

Saint Pauls 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

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ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

CHAIRMAN:

A. D. "Zander" GUY, JR.

COMMISSIONER:

Norman A. Mitchell, Sr.
Charlotte

ADMINISTRATOR:

Agnes C. Stevens

LOCATION:

400 East Tryon Road
Raleigh NC 27610

MAILING:

4307 Mail Service Center
Raleigh NC 27699-4307

PHONE: (919) 779-0700

<http://abc.nc.gov/>

April 3, 2019

Fred E. Gibson
Chairman
St. Pauls ABC Board
948 W Broad St
Saint Pauls, NC 28384

Dear Chairman Gibson,

On the following pages you will find the performance audit report conducted earlier this year by the staff of the ABC Commission reviewing the operations of the St. Pauls ABC Board.

The report consists of an executive summary, an overview of the objective, purpose and scope, and a digest of your board's performance standards and related findings. Included in the findings are recommendations for action on the part of your board.

I encourage you to review the report and let me know if you have any questions or require assistance in implementing any of the recommendations.

On behalf of the NC ABC Commission I thank you and your staff for your assistance and cooperation in conducting this review and in implementing the changes that will reduce expenses and increase profitability of your board.

Sincerely,

A handwritten signature in black ink, appearing to read "Agnes Stevens".

Agnes Stevens
Administrator

cc: NC Association of ABC Boards

OBJECTIVE, PURPOSE, AND SCOPE

In addition to regular and special financial audits, G.S. 18B-705 (a) authorizes the N.C. ABC Commission to conduct performance audits of all local ABC boards in the state. Performance audits are examinations of existing operating policies, practices, controls, and activities to determine those areas in which there may be a need for improvement.

The audits are designed to ensure that all local ABC Boards comply with established performance standards pursuant to G.S. 18B-203 (a) (20). The audits' scope addresses compliance with ABC laws and rules, store appearance, operating efficiency, solvency, and customer service.

To achieve the objectives of the audit, auditors:

- Review applicable General Statutes, ABC Commission Rules, and Administrative Policies
- Review applicable reports and studies of ABC boards with similar size and geography
- Consult with specialists at the UNC School of Government
- Verify compliance with Commission and Board policies
- Verify results of previous performance audit recommendations
- Review organizational chart and job descriptions
- Review ABC board annual independent financial audits
- Visit the store(s)
- Interview key ABC board personnel.

The initial round of performance audits for the local ABC Boards concluded in 2016 and provided a comprehensive overview of the operations of the local boards. The follow-up round of performance audits now under way is designed to provide local boards with information that targets specific areas for improvement. Board activities that meet or exceed current performance standards are not included as areas recommended for corrective action and so are not included in the attached summary report and recommendations.

PROFIT PERCENTAGE TO SALES AND OPERATING COST RATIO

In FY2018, the Saint Pauls ABC Board had a profit percentage to sales of 6.3%, a 0.4% increase over FY2017. The initial performance audit conducted in FY2014 concluded a profit percentage to sales of 4.93%. The NC ABC Commission profit percentage to sales standards for ABC Boards with gross sales less than \$2M is 5%.

The operating cost ratio for the St. Pauls ABC Board was 0.72 in FY2018. St. Pauls ABC Board's operating expenses decreased by 2.8% over FY2017. The NC ABC Commission standard for ABC boards with one or two stores without mixed beverage sales is less than 0.85.

Thus, the Saint Pauls ABC Board met the profitability and operating cost standards set by the NC ABC Commission. Below is a chart showing expenses and income from operations for the previous two years.

	FY2018	FY2017
Expenses excluding Depreciation	\$211,445	\$217,453
Income from Operations	\$81,914	\$75,294

Cost of sales totaled \$705,014, 55% of total gross sales in FY2018. In FY2017, cost of sales totaled \$688,480, 54% of total gross sales. The state's average cost of sales is approximately 52%. The inventory turnover for the Saint Pauls ABC Board is 4.9. The cost of sales percentage for the Saint Pauls ABC Board has fluctuated since FY2018.

BUDGET ANALYSIS

In reviewing the budget to actual analysis of the FY2018 financial audit, sales revenues exceeded the budgeted projections by 1.7%. Overall expenses exceeded budgeted projections by 0.8% or \$1,697.

The NC ABC Commission audits and compares all ABC Board monthly sales with the submitted adopted budgets. The budget presented to the NC ABC Commission is different from the budget in the financial audit.

The below chart shows the final budget to actual amounts and the variances in the financial audit.

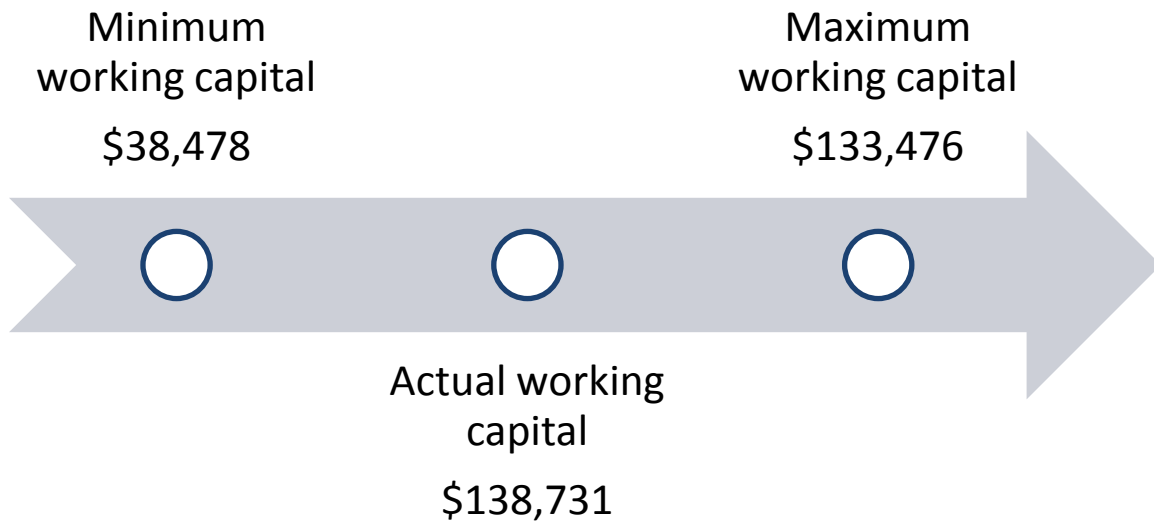
	FY2018 Budget Projections	FY2018 Actual	Variance \$	Variance %
Sales	\$1,278,600	\$1,293,033	\$14,433	1.7%
Total Operating Expenses including Capital Outlay	\$210,360	\$212,057	(\$1,697)	-0.8%

REQUIRED ACTION: *All ABC Boards are required to operate within a balanced budget. When sales projections exceed actual amounts, amend the budget to adjust for the increase. If budgeted line items are not balanced, adopt budget amendments to correct specific items or add omitted line items. G.S. 18B-702(h) states, "Except as otherwise restricted by law, the local board may amend the budget at any time after adoption, in any manner, so long as the budget, as amended, continues to satisfy the requirements of this section...Amendments to the adopted budget shall also be provided to the appointing authority and the Commission."*

WORKING CAPITAL

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. The NC ABC Commission has set a working capital standard for boards with gross sales greater than \$1.5M but less than \$50M an amount equal to three months of sales revenue.

Based upon the existing rules, the Saint Pauls ABC Board is allowed to maintain a minimum working capital of \$38,478 and a maximum working capital of \$333,476, equivalent to three months' gross sales. The board retained an actual working capital of \$138,731 in FY2018.



DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts all expenses, mixed beverage and bottle taxes. G.S. 18B-805 (c) requires the board to make a minimum quarterly distribution of the 3 ½% markup and .01/.05 cent bottle tax to the municipalities and county. Below is a chart of taxes paid to the NC Department of Revenue, Robeson County, and the Town of Saint Pauls.

G.S. 18B-805 (c) (2) and (3) requires the board to distribute quarterly at least five percent (5%) of profits to law enforcement and at least seven percent (7%) of profits toward alcohol education. Remaining profits are to be distributed as follows:

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

Revenues Less Taxes and Cost of Sales FY2018	
Sale (Retail and Mixers)	\$1,293,033
Excise Tax	\$287,578
Rehabilitation Tax	\$5,027
Net Sales	\$1,000,428
Cost of Liquor Sold	\$705,014
Gross Profit	\$295,414

	FY2018 Minimum Distribution Calculation	Variance \$	Variance %
Gross Profit (Taken from Above)	\$295,414		
Total Operating Expenses	\$213,500		
Income from Operations	\$81,914		
Net Position before Distributions	\$81,936		
3 ½% Minimum Distribution	Total \$38,404 <ul style="list-style-type: none"> • \$24,963 to Town of Saint Pauls • \$13,441 to Robeson County 	Total \$38,482 <ul style="list-style-type: none"> • \$25,837 in excess to Town of Saint Pauls • \$12,645 in excess to Robeson County 	50.1% in total excess
Law Enforcement	\$1,836	(\$28)	-1.5%
Alcohol Education	\$2,571	(\$2,571)	-1.0%

A contract between the Town of Saint Pauls Police Department and the ABC Board is in effect and requires the board to distribute at least 5% of profits. In addition to the law enforcement distribution, the board is required to expend at least seven percent (7%) towards alcohol education or rehabilitation purposes. The Saint Pauls ABC Board has not distributed funds for this purpose.

REQUIRED ACTION #1: *Begin distributing toward alcohol education/rehabilitation programs as described by G.S. 18B in FY2019 and future years. G.S. 18B-805 (c) (3) states that the local board shall spend, or pay to the county commissioners to spend, for the purposes stated an amount set by the board which shall be at least seven percent (7%) of the gross receipts remaining. G.S. 18B-805 (h) states that funds distributed shall be spent for the treatment of alcoholism or substance abuse, or for research or education on alcohol or substance abuse. Any agency or person receiving funds from the county commissioners or local board 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.*

REQUIRED ACTION #2: *Amend budget to reflect the expected alcohol education distribution requirement. Once approved, forward copies to the appointing authority, the NC ABC Commission, and the financial auditor.*

CORRECTIVE ACTION TAKEN: *The board has begun distributing toward alcohol education as required by G.S. 18B-805. The ABC Board responded the minimum distribution is being awarded to the local high school impaired driving awareness program.*

STORE APPEARANCE

The findings for store appearance are as follows:

- The Fetal Alcohol Syndrome poster is displayed as required by G.S. 18B.
- Shelf management continues to follow the minimal trend as in previous years. Products are arranged with value added products on the bottom shelves and more premium products at eye-level or top shelves. Because of space constraints, products are overlapped in other categories.

STRONGLY RECOMMENDED: *Consider the following to increase traffic flow:*

- *Utilizing resources that would provide effective practices, i.e. shelf management, customer service, and inventory management, using the board's sales history*
- *Modernize the existing location to generate more traffic and to further enhance customer shopping experiences and increase profits.*

OPERATIONAL AND ADMINISTRATIVE COMPLIANCE

- While inspecting the store, a random sample of approximately 95 items was selected to determine if uniform pricing is displayed. Of those selected, three were incorrect.

REQUIRED ACTION: *Conduct a routine check of shelf prices along with the register to ensure accuracy. All prices must match what is in the register, the shelf, and in the NC Liquor Quarterly, and/or memorandums. Refer to the ABC Commission's website to verify product pricing.*

CORRECTIVE ACTION TAKEN: *Management has implemented procedures to incorporate routine shelf and register checks to ensure accurate product pricing.*

- Payroll periods are set to two week intervals. The usual practice involves employees receiving payroll disbursements prior to the period end resulting in payments in advance.

STRONGLY RECOMMENDED: *Cease payroll prepayments to employees. Establish clear payroll period guidelines requiring time sheets of all employees to be completed and submitted to management for review on a specific date. The verified timesheets are to be forwarded to the bookkeeper on another specific date according to the payroll period established.*

- An inventory spot check was conducted at the time of the fieldwork visit. Multiple discrepancies were found as bottles or cases were short and over. The practice has been that another ABC Board will essentially borrow a case from the board and later return. Inventory is not adjusted for that process. Employees routinely count inventory and notify the manager of shortages. However, no documentation is retained for verification purposes. Other adjustments occurred in multiple instances.

REQUIRED ACTION: *Conduct a physical inventory count of the entire store monthly. Forward any and all adjustments to the NC ABC Commission until further notice. Keep a copy of all backup paperwork explaining why adjustments were made.*

CORRECTIVE ACTION TAKEN: *Management has implemented procedures to incorporate monthly inventory checks.*

- Board meeting minutes were not all available. Minutes are kept in a folder in a file cabinet. Minutes do not clearly represent what transpired. Examples include votes taken, general concerns, store updates, and other financial matters. The minutes referenced an executive session was entered to discuss financial matters.

REQUIRED ACTION: *Have clear, concise, and detailed board meeting minutes reflecting what has transpired during the meeting. Have the board chairman read a conflict of interest statement provided in the NC ABC Commission Operations Manual. Notate the conflict of interest statement was read in the board meeting minutes.*

CORRECTIVE ACTION TAKEN: *The board has implemented practices to ensure that consistent and detailed minutes are representative to the discussion topics.*

- The board chairman currently serves as the Mayor Pro Tem of the Town of Saint Pauls.

STRONGLY RECOMMEND: *To increase transparency with the board and remove any conflicts of interest, the chairman must refrain from discussing and voting on matters concerning ABC distributions to the town.*

- The board employs a relative of one board member on a part-time basis. The board has obtained approval from the NC ABC Commission allowing the relative to be employed by the board only if the said board member does not supervise or refrains from any vote pertaining to the employee.

STRONGLY RECOMMENDED: *Follow the above recommendation whereas to remove any conflicts of interests, the board member should refrain from any discussions related to the employee.*

- Policies referenced in the initial performance audit have not been completed. Specific policies mentioned were related to the business credit card. The current employee manual is dated and does not reflect current practices of the ABC Board.

REQUIRED ACTION: *Adopt a personnel manual and/or policies that incorporate board practices. The ABC Commission encourages ABC boards to model personnel policies and procedures after those of the appointing authority. However, certain ABC procedures must be clearly presented in the employee manual specific to duties and responsibilities of the general manager and other personnel. Once employee manual is adopted and approved by the NC ABC Commission, provide copies to all employees for review and acknowledgement of receipt.*

REQUIRED ACTION: *As a reminder, submit policies to the NC ABC Commission prior to adoption. NCAC 15A .1102 states, "A copy of all rules or amendments thereto that may be adopted by a local board to govern the operation of ABC stores or the enforcement of the ABC laws shall be submitted to the Commission at least 15 days prior to the date on which it is proposed that those rules or amendments are to become effective."*

CORRECTIVE ACTION TAKEN: *The board has adopted an employee manual and forwarded a copy to the NC ABC Commission.*

- The Saint Pauls ABC Board has adopted the travel policy of the appointing authority. However, the board does not send the approval from the town on a yearly basis as required by G.S. 18B-700 (g2). The current town clerk provided a copy of the appointing authority's travel policy and the written claim form. The board has not used the written claim form as required with the appointing authority and the board's travel policy.

REQUIRED ACTION: *All ABC Boards are required to adopt a travel policy that conforms to the appointing authority or the Office of State Budget and Management. Utilize a travel reimbursement form when traveling overnight on ABC Board business. Provide documentation of meals, lodging, parking etc. to the bookkeeper.*

CORRECTIVE ACTION TAKEN: *The board currently adopts the NC Office of State Budget and Management travel policy.*

- In review of cash management process, the clerk cash drawers are routinely short. The process is that the previous general manger is responsible for reconciling all drawers to determine the bank deposits. If the drawer is short, the manager will notify the clerk responsible of the shortage. However, documentation is not available to determine how the shortage occurred.

STRONGLY RECOMMENDED: *At the end of each clerk's shift, have both clerks count each other's drawer and initial count sheet as to what has been counted. Two signatures must be displayed on the cash drawer count sheet, one of the owner and one of the verifier.*

- The change fund drawer is counted frequently. The current general manager counted the cash drawer upon the auditor's visit to verify the correct amount. There is an indication that the change fund drawer comes up short often.

STRONGLY RECOMMENDED: *The manager or someone with authorized access must count the change fund drawer multiple times throughout the day. Create a counted change fund form to document the date, time, and initials.*

Saint Pauls ABC Board Response to Performance Audit

The Saint Pauls ABC Board has addressed and corrected many of the problems presented in the performance audit the board understands that many of its practices were outdated and would like to thank the commission for helping them move forward.

In response to the budget amendments: The board understands its budgeting practices weren't satisfactory and plans to keep a close eye on its budget and adjust it accordingly.

In response to store appearance: The board is aware of the outdated shelving issue and general outdated store appearance but does not want to spend any more money updating the current store. It is the boards understanding that in 2021(2 years from date) Interstate 95 will be widening to 8 lanes (4 lanes on each side) and the store will be required to move. The board has discussed the matter and sees little benefit in spending more than is necessary on the current store when it will be torn down in the very near future, however the board has discussed finding discount shelving and computer system upgrades. The board is currently seeking and new location for the store to be moved to.

In response to operational and administrative compliance: The board is aware of all the improper practices and missing compliances and has strived to correct them. (All documents approved are attached)

- The board now distributes the 7% alcohol education to the local high school impaired driving awareness program
- Management and employees started routine checks for shelf/register accuracy
- Payroll issue has been addressed and corrected, employees now sign and verify time sheets with management
- Full store inventory is now conducted monthly and adjustments are sent to the ABC Commission
- The board was made aware that the minutes needed to be more concise and detailed and has addressed the issue. The board ensures the conflict of interest statement is read before each meeting. The board minutes are no longer kept in a folder, they are now in a binder in chronological order
- The board is aware of the chairman's dual roles and has strived to uphold integrity and transparency, the appointing authority has also been made aware of the concerns of the commission
- The board received a waiver for a family member to help unload the truck and understands the terms of the waiver
- The board has adopted the states travel policy
- The board has adopted a new personnel manual, credit card policy, and code of ethics
- The board is aware of the cash/deposit/reconciliation issue. Clerks are now responsible to count each other's drawer as well as their own and sign the reconciliation summary, shortage policy is

now addressed in manual. Since the stores been under new management it has had no shortages in registers/deposits/ or petty cash.

- Change drawer is now counted at the beginning and end of the general managers shift