

Saint Pauls 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

November 12, 2014

Saint Pauls ABC Board
Mr. Walter D. Roundtree, Chairman
948 W Broad Street
Saint Pauls, NC 28384

Dear Chairman Roundtree,

We are pleased to submit this performance audit report on the Saint Pauls 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. 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 ongoing efforts your Board 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

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 405 of the 1967 Session Laws authorized the Town of Saint Pauls to hold an election for an ABC store upon at least twenty-five percent (25%) of registered voters. The referendum was held on September 19, 1967 and passed 265 to 231. The first sale occurred on November 4, 1967.

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 Walter D. Rountree, board chairman, Durham White, Sr., and Fred E. Gibson, Jr., board members.

The Saint Pauls ABC Board operates one retail store. The board staffs three full-time and three part-time employees. The general manager is primarily responsible for managing daily operations of the store including supervising personnel, inventory control, administrative functions, and providing customer service. All store employees extend friendly service to customers, store upkeep, and stock maintenance. The board has hired an external bookkeeper to serve as the finance officer and to provide additional checks and balances.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On February 4, 2014, ABC Board Auditor, Moniqua S. McLean, visited the Saint Pauls ABC store and interviewed Charles Dove, general manager. The following are the 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 total liquor sales (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 Saint Pauls ABC Board had gross sales of \$967,377; income from operations was \$47,682, a 4.93% profit percentage to sales.

Factors affecting sales and profitability:

- Sales increased 2.07% over the previous fiscal year;
- Surrounding towns with ABC stores within a twenty-mile radius include Red Springs, Lumberton, Pembroke, and Maxton;
- A neighboring county ABC board, Cumberland County, has a store approximately ten miles from the Saint Pauls ABC Board;
- Population of Saint Pauls is estimated to be 2,035 in 2010;
- Growth and development in surrounding, more heavily populated areas has led to a shift in shopping patterns away from small towns.

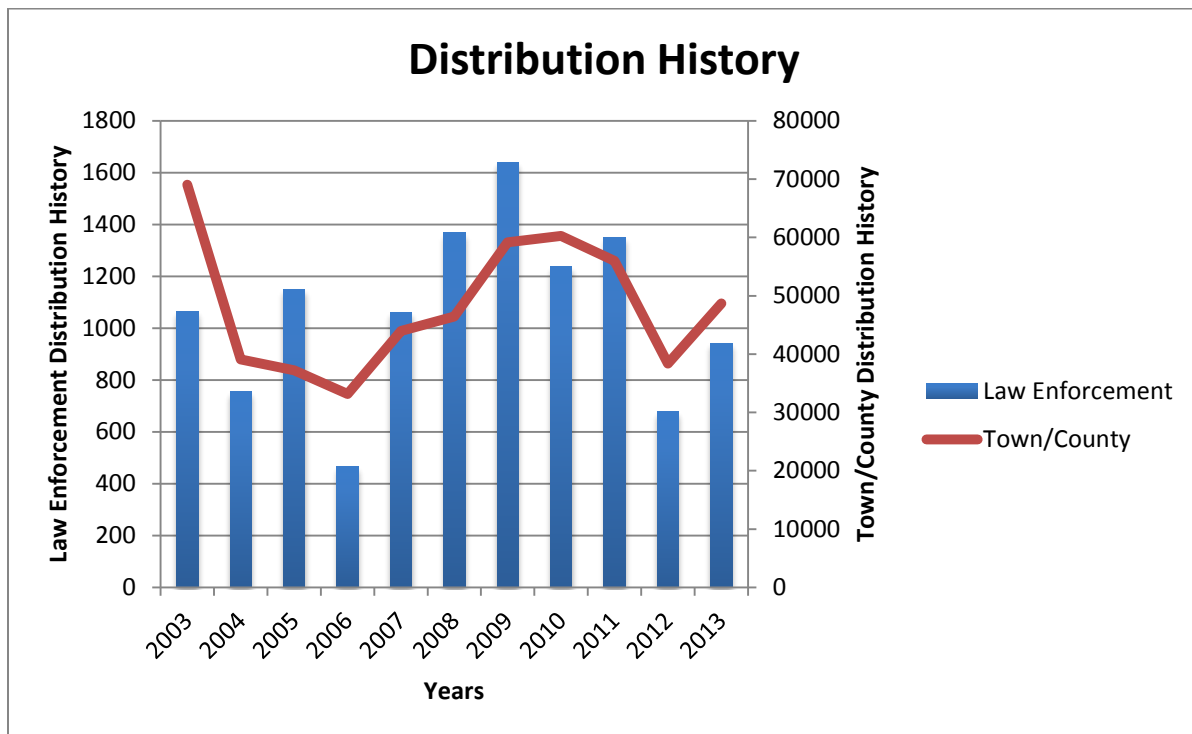
DISTRIBUTIONS

G.S. 18B-805 (c) (2) requires the board to distribute at least five percent (5%) of profits to law enforcement. Alcohol education distributions are not required under the enabling act. The remaining profits are to be distributed as follows:

- Sixty-five percent (65%) to Saint Pauls General Fund for any governmental, library, recreational or educational purposes;
- Thirty-five percent (35%) to Robeson County General Fund for any governmental, library, educational, or hospital purposes.

In FY2013, Saint Pauls ABC made the required minimum distribution to the town totaling \$29,933 plus additional distribution of \$18,742. \$218,143 in state excise and other taxes were paid to the NC Department of Revenue and the town. A total of \$942 was paid to law enforcement.

Below is a distribution chart analyzing the high-low trend of the Town of Saint Pauls ABC Board.



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

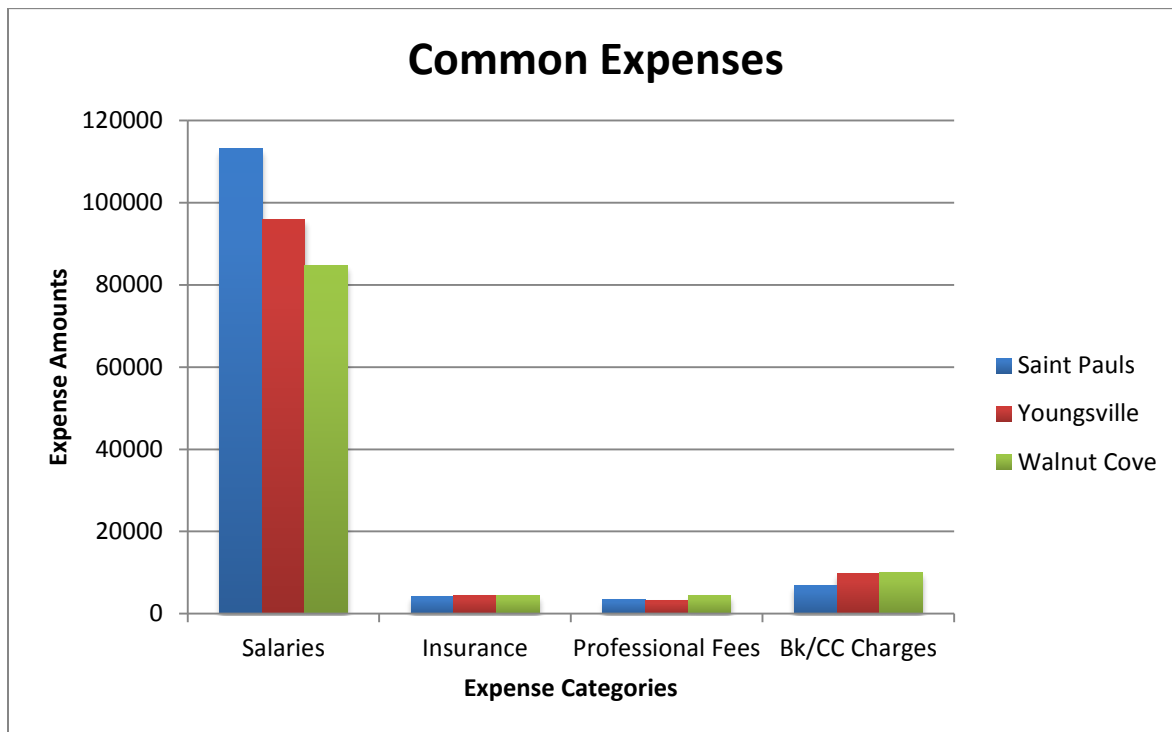
In FY2013, Saint Pauls ABC had a working capital of \$148,839, which is less than four months gross sales and is within the limits of NCAC 02R .0902.

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 Saint Pauls ABC Board operates one retail store without mixed beverage sales; the operating cost ratio is 0.77. In fiscal year 2013, sales increased 2.07% over fiscal year 2012 while expenses dropped 3.18% over the same time period. The board contributes to significant savings in overhead expenses as a result of owning the store and using local businesses to provide various services.



The data indicates that Saint Pauls common expenses are within range of other boards' common expenses. However, salaries are affected by the number of full-time and part-time employees: Saint Pauls (3 FT, 34 PT), Youngsville (1FT, 3PT), and Walnut Cove (1 FT, 6 PT).

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 Saint Pauls ABC Board receives deliveries one time a month: the inventory turnover rate is 3.7. The average rate for similar boards with the same delivery schedule is 4.6.

RECOMMENDATIONS

1. Consider the following to increase inventory turns:
 - Utilizing end caps and shelf space as much as possible to highlight slow moving and new products;
 - Incorporating a shelf management plan that analyzes sales data to target shopping patterns;
 - Moving stock within store to increase visibility and to encourage more impulse shopping.

STORE APPEARANCE AND CUSTOMER SERVICE

The Saint Pauls ABC Board operates one retail store with approximately 850 linear feet of shelf space and carries approximately 1,100 product codes.

- The store was clean, well-dusted, and maintained. Bottles were fronted and dusted. Counter areas were free of clutter and supplies were easily accessible.
- Landscaping around the store was clean and free of trash. The main ABC sign is worn and faded. The board plans to replace the sign once they research options and request bids. Interior signage was neat and visible. The Fetal Alcohol Syndrome poster is displayed.
- A shelf management plan is in use 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 are going from largest size to the left and the smallest size to the right. End caps are used for spotlighting bestselling or newest items. However, some shelves appeared empty. *See pictures on page 13.*
- 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. To help the customer find what is desired, oftentimes, sales clerks will refer the customer to another store which carries the product.

RECOMMENDATIONS

1. Consider these alternative product placement strategies:
 - Brand blocking products with bottles with mid-price at eye level and premium products on top shelf and lower priced items on lower shelf
 - Increasing cross merchandising by placing products that mix together on the shelves
 - Reallocating shelf space from declining categories to those showing growth
 - Aligning cordials by flavor profile rather than code number.

PERSONNEL AND TRAINING

- All board members, general manager, and finance officer have completed the initial ethics training.
- Cross training opportunities are being extended to key employees 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. Management often attends the NC Association of ABC Board General Manager conferences for training opportunities on these specific areas.
- Personnel files were available and displayed documentation for tax withholdings, acknowledgement of receipt of handbook, and other personnel information.

NO RECOMMENDATIONS

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract
 - Travel Policy (Town of Saint Pauls Travel Policy Approval FY2011)
 - FY2013 Annual Audit
 - FY2014 Budget (Proposed and Adopted)
 - Employee Manual

- Policies not adopted and submitted to the Commission include:
 - Price Discrepancy Policy

RECOMMENDATIONS

1. As a reminder, request approval annually from appointing authority to adopt the town's travel policy. *Refer to Appendix B (1) for statute.*
2. Adopt a price discrepancy policy that incorporates customer friendly practices. Once adopted, communicate to all employees should the need arise. *Refer to Appendix B (2) for rule.*

INTERNAL CONTROL PROCEDURES

- Time sheets are used by all clerks to record hours worked. The general manager verifies all time sheets to determine accuracy and manually calculates wages, tax and other withholdings. If discrepancies occur, the general manager will adjust hours worked in the master payroll ledger.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. A written policy detailing the process for cash drawer shortages has been implemented.
- 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 completed quarterly by all scheduled persons. Spot checks are conducted frequently. If discrepancies occur, the general manager investigates and recounts for accuracy and verification. Once completed, only the general manager will adjust the system to match with the actual store counts. Unsalable items are deducted from the inventory system on a monthly basis.
- A credit card is issued to the board with the general manager and two board members having authority to use it. The general manager reconciles all transactions purchased with the card. As a second verification, the board's finance officer assists with the reconciliations of purchases. The credit card is specifically used for travel expenses and store/office supplies. A written policy has not been implemented.
- Out of approximately 1,100 product codes, approximately 125 product codes were sampled and three were incorrect.

RECOMMENDATIONS

1. To minimize potential errors, consider upgrading or purchasing a newer accounting system that would incorporate payroll functions and to be able to provide cost analysis and budget to actual reports.
2. To ensure strong internal controls 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 persons authorized to make purchases reconcile the credit card statements.
3. To ensure correct pricing, audit shelf tags on a regular basis by incorporating practices within spot checking or inventory checking time periods.

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 did not reference the conflict of interest statement.
- Board member appointment dates were current on the Commission website. However, board member and general manager compensation amounts were 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 and general manager are bonded for \$50,000 as required by G.S. 18B-700 (i). However, the finance officer is not bonded under the board’s policy.
- Orders for liquor and other miscellaneous orders do not bear the pre-audit certificate as required by G.S. 18B-702 (m).
- All checks bear the approved certificate. Although the finance officer does not sign the checks, two signatures, that of the general manager and a board member, are located on the checks. The finance officer assures that sufficient checks and balances are in place and authorization is evident.

RECOMMENDATIONS

1. For transparency, have the board chairman read a 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 B (3) for rule.*
2. Update the Commission website to reflect current information on board members and the general manager. The Commission relies on information provided by boards to create reports.
3. Update the board’s bonding policy to include the finance officer as being bonded for \$50,000. *Refer to Appendix B (4) for rule.*
4. 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 B (5) for statute.*

AUDITOR'S SUMMARY

ABC Board Auditor, Moniqua S. McLean, presented the performance audit recommendations. The board has not responded as to whether the recommendations have been implemented. Therefore, this audit is being submitted without a response from the board. Since the initial audit fieldwork, the board has made store improvements. A follow up visit will be conducted within six months of the final audit submission to determine whether the recommendations have been addressed and implemented.

APPENDIX A

Illustration 1



Exterior signage

Illustration 2



Interior view

Illustration 3



Product placement example

Illustration 4



Counter view

Illustration 5



Exterior view after initial audit fieldwork

APPENDIX B

- (1) *G.S. 18B-700 (g2) states, "...The local board shall annually provide the appointing authority's written confirmation of such approval to the Commission and a copy of the travel policy authorized by the appointing authority."*
- (2) *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."*
- (3) *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.'*"
- (4) *18B-700 (i) states, "Each local board member and the employees designated as the general manager and finance officer of the local board shall be bonded in an amount not less than fifty thousand dollars secured by a corporate surety, for the faithful performance of his duties."*
- (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)

APPENDIX C

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>ABC Board Policies:</p> <p>Adopt the following policies and forward to the Commission:</p> <ul style="list-style-type: none"> • Travel Policy • **Price Discrepancy Policy • Credit Card Usage Policy 	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>**Note: Required by Commission rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>It is unknown whether the Board has implemented recommendations as a response was not submitted.</p>
<p>Administrative Compliance: **Have the Chairman read the conflict of interest statement at each meeting to increase transparency.</p> <p>**Update the Commission website with current board member reappointment dates and compensation amounts.</p> <p>Update the bonding insurance policy to reflect amounts for designated personnel.</p> <p>Affix the pre-audit certificate to all common orders and liquor orders.</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>**Note: Required by Commission rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>It is unknown whether the Board has implemented recommendations as a response was not submitted.</p>