

# Kings Mountain ABC Board

## Performance Audit Report





# 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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**Your Name**  
Director  
Permit Division  
(this is editable)

September 10, 2013

Kings Mountain ABC Board  
Mr. David Hullender, Chairman  
PO Box 785  
Kings Mountain, NC 28086

Dear Chairman Hullender,

We are pleased to submit this performance audit report on the Kings Mountain 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 General Managers 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 taken to reduce operating expenses 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 Kings Mountain ABC Board has responded to the performance audit recommendations and is striving to improve and maintain 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**

Chapter 832 of the 1969 Session authorized the town of Kings Mountain to hold an election for an ABC store. The referendum was held on January 20, 1987 and passed 1,502 to 1,467. The first sale occurred on December 16, 1987. A mixed beverage election was held on May 5, 2009 and passed 1,143 to 1,062.

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. The board expanded from three to five members circa 1998. Current board members are David Hullender, board chairman, Sandra Murphrey, David Faunce, Ralph Grindstaff, R. Ragan Harper, board members.

The Kings Mountain ABC Board operates one retail store. The board staffs two full-time and four part-time employees. The general manager is responsible for overseeing and managing daily operations of the store including supervising personnel, inventory control, and providing customer service. The board has appointed the assistant manager to serve as the finance officer as required by the ABC statutes and rules. Other duties include overseeing and managing daily operations of the store in the absence of the general manager. Store employees are primarily responsible for providing friendly customer service, store upkeep and inventory management.

## **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 Kings Mountain ABC Board receives deliveries twice a month: the inventory turnover rate is 6.7.

#### *Recommendations:*

- Continue with the following strategies already in place;
  - Analyzing sales and history reports to determine the bestselling products needed and to avoid overstock;
  - Watching customer shopping patterns and using the information to optimize product placement;
  - Splitting cases with surrounding boards to reduce the expense of a full case but increasing new items,
- Consider additional practices such as cross-merchandising and shelf reorganization as the product mix changes to encourage more impulse shopping.

### **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 Kings Mountain ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.73. Mixed beverage sales make up 7.1% of total gross sales. In fiscal year 2012, sales increased 7.1% over fiscal year 2011 while expenses decreased 2.17% over the same time period. The board owns the store which contributes to overhead expense savings.

*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, Kings Mountain ABC had a working capital of \$257,645, which is equivalent to approximately four 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:

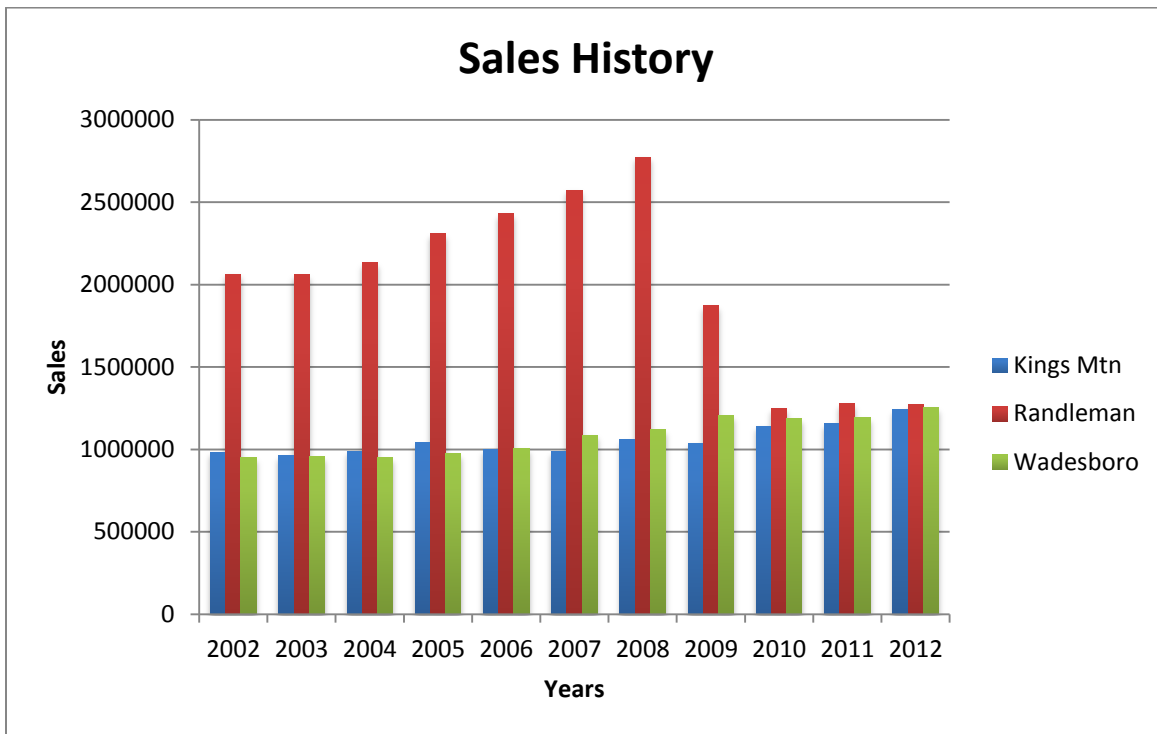
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Kings Mountain ABC Board had gross sales of \$1,240,041; income from operations was \$76,429, a 6.16% profit percentage to sales.

Factors affecting sales and profitability:

- US Census Bureau reports an estimated population of 10,648 in 2012;
- Surrounding town with ABC stores include Bessemer City, Shelby, and Gastonia.

Below is a sales history analysis of similar size boards compared with Kings Mountain ABC Board. This chart analyzes the sales trends for the past ten years. Note: Randleman experienced a dramatic decrease in sales due to the opening of stores in close proximity.



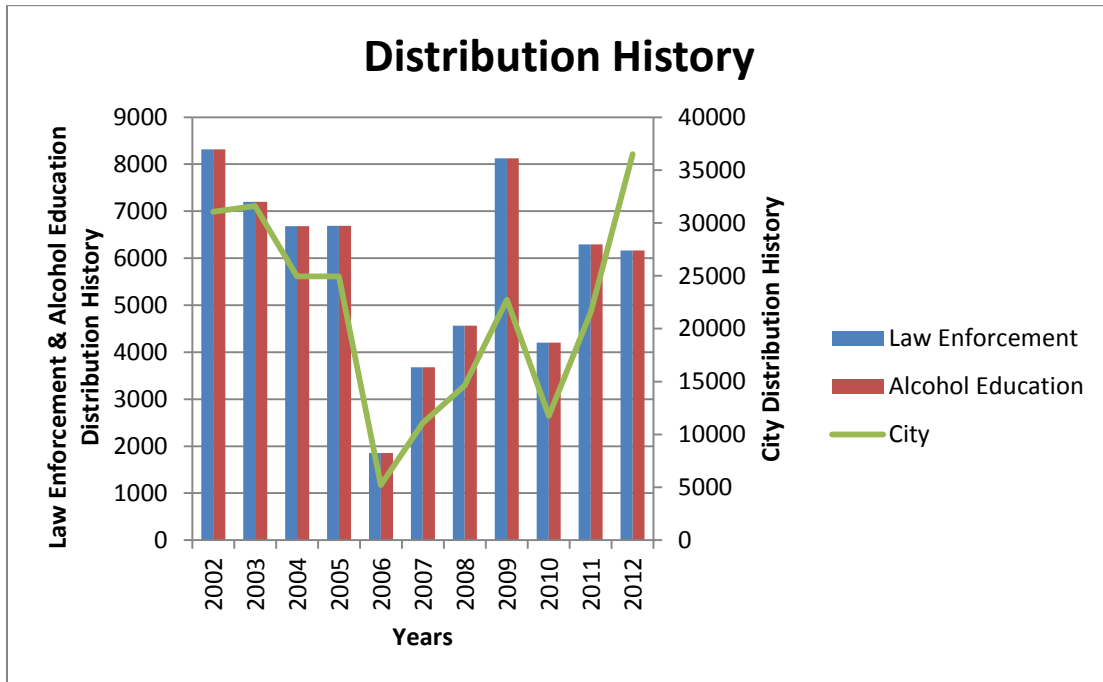
**Distributions**

G.S. 18B-805 (c) requires the board to distribute at least five percent (5%) of profits to law enforcement. The board follows the local enabling act for alcohol education distributions which requires distributions not to exceed fifteen percent (15%). The remaining profits are to be distributed to Kings Mountain General Fund.

In FY2012, Kings Mountain ABC made the required minimum distributions totaling \$36,504 to the Kings Mountain General Fund. A total of \$283,620 in Excise and other taxes were paid to the NC Department of Revenue and the Town of Kings Mountain. The Kings Mountain ABC Board distributed fifteen percent (15%) of profits for law enforcement, \$6,162, and alcohol education, \$6,162.



Below is a chart analyzing the high-low trend of distributions to law enforcement, alcohol education, and to the city.



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

On July 2, 2013, ABC Board Auditor, Moniqua S. McLean visited the Kings Mountain ABC Board and interviewed Bonnie A. Ormand, general manager. The following are the operational observations, findings, and recommendations related to the performance audit.

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

The Kings Mountain ABC Board operates one retail store with approximately 800 linear feet of shelf space and carries approximately 1,000 product codes. *Refer to pictures in Appendix B.*

- The store was clean, well-lit, and well-dusted. Bottles were fronted. 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 is displayed.
- The store displayed a shelf management plan that exhibits highest priced products on top shelves and lowest priced products on the lower shelves. End caps and display cases featured new items, bestselling products, or discontinued items. *See pictures on page 12.*
- Security systems are in place and functional.
- The state price book is available along with the monthly sales lists should customers inquire about a specific product.
- Sales clerks' interaction with customers was attentive, courteous, and eager to meet the needs of customers.

*No Recommendations.*

### **Personnel and Training**

- All board members, general manager, and finance officer have completed the ethics training.
- Product knowledge training is consistently being provided to current staff as new information comes available. Formal training, such as the RASP class, has been provided.
- Cross training opportunities have been extended to key employees in the event the general manager and finance officer were suddenly unavailable.

*No Recommendations.*

## **ABC Board Policies**

- Policies adopted and submitted to the Commission include:
  - Code of Ethics
  - Law Enforcement Contract
  - Travel Policy (State)
  - FY2012 Annual Audit
  - FY2013 Budget (Proposed and Adopted)
  - Employee Handbook (Adopted 2011)
  - Price Discrepancy Policy
  - Shelf Management Policy
  - Mixed Beverage Policy
  - Zero Tolerance Policy

*No Recommendations.*

## **Internal Control Procedures**

- All clerks use a time entry system to maintain scheduled hours. During payroll, the general manager verifies the system reports to determine accuracy. If discrepancies occur, the general manager will adjust hours worked in the system. The master payroll activity report is verified by the general manager. Payroll software calculates tax and other withholdings. Back up is conducted daily.
- Cash drawers are counted daily. All clerks are responsible for their own cash drawer. Management has implemented procedures and guidelines for safeguarding assets. However, a written policy has not been enforced.
- 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.
- Physical inventory counts are performed monthly by all employees. Employees initial count sheets. Spot checks are conducted often. If discrepancies occur, someone other than the initial person would recount and verify. If discrepancies are verified and accurate, only the general manager will adjust the inventory system to match with the actual store counts. Unsalable items are adjusted immediately.
- A credit card is issued to the board. All board members and the general manager are issued a card. Board member cards are secured at the store until needed. The general manager reconciles all transactions purchased with the card. However, a written credit card policy has not been implemented.

*Recommendations:*

- Implement procedures for handling cash drawer overages and shortages. Incorporate these procedures into the updated employee manual for current and future employees.
- 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;
  - Have someone other than the person purchasing reconcile the credit card statements.
- Consider reducing the number of credit cards in circulation.

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

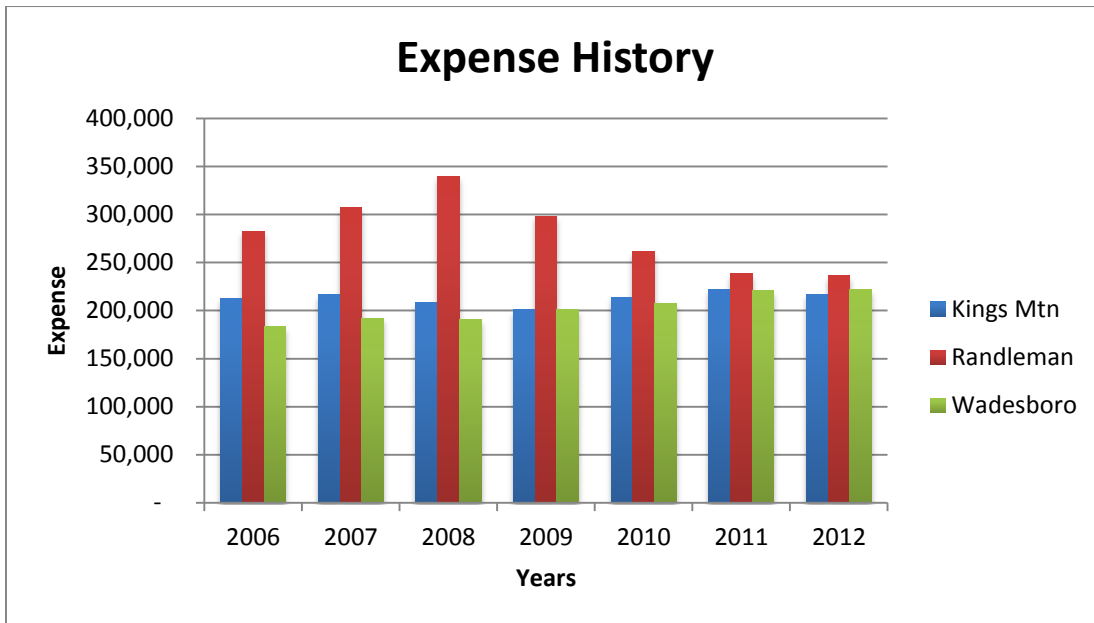
- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting and referenced the conflict of interest statement.
- Board member appointment dates and compensation amounts are current on the Commission website.
- Board member and general manager compensation is in compliance with G.S. 18B-700 (g) and (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, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- A review of travel reimbursements revealed that expenses follow the travel policy adopted with documentation attached. However, spousal attendance to conferences has not been prepaid.
- Orders for liquor and other common orders 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 a board member. In the event the finance officer is unavailable, other board members are authorized to sign checks.

- Out of approximately 1,000 product codes, approximately 100 codes were sampled and two were incorrect.

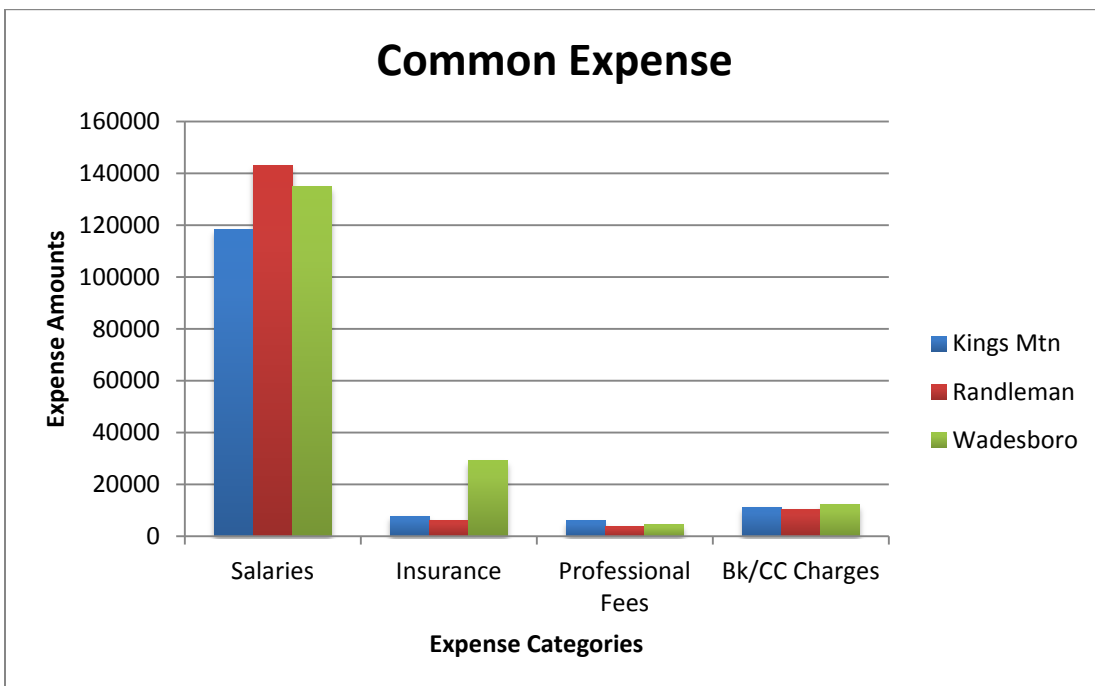
*Recommendations:*

- Prepay conference fees for spouses and/or non-employees without using ABC board funds.
- 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 (1) for rule.*
- Audit shelf tags more frequently. Incorporate such practices within spot check time periods.

## APPENDIX A



*The expense history data indicates that Kings Mtn ABC's total expenses have decreased 2.17% since FY2011. Compared with other similar size boards, Kings Mtn ABC's expenses are not out of line.*



*Common expense analysis indicates that Kings Mtn. ABC's expenses are relatively lower compared with other similar size boards. Note: Insurance fees for Wadesboro may include health/group insurance.*

## APPENDIX B



*Counter view*



*Interior view*



*Interior view*

## APPENDIX C

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



KINGS MOUNTAIN ABC BOARD

August 29, 2013

Moniqua S. McLean,

Laurie Lee

The Kings Mountain ABC Board has responded to the recommendations in the State Performance Audit.

The board adopted the new policies at our board meeting on August 27, 2013 when Moniqua was present.

The new policies will be sent with this letter.

Thank You,

Ailene Ormand, Manager

## KINGS MOUNTAIN ALCOHOL BEVERAGE CONTROL BOARD

### Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Internal Control/ABC Board Policies:</b>                      Adopt the following policies to ensure stronger internal controls:</p> <ul style="list-style-type: none"> <li>• Cash Overage/Shortage Policy</li> <li>• Credit Card Policy</li> </ul>	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input checked="" type="checkbox"/> Partially implemented 90% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management is working toward implemented current policies. Once policies have been adopted, copies will be forwarded to the Commission.</p>
<p><b>Administrative Compliance:</b>                       **Pay all liquor bills within thirty days.</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>Note: Required by 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 a policy and procedures to remain in compliance with the rule.</p>

**KINGS MOUNTAIN ALCOHOL BEVERAGE CONTROL BOARD**  
**Recommendation Follow-Up**