

Lincolnton 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

COMMISSIONERS:
JOEL L. KEITH
Wake Forest

KEVIN M. GREEN
Greensboro

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Moniqua S. McLean
ABC Board Auditor

February 3, 2014

Lincolnton ABC Board
Mr. Mike Owen, Chairman
105 Stanford Road
Lincolnton, NC 28092

Dear Chairman Owen,

We are pleased to submit this performance audit report on the Lincolnton 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.

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

Respectfully,

Michael C. Herring
Administrator

CC. North Carolina Association of ABC Boards

TABLE OF CONTENTS

Financial Analysis.....	6
Operational Findings, Observations, and Recommendations.....	9
Lincolnton ABC Board Response.....	16
Recommendation Follow up.....	17

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 2013;
- Visited the store;
- Interviewed key ABC board personnel.

The Lincoln ABC Board has responded to the performance audit recommendations and is continuously striving to create strategies to increase profitability while reducing or maintaining current costs. Policies and procedures have been implemented to maintain compliance with statutes and Commission rules and to maintain stronger segregation of duties.

BACKGROUND INFORMATION

Chapter 603 of the 1967 Session Laws authorized the town of Lincolnton to hold an election for an ABC store upon a petition signed by fifteen percent (15%) of registered voters. The referendum was held on August 8, 1967 and passed 1,376 to 797. The first sale occurred on December 11, 1967. A mixed beverage election occurred on May 30, 2000 and passed 1,622 to 1,277.

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 board members are Mike Owen, board chairman, Randy Ramsey and Ed Hatley, board members.

The Lincolnton ABC Board operates one retail store. The board staffs four 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, policy implementation, budget maintenance, and providing customer service. The board has hired an external accountant to provide assistance to the general manager with all financial responsibilities related to bookkeeping and monthly account reconciliations. Store employees are primarily responsible for providing friendly customer service, store upkeep, and stock maintenance.

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 Lincoln ABC Board receives deliveries twice a month: the inventory turnover rate is 7.6.

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):

- Single store boards with MXB sales that are equal to or greater than 25% of gross sales – cost ratio 0.75
- Single store boards with MXB sales less than 25% of gross sales – cost ratio 0.85
- Single store boards without MXB sales – cost ratio 0.85
- Boards with 2 stores with and without MXB sales – cost ratio 0.74
- Boards with 3 or more stores with and without MXB sales – cost ratio 0.64

The Lincoln ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.72. The board sold property to open a new store in April 2010. Mixed beverage sales make up 7.3% of total gross sales. In fiscal year 2013, sales increased 3.8% while expenses increased 1.8% over the same time period.

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 FY2013, Lincoln ABC had a working capital of \$207,591, which is equivalent to less than 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:

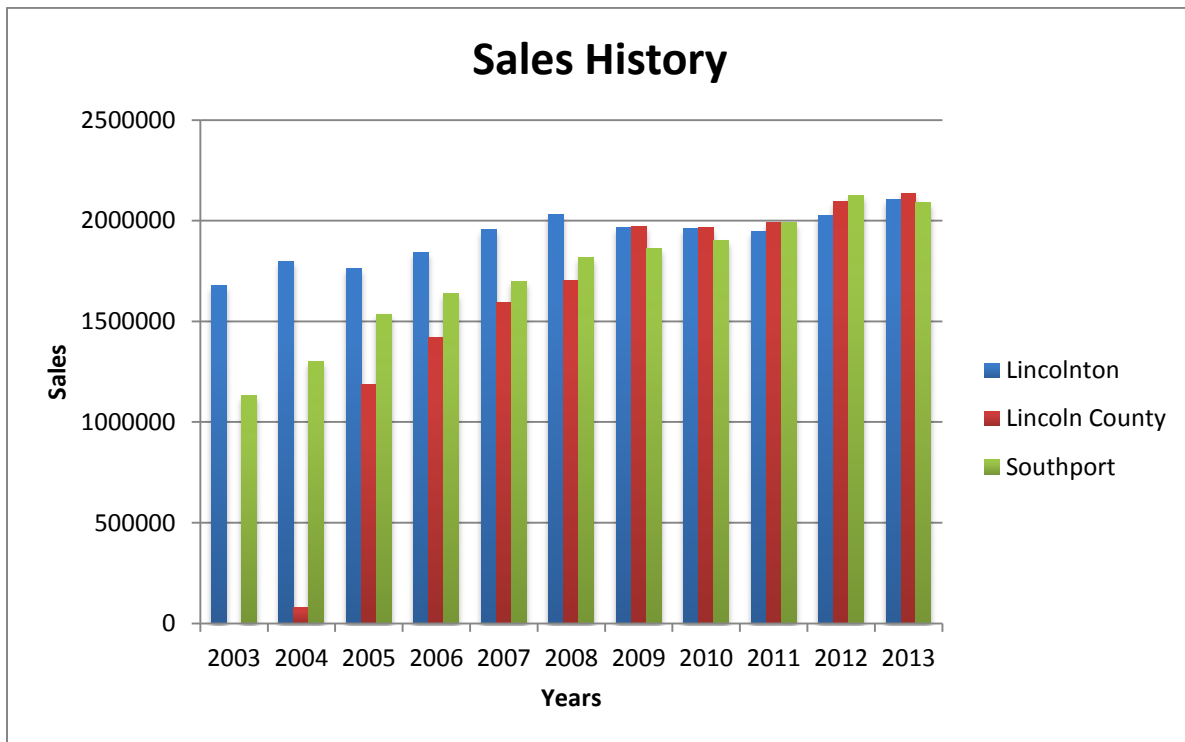
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2013, the Lincolnton ABC Board had gross sales of \$2,105,792; income before distributions was \$81,571, a 3.87% profit percentage to sales.

Factors affecting sales and profitability:

- Surrounding ABC boards include Lincoln County, Catawba County, Cherryville, and Shelby,
- Selling old and buying new property for a modern ABC store;
- Sales are heavily impacted by travelers going to and from Gastonia and Charlotte.

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



Recommendations:

- Request bids annually from various vendors to get the best rates possible on financial audits, specific utilities, maintenance contracts, and credit card processing fees.
- Invite the Association's Efficiency Committee to visit the store with the possibility of making additional recommendations to improve profitability.

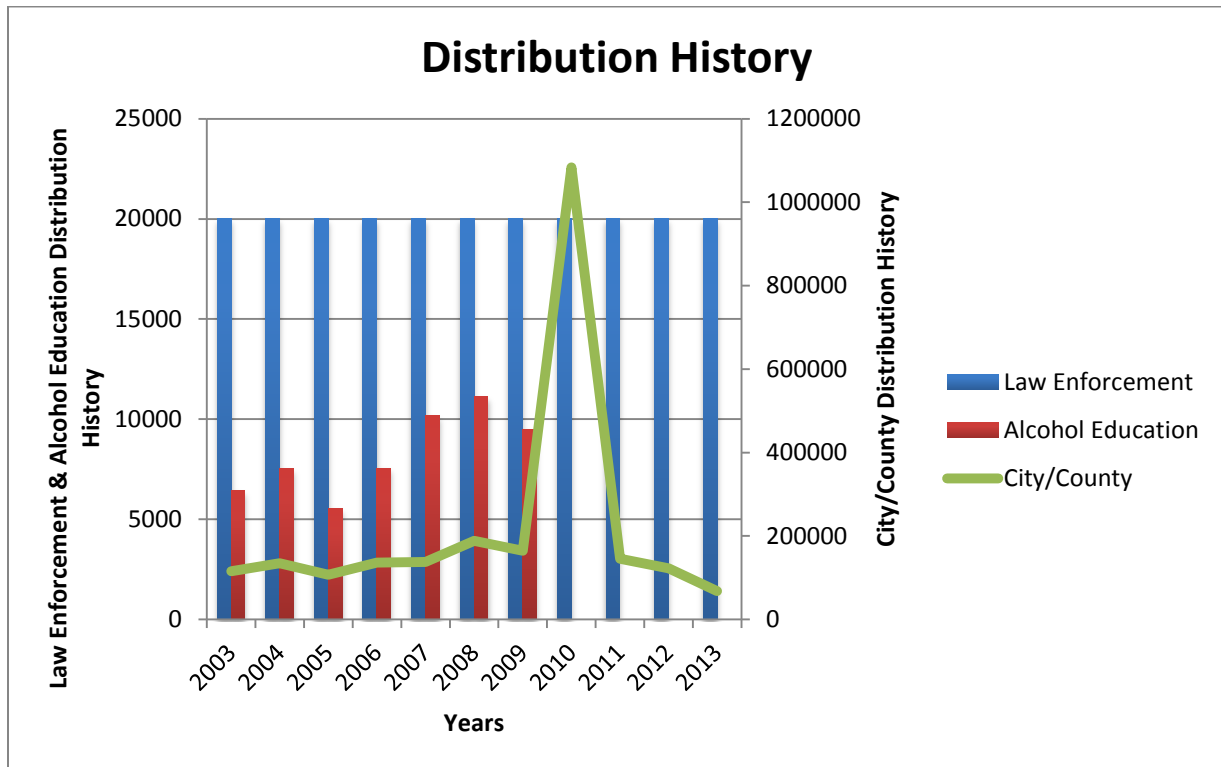
Distributions

G.S. 18B-805 (c) (2) 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, whereas alcohol distributions are not required but funds have been distributed. The remaining profits are to be distributed as follows:

- 15% to Lincoln County General Fund
- 85% to Lincolnton General Fund

In FY2013, Lincolnton ABC made the required minimum distribution to the town totaling \$55,590, plus additional distribution of \$12,154. \$493,729 in Excise and other taxes were paid to the NC Department of Revenue and the town and county. A total of \$20,000 was paid to law enforcement.

Below is a distribution chart analyzing the high-low trend of the Lincolnton ABC Board.



OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On September 23, 2013, ABC Board Auditor, Moniqua S. McLean, visited the Lincolnton ABC store and interviewed Bert Honeycutt, general manager. The following are the operational observations, findings, and recommendations related to the performance audit.

Store Appearance and Customer Service

The Lincolnton ABC Board operates one retail store with approximately 1,500 linear feet of shelf space and carries approximately 1,800 product codes.

- Although the store is clean, bottles were not fronted or 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. Interior signage was neat and visible. The Fetal Alcohol Syndrome poster is displayed.
- Security systems are in place and functional.
- A consistent shelf management plan that exhibits a strategy per category following the highest priced product on the top shelves and lowest priced product on the bottom shelves. Product displays are available throughout the store spotlighting bestselling or new items.
- Additional features include a skylight and a raised counter area. *See pictures on page 12.*
- 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.
- Sales clerk's interaction with customers is attentive, courteous, and all are eager to meet the needs of the customers.

Recommendations:

- Dust and front bottles often to keep a neat and clean appearance. Incorporate such practices into daily store activities.

Personnel and Training

- All board members and general manager have completed the initial ethics training. Board members have since been reappointed and have completed the online ethics training.
- Training is provided continuously to new and existing staff in key areas, such as product knowledge, customer service, and clerk responsibilities.
- Cross training opportunities have been extended to key employees in the event the general manager is suddenly unavailable.

No Recommendations.

ABC Board Policies

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Travel Policy (State Travel Policy)
 - FY2013 Annual Audit
 - Employee Handbook (Original 1997)
 - FY2014 Budget (Proposed and Adopted)
 - Mixed Beverage Policy
- Policies not adopted include:
 - Law Enforcement Contract
 - Price Discrepancy Policy

Recommendations:

- Adopt an updated or revised employee handbook that outlines the duties and responsibilities of each employee, board policies, and benefits offered, if any. 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 to Appendix C (1) for rule.*
- 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 pay. *Refer to Appendix C (2) for statute.*
- Adopt a price discrepancy policy that incorporates customer friendly practices. *Refer to Appendix C (3) for rule.*

Internal Control Procedures

- Payroll time sheets are verified by the general manager and accountant. The accountant uses payroll software to calculate tax and other withholdings. The accountant is responsible for backup procedures.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer.
- Bank deposits are made regularly 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 accountant.
- A complete physical inventory is conducted quarterly by two teams, one will count and one will scan product codes. Spot checks are completed frequently. If discrepancies occur, both teams will count but roles are reversed to ensure accuracy and verification. Once completed, only the general manager will adjust the system to match with the actual store counts.
- Two supply credit cards are issued to the board with the general manager and the assistant general manager the only authorized persons to use the cards. The general manager reconciles all transactions purchased with the cards. Board members view the credit card statements on a monthly basis. However, a written credit card policy has not been implemented.

Recommendations:

- 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.

Administrative Compliance Findings and Observations

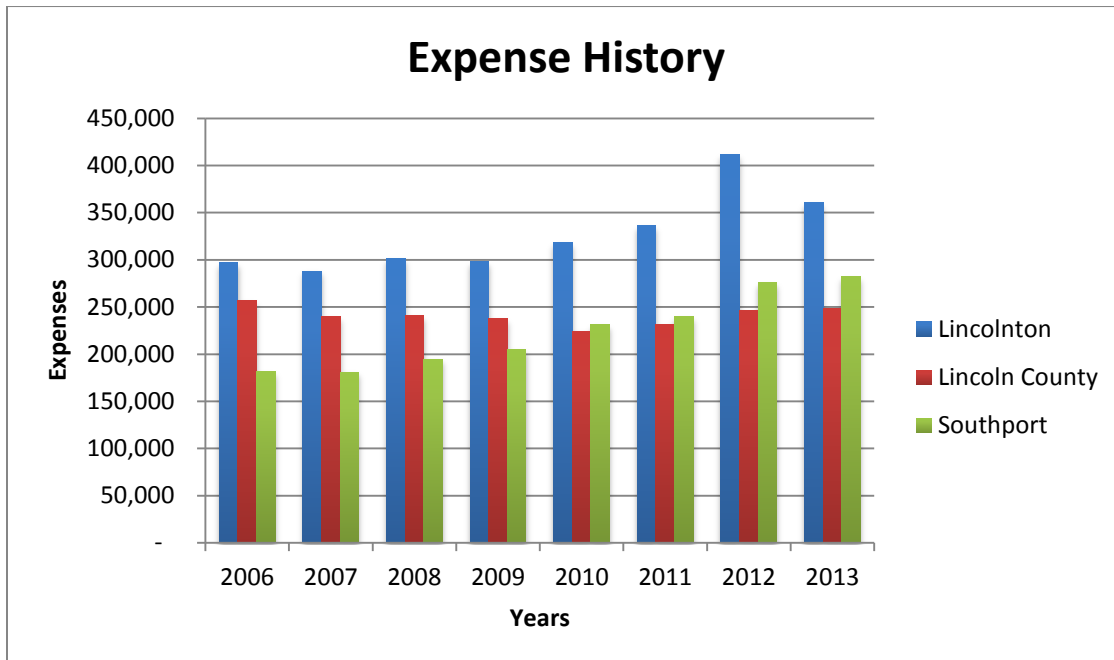
- Board meeting minutes were viewed and followed the order of proceedings and providing information that a reasonable person would be able to follow. Board meeting minutes referenced the conflict of interest statement.
- Board member and general manager information, appointment dates and compensations, are not 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 and the general manager are bonded for \$50,000 as required by G.S. 18B-700 (i).
- The general manager serves as the finance officer of the board. The board has obtained an approval from the Commission for the general manager to serve as the finance officer until January 2014.
- Orders for liquor and other miscellaneous 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 thirty days.
- A review of travel reimbursements revealed that expenses follow the travel policy adopted with documentation attached. However, spousal registration fees for conferences have not been prepaid.
- All checks bear the approved certificate and are signed by the general manager and the assistant general manager. In the event the general manager or assistant general manager is unavailable, board members are authorized to sign checks.

- Out of approximately 1,800 produce codes, approximately 150 were sampled and all were correct.

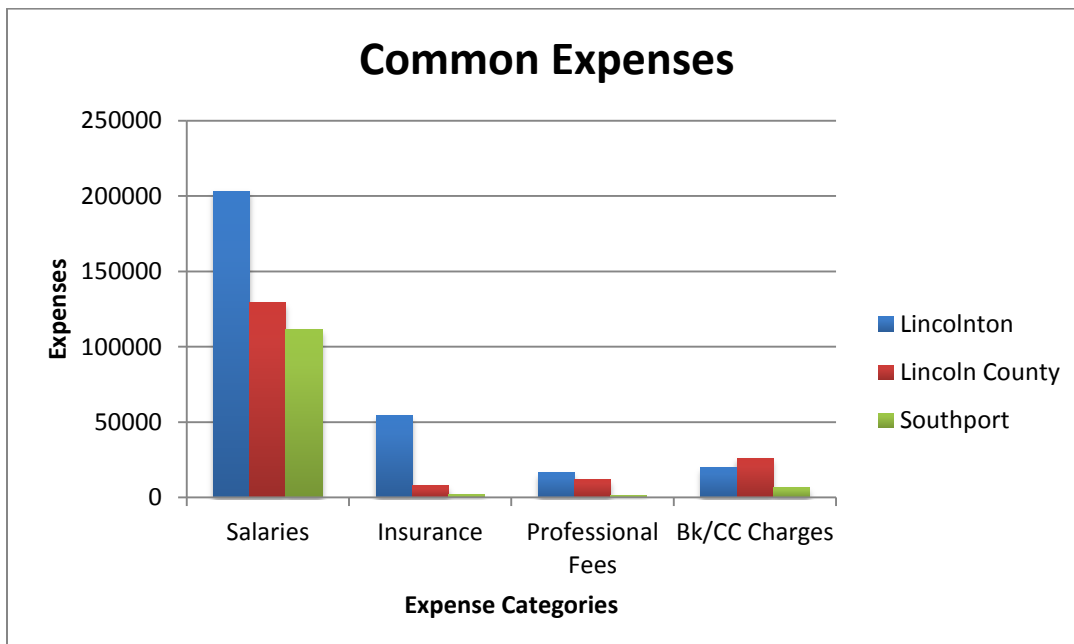
Recommendations:

- Update the Commission website to reflect current information on board members and general manager.
- Appoint a finance officer other than the general manager. *Refer to Appendix C (4) for statute.*
- 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 (5) 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 (6) for rule.*
- Prepay conference fees for spouses and/or non-employees without using ABC board funds.

APPENDIX A



The expense history data indicates that Lincolnton ABC's total expenses have increased 1.8% over fiscal year 2012 as sales have increased 3.8% over the same time period. Lincolnton ABC's expenses are higher compared to other similar size boards because of building expenses for a new store.



Common expense analysis indicates that Lincolnton ABC's expenses are slightly higher compared with other similar size boards. Note: Insurance fees include some group/health insurance rates. Total employees by board are as follows: Lincolnton – 8, Lincoln County – 7, Southport – 5.

APPENDIX B



Exterior 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) 18B-203 (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. Enforcement agreements may be made with more than one agency at the same time."
- (3) NCAC 02R.1706 (b) states, "If a local board has a price discrepancy between the price on the shelf or bottle and the cash register, and the price on the shelf or bottle is lower, the local board shall sell the item at the shelf or bottle price and correct the shelf or bottle price to match the Commission's published uniform price."
- (4) GS 18B-702 (j) states "...the local board shall designate (i) a part-time or full-time employee of the board other than the general manager or (ii) the finance officer of the appointing authority with consent of the appointing authority to be the finance officer for the local board."
- (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)
- (6) NCAC 02R .1407 (c) states, "Local boards shall remit full payment of the distiller's invoice within thirty days of delivery of the liquor."

City of Lincolnton ABC Board of Commissioners
105 Stanford Road
Lincolnton, NC 28092
704-735-4466

January 22, 2013

Ms. Moniqua McLean
ABC Board Auditor
NC ABC Commission
4307 Mall Service Center
Raleigh, NC 27699-4307

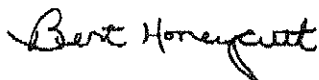
Dear Ms. McLean:

First let us thank you for both the thorough Performance Audit you recently conducted in Lincolnton and for meeting with us to review the resulting report and other items of interest. This will certainly assist us in continuation of efficient operation and performance.

In reply to your report and recommendations we offer the following:


- 1) We have updated the Commission website with our current information on Board members and our General Manager.
- 2) Action has been taken to fulfill the requirement of appointment a Finance Officer.
- 3) Our staff is now in compliance with placement of a pre-audit certificate with the Finance Officer's signature on orders to the LB&B.
- 4) We will make every effort to comply with the request/requirement to pay all liquor bills within thirty days of receipt. As we discussed in our meeting with you, this sometimes has not been logistically possible. However we will strive, as we always have, to conform.
- 5) We have adopted procedures and practices to require personal prepayment for spouses and/or non-employees that attend conferences with employees or Board members. This will be done, as it always has been, without using any ABC Board funds.
- 6) A policy is being composed for Board consideration and adoption for the use of ABC Store Credit Card(s).
- 7) We are in process of the revision and redistribution of our Personnel Policy and Employee Handbook. When this is completed and approved, we will submit the policy to the Commission as requested.
- 8) A new Law Enforcement Contract was approved at a very recent Lincolnton City Council meeting. It is enclosed with this document.
- 9) We will take action to adopt a customer friendly Price Discrepancy Policy. Our current practice is customer friendly and this will be the basis for the policy.
- 10) Finally, we will continue to make our store as attractive as possible. We are very proud of our facility and want to do all possible to keep it in good appearance. Thank you for the notes concerning fronting the shelves and dusting bottles/ shelves. We will incorporate this into our routine operation.

Again, on behalf of the Board and staff, thank you for all that you and the Commission do to support our operation. If you have questions or concerns, do not hesitate to contact us.



Bert Honeycutt, Manager

Sincerely,



Mike Owen, Board Chairman

RECEIVED

JAN 27 2014

NC ABC COMMISSION

LINCOLNTON ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>ABC Board Policies:</p> <p>Adopt the following policies:</p> <ul style="list-style-type: none"> • Law enforcement contract • **Price Discrepancy Policy • Credit Card Usage Policy 	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>**Note: Required by rule</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input checked="" type="checkbox"/> Partially implemented 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The board has adopted a law enforcement contract with the City of Lincolnton Police Department. A copy has been forwarded to the Commission. The board is working on other policies. Once adopted, copies will be forwarded to the Commission.</p>
<p>Administrative Compliance:</p> <ul style="list-style-type: none"> • Appoint a finance officer. • Affix the pre-audit certificate on orders before the transaction occurs. • Pay liquor bills within thirty days. 	<p><input checked="" type="checkbox"/> Yes</p> <p><input 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 75% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The board is making plans toward appointing a finance officer. Management has implemented policies and procedures to be in compliance with the statute.</p>