

# Marion 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

October 15, 2014

CHAIRMAN:  
JAMES C. GARDNER

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COMMISSIONERS:  
JOEL L. KEITH  
Wake Forest

KEVIN M. GREEN  
Greensboro

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ADMINISTRATOR:  
MICHAEL C. HERRING

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**Moniqua S. McLean**  
ABC Board Auditor

Marion ABC Board  
Mr. Robert L. Ayers, Chairman  
2961 HWY 221 North  
Marion, NC. 28752

Dear Chairman Ayers,

We are pleased to submit this performance audit report on the Marion 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 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 your efforts to increase profitability.

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**

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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 stores;
- Interviewed key ABC board personnel.

## **BACKGROUND INFORMATION**

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G.S. 18B-601 (c) authorized the Town of Marion to hold an election for an ABC store. The referendum was held on April 3, 1984 and passed 859 to 827. The first sale occurred on August 1, 1984. A mixed beverage election was held on June 24, 2008 and passed 678 to 599.

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 are Robert L Ayers, board chairman, and James Isaacs Jr., board member. The appointing authority is planning to appoint a third board member.

The Marion ABC Board operates two retail stores. The board staffs five full-time and six part-time employees. The board has hired the town's finance director to serve as finance officer for the board to provide checks and balances. The general manager's responsibilities include overseeing all daily operations of both stores consisting of supervising personnel, inventory control, and administrative functions. Store clerks are primarily responsible for extending friendly customer service, assist with routine store upkeep, and stock maintenance.

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

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On April 16, 2014, ABC Board Auditor, Moniqua S. McLean, visited the Marion ABC stores and office and interviewed Deborah Melton, general manager. Below is a financial analysis followed by operational observations, findings, and recommendations related to the performance audit.

## **FINANCIAL ANALYSIS**

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### **PROFIT PERCENTAGE TO SALES**

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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 Marion ABC Board had gross sales of \$2,043,715; income from operations was \$102,295, a 5.01% profit percentage to sales.

Factors affecting sales and profitability:

- Surrounding towns with ABC stores within a twenty-mile radius include Morganton, Spruce Pine, and Rutherfordton;
- Population of the town of Marion is approximately 7,964, a 0.7% decrease from 2010;
- ABC Board opened a second store (Hwy 221) in 2010 and renovated Store 1 (East Court Street) in 2011;
- ABC Board rents Store 2 and owns Store 1.

## 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, Marion ABC made the required minimum distribution to the city totaling \$58,937, plus additional distribution of \$34,659 to the city. \$472,938 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, and the county.

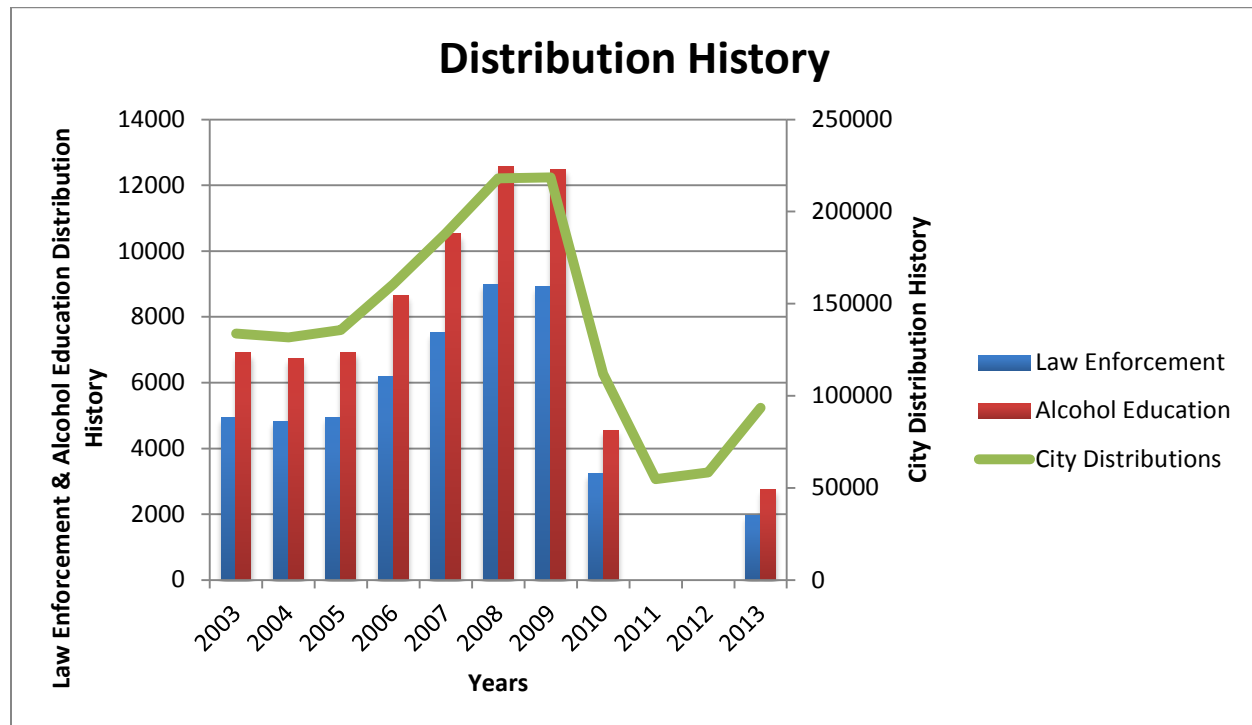
G.S. 18B-805 (c) (2) and (3) requires the board to distribute at least five percent (5%) of profits to law enforcement and at least seven percent (7%) for alcohol education. The remaining profits are to be distributed to the City of Marion General Fund.

In FY2013, the Marion ABC Board distributed to the city \$1,969 toward law enforcement. A law enforcement contract has not been executed. Alcohol education/rehabilitation distributions total \$2,757 to various agencies, such as Foothills and Crossroads. However, annual reports for the usage of funds have not been provided to the board.

## RECOMMENDATIONS

1. Adopt a law enforcement contract with a local law enforcement agency or contract with the local Alcohol Law Enforcement (ALE) agency. *Refer to Appendix B (1) for statute.*
2. Request annual reports from all agencies that receive funding for alcohol or substance abuse, rehabilitation, or research. *Refer to Appendix B (2) for statute.*

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



## **WORKING CAPITAL**

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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 Marion ABC Board had a working capital of \$218,782, which is less than the maximum allowed to retain of three months gross sales (\$391,658) and is within the limits of NCAC 02R .0902.



## OPERATING COST RATIO

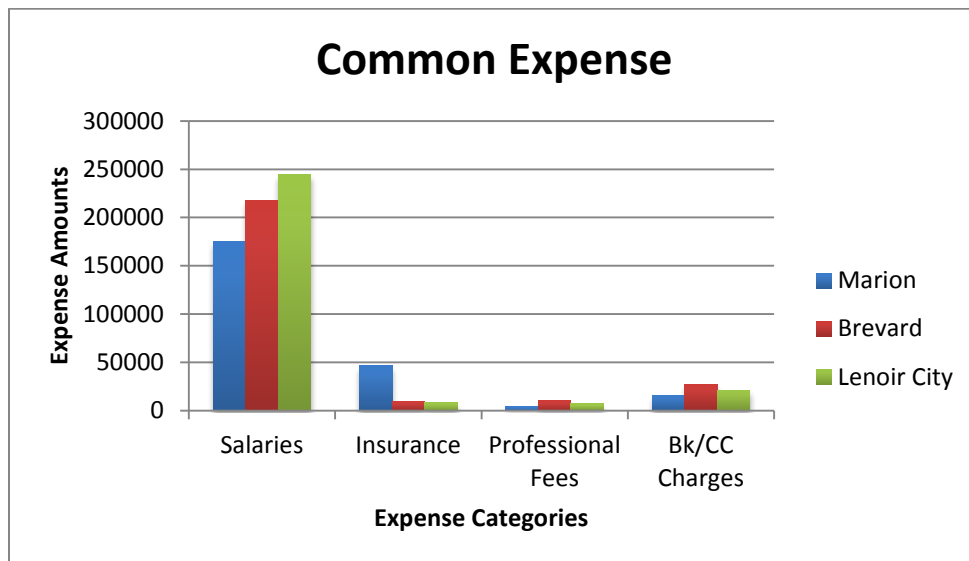
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Operating costs are calculated by dividing total operating expenses less depreciation by the gross profit on sales (Total Operating Expenses less Depreciation/Gross Profit). Below are the average cost ratios for boards with and without mixed beverage 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 Marion ABC Board operates two retail stores with mixed beverage sales: the operating cost ratio is 0.75. Mixed beverage sales make up 10.3% of total gross sales. In fiscal year 2013, sales increased 0.6% as expenses increased 1.53% over the same time period. The board owns Store 1 (East Court Street) and rents Store 2 (Hwy 221) for \$3,500 on a monthly basis. The board acquired a loan for \$150,000 to pay for inventory and store renovation of Store 1. The board receives rental income for the parking space next to Store 2.

A common expense analysis shows that Marion ABC Board expenses compared to other similar size boards are lower. Note: Insurance fees include general insurance.



## RECOMMENDATIONS

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1. Monitor expenses more closely so as to not exceed budgeted amounts.
2. Request bids from vendors to ensure that the best price is offered for services provided, such as insurance, professional fees, some utilities, and bank/credit card charges.

## **INVENTORY TURNOVER**

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The inventory turnover is calculated by dividing the cost of liquor by the average inventory in the system (Cost of Liquor/Average Inventory).

The Marion ABC Board receives deliveries twice a month: the inventory turnover rate is 3.2. The average inventory turnover rate for similar boards with the same delivery schedule is 5.6. The marketing plan for store 2 is to carry all available products listed in at least one size available to attract customers who would normally stop elsewhere.

## **RECOMMENDATIONS**

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1. Consider the following to increase turns:
  - a. Moving stock within stores and between stores to increase visibility and to encourage more impulse shopping;
  - b. Eliminating poor performing items to drive category sales and increase shopper satisfaction;

## **STORE APPEARANCE AND CUSTOMER SERVICE**

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The Marion ABC Board operates two retail stores with shelf space ranging from 800 to 1,000 linear feet and carries an average of 1,654 product codes per store.

- Both stores appeared clean and free of trash. Counter areas were clear making supplies easily accessible to staff.
- Both stores' signage, interior and exterior, is clear and visible to passing traffic. The Fetal Alcohol Syndrome poster is displayed and visible to the public.
- Landscaping around the stores 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. The state price book is available in both stores 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**

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## **PERSONNEL AND TRAINING**

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- All board members, the general manager, and the finance officer have completed the initial ethics training. Board members have since been reappointed and have not yet completed the online/webinar training.
- Cross training opportunities are being extended to key employees in the event the general manager was suddenly unavailable on key administrative duties.
- 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**

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1. Have all reappointed board members complete the ethics requirement within 12 months of reappointment. *Refer to Appendix B (2) for statute.*
2. 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**

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- Policies adopted and submitted to the Commission include:
  - Code of Ethics
  - Travel Policy (Town of Marion Approval Submitted)
  - FY2013 Annual Audit
  - FY2014 Budget (Proposed and Adopted)
  - Mixed Beverage Policy
  - Employee Handbook
  
- Policies not adopted include:
  - Law Enforcement Contract
  - Price Discrepancy Policy

## **RECOMMENDATIONS**

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1. Execute a law enforcement contract and submit to the Commission. All local boards are required to have an agreement, even if the agreement results in no enforcement activity without pay. *Refer to Appendix B (3) for statute.*
2. Adopt a price discrepancy policy that incorporates customer friendly practices. Once adopted, communicate to all employees before the need arise so that they are informed on how to implement the changes. *Refer to Appendix B (4) for rule.*

## **INTERNAL CONTROL PROCEDURES**

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- Time cards are used by all clerks to record hours worked. The general manager verifies all time cards. The accounting/payroll software calculates the taxes and other withholdings and creates payroll checks performed by the finance officer. The general manager reviews the payroll summary and other payroll reports to verify accurate recordkeeping.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures when 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 monthly by all full-time employees. Spot checks are conducted frequently. 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 an average of 1,654 product codes per store, approximately 164 product codes were sampled to ensure accurate pricing and all were correct.

## **NO RECOMMENDATIONS**

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## **ADMINISTRATIVE COMPLIANCE FINDINGS AND OBSERVATIONS**

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- 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. However, a public notice of board meetings is not displayed.
- At the time of fieldwork, board member appointment dates were not current on the Commission website. Management has since corrected the information.
- Board member compensation is over the maximum allowed as stated in G.S. 18B-700 (g). An approval from the appointing authority has been submitted to the Commission. The 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, the general manager, and finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- All purchases, including liquor orders, are accompanied with a purchase order and are preapproved by the finance officer. The pre-audit certificate is stamped on all purchase orders as required by G.S. 18B-702 (m).
- All checks bear the approved certificate indicating that the item has been approved by the finance officer for payment. All checks are signed by the finance officer and the general manager. In the event the general manager or finance officer is unavailable, board members are authorized to sign checks.

## **RECOMMENDATIONS**

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1. Display a public notice for all board meetings. *Refer to Appendix B (5) for statute.*

## **AUDITOR'S SUMMARY**

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ABC Board Auditor, Moniqua S. McLean, presented to the board the performance audit recommendations. The board has since responded and strives to implement 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.



**From:** [Deborah Melton](#)  
**To:** [Mclean, Moniqua S](#)  
**Subject:** performance audit  
**Date:** Wednesday, September 10, 2014 10:02:04 AM

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Dear Ms. Mclean,

On behalf of the Members of the Marion ABC Board, I and the Board would like to thank you for the very useful information you have provided. The Board feels that pointing out the various needs that were needed to do improvements and the advice that Deborah reported at the meeting will be of great value in the future as plans to set goals for each of the stores.

You are a very pleasant person to deal with in the situation of the performance audit, not giving orders as to what should be done, but advice and suggestions and leaving this up to the Manager and Board to follow.

Suggestions that were in the draft,

Adopt a law enforcement contract, the Board has Adopted a contract with City of Marion Police department.

A notice to the public of Board meetings is now posted in each store and will be adjusted of dates if changed.

Price discrepancy, will be under the advisement of the manager, only in extreme circumstances will a customer be refused the shelf price.

We are in the process of updating the ethics training, and will in the future allow each of the employees to take the ethics training and any other program that will benefit the employee.

Moving of stock between the two stores to help the performance of items is being acted upon with discussion between store shift supervisors'.

Requesting bids from vendors will be at the advice of the finance officer for the manager to take into consideration.

Again we would like to thank you, and if any other suggestion you may have we will take into consideration.

Sincerely,  
Marion ABC Board

## APPENDIX A

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*Illustration 1*



*Exterior view of Store 1*

*Illustration 2*



*Counter view of Store 1*

*Illustration 3*



*Interior view of Store 1*

*Illustration 4*



*Exterior view of Store 2*

*Illustration 5*



*Interior view of Store 2*

*Illustration 6*



*Interior view of Store 2*

## APPENDIX B

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- (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."*
- (2) *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."*
- (3) *G.S. 18B-501 (f) states, "Instead of hiring local ABC officers, a local board may contract to pay its enforcement funds to a sheriff's department, city police department, or other local law-enforcement agency for enforcement of the ABC laws within the law-enforcement agency's territorial jurisdiction."*
- (4) *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."*
- (5) *§143-318.12 Public notice of official meetings. "If a public body has established, by ordinance, resolution, or otherwise, a schedule of regular meetings, it shall cause a current copy of that schedule, showing the time and place of regular meetings,..."*

## APPENDIX C

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Ethics training:</b></p> <p>Have all reappointed board members 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 type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>Reappointed board members have not taken the ethics training. Once completed, a copy of the ethics verification form will be forwarded to the Commission.</p>
<p><b>ABC Board Policies:</b></p> <p>Have a law enforcement contract.</p> <p><b>**Adopt other policies that incorporate friendly customer service practices.</b></p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p> <p><b>**Note:</b> Required by rule</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input checked="" type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The board has adopted a law enforcement contract and a price discrepancy policy and forwarded copies to the Commission. Management has implemented policies and procedures to ensure compliance with the ABC statutes and Commission rules.</p>

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Administrative Compliance:</b></p> <p>Notify the public as to when board meetings are scheduled.</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 checked="" type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management has implemented procedures to ensure compliance with the Public Meetings Laws.</p>