## **OPERATIONAL FINDINGS, OBSERVATIONS, AND RECOMMENDATIONS**

On June 18, 2013, ABC Board Auditor, Moniqua S. McLean visited the Cramerton ABC Board and interviewed Ed Browning, general manager. The following are the operational findings, observations, and recommendations related to the performance audit.

### **Store Appearance and Customer Service Observations**

The Cramerton ABC Board operates one retail store with approximately 750 linear feet of shelf space and carrying approximately 900 product codes. *Refer to pictures in Appendix B.*

- The store was clean and well-lit. Bottles were fronted and dusted. Counter areas were free of clutter and supplies were easily accessible.
- Exterior signage and landscaping around the store was clean and free of trash. The Fetal Alcohol Syndrome poster was not displayed but was supplied by the auditor.
- Some shelves were empty giving the impression that there were not enough products available. Front end caps were under-utilized. The store displayed a shelf management plan that exhibits highest priced products on top shelves and lowest priced products on the lower shelves. *See pictures on page 13.*
- Security systems are in place and functional.
- The state price book is available along with the monthly sales lists.
- Sales clerks' interaction with customers was attentive, courteous, and eager to meet the needs of customers.

#### *Recommendations:*

- Utilize front display case and end caps to highlight new, on sale or discontinued items. To reduce the amount empty shelving, consider filling a section with a product display of bestselling products. Cross merchandising products in various categories will increase impulse shopping patterns and also make shelves look fuller.

### **Personnel and Training**

- All board members, general manager, and finance officer have attended the initial mandatory ethics class.
- Product knowledge training is consistently being provided to current staff as new information becomes available. However, formal training, focusing on topics of RASP and/or customer service, has not been provided.
- Cross training opportunities have been extended to key employees in the event the general manager and finance officer was suddenly unavailable.

#### *Recommendations:*

- Provide additional training that will include alcohol education, customer service, and product knowledge. Contact other boards that have a training module(s) in these areas and take advantage of RASP classes offered by the Commission.



## **ABC Board Policies**

- Policies adopted and submitted to the Commission include:
  - Code of Ethics
  - Law Enforcement Contract
  - Travel Policy (Town of Cramerton Approval Submitted)
  - FY2012 Annual Audit
  - FY2013 Budget (Proposed and Adopted)
  - Employee Handbook (Adopted 2008)
  - Price Discrepancy Policy
  
- Policies not adopted and submitted to the Commission include;
  - Mixed Beverage Policy

### *Recommendations:*

- Adopt a mixed beverage policy that details customer friendly and flexible ordering and pickup guidelines. Once adopted, submit a copy to the Commission.
  
- Updated the employee handbook to include current practices, board policies, and duties and responsibilities of each employee. Forward copies to all employees and implement an acknowledgement of receipt from every employee to be filed in the personnel files. Once adopted, submit to the Commission. *Refer Appendix C (1) for rule.*
  
- As a reminder, ask the appointing authority for an approval allowing the ABC Board to continue to adopt their travel policy. *Refer to Appendix C (2) for statute.*

## **Internal Control Procedures**

- A full inventory is performed yearly by the general manager and another employee. However, spot checks are conducted monthly resulting in a complete inventory over time. If discrepancies occur, the general manager will investigate and recount for accuracy and verification. Once completed, only the general manager will adjust the system to match with the actual store counts. Unsalable items are adjusted immediately. To verify counts, documentation was not available.
  
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. A written policy has been adopted should cash discrepancies occur.
  
- Bank deposits are made regularly as required by the ABC Commission rule. Bank notification is received and matched with corresponding daily register reports. Bank reconciliations are completed monthly by the finance officer.
  
- Payroll time sheets are signed by the employees and verified by the general manager and forwarded to the finance officer for processing. Payroll software is used to calculate tax and other withholdings. The master payroll activity report is verified by the general manager.

- A credit card is issued to the board. Only the general manager is allowed to use the card for designated purposes. The finance officer reconciles all transactions purchased with the card. However, a written credit card policy has not been implemented .

*Recommendations:*

- Keep all inventory records as required by the Records Retention Schedule per G.S. 121-5 and 132-3.
- To ensure stronger internal controls of credit card purchases, adopt a written credit card usage policy. Document procedures for the usage including:
  - Who has authority to use the card,
  - What types of items the card may be used for,
  - Personal usage is prohibited;
  - An itemized receipt for every transaction is required,
  - Maximum limit allowed on purchases before approval is needed from the finance officer,
  - Receipts are to be submitted within 15 days of the purchase.

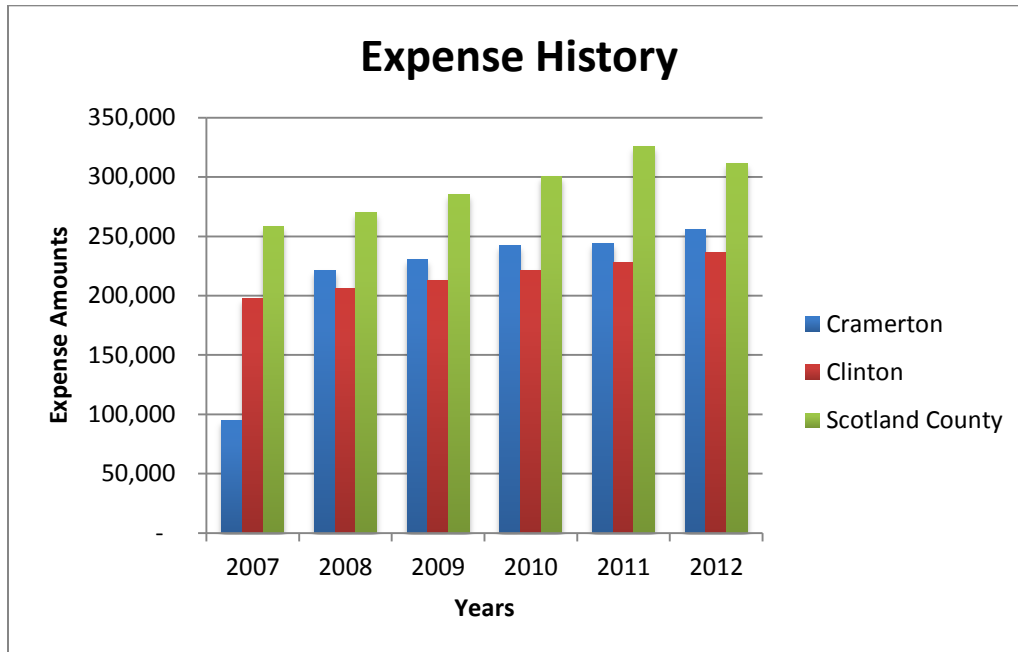
### **Administrative Compliance Findings and Observations**

- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting referencing the conflict of interest statement.
- Board member appointment dates and compensation amounts are current on the Commission website.
- Board member compensation is over the maximum allowed by G.S. 18B-700 (g). However, an approval from the appointing authority allowing a different compensation has been submitted to the Commission. General manager compensation is in compliance with G.S. 18B-700 (g1).
- Law enforcement activity reports have been submitted to the Commission as required by G.S. 18B-501 (f1).
- Nepotism – The board is in compliance with G.S. 18B-700 (k).
- All board members, general manager, and finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- Orders for liquor and other common orders do not bear the pre-audit certificate as required by G.S. 18B-702(m).
- A review of paid liquor invoices revealed that payments were not paid within 30 days.
- All checks bear the approved certificate and are signed by the finance officer and general manager. In the event the general manager or finance officer is unavailable, board members are authorized to sign checks.
- Out of approximately 900 product codes, approximately ninety product codes were sampled and all reflected the correct price.

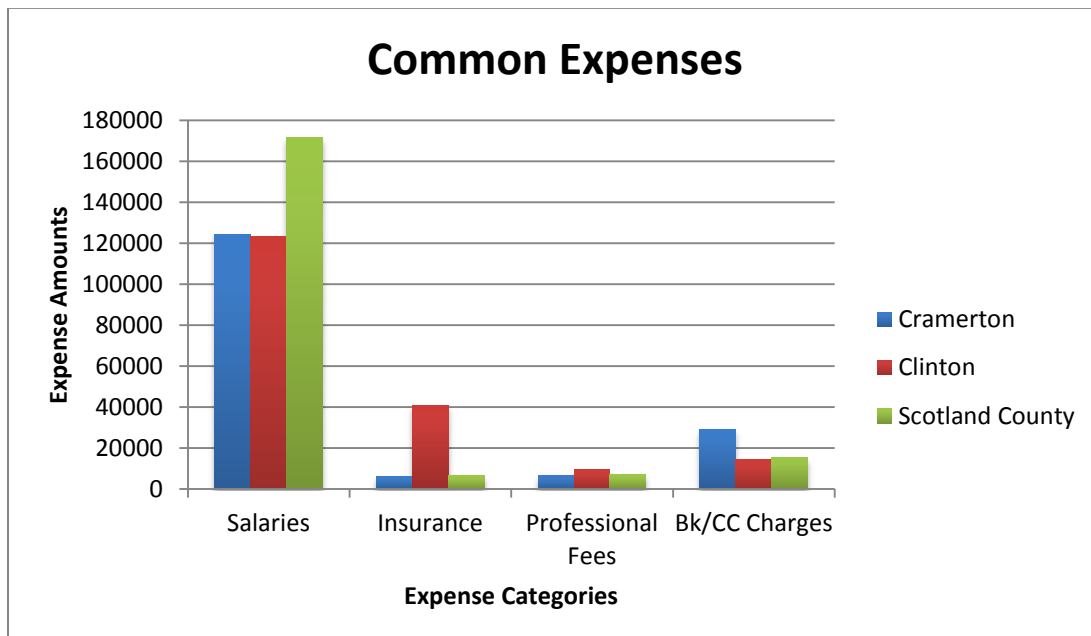
*Recommendations:*

- 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 C (3) for statute.*
- Pay all liquor bills within thirty days of receipt of liquor. It is the Commission's policy to stop liquor shipments when liquor invoices become delinquent. *Refer to Appendix C (4) for rule.*

## APPENDIX A



*The expense history data indicates that Cramerton ABC's total expenses have increased 4.9% since FY2011. Compared with other similar size boards, Cramerton ABC's expenses are not out of line. Note: Staffing results for Scotland Co and Clinton total 6 employees.*



*Common expense analysis indicates that Cramerton ABC's expenses are relatively lower compared with other similar size boards. Note: Insurance fees for Clinton may include health/group insurance. Bank/credit card fees increase as credit card transactions increase.*

## APPENDIX B



*Interior view*



*Counter view*



*Interior view*

## APPENDIX C

(1) NCAC 02R.1009 (a) states, "Each local board shall establish policies and rules governing each of the following:

- (1) Initial employment of employees, including qualifications and requirements for new employees;
- (2) Compensation and benefits;
- (3) Hours and days of work, holidays, vacation, sick leave and other matters pertaining to the conditions of employment;
- (4) Promotion, transfer, demotion and suspension of employees;
- (5) Separation or termination of employees;
- (6) Granting of salary increases;
- (7) Employee grievance procedures; and
- (8) Any other programs or procedures as may be necessary to promote efficiency and to provide for a fair and reasonable system of personnel administration.

(2) G.S. 18B-700 (g2) states, "...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."

(3) 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)

(4) NCAC 02R .1407 (c) states, "Local boards shall remit full payment of the distiller's invoice within thirty days of delivery of the liquor."

## **ABC Board of Cramerton, NC**

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DATE: December 2, 2013

After a review of the Performance Audit Report conducted by Moniqua McLean, we found the report to be both fair and helpful, and intend to comply with the commission's recommendations. We will submit those items as they are adopted or completed. Those already adopted are included with this letter.

We would also like to thank the Commission for the positive and constructive manner in which the audit was conducted. We feel this will be a great benefit to our ABC Board and our store operation.

Please accept our apologies for the tardiness of our response.

Thank you from the ABC Board of Cramerton NC,

Sam Carpenter, Chairman

Carolyn Helms, Member

Mark Wilks, Member

Ed Browning, General Manager

**RECEIVED**

DEC 05 2013

**NC ABC COMMISSION**

## CRAMERTON ALCOHOL BEVERAGE CONTROL BOARD

### Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>ABC Board Policies:</b></p> <ul style="list-style-type: none"> <li>• Adopt the following policies:               <ul style="list-style-type: none"> <li>○ Mixed Beverage Policy</li> <li>○ Credit/Debit Card Usage Policy</li> </ul> </li> </ul>	<input type="checkbox"/> <b>Yes</b>  <input checked="" type="checkbox"/> <b>No</b>	<p>(Please provide documentation supporting implementation status.)</p> <input checked="" type="checkbox"/> Fully Implemented <input type="checkbox"/> Partially implemented ___% complete. (Explain below.) <input type="checkbox"/> Not implemented (Explain below.)
<p><b>Administrative Compliance:</b></p> <ul style="list-style-type: none"> <li>• Affix the pre-audit certificate on orders before transaction occurs</li> <li>• Pay bills within thirty days of receipt.</li> </ul>	<input checked="" type="checkbox"/> <b>Yes</b>  <input type="checkbox"/> <b>No</b>	<p>(Please provide documentation supporting implementation status.)</p> <input checked="" type="checkbox"/> Fully Implemented <input type="checkbox"/> Partially implemented ___% complete. (Explain below.) <input type="checkbox"/> Not implemented (Explain below.)

The board has adopted all recommended policies and has submitted copies to the Commission. The board is working on additional policy implementation.

Management has implemented policies and procedures to remain in compliance with this statute.