

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

June 19, 2013

Mr. W. Steve Lowder, Chairman  
Monroe ABC Board  
1771 Dickerson Blvd  
Monroe, NC 28110

Dear Chairman Lowder,

We are pleased to submit this performance audit report on the Monroe 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 manager's 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 efficient manner in which your Board is operated and commend you for finding ways to reduce overall operating over the past several years.

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 performance audit 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 Monroe ABC Board has responded to the performance audit recommendations. The board continues to improve profitability through analyzing and reducing current costs while adjusting for the opening of other local boards in close proximity and meeting 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 541 of the 1963 Session Laws authorized the City of Monroe to hold an election upon a petition of at least fifteen percent of registered voters. The referendum was held on September 10, 1963 and passed 956 to 930. The first sale occurred on December 3, 1963. Multiple mixed beverage referendums were held but on August 17, 1993, the vote passed 1,903 to 1,719.

Upon election of an ABC store, the City of Monroe was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members are W. Steve Lowder, board chairman, Billy Parker and Gilbert Rushing, board members.

The Monroe ABC Board operates one retail store. The board staffs eight full-time and three part-time employees. The general manager is responsible for the daily operations of the store including supervising personnel, retail operations, inventory management, and administrative functions. The finance officer is responsible for all financial operations. Store managers are responsible for the store operations including stock maintenance and customer service. Other clerk responsibilities include various retail functions such as selling products, customer service, inventory management, and store upkeep.

## **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 Monroe ABC Board receives deliveries twice a month: the inventory turnover rate is 9.6.

#### *Recommendations:*

- Continue with the following strategies already in place:
  - Analyzing sales and history reports to determine the bestselling products needed and to avoid overstock;
  - Reorganizing shelves as the product mix changes;
  - Watching customer shopping patterns and using the information to optimize product placement;
  - Relocating higher priced items to the front of store and lower priced items to the back.

### **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 Monroe ABC Board operates one retail store with mixed beverage; the operating cost ratio is 0.49. Mixed beverage sales make up 14.3% of total gross sales. In fiscal year 2012, sales decreased 3.9% over fiscal year 2011 due primarily to the opening of another ABC store in the same general area, and expenses decreased 5.4% over the same time period. The board owns the building which contributes to the savings on rental expense.

*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

Monroe ABC had a working capital of \$552,770 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:

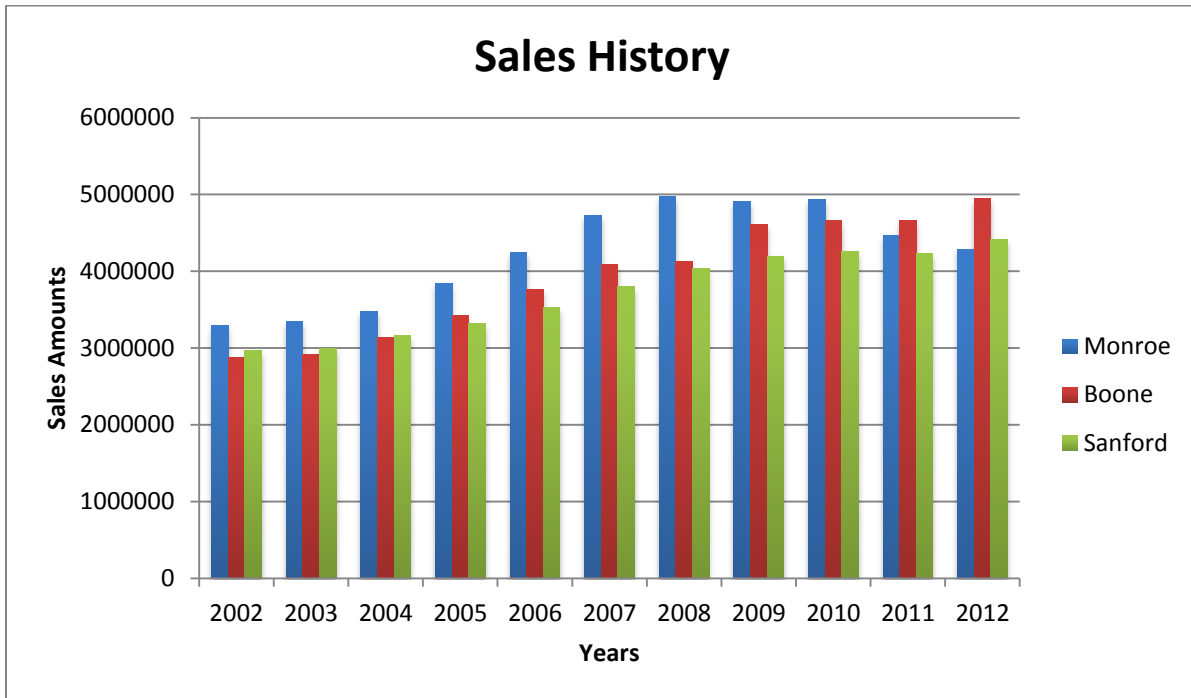
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Monroe ABC Board had gross sales of \$4,289,855; income from operations was \$492,663, a 11.48% profit percentage to sales.

Factors affecting sales and profitability:

- US Census Bureau reports an estimated total population of 33,475 in 2011;
- Sales decreased 3.9% over the previous year;
- Surrounding towns/counties with ABC stores include Wingate (opened June 2012), Waxhaw, Indian Trail (opened November 2010), and Mecklenburg County

Below is a sales history analysis of similar size boards compared with Monroe ABC Board. This chart analyzes the sales trend for the past ten years. Note: Sanford ABC has two stores but the sales history is comparable with Monroe ABC's sales history.



*No Recommendations.*



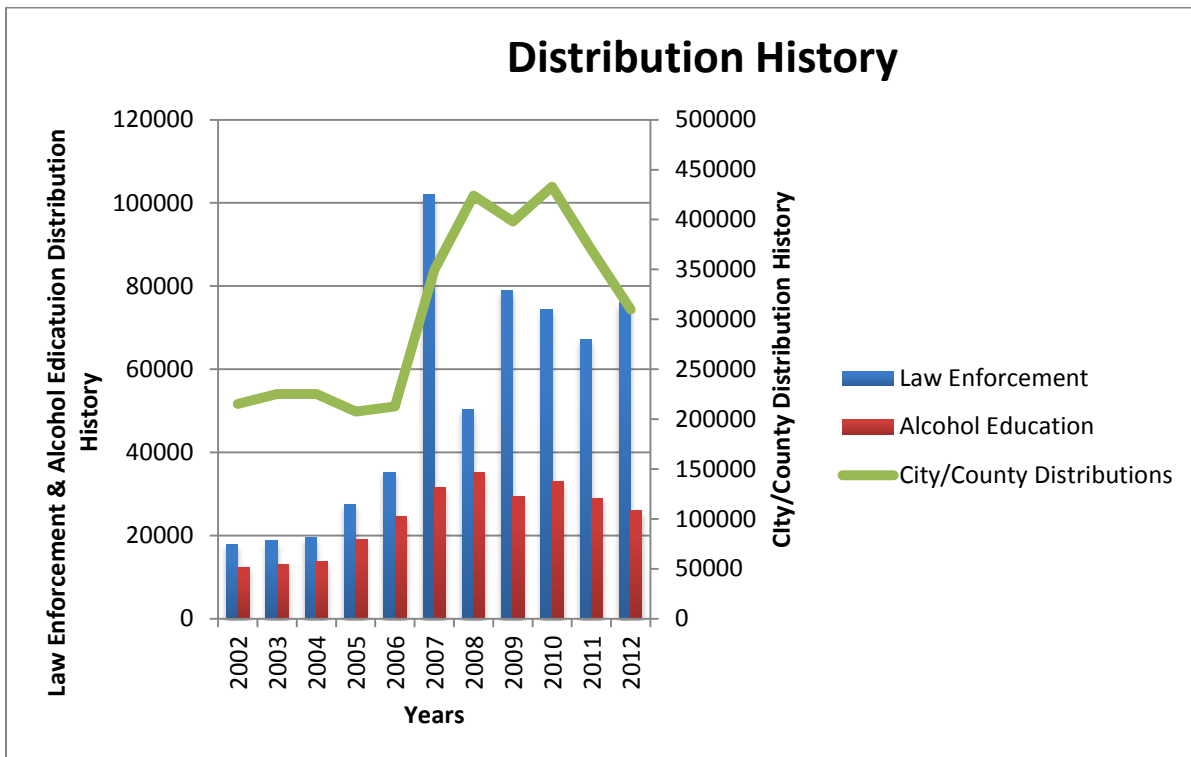
## Distributions

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, whereas alcohol education distributions are up to five percent (5%) and not to exceed ten percent (10%). The remaining profits are to be distributed as follows:

- 50% to Monroe General Fund
- 25% to Union County General Fund
- 24% to Union County Board of Education
- 1% to Union County Library

In FY2012, the Monroe ABC Board made the required minimum distributions totaling \$122,832, \$933,502 in Excise and other taxes to the NC Department of Revenue. Other distributions totaled \$411,988: \$75,988 to law enforcement, \$26,000 for alcohol education, and \$310,000 for city/county distributions.

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



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

On February 26, 2013, ABC Board Auditor, Moniqua S. McLean visited the Monroe ABC Board and interview Mike Hinkel, general manager, and Evelyn Wilson, finance officer. The following are the operational findings, observations and recommendations related to the performance audit.

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

The Monroe ABC Board operates one retail store with approximately 1,200 feet of shelf space and carries approximately 1,000 product codes.

- The store was clean, well-lit, and well-dusted. Counter areas were free of clutter having supplies easily accessible. No televisions were evident.
- The Fetal Alcohol Syndrome poster was displayed.
- Security systems are in place and functional.
- A consistent and easily understood shelf management system was in place conforming to the latest industry and marketing strategies while catering to customer interests.
- The state price book along with monthly sales lists is available in multiple areas of the store.
- Sales clerks' interaction with customers was attentive, courteous, and eager to meet the needs of the customers.
- The board has provided red shirts as uniforms for employees.

*No Recommendations.*

### **Personnel and Training**

- All board members, general manager, and finance officer have attended the initial mandatory ethics class.
- Training is provided as new information becomes available to current staff. Local law enforcement has extended training to current staff on topics such as I.D. checks, alcohol laws, etc.
- Cross training opportunities have been extended to key employees in the event the general manager or the finance officer was suddenly unavailable.
- A sample of personnel files were viewed and contained the applicable tax information. However, additional information, such as the I-9 for employees was not documented.
- Although an employee handbook dated 1997 has been submitted, the board has updated the handbook and will submit to the Commission.

*Recommendations:*

- Consider additional training opportunities that will include alcohol education, customer service, and product knowledge. Contact the Commission for RASP classes and other boards that have a training module(s) in these areas.
- Update personnel files to include the above referenced form.

### **ABC Board Policies**

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

*Recommendations:*

- Although understood by all employees, have a written price discrepancy policy. Having written procedures will allow future employees to be knowledgeable about current practices. *Refer to Appendix C (1) for rule.*

### **Internal Control Procedures and Observations**

- Physical inventory counts are performed monthly by the general manager and co-managers. Frequent spot checks are performed throughout the month by category and upon suspicion of missing inventory. If discrepancies occur, the general manager and co-managers will investigate and recount. Once completed, only the general manager will adjust the system to match with the actual store count. Unsalable items are adjusted monthly.
- Cash drawers are counted by clerks at the end of each shift. All clerks' are responsible for their own cash drawer. Although understood, there are no written procedures/policies explaining how to handle cash drawer overages and shortages.
- Bank deposits are made nightly by the clerks' scheduled and are usually accompanied by law enforcement. The general manager and finance officer receive notification that deposits were made the next day and match with the corresponding daily register reports. The finance officer reconciles the deposits with the bank statements at the end of the month. As an additional internal control procedure, a board member views all bank statements.
- Board credit cards are issued to the general manager and finance officer. The finance officer purchases and reconciles the credit card statement monthly. Board members view the credit card statement on a monthly basis. A written credit card usage policy has not been adopted.

*Recommendations:*

- Because of similar purchases/spending between cardholders, consider eliminating credit card.
- Adopt a written credit card usage policy. Document procedures for the usage include:
  - 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.
- Implement procedures for handling cash drawer overages and shortages. Incorporate these procedures into the updated employee manual for current and future employees.

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

- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting. However, the conflict of interest statement was not referenced in the board minutes.
- At the time of the fieldwork, board member appointment dates were not current and have since been corrected. However, compensation amounts are not current.
- 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, general manager, and finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- An audit of travel expense reimbursement indicated that the payment of spouse attendance to conferences was not prepaid.
- Initial liquor orders and other common orders do not bear the pre-audit certificate as required by G.S. 18B-702 (m). However, each individual invoice has the certification and the finance officer's signature.
- All checks bear the approved certificate as required by G.S. 18B-702 (q) and is signed by the finance officer and the general manager. Payroll checks are signed by the general manager and board members.
- Out of approximately 1,000 product codes, approximately 75 product codes were sampled and all were correct.

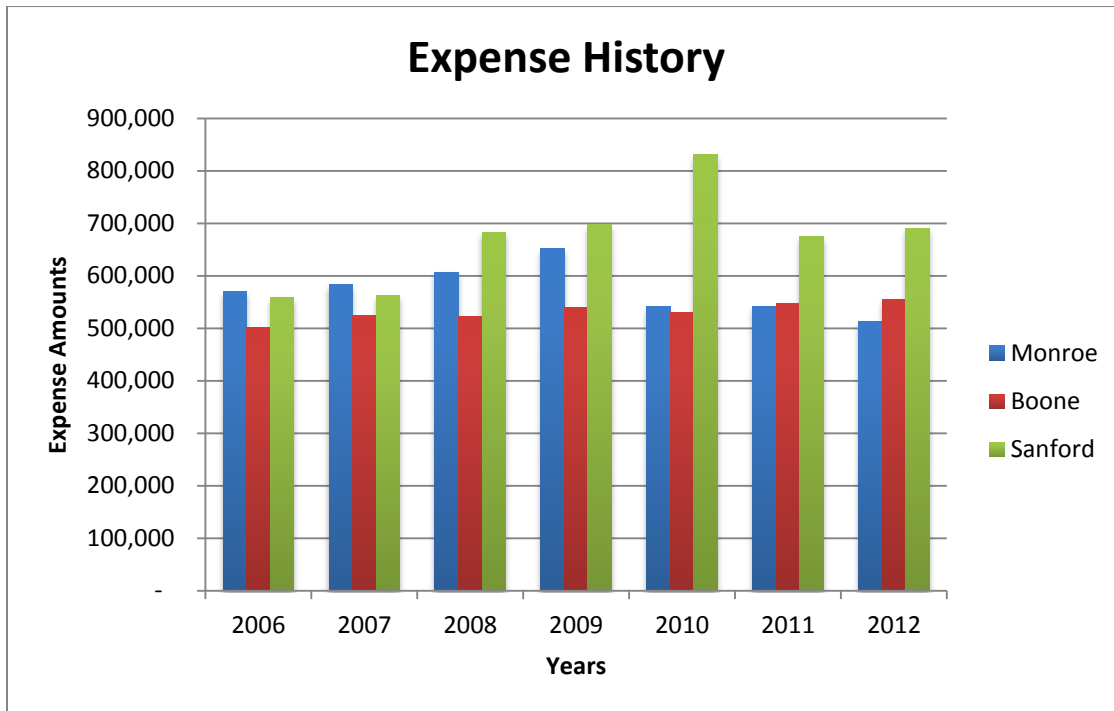
*Recommendations:*

- In an effort to eliminate conflicts, have the board chairman read the conflict of interest statement to all board members at the start of each meeting. Reference the conflict of interest statement was read in the board minutes. *Refer to Appendix C (2) for rule.*
- Prepayments must be paid for spouse attendance to conferences. The City of Monroe's travel policy prohibits the board from paying registration fees and other expenses for a spouse to attend a conference even when reimbursement is expected.
- To save time, eliminate stamping and signing each invoice; place the pre-audit certificate on the order to LB&B. Authorization should occur before the transaction takes place. 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.*

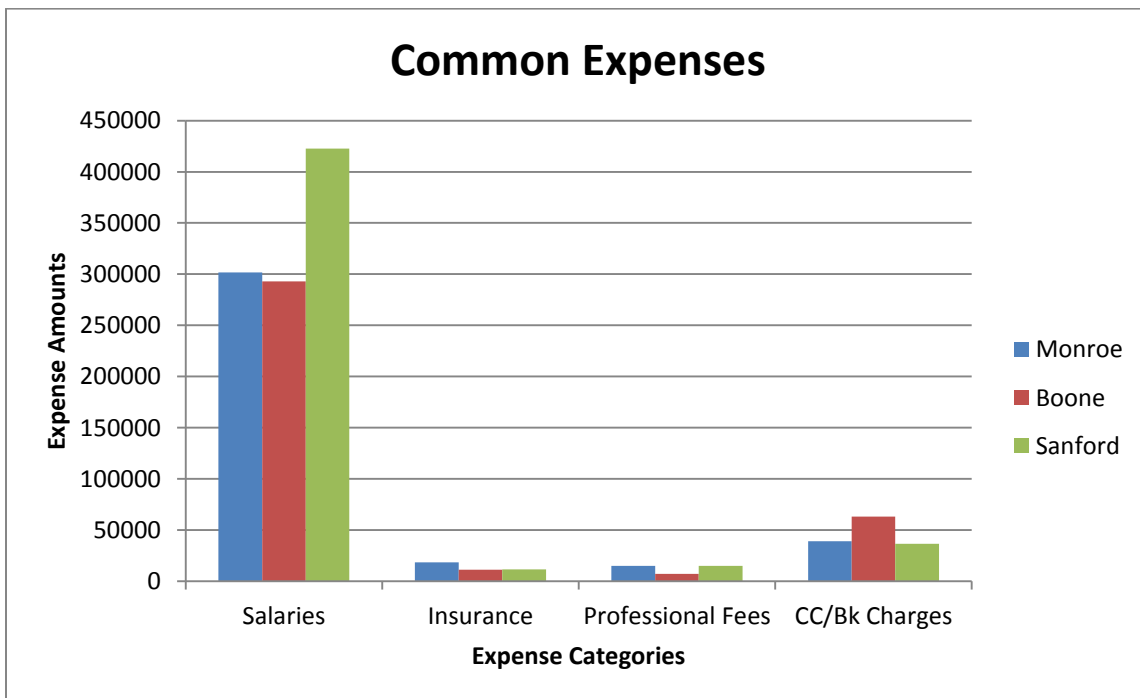
**Other**

- Monroe ABC provides funding for alcohol education and rehabilitation programs for the following: Friendship Home and Union County DWI Treatment Court.

## APPENDIX A



*The expense history data indicates that Monroe ABC Board's total expenses have decreased 10% overall since FY2006 while sales have increased 1.1% over the same time period. Monroe ABC's overall expenses peaked in FY2009 but have since decreased.*



*Monroe ABC's common expenses are within the range of other similar size boards.*

## APPENDIX B



*Counter view*



*Interior view*

## APPENDIX C

(1) 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."

(2) OP 4.19.4 states, "In an effort to avoid possible conflicts of interest it is recommended at the beginning of each meeting the Chairman ask fellow board members if there are any potential conflicts of interest. This can be done by reading the following ethics reminder:

*'In accordance with G.S. 18B-201, it is the duty of every Board member to avoid both conflicts of interest and appearances of conflicts. Does any member have any known conflict of interest or appearance of conflict with respect to any matters coming before the Board today? If so, please identify the conflict or appearance of conflict and refrain from any undue participation in the particular matter involved.'*"

(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."*

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*(Signature of finance officer)*



**CITY OF MONROE**  
**ALCOHOLIC BEVERAGE CONTROL BOARD**

GENERAL MANAGER  
MIKE HINKEL

1771 DICKERSON BOULEVARD  
MONROE, NORTH CAROLINA 28110

BOARD MEMBERS  
W STEVE LOWDER, CHAIRMAN  
GILBERT RUSHING  
BILL PARKER

The City of Monroe ABC Board has reviewed the performance audit conducted by the North Carolina ABC Commission. The following is our response to the recommendations of the audit.

**Personnel and Training**

All personnel files have been updated to include all required forms. We will continue to look into all means of training employees.

**ABC Board Policies**

We have put our price discrepancy policy in writing.

**Internal Control Procedures and Observations**

The credit card of the finance officer is no longer in use, and we have a credit card usage policy in place.

**Administrative Compliance Findings and Observations**

The conflict of interest statement is now read at the beginning of each board meeting. Conference fees for spouses and/or non-employees are now prepaid by each board member/employee.

The City of Monroe ABC board was pleased with the process and results of the audit. We would like to thank Moniqua McLean for her work on this audit.

Sincerely,

Mike Hinkel  
General Manager  
City of Monroe ABC Board

## MONROE ALCOHOL BEVERAGE CONTROL BOARD

### Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>ABC Board Policies:</b></p> <p>Adopt the following policies:</p> <ul style="list-style-type: none"> <li>• **Price Discrepancy Policy</li> <li>• Credit Card Policy</li> <li>• Cash Overage/Shortage Policy</li> </ul>	<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>The board has adopted the following policies and copies have been submitted to the Commission.</p>