

# Lincoln County 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/>

**Moniqua S. McLean**  
ABC Board Auditor

February 20, 2014

Lincoln County ABC Board  
Mr. Mike Baker, Chairman  
7531 Waterside Crossing Blvd  
Denver, NC 28037

Dear Chairman Baker,

We are pleased to submit this performance audit report on the Lincoln County 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 efforts your Board has made to comply with the new performance standards along with the efficient manner in which your ABC store is operated.

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
Lincoln County 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 County ABC Board responded to the performance audit recommendations and continues to create a strategic plan to maintain profitability while reducing current operating expenses. 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.

## **BACKGROUND INFORMATION**

G.S. 18B-600 (b) authorized Lincoln County to hold an election for an ABC store. The referendum was held on September 10, 2002 and passed 7,284 to 6,033. A mixed beverage election was held on the same date and passed 7,340 to 6,097. The first sale occurred on June 1, 2004.

Upon election of an ABC store, the county 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 Mike Baker, board chairman, Marty Mull and Michael Davis, board members.

The Lincoln County ABC Board operates one retail store. The board staffs three 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, and providing customer service. The board has hired an external bookkeeper/accountant to serve as the finance officer and perform duties as required by the ABC statutes and rules. 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 County ABC Board receives deliveries twice a month: the inventory turnover rate is 6.9.

*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 County ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.48. Mixed beverage sales make up 11% of total gross sales. In fiscal year 2013, sales increased 1.9% over fiscal year 2012 and expenses increased 0.86% 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 County ABC had a working capital of \$374,285, which is 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:

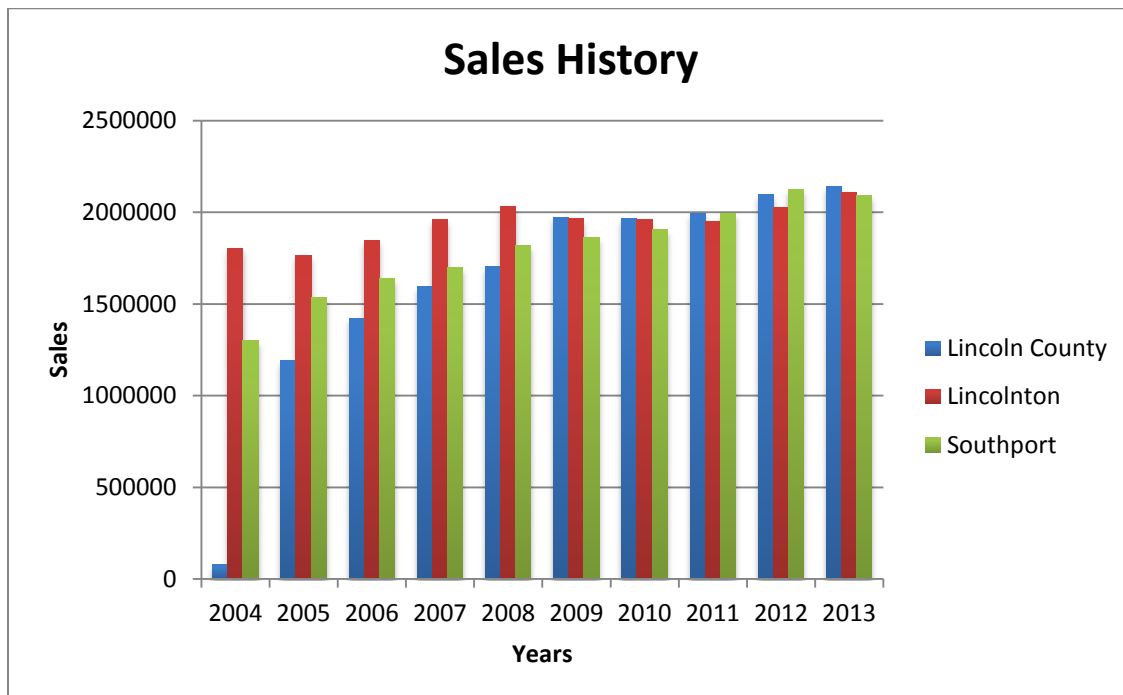
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2013, the Lincoln County ABC Board had gross sales of \$2,137,511; income from operations was \$257,071, a 12.03% profit percentage to sales.

Factors affecting sales and profitability:

- Surrounding ABC board include Lincolnton, Catawba County, Mecklenburg County, and Mooresville;
- Sales increased 1.9% over fiscal year 2012;
- Increased area growth contributes to increase of sales.

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

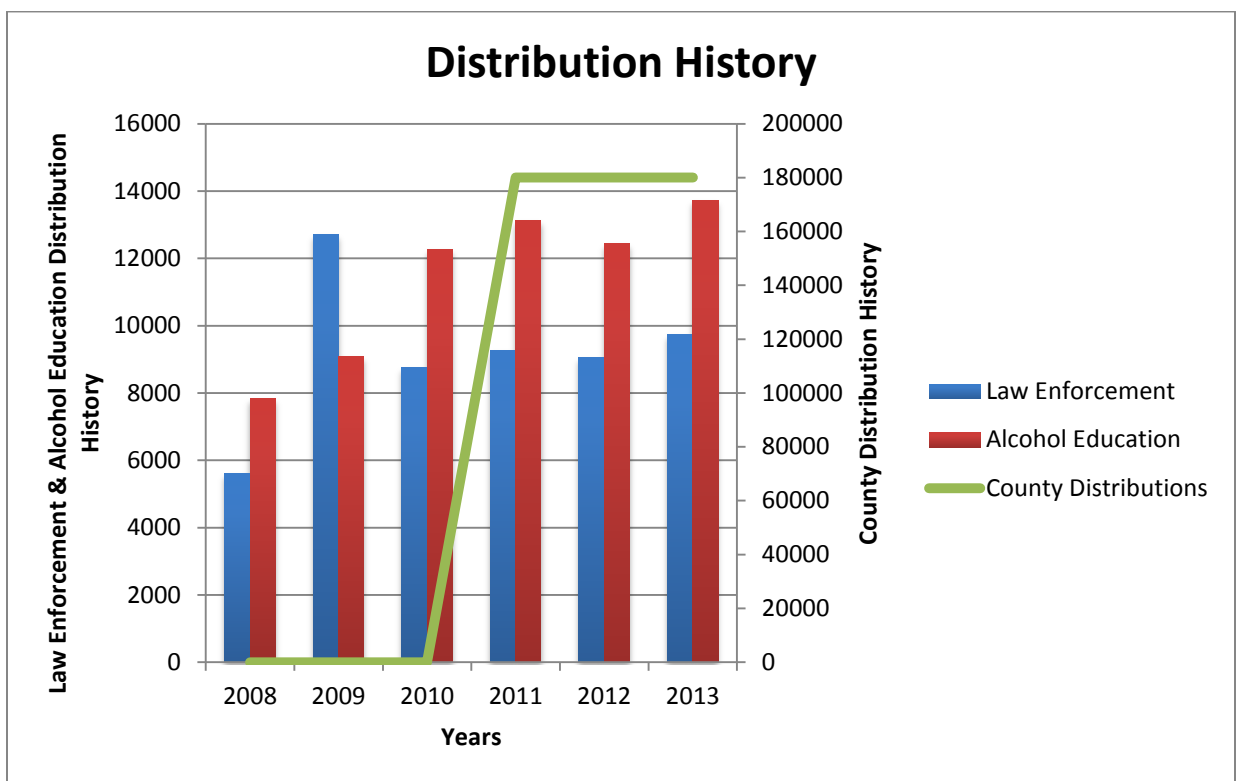


## Distributions

G.S. 18B-805 (c) (2) and (3) requires the board to distribute at least five percent (5%) of profits to law enforcement and at least seven percent (7%) of profits for alcohol education. The remaining profits are to be distributed to the Lincoln County General Fund.

In FY2013, the Lincoln County ABC board made the mandatory distribution of \$61,659 to the county, plus additional distribution of \$118,351. \$493,689 in Excise and other taxes were paid to the NC Department of Revenue and Lincoln County. The Lincoln County ABC Board distributed \$9,728 of profits for law enforcement and \$13,724 for alcohol education.

Below is a chart analyzing the high-low trend of distributions to law enforcement, alcohol education, and to the county.





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

On September 24, 2013, ABC Board Auditor, Moniqua S. McLean, visited the Lincoln County ABC store and interviewed Johnnie Helms, general manager. The following are the operational observations, findings, and recommendations related to the performance audit.

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

The Lincoln County ABC Board operates one retail store with approximately 1,000 linear feet of shelf space and carrying approximately 1,400 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.
- Exterior signage and landscaping around the store was clean and free of trash. Interior signage was neat and visible. The Fetal Alcohol Syndrome poster was displayed.
- Security systems are in place and functional.
- A consistent shelf management plan that exhibits a strategy per category following the highest price product on the top shelves and lowest price product on the bottom shelves. Product displays are available throughout the store spotlighting bestselling or newest items. *See pictures on page 14.*
- 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.

*No Recommendations.*

### **Personnel and Training**

- All board members have completed the initial ethics training. However, the general manager and finance officer are planning to purchase the training on demand.
- Training is provided continuously to new and existing staff on 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 or finance officer is suddenly unavailable.
- To verify forms were present for all employees, a sample of personnel files were viewed and revealed that some forms were not available.

*Recommendations:*

- Update personnel files to include forms, such as I-9 verification and tax withholding documentation.

## **ABC Board Policies**

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

*No Recommendations.*

## **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. Management has implemented procedures and guidelines for safeguarding assets. However, a written policy has not been enforced.
- 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 monthly by the general manager and another person. Spot checks are conducted frequently throughout the month. If discrepancies occur, the general manager will investigate and recount for accuracy and verification. Once completed, the general manager and assistant manager will adjust the inventory system to match with the actual store counts. Unsalable items are adjusted immediately.
- A credit card is issued to the board with the general manager the only authorized person to use the card. At the time of the fieldwork, the board just received the credit card and no transactions were placed. A written credit card policy has not been implemented.

*Recommendations:*

- To ensure strong 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.

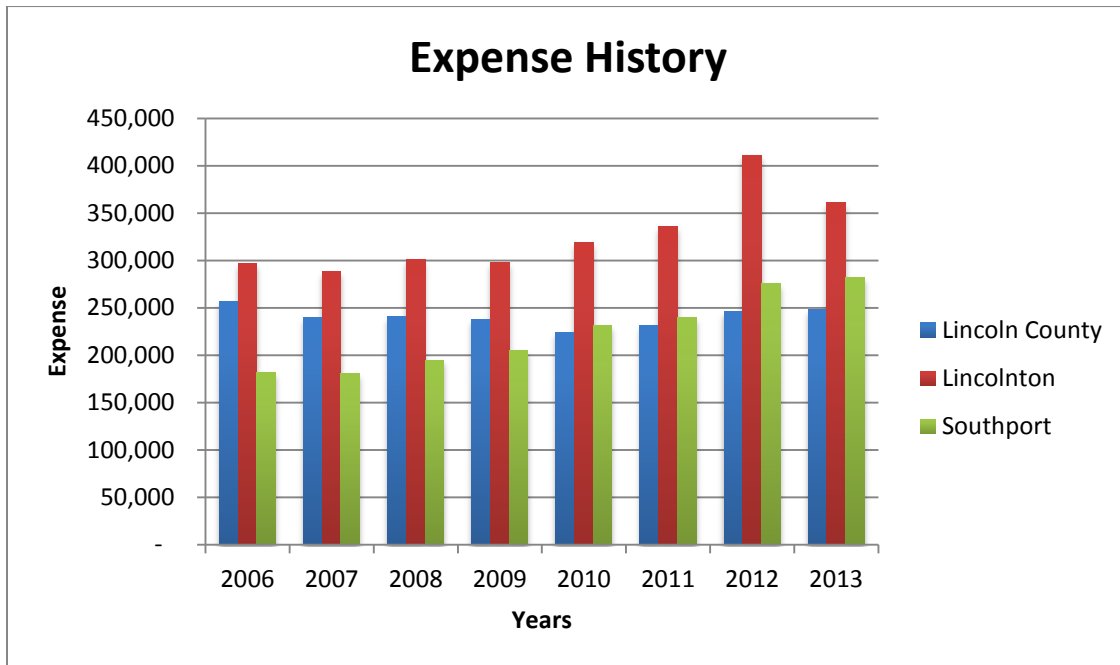
### **Administrative Compliance Findings and Observations**

- Board meeting minutes were viewed and followed the order of proceedings, providing information that a reasonable person would be able to follow. Board meeting minutes referenced the certificate of accountability statement.
- Board member and general manager information, appointment dates and compensations, are 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 not bear the pre-audit certificate as required by G.S. 18B-702 (m).
- All checks bear the approved certificate. However, one signature that of the finance officer is available.
- Out of approximately 1,400 product codes, approximately 130 produce codes were sampled and one was incorrect.

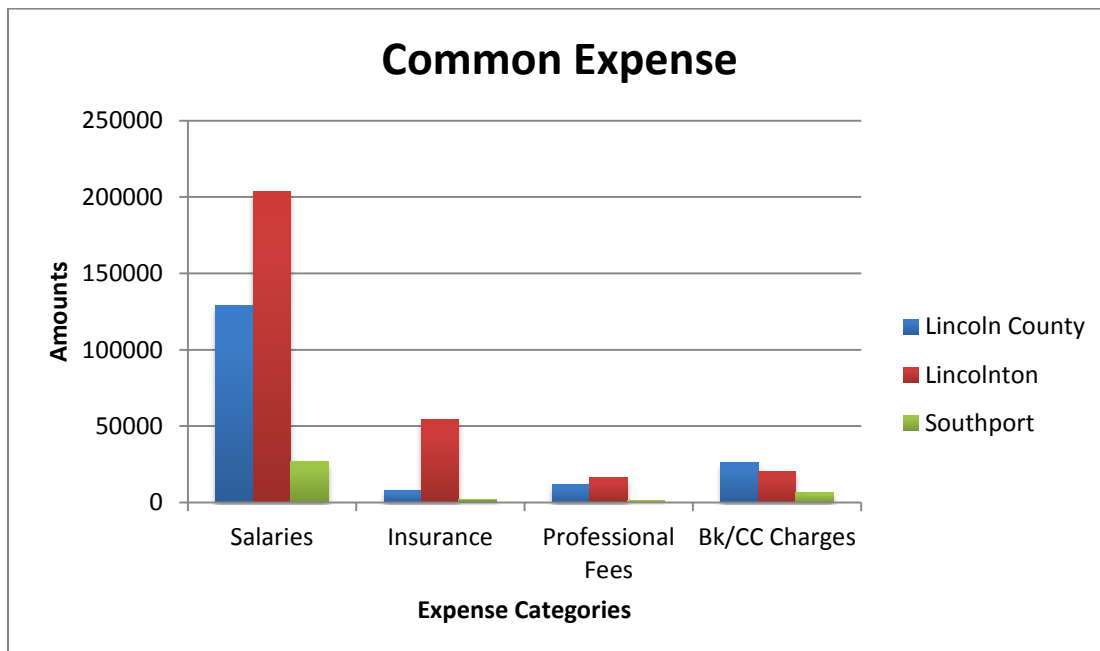
*Recommendations:*

- 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 (1) for statute.*
- Provide two signatures on all checks including the finance officer's signature as one. *Refer to Appendix C (2) for statute.*
- Audit shelf tags more frequently. Incorporate such practices within spot check time periods.

## APPENDIX A



*The expense history data indicates that Lincoln County ABC's total expenses have slightly increased 0.86% over fiscal year 2012 as sales have increased 1.9% over the same time period. Compared with other similar size boards, Lincoln County ABC's total expenses are lower.*



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

## APPENDIX B



*Exterior view*



*Counter view*



*A view of some displays and the shelf management system*

## APPENDIX C

(1) 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)*

(2) 18B-702 (p) states, *“Except as otherwise provided by law, all checks or drafts on an official depository shall be signed by the finance officer or a properly designated deputy finance officer. The chairman of the local board or general manager of the local board shall countersign these checks and drafts.”*

## **Mclean, Moniqua S**

---

**From:** Manager ABC <abcl@bellsouth.net>  
**Sent:** Thursday, December 26, 2013 12:14 PM  
**To:** Mclean, Moniqua S  
**Subject:** Lincoln County ABC Stpre #169

Hello Moniqua,

Thank you for attending our December 10<sup>th</sup> Board Meeting. After the audit discussions and explanations the Lincoln County ABC board members and the manager will continue to adopt the policy changes, requests, and suggestions that were described to us. We understand and accept the audit as described?

Thank you again for all of your help.

Sincerely,

Johnny Helms ( store manager )  
and  
Lincoln County Board of Directors



## LINCOLN COUNTY ALCOHOL BEVERAGE CONTROL BOARD

### Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Personnel and Training:</b></p> <p>Have the general manager and finance officer complete the ethics training.</p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input checked="" type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The board has purchased the webinar and is making plans to have the required persons complete the training. The finance officer has completed the ethics training since the audit fieldwork. A verification form will be forwarded to the Commission once completed.</p>
<p><b>ABC Board Policy and Internal Control:</b></p> <p>Adopt a written credit card usage policy.</p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input checked="" type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management has begun to implement procedures and policies to ensure sufficient checks and balances. Once a policy has been adopted, a copy will be forwarded to the Commission.</p>

**LINCOLN COUNTY ALCOHOL BEVERAGE CONTROL BOARD**  
**Recommendation Follow-Up**

<b>RECOMMENDATION</b>	<b>REQUIRED BY STATUTE</b>	<b>IMPLEMENTATION STATUS</b>
<p><b>Administrative Compliance:</b></p> <p>Affix the pre-audit certificate on orders before the transaction occurs.</p> <p>Have two signatures on the checks, one of the finance officer and another person.</p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></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 type="checkbox"/> Not implemented (Explain below.)</p> <p>Management has implemented procedures to comply with the statute.</p>