

Mt. Pleasant ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
400 East Tryon Road, Raleigh, NC 27610
p: 919-779-0700 | f: 919-661-5927 | <http://abc.nc.gov>



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

ADMINISTRATOR:
MICHAEL C. HERRING

LOCATION:
400 East Tryon Road
Raleigh NC 27610

MAILING:
4307 Mail Service Center
Raleigh, NC 27699-4307

PHONE: (919) 779-0700
FAX: (919) 661-5927
<http://abc.nc.gov/>

Your Name
Director
Permit Division
(this is editable)

April 1, 2013

Mount Pleasant ABC Board
Mr. Herman Watts, Chairman
PO Box 476
Mt. Pleasant, NC 28124

Dear Chairman Watts,

We are pleased to submit this performance audit report on the Mount Pleasant 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 Board'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 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 Mt. Pleasant ABC Board submitted a response to the performance audit recommendations and is striving to take steps toward becoming profitable through analyzing and reducing current costs while continuing to meet the needs of customers. Policies and procedures have been adopted and implemented to maintain compliance with statutes and ABC Commission rules and to maintain stronger segregation of duties. Since the initial performance audit, a board member has resigned and the town is in the process of appointing a new board member.

BACKGROUND INFORMATION

G.S. 18B-601 authorized the Town of Mt Pleasant to hold an election upon either a written request for an election from the city governing body or a petition signed by at least thirty-five percent of voters. The referendum was held on September 19, 1967 and passed 273 to 146. A mixed beverage election was held on November 11, 2005 and passed 180 to 143. The first date of sales occurred on December 21, 1967.

Upon election of an ABC store, the Town of Mt. Pleasant was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members include Herman Watts, board chairman, Herbert Mattox, Jr. and Lee Klutz, board members.

The Mt. Pleasant ABC Board operates one retail store. The board staffs three full-time employees including the general manager. The general manager's duties consist of overall operations of the store, supervising personnel, inventory management, and customer service. Clerk duties consist primarily of customer service activities, store upkeep, and daily 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 Commission has set goals for determining an effective rate based on the frequency of deliveries. Below are the turnover rates:

- Once a week deliveries target at 6 times or more per year
- Twice a month deliveries target at 5 times or more per year
- Monthly deliveries target at 4.5 times or more per year

The Mt. Pleasant ABC Board has monthly deliveries: the inventory turnover rate is 5.4.

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 Mt. Pleasant ABC Board operates one retail store without mixed beverage sales: the operating cost ratio is 1.01. In fiscal year 2012, sales increased 10.78% and expenses increased 0.56%. To meet the cost ratio goal and remain at current operating expense of \$123,472, revenues must be increased to approximately \$575,000, an increase of 12%. To meet the cost ratio goal and remain at current revenue of \$514,581, expenses must be reduced to approximately \$114,000, an 8% decrease.

Recommendations:

- Because salaries and benefits are the biggest expense, consider whether it is beneficial to replace full-time status employees with part-time employees through attrition in order to reduce the health benefit costs.
- Monitor budget frequently and more closely to ensure that actual expenses do not exceed budgeted amounts. Provide year-to-date reports to board members detailing how much has been spent.
- Request bids annually from various vendors to get the best rates possible on financial audits, specific utilities, maintenance contracts, and credit card processing fees.

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:

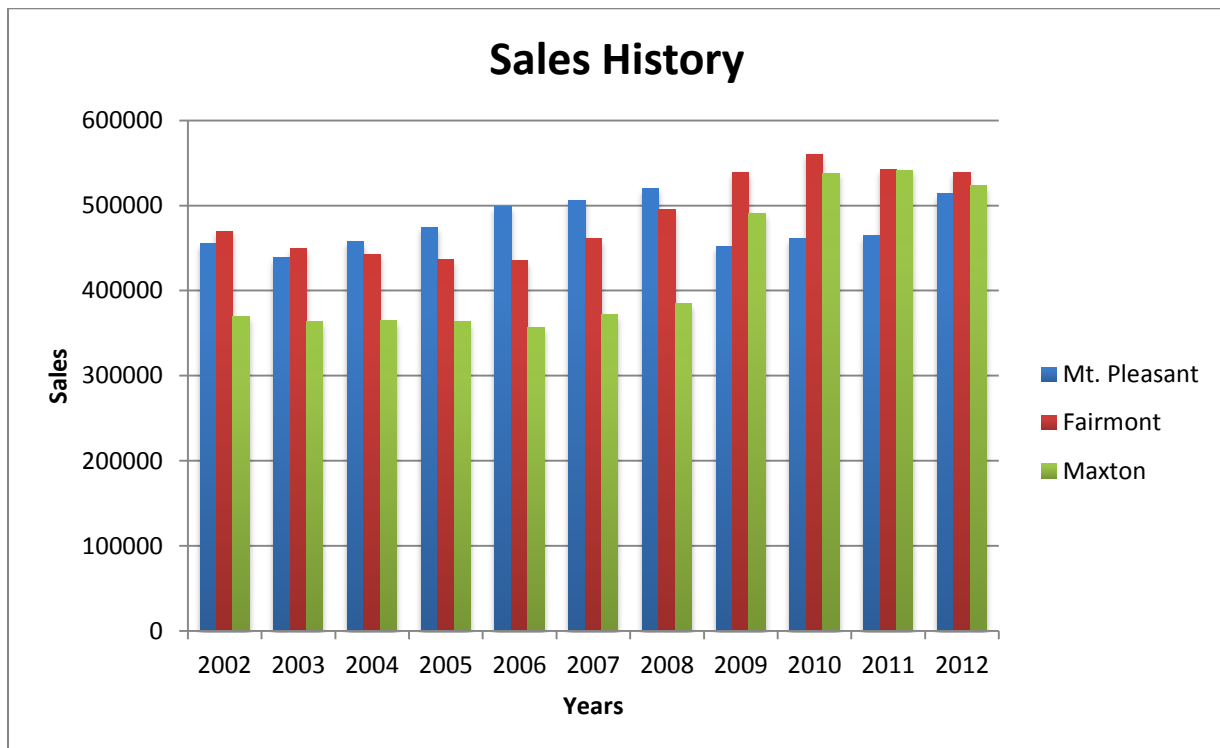
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Mt. Pleasant ABC Board had gross sales of \$514,581, income from operations was -\$4,591, a -0.89% profit percentage to sales.

Factors affecting sales and profitability:

- US Census Bureau reports an estimated population of 1,659 in 2011;
- Overall population has increased 32% over the past ten years;
- Individuals below poverty levels is 8% to the state's 15.5%;
- Sales increased 10.8% over the previous year;
- Surrounding towns with ABC stores include Concord, Locust, Albemarle, and Rowan County;
- Growth and development in surrounding, more heavily populated areas led to a shift in shopping patterns away from small towns which affects sales and profitability.

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



Recommendations:

- To increase profitability, consider re-locating the store to a more visible location;
- Consider merging with another system to acquire profits without the burden of common expenses.

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

The Mount Pleasant ABC Board had a working capital of \$65,319 in FY2012 which is equivalent to less than four months gross sales and is within the limits set of NCAC 02R .0902.

Distributions

G.S. 18B-805 (c) (2) and (3) requires the board to distribute quarterly at least five percent of profits for law enforcement and at least seven percent of profits for alcohol education. The remaining profits are to be distributed as follows:

- 25% to Cabarrus County General Fund
- 75% to Mount Pleasant General Fund

In FY2012, the Mt. Pleasant ABC Board made the required minimum distributions total \$13,876 to the Town of Mt. Pleasant and \$116,040 in Excise and other taxes to the NC Department of Revenue. Other distributions were not made.

OPERATIONAL FINDINGS, OBSERVATIONS, AND RECOMMENDATIONS

On December 5, 2012, ABC Commission Board Auditor, Moniqua S. McLean, visited the Mt. Pleasant ABC store and interviewed Melvin Bost, general manager, and Herman Watts, board chairman. The following are the findings, observations, and recommendations relating to the performance audit.

Store Appearance and Customer Service Observations

The Mt. Pleasant ABC Board operates one retail store with approximately 600 linear feet of shelf space and carries approximately 650 product codes.

- An older version of the Fetal Alcohol Syndrome poster was displayed. The ABC Commission auditor provided an updated poster.
- The store was clean and well-maintained. Bottles were dusted and fronted. Counter area was clean and supplies were easily accessible.
- A television was visible; however, it was not operating.
- A consistent and easily understood shelf management system was present conforming to the latest industry and marketing strategies while catering to customer interests.

Recommendations:

- As a reminder, when the television is operating, have the channels set to either the news or weather stations as to not distract customers.

Personnel and Training

- Two out of three board members have attended the initial ethics class. One board member was reappointed in July and has not yet taken the online ethics training.
- Training is provided as new information becomes available to new and current staff. Other training opportunities, such as the RASP class, have not been provided to staff.
- Cross training opportunities have been extended to key employees in the event the general manager was suddenly unavailable.

Recommendations:

- Have all board members take the required ethics class. Register all reappointed board members for the online ethics training. All reappointed board members must receive ethics education within 12 months of the reappointment date. *Refer to Appendix C (1) for statute.*
- Provide additional training that will include alcohol education, customer service, and product knowledge.

ABC Board Policies

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract
 - State Travel Policy
 - Employee Handbook
 - Price Discrepancy Policy
 - Shelf Management Policy
 - FY2013 Budget (Proposed and Adopted)

No Recommendations.

Internal Control Procedures

- Because there is just one register in the store, clerks often use the same cash drawer. Cash drawers are counted at the end of the day and occasionally throughout the day. Each clerk has a personal clerk number to use for transactions. Deposits are made nightly by the authorized persons. Deposit reconciliations against the register receipts are made by the general manager.
- Instead of a full physical inventory count on the last day of each month, management performs category counts weekly which results into a full inventory count by the end of the month. Counts are performed by general manager and scheduled staff. Once completed, the general manager investigates discrepancies and makes adjustments in the inventory management system. Unsalable items are adjusted immediately.

No Recommendations.

Administrative Compliance Findings and Observations

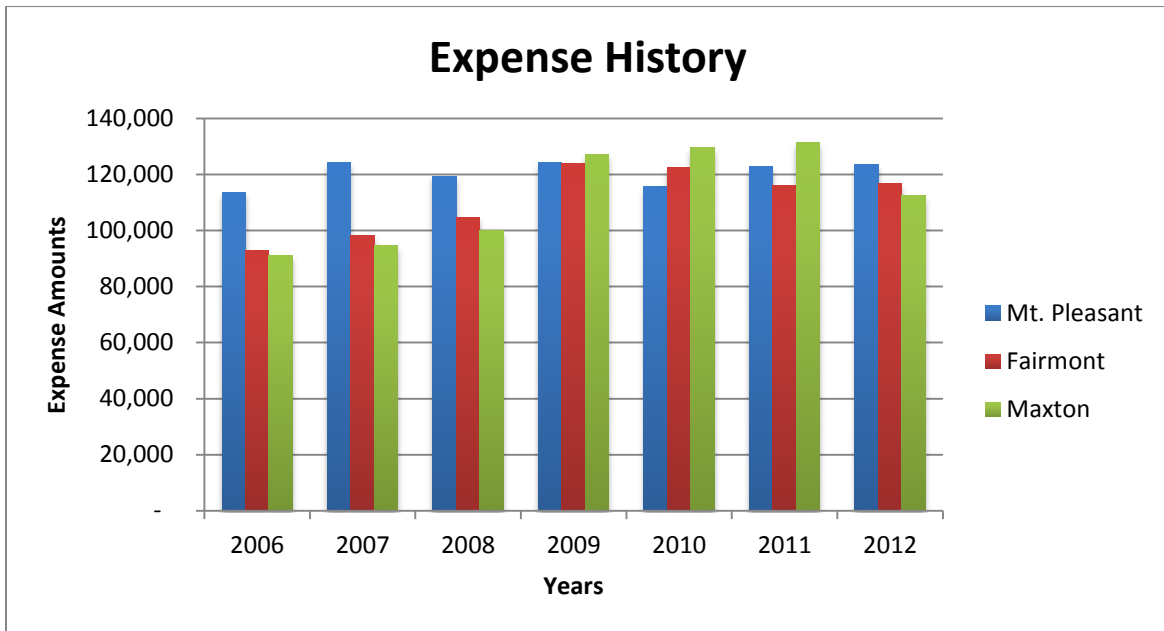
- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting. However, the conflict of interest statement was not referenced in the board minutes.
- Board member appointment dates and compensation amounts are current on the Commission internal website.
- 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, general manager, and finance officer is bonded for \$50,000 as required by G.S. 18B-700 (i).

- Liquor orders and purchase agreements do not have the pre-audit certificate stamped and are not signed by the finance officer.
- Liquor invoices are more than 30 days past due.
- Checks do not bear the approved certificate; however, they are signed by the finance officer and the board chairman.
- Although total expenses are within budget, some individual expenses were over budget.
- Out of approximately 650 product codes, approximately thirty five codes were sampled and one reflected an incorrect price set by the Commission.

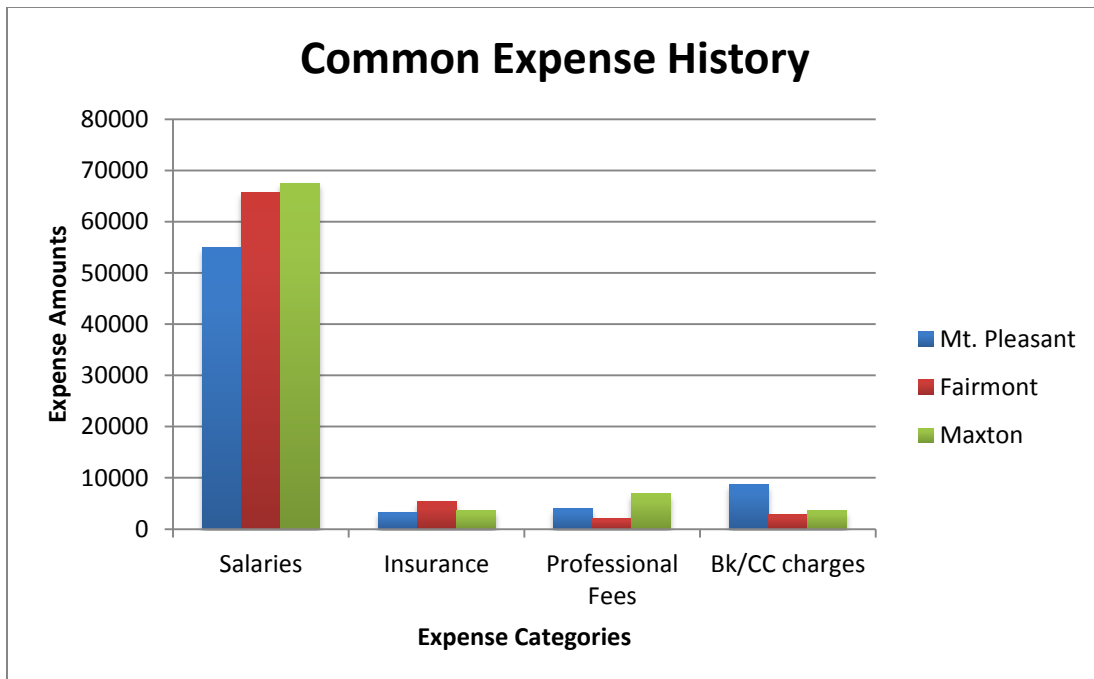
Recommendations:

- Have the board chairman read the conflict of interest statement to all board members at the start of each meeting. *Refer to Appendix C (2) for rule.*
- 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.*
- Affix the approval certificate to all checks. Checks must have authorization from the finance officer indicating that payments are verified and valid. *Refer to Appendix C (5) for statute.*
- Audit all shelf tags in the store and the cash register for correct pricing on a regular basis. To ensure accurate pricing in the future, incorporate a shelf tag audit (by section) into the weekly inventory count.

APPENDIX A



The expense history data indicates that Mt. Pleasant ABC Board's total expenses have increased 8.9% overall since FY2006. Mt. Pleasant ABC's expenses are higher because of the rental expense. Compared to other board's expenses, Mt. Pleasant ABC's expenses are higher but the trend shows that expenses are remaining at a steady rate while sales have seen a significant increase.

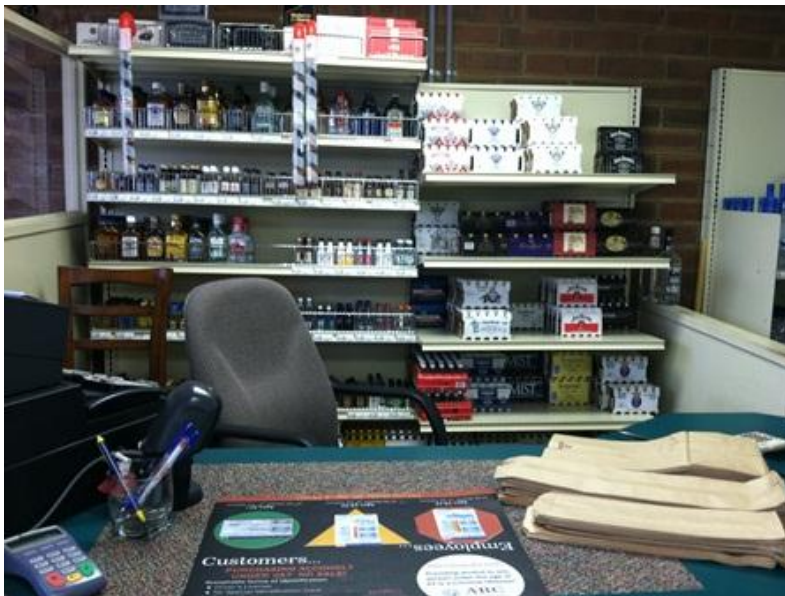


Common expense comparison of other similar size boards indicates that Mt. Pleasant ABC's common expenses are relatively lower than others. Bank charges/credit card charges have increased due to the increase in credit card transactions.

APPENDIX B



Interior view



Counter view.

APPENDIX C

(1) G.S. 18B-706 (b) states, "Each member of a local board shall receive a minimum of two hours of ethics education within 12 months after initial appointment to the office and again within 12 months after each subsequent appointment to the office."

(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 GS 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?

(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."

(5) 18B-702(q) states "...each check or draft on an official depository shall bear on its face a certificate signed by the finance officer or a deputy finance officer approved for this purpose by the local board. The certificate shall take substantially the following form:"

This disbursement has been approved in the manner required by G.S. 18B-702.

(Signature of finance officer).

Mount Pleasant ABC Board
P.O. Box 476
Mount Pleasant, NC 28124

Dear Mrs. McLean,

As a board we found the draft report for the audit to be accurate and fair. The following is our response and actions being taken.

Operating Cost

New employee will be part-time but the Board feels they have a commitment to the current employees and they will remain full time at this time. This issue can be revisited at a later time if needed.

A notebook with a separate page established for each budget category with the available balance remaining .

We are currently getting a bid for credit card processing from the company that has contracted with the NC Association of ABC Boards. As other contracts expire we will shop for the best rates.

Profit Percentage to Sales

Re-locating the store to a more visible location (highway 49) is an option the board is interested in however the location the board prefers is in a highway construction area. This is a major highway project which will not be finished sometime in 2014. After the construction is complete it should be a good location.

Merging with the Concord ABC Board is an option the Board would consider however at this time we would like to explore other option first.

Store Appearance and Customer Service

Employees have been reminded that if the TV is on it must be on the news or weather channel.

Personnel and Training

One Board member had not taken the required ethics class in the allotted time. He has resigned and is being replaced. All other Board members and required personnel have met the requirements.

Additional training is being scheduled to insure that customer service remains good and the laws and regulations pertaining to the sale of alcohol are met.

Administrative Compliance Findings and Observations

The Board Chairman is reading the conflict of interest statement at the beginning of each meeting. This will be documented in the Board minutes.

Pre-audit certificate stamp has been purchased and will be used by the financial officer to indicate that the purchase has been authorized.

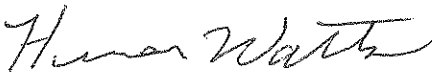
Funds have been transferred from a certificate of deposit to the checking account so liquor bill can be paid in 30 days.

An approval certificate stamp has been purchased and the approval certificate is being placed on the checks by the financial officer.

A shelf tag audit is being incorporated into inventory counts.

Summary

The Mount Pleasant ABC Board is committed to providing the highest level of service to our community with the resources available. We take our fiduciary responsibility seriously and make every effort to safeguard public funds. We thank the ABC Commission for the support provided.

Sincerely, 

Herman Watts, Chairman
Mount Pleasant ABC Board
Mount Pleasant, North Carolina

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FEB 07 2013

NC ABC COMMISSION

MOUNT PLEASANT ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Administrative Compliance: **Have the board chairman read the conflict of interest statement at each meeting.</p> <p>Affix the pre-audit certificate on all orders to LB&B.</p> <p>Pay liquor bills within 30 days of receipt.</p> <p>Affix the approval certificate on all checks.</p> <p>Incorporate a shelf tag audit procedure to ensure accurate pricing.</p>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<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>Management has implemented procedures to incorporate the new and existing regulation.</p>
	<input type="checkbox"/> Yes <input type="checkbox"/> No	<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.)