

# Shelby ABC Board

## Performance Audit Report



Alcoholic Beverage Control Commission  
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**ABC**  
COMMISSION  
NORTH CAROLINA



# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

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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LOCATION:  
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**Moniqua S McLean**  
ABC Board Auditor

October 30, 2013

Shelby ABC Board  
Mr. Carl Dockery Jr, Chairman  
PO Box 1649  
Shelby, NC 28150

Dear Chairman Dockery,

We are pleased to submit this performance audit report on the Shelby 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 the steps taken to reduce operating expenses 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 both stores;
- Interviewed key ABC board personnel.

The Shelby ABC Board has responded to the performance audit recommendations and is striving to improve and maintain profitability through analyzing and reducing current costs while continuing to meet the demands of customers. Policies and procedures have been adopted and implemented to maintain compliance with statutes and Commission rules and to maintain stronger segregation of duties.

## **BACKGROUND INFORMATION**

Chapter 832 of the 1969 Session Law authorized the town of Shelby to hold an election for an ABC store. The referendum was held on March 18, 1975 and passed 2,002 to 1,818. The first retail sale occurred on August 1, 1975. A mixed beverage election was held on April 20, 1993 and passed 2,145 to 1,704.

Upon election of an ABC store, the town of Shelby was authorized to create an ABC Board consisting of a chairman and two board members to serve for three year terms. House Bill 1841 of the 2006-9 Session Law authorized the town to increase board members from three to five to serve for three year terms. Current board members are Carl Dockery Jr., board chairman, Davide Scheweppe, Freddie Harrill, Gerald Weathers, and Page Morgan, board members.

The Shelby ABC Board operates two retail stores. The board staffs eleven employees consisting of seven full-time and four part-time employees. The administrative staff consists of the general manager and the finance officer/business manager. The general manager is responsible for overseeing and managing daily operations of the stores including supervising personnel and inventory control. The finance officer/business manager is responsible for all financial operations as required by the ABC statutes and rules and providing service and support for all mixed beverage account holders. Store employees are primarily responsible for providing friendly customer service, store upkeep and inventory management.

## **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 Shelby ABC Board receives deliveries twice a month: the inventory turnover rate is 3.7.

#### *Recommendations:*

- To increase inventory turns, consider the following:
  - Analyzing sales data and history reports to plan orders more effectively and efficiently;
  - Selling slow-moving inventory to another board with demand for the products or requesting price reductions from the Commission to clear out dead stock;
- Contact other boards whose inventory turnover rate exceeds the target for other ideas that may be implemented.

### **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 Shelby ABC Board operates two retail stores with mixed beverage sales: the operating cost ratio is 0.72. Mixed beverage sales make up 8% of total gross sales. In fiscal year 2012, sales increased 6.5% over fiscal year 2011 as expenses decreased 3.16% over the same time period. The board owns both stores which contribute to significant savings in overhead expense.

*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 FY2012, Shelby ABC had a working capital of \$692,985, which is equivalent to approximately 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:

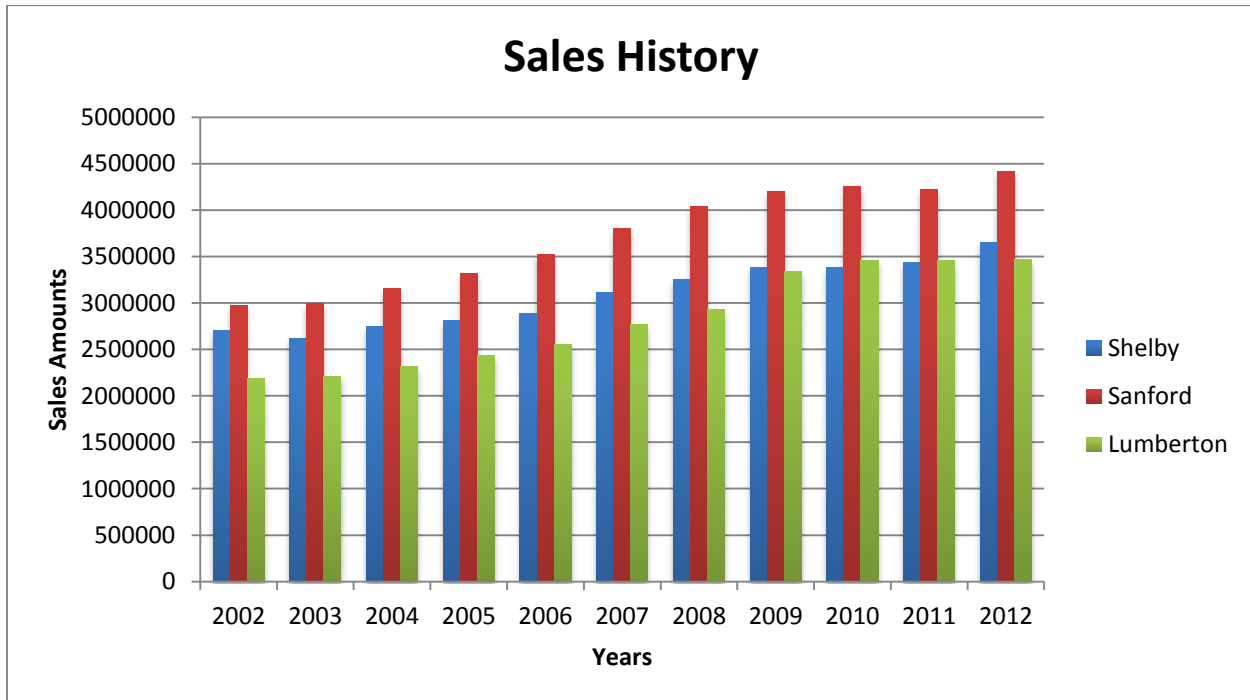
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Shelby ABC Board had gross sales of \$3,655,802; income from operations was \$217,837, a 5.96% profit percentage to sales.

Factors affecting sales and profitability:

- US Census Bureau reports an estimated population of 20,270 in 2012;
- Surrounding towns with ABC stores include Kings Mountain, Forest City, and Cherryville;
- Growth and development in surrounding, more heavily populated areas contribute to the shift in shopping patterns away from rural areas which affect sales and profitability;
- South Carolina border within a fifteen mile radius.

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



*Recommendations:*

- Closely monitor monthly overhead and business expenses;
- Invite the Association’s Efficiency Committee to visit the stores with the possibility of making additional recommendations to improve profitability.

**Distributions**

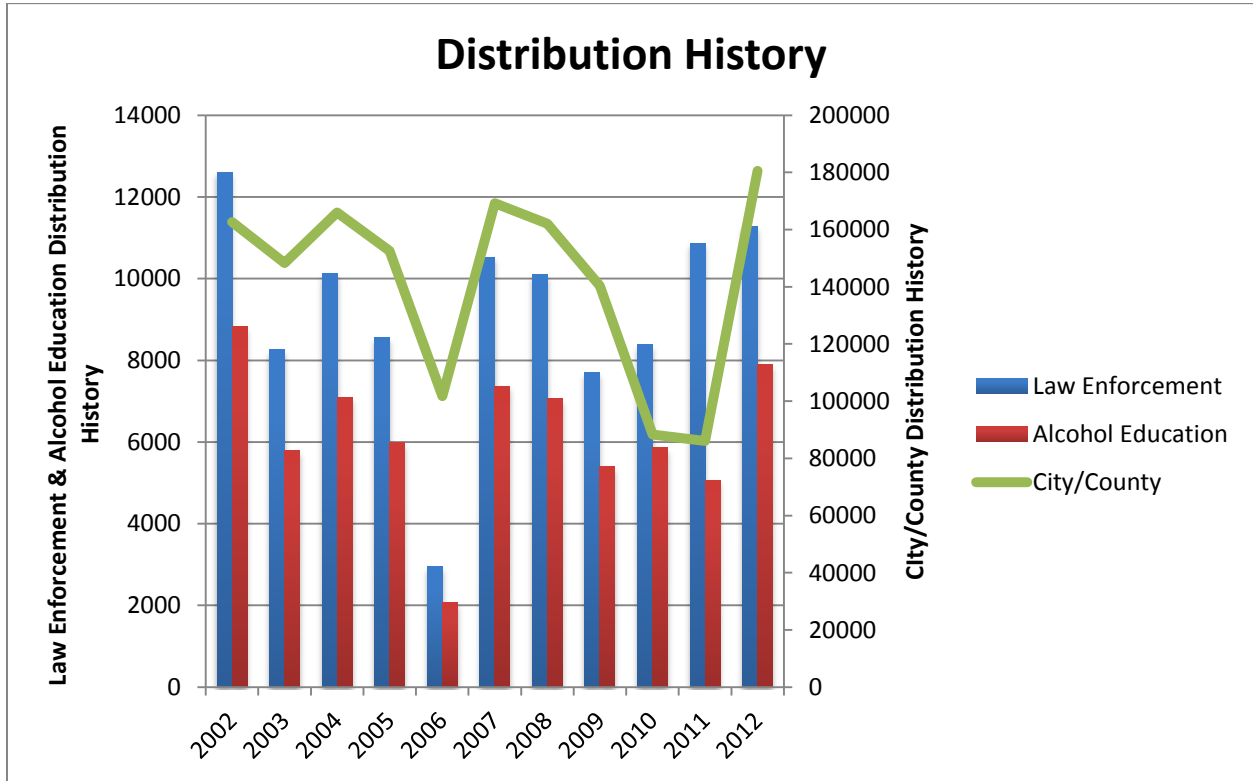
G.S. 18B-805 (c) (2) requires the board to distribute at least five percent (5%) of profits to law enforcement. The board follows the local enabling act for alcohol education distributions which required distributions to be not less than seven percent (7%) and not more than fifteen percent (15%). The remaining profits are to be distributed as follows:

- 50% to Shelby General Fund
- 50% to Cleveland County General Fund

In FY2012, Shelby ABC made the required minimum distributions totaling \$110,481 to the Town of Shelby General Fund, plus additional distributions totaling \$70,035. A total of \$795,780 in Excise and other taxes were paid to the NC Department of Revenue and \$11,291 to law enforcement and \$7,904 for alcohol education.



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



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

On July 1, 2013, ABC Board Auditor, Moniqua S. McLean, visited the Shelby ABC Board office complex and interviewed Roland Webber, general manager, Beth Allen, finance officer, and Carl Dockery, Jr., board chairman. The following are the operational observations, findings, and recommendations related to the performance audit.

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

The Shelby ABC Board operates two retail stores ranging from approximately 800 to 1,000 feet of shelf space and carries approximately 1,700 product codes in both stores. *Refer to pictures in Appendix B.*

- Both stores were clean, well-lit, and well-dusted. Counter areas were free of clutter having supplies easily accessible. No televisions were evident.
- The Fetal Alcohol Syndrome poster was displayed in both locations.
- Security systems are in place and functional.
- Both stores display a consistent shelf management plan that exhibits a strategy per category following the highest priced product on the top shelves, most popular item at eye-level, and the lowest priced product on the bottom shelves. Cross merchandising is used throughout the stores to encourage impulse shopping. Product displays are available throughout the store spotlighting bestselling or newest items. *See pictures on page 15.*
- The state price books along with monthly sales lists are available in both locations.
- 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**

- Four out of the five board members, the general manager, and finance officer have attended the initial mandatory ethics training. A new board member has been appointed and the board chairman has since been reappointed.
- Training is provided as new information becomes available to current staff. Occasionally employees may travel to surrounding boards for additional training or product knowledge opportunities.
- Cross training opportunities have been extended to key employees in the event the general manager or finance officer is suddenly unavailable.

*Recommendations:*

- Bring all board members into compliance with the state ethics requirement. All newly appointed and re-appointed board members must receive ethics education with 12 months of appointment date. *Refer to Appendix C (1) for statute.*

## **ABC Board Policies**

- Policies adopted and submitted to the Commission include:
  - Code of Ethics
  - Law Enforcement Contract
  - Travel Policy (City of Shelby Approval Included)
  - FY2012 Annual Audit
  - Employee Handbook (Adopted 2007)
  - FY2014 Budget (Proposed and Adopted)
  - Mixed Beverage Policy
  - Price Discrepancy Policy

### *Recommendations:*

- Adopt an updated or revised employee handbook that outlines the duties and responsibilities of each employee, board policies, and benefits offered, if any. Forward copies to all employees and implement an acknowledgement of receipt from every employee to be filed in the personnel files. Once adopted, submit to the Commission. *Refer Appendix C (2) for rule.*

## **Internal Control Procedures**

- All clerks use a time entry system to maintain scheduled hours. During payroll, the general manager verifies the system reports to determine accuracy and forwards to the finance officer for processing. If discrepancies occur, the general manager will adjust hours worked in the system. The master payroll activity report is verified by the general manager. Payroll software calculates tax and other withholdings. Back up is conducted daily.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. A written policy has not been adopted should cash discrepancies occur.
- 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 bi-monthly at both locations by the general manager and two clerks. Spot checks are conducted often. If discrepancies occur, all persons involved including the finance officer will investigate and recount for verification and accuracy. When discrepancies are verified, the general manager and finance officer will adjust the inventory system to match with the actual store counts. Unsalable items are adjusted monthly.
- A credit card has been to the board. Only the general manager is authorized to use the card for designated purposes. Board members view all credit card statements and the finance officer reconciles all transactions purchased with the card. However, a written credit card policy has not been implemented.

*Recommendations:*

- To ensure stronger 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.

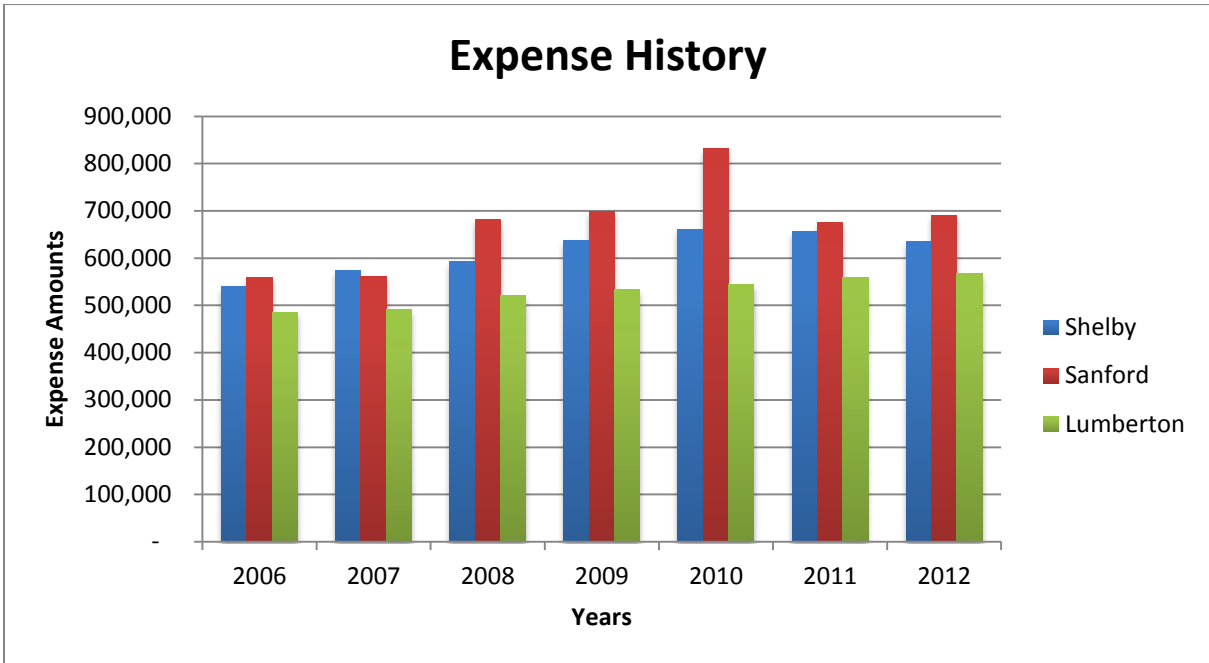
### **Administrative Compliance Findings and Observations**

- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting referencing the conflict of interest statement.
- Board member appointment dates and compensation amounts 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 employs two family members- the general manager and another employee-who were grandfathered in when the law changed. At this time, there is no indication of favoritism. To incorporate some segregation, management has implemented a structure as to having individuals work in separate stores when possible.
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- A review of travel reimbursements revealed that expenses follow the travel policy adopted with documentation attached. However, spousal registration fees for conferences have not been prepaid.
- Although liquor orders do not bear the pre-audit certificate, each individual vendor invoice has the pre-audit certificate and is signed by the finance officer. When ordering for supplies, it is the policy that the vendor must invoice the board.
- All checks bear the approved certificate and are signed by the finance officer and general manager. In the event the general manager or finance officer is unavailable, board members are authorized to sign checks.
- Out of approximately 1,700 product codes per store, approximately 280 codes were sampled, and six were incorrect.

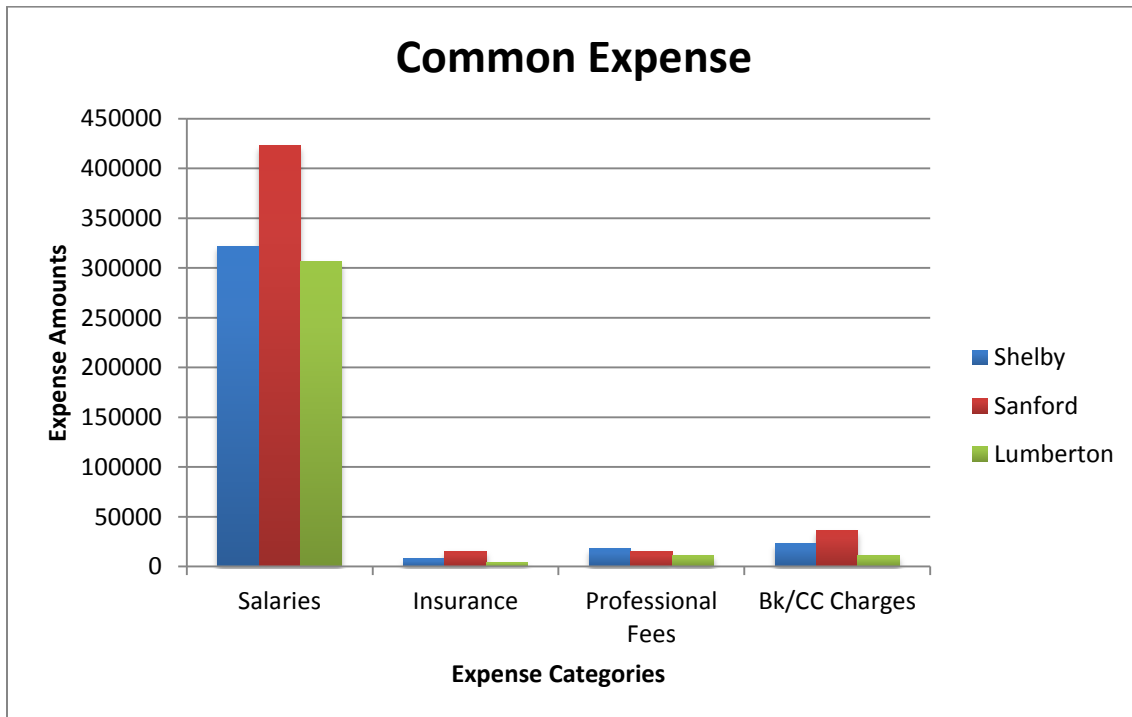
*Recommendations:*

- Prepay conference fees for spouses and/or non-employees without using ABC board funds.
- Audit shelf tags more frequently. Incorporate such practices within spot check time periods. Consider updating shelf tags to include product codes and prices to help minimize errors when price changes occur.

## APPENDIX A



*The expense history data indicates that Shelby ABC's total expenses have decreased 3.16% since fiscal year 2011 while sales have increased 6.5% over the same time period. Shelby ABC's expenses are continuing to decrease since FY2010.*

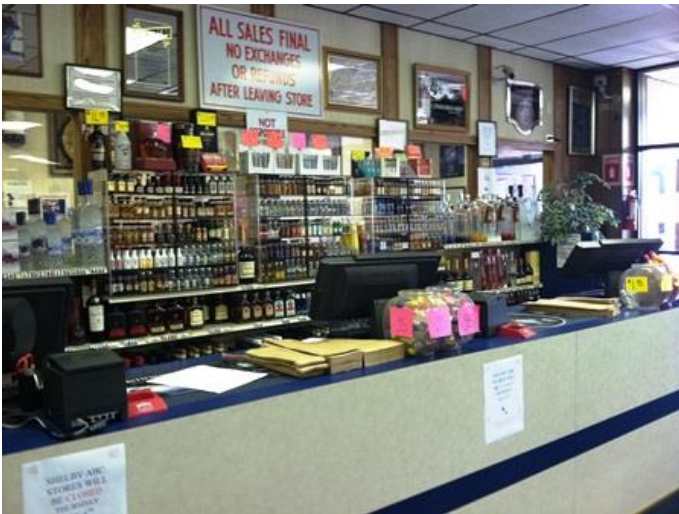


*Common expense data indicates that Shelby ABC's common expenses are relatively lower compared with other similar size boards.*

## APPENDIX B



*Exterior view of Warren Rd.*



*Counter view of Warren Rd.*



*Interior view of Warren Rd.*



*Exterior view of Post Rd.*



*Interior view of Post Rd.*



*Counter view of Post Rd.*



## 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) *NCAC 02R.1009 (a) states, "Each local board shall establish policies and rules governing each of the following:
  - (1) *Initial employment of employees, including qualifications and requirements for new employees;*
  - (2) *Compensation and benefits;*
  - (3) *Hours and days of work, holidays, vacation, sick leave and other matters pertaining to the conditions of employment;*
  - (4) *Promotion, transfer, demotion and suspension of employees;*
  - (5) *Separation or termination of employees;*
  - (6) *Granting of salary increases;*
  - (7) *Employee grievance procedures; and*
  - (8) *Any other programs or procedures as may be necessary to promote efficiency and to provide for a fair and reasonable system of personnel administration.**

# SHELBY BOARD OF ALCOHOLIC CONTROL

P. O. BOX 1649 – Shelby, North Carolina 28151-1649 – (704) 482-7921 – Fax (704) 482-8915

Carl Dockery  
*Chairman*  
David Schweppe .

Page Morgan  
Freddie Harrill  
Gerald Weathers

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September 20, 2013

Ms. Moniqua McLean, ABC Board Auditor  
North Carolina State ABC Commission  
4307 Mail Service Center  
Raleigh, North Carolina 27699-4307

Dear Ms. McLean:

The Board would like to thank you for the opportunity to respond to the audit report and to thank you for attending our meeting on August 26, 2013 to present your findings and performance report to us. The Board will use your helpful comments and recommendations in finding areas of concern to continue to improve our local ABC system. We are very pleased to say we have implemented most of the recommendations received from the performance audit.

The Board is pleased with the performance of the General Manager, Financial Officer, and store employees in providing a friendly shopping environment and controlled sales of spirituous liquors at both our locations, and with mixed beverage sales. As we grow we will continue to provide excellent customer service as we have in the past and strive to continue to meet all the recommendations passed upon us by the NCABC Commission, to the best of our ability.

We appreciate your time and effort, and look forward to seeing you again in the future.

Sincerely,



Carl Dockery, Jr.  
Chairman, Shelby ABC Board

## SHELBY ALCOHOL BEVERAGE CONTROL BOARD

### Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Training:</b></p> <ul style="list-style-type: none"> <li>• Have all board members completed the mandatory ethics training.</li> </ul>	<input checked="" type="checkbox"/> <b>Yes</b>  <input type="checkbox"/> <b>No</b>	<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>All board members have completed the ethics training requirement.</p>
<p><b>ABC Board Policies:</b></p> <ul style="list-style-type: none"> <li>• Update and/or adopt the following policies:             <ul style="list-style-type: none"> <li>○ **Employee Handbook</li> <li>○ Credit Card Policy</li> </ul> </li> </ul>	<input type="checkbox"/> <b>Yes</b>  <input checked="" type="checkbox"/> <b>No</b>  Note: Required by Rule	<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>All policies have been adopted and submitted to the Commission.</p>