

Morganton ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA

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ABC COMMISSION NORTH CAROLINA

Alcoholic Beverage Control

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Moniqua S. McLean
ABC Board Auditor

October 10, 2014

Morganton ABC Board
Mr. William F. Davis, Chairman
250 W. Fleming Drive
Morganton, NC 28680

Dear Chairman Davis,

We are pleased to submit this performance audit report on the Morganton 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 and operational findings. 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. I concur with you that Mr. Garry Harding is to be commended for the efficient and very profitable manner in which he operates the ABC store in Morganton.

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

Respectfully,

Michael C. Herring
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 store annual audit for the fiscal year 2013;
- Visited the store;
- Interviewed key ABC board personnel.

BACKGROUND INFORMATION

Chapter 413 of the 1963 Session Laws authorized the Town of Morganton to hold an election for an ABC store upon a petition of at least fifteen percent (15%) of registered voters. The referendum was held on July 13, 1963 and passed 2,204 to 1,191. A mixed beverage election was held August 13, 1996 and passed 2,222 to 2,025. The first sale occurred on November 6, 1963.

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 include William F. Davis, board chairman, Steve Gregory and Mark K. Miller, board members.

The Morganton ABC Board operates one retail store. The board staffs four full-time and three part-time employees. The general manager is responsible for overseeing all daily operations, excluding daily cash functions, consisting of supervising personnel, inventory controls, accounts payable, and other administrative functions. The finance officer, who is also a board member, is responsible for the financial reporting and duties as required by the ABC statutes. All store employees are primarily responsible for extending friendly customer service, assisting with routine store upkeep, and maintaining stock on the sales floor.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On April 17, 2014, ABC Board Auditor, Moniqua S. McLean, visited the Morganton ABC store and interviewed Garry Harding, general 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 2013, the Morganton ABC Board had gross sales of \$2,708,004; income from operations was \$300,471, a 11.10% profit percentage to sales.

Factors affecting sales and profitability:

- Surrounding towns with ABC stores within a twenty-mile radius include Marion and Valdese;
- Population of the town of Morganton is approximately 16,861, a 0.3% decrease from 2010;
- Growth within the town limits to include more commercial and residential establishments.
- ABC Board owns the store.

DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, mixed beverage, and bottle tax. G. S. 18B-805 (c) (1) requires the board to make a minimum quarterly distribution of the 3½% markup rate to the appointing authority. In FY2013, Morganton ABC made the required minimum distribution to the city totaling \$80,199, plus additional distribution of \$159,549. \$622,036 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, and the county.

G.S. 18B-805 (c) (2) requires the board to distribute at least five percent (5%) of profits to law enforcement. G.S. 18B-805 (c) (3) requires the board to distribute at least seven percent (7%) of profits for alcohol education purposes unless a different distribution formula is set from the enabling act. The remaining profits are to be distributed as follows:

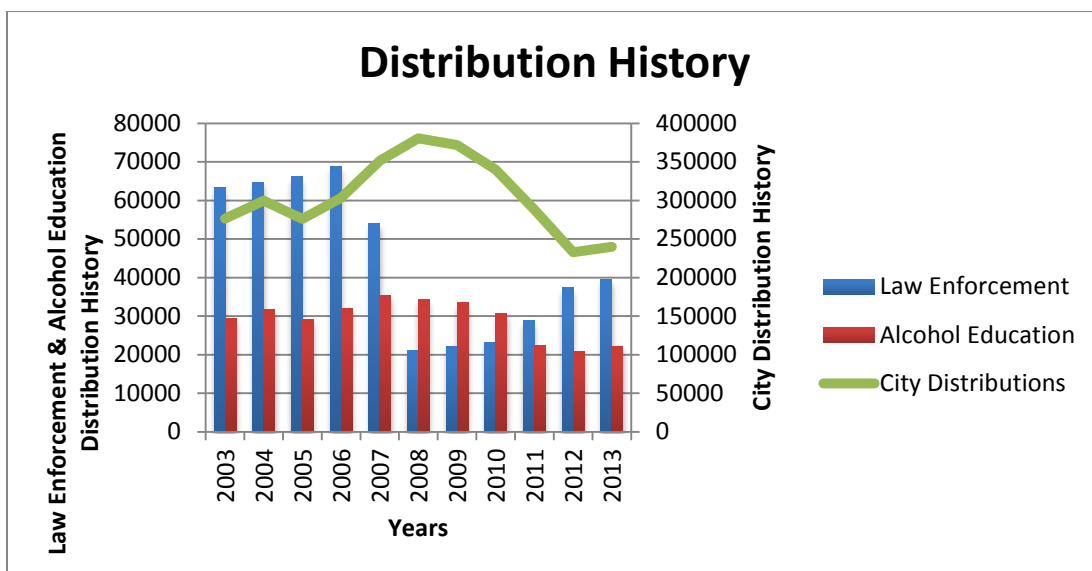
- Twenty-five percent (25%) to Burke County General Fund for public schools, and
- Seventy-five percent (75%) to Morganton General Fund.

In FY2013, the Morganton ABC Board distributed to the city \$39,508, 17.86% of profits, for law enforcement. A law enforcement contract has been established with the City of Morganton. Alcohol education/rehabilitation distributions total \$22,118 to various agencies, such as Burke County Council on Alcoholism (\$8,625), Flynn Christian Home (\$9,723), Western Piedmont Community College (\$1,106), and Queen Street (\$2,655). However, annual reports for the usage of funds have not been provided to the board.

RECOMMENDATIONS

1. Request annual reports from all agencies that receive funding for alcohol or substance abuse, rehabilitation, or research. *Refer to Appendix B (1) for statute.*

Below is a distribution chart analyzing the high-low trend of the Morganton ABC Board for the past ten years.



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 FY2013, the Morganton ABC Board had a working capital of \$155,280, which is less than three months of gross sales and is within the limits of NCAC 02R .0902.

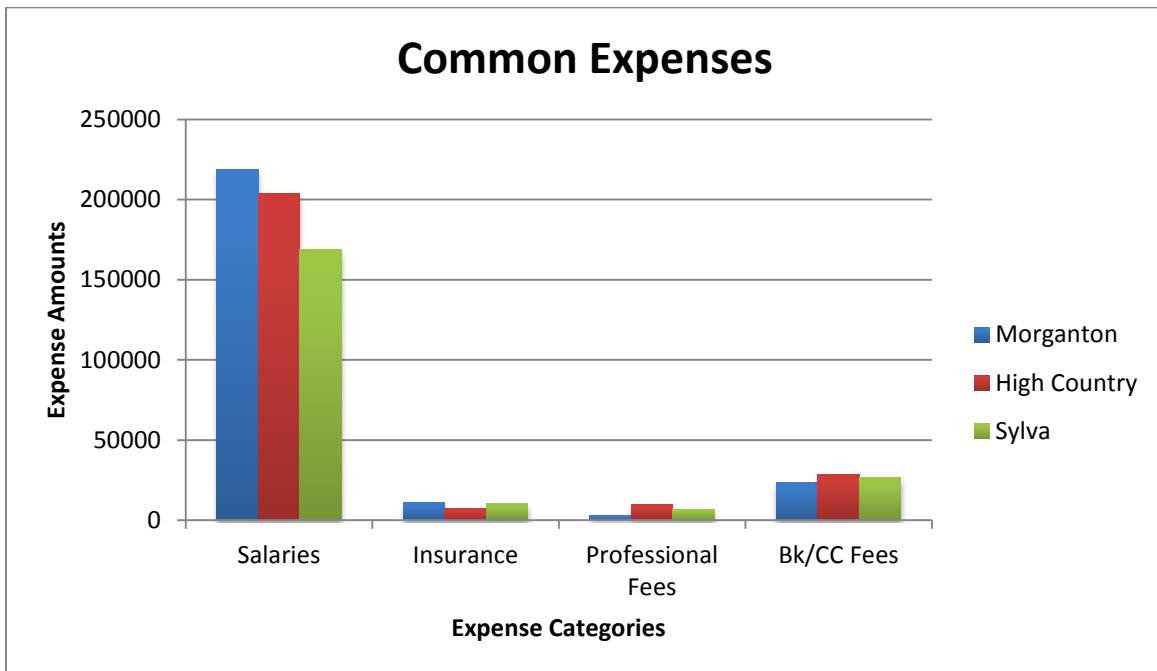
OPERATING COST RATIO

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):

- 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 Morganton ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.53. Mixed beverage sales make up 7.7% of total gross sales. In fiscal year 2013, sales increased 0.22% over last fiscal year as expenses increased 1.88% over the same time period. The board owns the store which contributes to significant savings in overhead expenses.

A common expense analysis shows that Morganton ABC Board expenses compared to other similar size boards are not out of line. Note: Part of the law enforcement distribution pays for salaries of law enforcement and is reflected in the annual audit as such.



NO RECOMMENDATIONS

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 Morganton ABC Board receives deliveries twice a month: the inventory turnover rate is 8.6. The average inventory turnover rate for similar boards with the same delivery schedule is 5.6.

NO RECOMMENDATIONS

STORE APPEARANCE AND CUSTOMER SERVICE

The Morganton ABC Board operates one retail store with shelf space of approximately 1,000 linear feet and carries approximately 1,100 product codes.

- The store appeared well-lit and free of trash within the store. Counter areas were clear making supplies easily accessible to staff.
- Signage, interior and exterior, is minimal, neat, and visible to passing traffic. The Fetal Alcohol Syndrome poster is displayed and visible to the public.
- Landscaping around the store is clean with no evidence of trash.
- A basic shelf management plan is available that exhibits a strategy following the highest priced product on the top shelves and lowest priced product on the bottom shelves. Product placement is consistent with sizes going from largest to the right and smallest to the left. Some products are organized in a linear format rather than the recommended billboard or box format.
- The state price book is available in the store should customers ask for specific product. Sales clerks' often refer to the price book for verification of product and pricing.
- Sales clerks interaction with customers is attentive, courteous, and all are eager to meet the needs of the customers.

NO RECOMMENDATIONS

PERSONNEL AND TRAINING

- All board members, the general manager, and the finance officer have completed the ethics training requirement.
- Cross training opportunities are being extended to key employees on key administrative duties in the event the general manager was suddenly unavailable.
- Training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities on a continual basis.
- Personnel files are available and displayed human resource documentation and other personnel information as needed.

RECOMMENDATIONS

1. Extend and provide other training opportunities that focus on those listed above to all employees. Contact the Commission and other boards who have information on these topics.

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract
 - Travel Policy (State Approved)
 - FY2013 Annual Audit
 - FY2014 Budget (Proposed and Adopted)
 - Mixed Beverage Policy
 - Employee Handbook
 - Morganton ABC Board Credit Card Policy
 - Price Discrepancy Policy

NO RECOMMENDATIONS

INTERNAL CONTROL PROCEDURES

- Time sheets are used by all clerks to record hours worked. The general manager verifies all time sheets to determine accuracy. The accounting/payroll software calculates the taxes and other withholdings and creates payroll checks. The general manager reviews the payroll summary and other payroll reports generated. As an additional checks and balances function, the finance officer, that of a board member, reviews all payroll reports.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures should cash drawers are over or short.
- 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 quarterly by all full-time employees, with routine spot checks. If discrepancies occur, the general manager will investigate and recount for accuracy and verification. Once completed, the general manager will adjust the inventory system to match with the actual store counts.
- Out of approximately 1,100 product codes, approximately 100 product codes were sampled to ensure accurate pricing and all were correct.

NO RECOMMENDATIONS

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 referenced the conflict of interest statement.
- Board member appointment dates and general manager compensation is 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 finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- Orders for liquor and other miscellaneous orders do bear the pre-audit certificate as required by G.S. 18B-702 (m).
- The board pays all bills by an Automated BillPay system with the bank. All documentation is verified by the general manager and signed by the finance officer.

NO RECOMMENDATIONS

AUDITOR'S SUMMARY

ABC Board Auditor, Moniqua S. McLean, presented to the board the performance audit recommendations on July 10, 2014. Bill Davis, Chairman of the Morganton ABC Board, responded as follows:

“Thank you for the report and for taking the time to come here and go over your findings in detail. We are pleased with the performance of Garry Harding and the way he handles himself. He has always been a fine employee, looking out for the ABC system and keeping its activities in line, far above board and other boards we have witnessed. Please let us know if and when you might need information from our board.”

The board continues to pursue strategies to maintain profitability while 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 maintaining sufficient checks and balances.

APPENDIX A

Illustration 1



Exterior view

Illustration 2



Shelf management example

Illustration 3



Interior view

APPENDIX B

- 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."*