

Indian Trail 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

May 12, 2014

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Moniqua S. McLean
ABC Board Auditor

Indian Trail ABC Board
Mr. Wes Hinson, Chairman
5880 Hwy 74 East, Suite 20
Indian Trail, NC 28079

Dear Chairman Porter,

We are pleased to submit this performance audit report on the Indian Trail 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 efforts your Board has made to comply with the new performance standards along with your support of alcohol education and treatment programs in your community.

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 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 ABC Board Auditor has met with the ABC Board to discuss the recommendations from the performance audit. However, a response detailing what the board and management has implemented has not been forwarded to the Commission in the past year. Therefore, this audit is being submitted without a response from the board. A follow up visit will be scheduled within six months of the final audit submission to determine whether the recommendations have been addressed.

BACKGROUND INFORMATION

G.S. 18B-601 (c) authorized the town of Indian Trail to hold an election for an ABC Store. The referendum was held on November 3, 2009 and passed 1,347 to 684. A mixed beverage election occurred in conjunction with the initial election and passed 1,431 to 604. The first sale occurred on November 10, 2010.

Upon election of an ABC store, the Town of Indian Trail was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members are Ken Porter, board chairman, Gary D'Onofrio and Wesley Hinson, board members. Since the audit fieldwork, the current board chairman is Wes Hinson and a new board member is Robert Laatz.

The Indian Trail ABC Board operates one retail store. The board staffs three full-time and five part-time employees. The board has hired a former general manager with another ABC system to serve as the interim general manager. The duties include general oversight of operations and to provide manager training. The assistant manager (manager-in-training) is training to handle daily operations including supervising personnel, inventory management, and administrative functions. The board has hired an external finance officer to assist with financial operations of the store. Clerk duties consist of 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 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 Indian Trail ABC Board receives deliveries twice a month: the inventory turnover rate is 6.9.

Recommendations:

- Continue with the following strategies already in place;
 - Analyzing sales and history reports to determine the bestselling products needed and to avoid overstock;
 - Watching customer shopping patterns and using the information to optimize product placement
- Consider additional practices such as cross-merchandising and shelf reorganization as the product mix changes to encourage more impulse shopping.

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 Indian Trail ABC Board operates one retail store with mixed beverage sales; the operating cost ratio is 0.67. Mixed beverage sales make up 9.5% of total gross sales. In fiscal year 2012, the board operated with a full sales year which contributed to the sales and expense increase.

No Recommendations:

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:

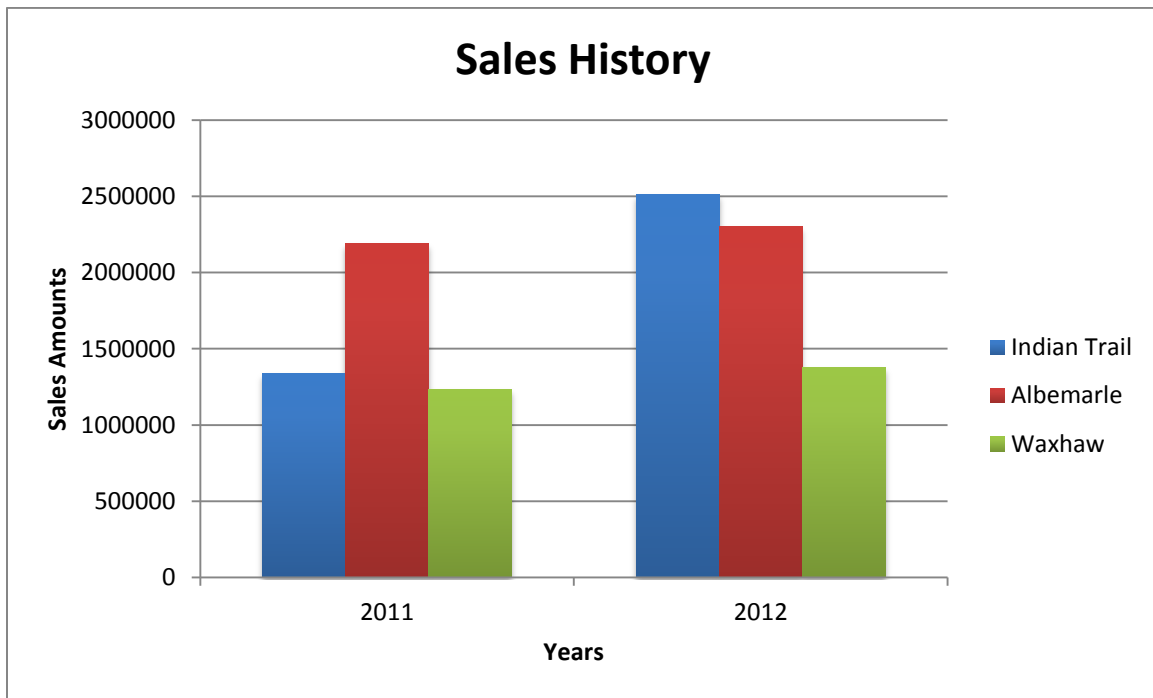
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Indian Trail ABC Board had gross sales of \$2,512,735; income from operations was \$186,762, a 7.42% profit percentage to sales.

Factors affecting sales and profitability:

- US Census Bureau reports an estimated total population of 34,223 in 2011;
- Sales increased 87.7% over the previous year;
- Surrounding town/counties with ABC stores include Wingate (opened June 2012), Waxhaw, Monroe, and Mecklenburg County

Below is a sales history analysis of similar size boards compared with Indian Trail ABC Board. This chart analyzes the sales trend for the past two years.



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

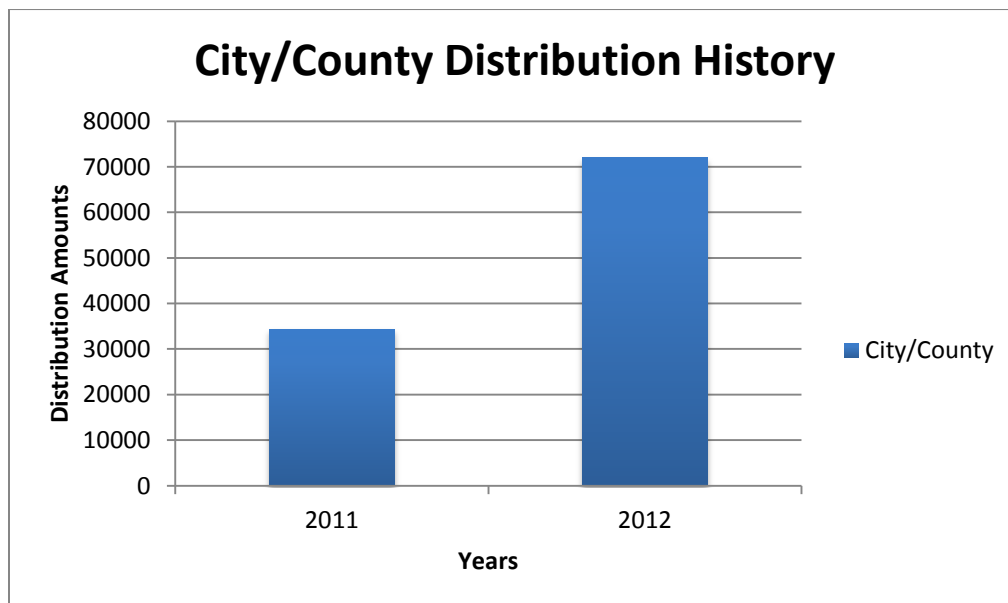
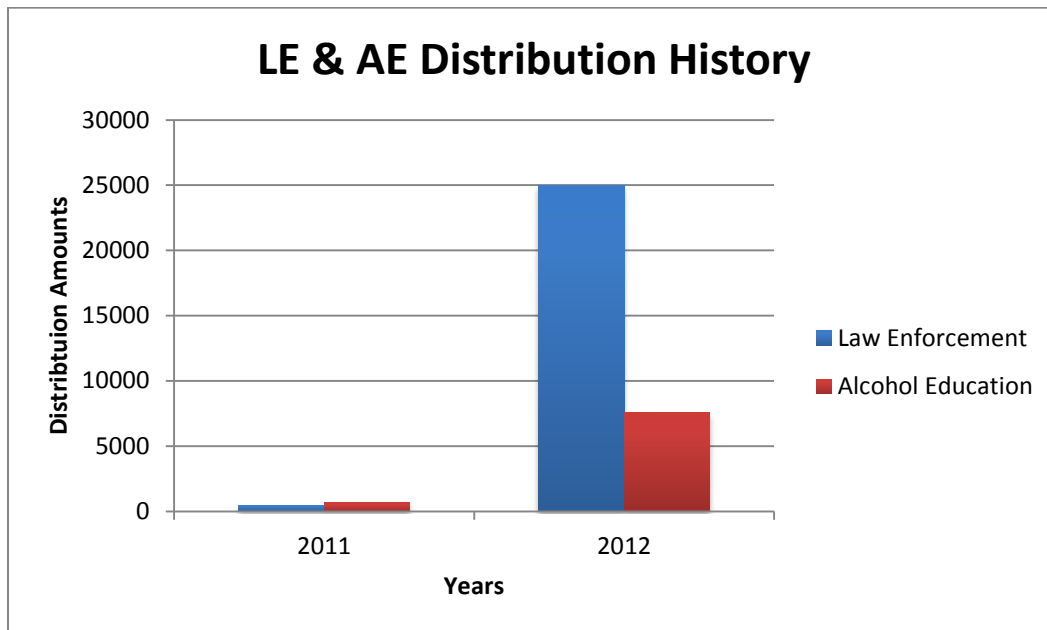
Indian Trail ABC Board had a working capital of \$100,419 which is equivalent to less than three months gross sales and is within the limits of NCAC 02R .0902.

Distributions

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

If FY2012, the Indian Trail ABC Board made the required minimum distributions totaling \$72,153, \$581,275 in Excise and other taxes to the NC Department of Revenue. Other distributions totaled \$32,576; \$25,000 to law enforcement and \$7,576 for alcohol education.

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



OPERATIONAL FINDINGS, OBSERVATIONS, AND RECOMMENDATIONS

On February 20, 2013, ABC Board Auditor, Moniqua S. McLean visited the Indian Trail ABC Board and interviewed Charles Fowler, interim general manager, Melissa Williams, manager-in-training, Nancy Ratliff, finance officer, and Ken Porter, board chairman. The following are the operational findings, observations, and recommendations related to the performance audit.

Store Appearance and Customer Service

The Indian Trail ABC Board operates one retail store with approximately 1,100 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 store displays artwork tied directly to the Town of Indian Trail.
- 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.
- Board furnishes uniforms for employees for neat appearance.

No Recommendations.

Personnel and Training

- Two out of three board members, general manager, manager-in-training, and finance officer have attended the initial mandatory ethics class. A newly appointed board member is planning to take the ethics training.
- Training is often provided as new information becomes available to current staff.
- Cross training opportunities have been extended to key employees in the event the general manager was suddenly unavailable.
- A sample of personnel files were viewed and contained the applicable tax information, I-9 forms, and other information pertaining to employment.

Recommendations:

- Consider additional training opportunities 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
 - Travel Policy (State Policy)
 - 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 and the manager in training will adjust the system to match with the actual store count. Unsalable items are adjusted monthly.
- Cash drawers are counted by general manager and recounted by co-managers. 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 by the clerks' scheduled between shifts and are usually accompanied by another clerk. The finance officer receives notification that deposits were made immediately and can access information online. The general manager will receive notification the next day. The finance officer reconciles the deposits and credit card transaction with the bank statements at the end of the month.
- A debit card has been issued to the board. Only the general manager or manager-in-training is allowed to use the card. The finance officer reconciles all transactions purchased with the card.

Recommendations:

- Implement written procedures for handling cash drawer overages and shortages. Incorporate these procedures into the updated employee manual for current and future employees.

- To ensure stronger internal controls of credit/debit 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.

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 compensation is over the maximum allowed as stated in G.S. 18B-700 (g). An approval from the appointing authority has not been submitted to the Commission. General manager compensation is in compliance with G.S. 18B-700 (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).
- Initial liquor orders and other common orders do not bear the pre-audit certificate as required by G.S. 18B-702 (m).
- All checks bear the approved certificate as required by G.S. 18B-702 (q) and is signed by the finance officer and general manager.
- Out of approximately 1,000 product codes, approximately 60 product codes were sampled and all were correct.

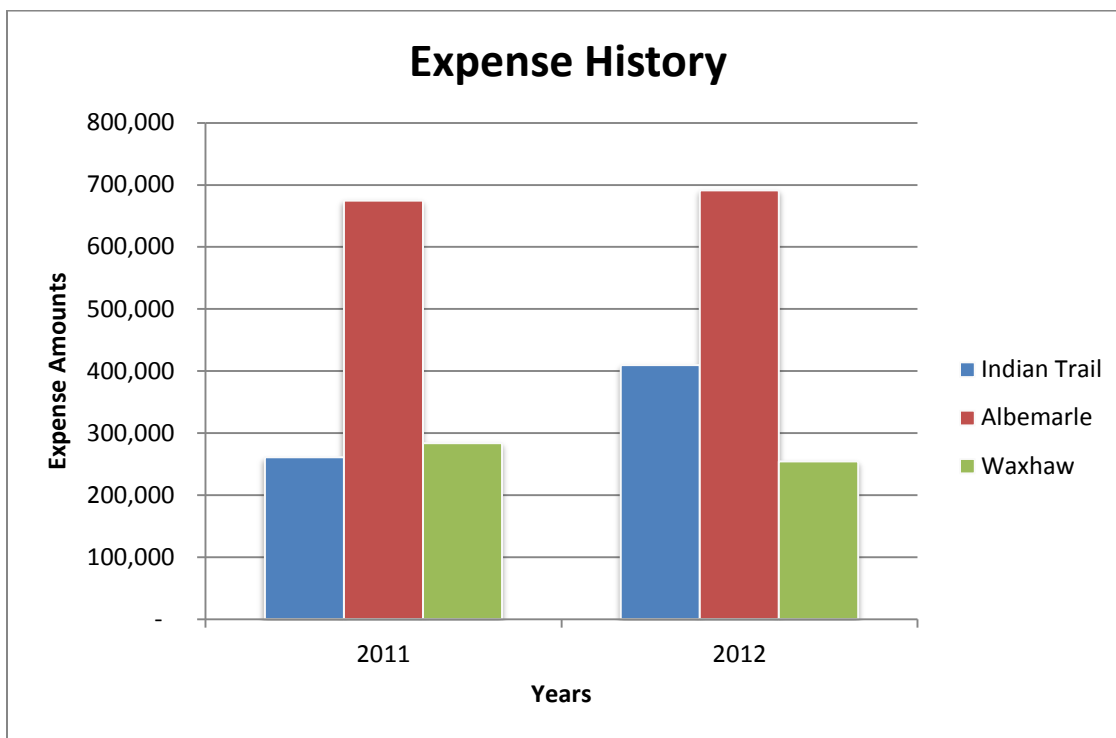
Recommendations:

- 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.*
- Reduce board member compensation to the maximum allowed by the statute until the appointing authority approves a higher level of compensation. *Refer to Appendix C (3) for statute.*
- 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 (4) for statute.*

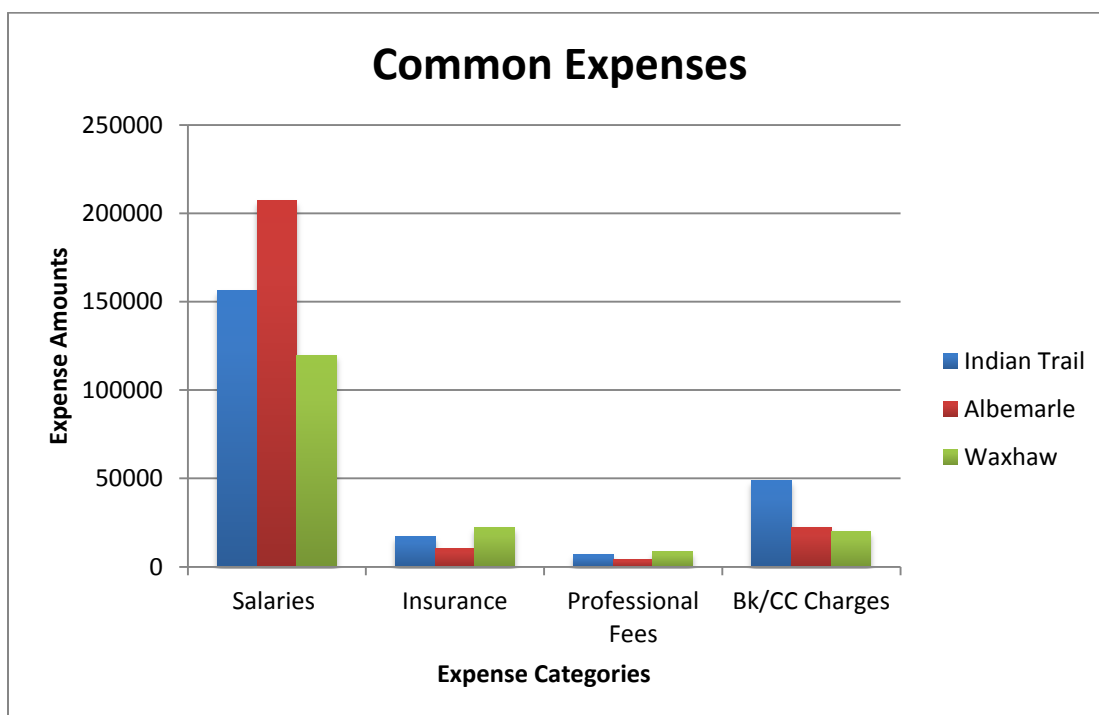
Other

- Indian Trail ABC Board provides funding for an alcohol education program at a local school that provides scholarships for students. A copy of scholarship guidelines has been submitted to the board to assist with the program.
- Additional funding has been provided to local alcohol rehabilitation programs such as Turning Point and Union County DWI Treatment Court Foundation.

APPENDIX A



The Indian Trail ABC store opened in November 2010. Expenses increased due to the full sales year. However, overall expenses are not out of line compared to similar size boards.



Indian Trail ABC's common expenses are within the range of other similar size boards. Bank and credit card charges increase as sales increase.

APPENDIX B



Interior view of store.



Interior view of store.

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) G.S. 18B states, "A local board member shall receive compensation in an amount not to exceed one hundred fifty dollars (\$150.00) per board meeting unless a different level of monetary compensation is approved by the appointing authority. If a different level is approved by the appoint authority, the appointing authority shall notify the Commission of the approved level of compensation in writing."

(4) 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)