

Randleman ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA

TABLE OF CONTENTS

ABC Commission Statement.....	3
Operational Observations, Findings, and Recommendations.....	6
Auditor’s Summary.....	17
Randleman ABC Board Response.....	18
Appendices.....	19



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

October 15, 2014

CHAIRMAN:
JAMES C. GARDNER

COMMISSIONERS:
JOEL L. KEITH
Wake Forest

KEVIN M. GREEN
Greensboro

ADMINISTRATOR:
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Moniqua S. McLean
ABC Board Auditor

Randleman ABC Board
Mr. C.O. Hayes, Jr., Chairman
620 W Academy Street
Randleman, NC 27317

Dear Chairman Hayes,

We are pleased to submit this performance audit report on the Randleman 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 your efforts to control expenses while increasing overall operating efficiency.

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 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.

BACKGROUND INFORMATION

Chapter 168 of the 1965 Session Laws authorized the City of Randleman to hold an election for an ABC store upon a petition signed by at least fifteen percent (15%) of registered voters. The referendum was held on May 4, 1965 and passed 527 to 475. The first sale occurred on June 10, 1965. A mixed beverage election was held on May 19, 2009 and passed 682 to 354.

Upon election of an ABC store, an ABC board was created consisting of a chairman and two members to serve for three year staggered terms. Current board members are C.O. Hayes Jr., board chairman, Ernest Talley, III and Phil Pendry, board members.

The Randleman ABC Board operates one retail store. The board staffs four part-time employees including the general manager. The general manager is responsible for the oversight of all daily operations, inventory management, accounting and financial reporting, human resource organization, and other administrative decisions for the board. Store employees are primarily responsible for providing friendly customer service to all customers, general store upkeep, and stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On June 5, 2014, ABC Board Auditor, Moniqua S. McLean, visited the Randleman ABC store and interviewed Lagray Matthews, general manager. Below is a financial analysis followed by operational observations, findings, and recommendations related to the performance audit.

FINANCIAL ANALYSIS

PROFIT PERCENTAGE TO SALES

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 Randleman ABC Board had gross sales of \$1,275,807; income from operations was \$64,407, a 5.05% profit percentage to sales.

Factors affecting sales and profitability include:

- Surrounding towns with ABC stores within a twenty-mile radius include High Point, Greensboro, and Asheboro;
- City population is 4,113 in 2010;
- Growth and development in surrounding, more heavily populated areas has led to a shift in shopping patterns away from small rural areas;
- The ABC board owns the location.

DISTRIBUTIONS

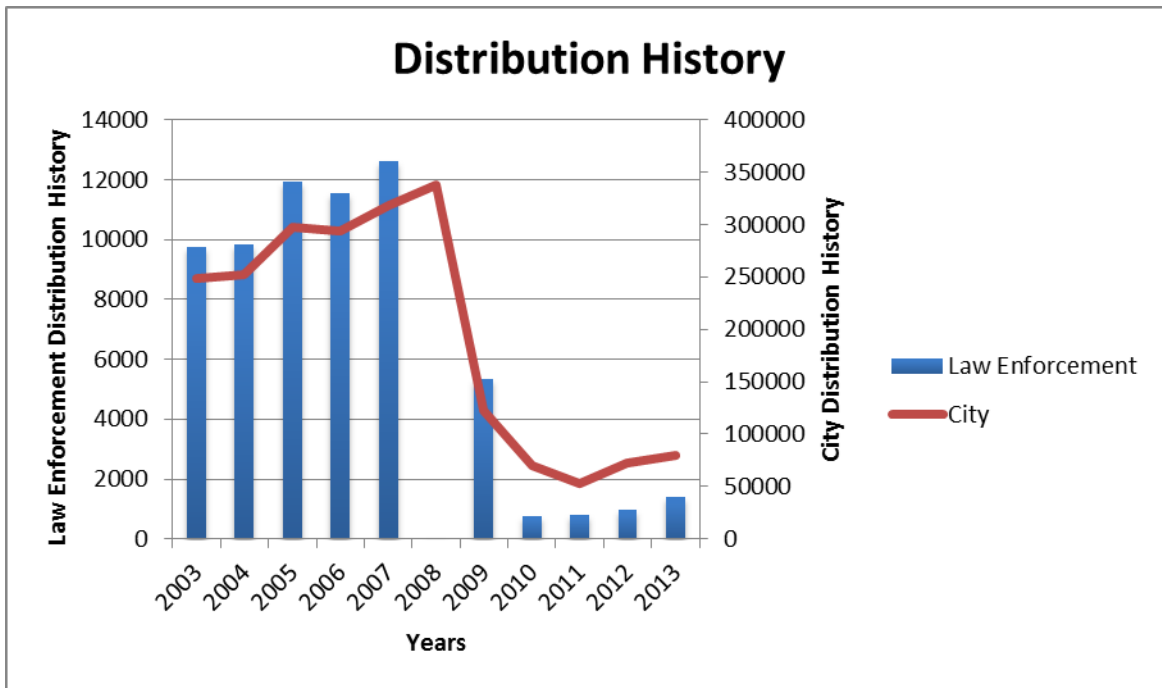
G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, mixed beverage and bottle tax. G.S. 18B-805 (c) (1) requires the board to make a minimum quarterly distribution of the 3 ½% markup rate to the county. In FY2013, the Randleman ABC board made the required minimum distribution to the city totaling \$37,342, plus an additional \$42,613 to the city. \$291,112 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) 920 requires the board to distribute at least five percent (5%) of net profits to law enforcement. The remaining profits are to be distributed as follows:

- Ninety-five percent (95%) to the Randleman General Fund, and
- Five percent (5%) to the Randleman Recreation Fund.

The Randleman ABC Board has distributed \$1,394 to local law enforcement. The board is exempt from the seven percent (7%) alcohol education distribution.

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



Note: The significant drop in distribution is a result in the economic strain in the area and the opening of a new ABC store in Asheboro in 2008.

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. 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 Randleman ABC Board had a working capital of \$358,479, which is more than the maximum amount allowed to retain of four months gross sales (\$327,020) as required by NCAC 02R .0902. The financial audit included an OPEB obligation (\$30,247) as part of the actual working capital calculation.

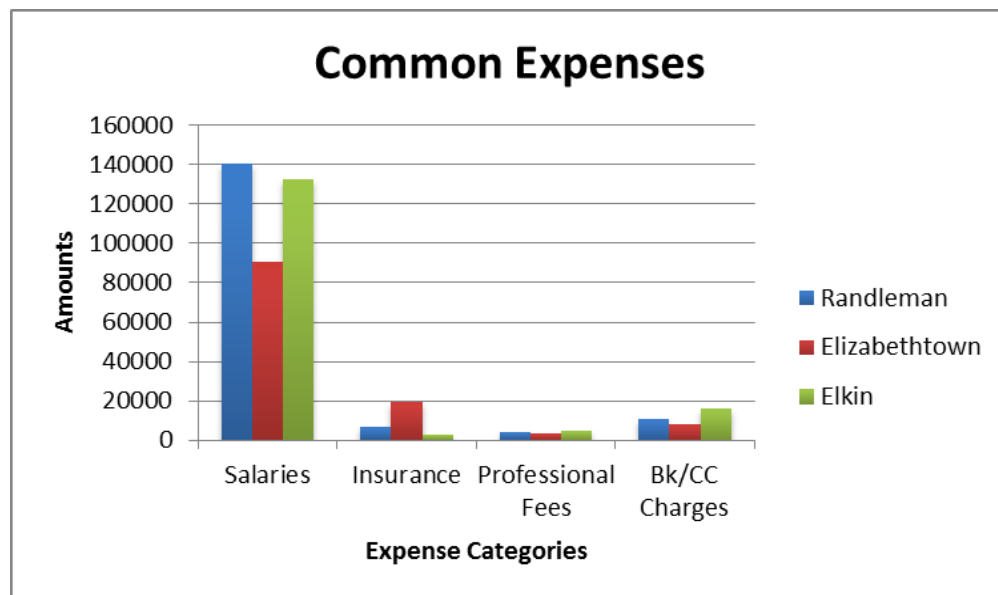
OPERATING COST RATIO

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 Randleman ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.74. Mixed beverage sales make up 5% of total gross sales. In fiscal year 2013, sales increased 0.4% over last fiscal year as expenses decreased 1.24% over the same time period. The board owns the store which contributes to significant savings in overhead expenses. The board contributes to other post-employment benefits (OPEB) for employees. The board does not pay these expenses upfront but is required to show the amortized expense annually.

A common expense analysis shows that Randleman ABC Board expenses compared with other similar size boards are in line, excluding salaries. Note: Insurance expenses for Elizabethtown include group and health insurance.



RECOMMENDATIONS

1. Consider discontinuing the post-employment benefits to future employees. As noted, these expenses rise year-to-year. Develop a plan on how to handle these expenses should the board cease to exist.
2. To minimize excess spending and to ensure the best price is offered on services, request bids annually from various vendors to get the best rates possible on financial audits, specific utilities, maintenance contracts, and credit card processing fees.

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 Randleman ABC Board receives deliveries twice a month: the inventory turnover rate is 5.8. The average inventory turnover rate for similar boards with the same delivery schedule is 5.6.

NO RECOMMENDATIONS

STORE APPEARANCE AND CUSTOMER SERVICE

The Randleman ABC Board operates one retail store with shelf space of approximately 900 linear feet and carries approximately 1,000 product codes.

- The store appeared clean and free of trash. Counter areas were clear making supplies easily accessible to staff.
- Exterior signage and landscaping around the stores were 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 in all designated areas.
- Shelf management follows a basic marketing plan applying the highest priced product on the top shelves and the lowest priced product on the bottom shelves. Multiple facings are used for bestselling items with heavy demand. End caps were used to display bestselling and/or new items. Some shelves appeared empty.
- The state price book is available should customers inquire about specific product. Sales clerks often refer to the price book for verification of product listing and pricing.
- Sales clerk's interaction with customers is attentive, courteous, and eager to meet the needs of customers.

RECOMMENDATIONS

1. Consider additional ways to improve shelf management or product placement, such as the following:
 - Cross-merchandising by placing products that mix together on the same shelves. Intermingle North Carolina products within their specific category as well as having a designated area;
 - Reallocating shelf space from declining categories to those showing growth;
 - Allow more space for your more popular brands and re-allocating space when eliminating underperforming brands.

PERSONNEL AND TRAINING

- All board members and the general manager have completed the initial ethics training as required by G.S. 18B-706. Board members have since been reappointed and have completed the reappointment training.
- Training is provided continuously to new and existing staff on areas applicable to job performance. However, formal training on specific key areas, such as product knowledge and customer service, has not been provided.
- Cross training opportunities are currently being extended to key employees in the event the general manager was suddenly unavailable on key administrative duties.
- Personnel files are available and include human resource documentation and other personnel information as required.

RECOMMENDATIONS

1. Consider additional training opportunities through the Commission and the ABC Officers Association on specific areas. The Commission offers Responsible Alcohol Sellers Program, RASP, training for ABC boards and mixed beverage permit holders. The NC ABC Officers Association offers ABC Inspection training for local law enforcement officers.

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract
 - Travel Policy (City of Randleman Approval for FY2013)
 - FY 2013 Annual Audit
 - Employee Handbook
 - FY2013 Budget (Proposed and Adopted)
 - Mixed Beverage Policy

- Policies not adopted include:
 - Price Discrepancy Policy

RECOMMENDATIONS

1. Adopt a price discrepancy policy that incorporates customer friendly practices. *Refer to Appendix B (1) for rule.*

INTERNAL CONTROL PROCEDURES

- The general manager schedules all employees for work shift hours. Time sheets are used for all clerks. During payroll, the general manager will verify all time sheets and enter into accounting/payroll software for processing. A payroll activity report is generated for review.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures to handle cash drawer overages/shortages.
- Bank deposits are made regularly as required by the ABC Commission rule. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed by the general manager/finance officer.
- Physical inventory counts are completed monthly by whoever is scheduled to work. Spot checks are conducted frequently. If discrepancies occur, the general manager will investigate and recount for accuracy and verification. Unsalable items are deleted from inventory when supplier representatives write-off the product. Once completed, the general manager will adjust the inventory system to match with the actual store counts.
- Out of approximately 1,000 product codes, approximately 100 product codes were sampled to ensure accurate pricing and all were correct.

NO RECOMMENDATIONS

ADMINISTRATIVE COMPLIANCE FINDINGS AND OBSERVATIONS

- 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 did not include a conflict of interest statement asking board members if conflicts existed with items on the meeting agenda.
- Board member appointment dates and compensation amounts were correct on the Commission website.
- Board member and general manager compensation amounts are 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 one family member who was grandfathered in when the legislation passed.
- The general manager serves as the finance officer of the board. The board has obtained an approval from the Commission for the general manager to serve as the finance officer.
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- Orders for liquors and other miscellaneous orders are accompanied by a purchase order and bear the pre-audit certificate 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 or an authorized person for payment. Two signatures are located on all paid checks that of the general manager and the board chairman. All board members are authorized to sign checks should the general manager is unavailable.

RECOMMENDATIONS

1. Have the board chairman read the conflict of interest statement to all board members at the beginning of each meeting. Reference the conflict of interest statement was read in the board minutes. *Refer to Appendix B (2).*
2. Begin to work on a plan to designate someone other than the general manager as finance officer. The intent is to generate stronger internal controls and checks and balances.

AUDITOR'S SUMMARY

ABC Board Auditor, Moniqua S. McLean, presented to the board the performance audit recommendations on August 5, 2014. The board has since responded to the performance audit recommendations and continues 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.

CITY OF RANDLEMAN
ALCOHOLIC BEVERAGE CONTROL BOARD

620 W. Academy St., Randleman, NC 27317

BOARD MEMBERS

C.O. Hayes, Jr., Chairman
~~Donnie Presnell~~ Phil Pendry
~~Milo Hunter~~ Ernest Talbot, II

MANAGER
Lagray Matthews

September 15, 2014

Moniqua McLean
4307 Mail Service Center
Raleigh, NC 27699-4307


Dear Moniqua,

It was a pleasure to finally meet you. The Randleman ABC Board has taken some of your suggestions into consideration. We are considering additional training for our employees. The Board adopted a price discrepancy policy that incorporates customer friendly practices when the price in the register doesn't match the price on the shelf. We are willing to incorporate cross-merchandising that mix together on the same shelf, as well as allowing more space for popular brands.

The Board Chairman will now read the conflict of interest statement to all board members at the beginning of each meeting.

Overall, the Board was very pleased with your audit, we appreciate the time you had taken to explain your suggestions, and we will continue to improve our policies as need be.

Sincerely,



Lagray Matthews
Finance Officer

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NC ABC COMMISSION

APPENDIX A

Illustration 1



Exterior view

Illustration 2



Counter view

Illustration 3



Interior view

APPENDIX B

- (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) GS 18B-702 (j) states "...the local board shall designate (i) a part-time or full-time employee of the board other than the general manager or (ii) the finance officer of the appointing authority with consent of the appointing authority to be the finance officer for the local board."

APPENDIX C

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>ABC Board Policies:</p> <p>**Adopt a price discrepancy policy.</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>Note: 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 ___% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management has implemented procedures to be in compliance with ABC statutes and Commission rules.</p>