

Martin County 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

CHAIRMAN:
JAMES C. GARDNER

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Moniqua S McLean
ABC Board Auditor
919-779-8365

December 16, 2014

Martin County ABC Board
Mr. Janie G. Grady, Chairperson
PO Box 467
Williamston, NC 27892

Dear Chairperson Grady,

We are pleased to submit this performance audit report on the Martin County ABC Board. The objective of this audit is 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 maintain profitability, to reduce current costs and to implement new policies and procedures to ensure compliance with the ABC statutes and Commission rules.

If we can be of assistance in the future, please advise.

Respectfully,

Robert A. Hamilton
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 both stores;
- Interviewed key ABC board personnel.

BACKGROUND INFORMATION

Chapter 493 of the 1935 Pasquotank Act authorized Martin County to hold an election for an ABC store. The referendum was held on July 6, 1935 and passed 1,748 to 351. A county-wide mixed beverage election was held May 5, 1992 and did not pass. A mixed beverage election for the Williamston city limits occurred on November 2, 1993 and did not pass. A second mixed beverage election for the Williamston city limits occurred on November 2, 1999 and passed 426 to 393.

Upon election of an ABC store, an ABC board was created consisting of a chairman and two members to serve for three year terms. Chapter 888 of the 1987 Session Laws authorized the county to increase membership to five members serving for three-year staggered terms. Current board members are Donald W Norman, board chairman, James E Hill, Janie G. Grady, Robert Turner, and Roscoe Harris, board members. Since the initial audit fieldwork, two board members have been replaced and one seat remains vacant. Currently, Janie G. Grady serves as the board chairperson and James Hill as the vice chairman.

The Martin County ABC board operates two retail stores. The board staffs three full-time and five part-time employees. The general manager is responsible for overseeing and managing daily operations of both stores including but not limited to supervising personnel, inventory control, and other administrative duties. The board has hired an external accountant to serve as the finance officer and provide additional checks and balances as required by the ABC statutes and Commission laws. All store clerks are responsible for providing friendly customer service, store upkeep, and stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On May 19, 2014, ABC Board Auditor, Moniqua S. McLean, visited the Martin County ABC administrative office and stores and interviewed Lynn Sadler, 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 of 2013, the Martin County ABC Board had gross sales of \$1,842,270; income from operations was \$119,729, a 6.50% profit percentage to sales.

Factors affecting sales and profitability include:

- Surrounding counties with ABC stores include Edgecombe, Bertie, Beaufort, Pitt, Halifax, and Washington counties;
- County population is 23,699 in 2013, a 3.3% decrease since 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 rents the Robersonville store.

DISTRIBUTIONS

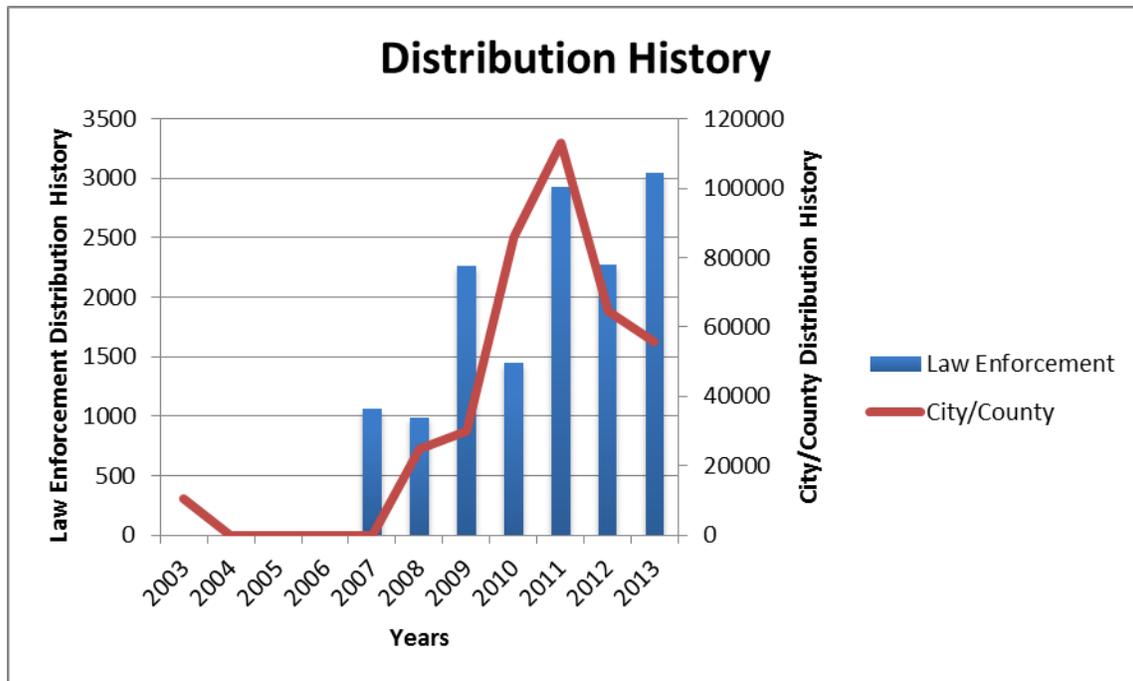
G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, mixed beverage, and bottle tax. G.S. 18B-805 (c) (1) requires the board to make a minimum quarterly distribution of the 3 ½% markup rate to the county. In FY2013, the Martin County ABC board made the required minimum distribution to the county totaling \$54,709, plus additional distribution of \$1,126. \$417,437 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) requires the board to distribute at least five percent (5%) of net profits to law enforcement. The board is not required to make the seven percent (7%) alcohol education distribution. The remaining profits for Martin County are to be distributed as follows:

- Seventy-five percent (75%) to the Martin County General Fund
- Twenty-five percent (25%) to the cities and towns within Martin County
 - Of the twenty-five percent (25%), eighty-seven and one half percent (87 ½%) is to be distributed to the towns based upon population;
 - Of the twenty-five percent (25%), twenty and one half percent (20 ½%) is to be distributed to towns with ABC stores.

The Martin County ABC Board has distributed \$3,042 to local law enforcement. Alcohol education distribution follows the formula from the local enabling act.

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



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 Martin County ABC Board had a working capital of \$466,620, which is less than four months gross sales (\$474,945) and is within the limits of NCAC 02R .0902.

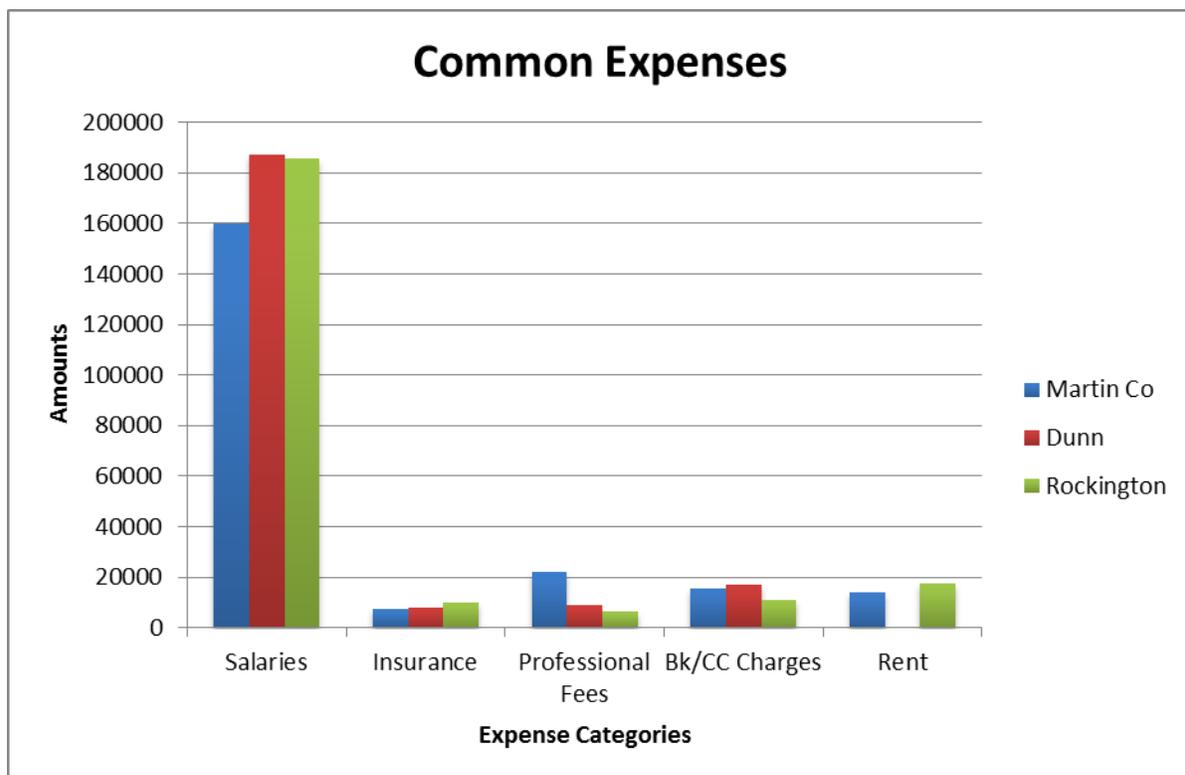
OPERATING COST RATIO

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 Martin County ABC Board operates two retail stores with mixed beverage sales: the operating cost ratio is 0.72. Mixed beverage sales make up 1.7% of total gross sales. In fiscal year 2013, sales increased 3.9% over last fiscal year as expenses increased 6.04% over the same time period. The board rents the Robersonville location for \$13,945 and contributes to other post-employment benefit (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 Martin County ABC Board expenses compared with other similar size boards are relatively lower, excluding professional fees. Note: professional fees are significantly higher due to the added expenses for accounting and bookkeeping performed.



RECOMMENDATIONS

1. Consider discontinuing the post-employment benefits to future employees. As noted, these expenses rise year-to-year. Contact your accountant and appointing authority on how to handle expenses.
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 Martin County ABC Board receives deliveries twice a month: the inventory turnover rate is 4.6. The average inventory turnover rate for similar boards with the same delivery schedule is 5.6.

RECOMMENDATIONS

1. Consider the following to increase inventory turns:
 - Incorporating a shelf management plan that analyzes sales data to targeted shopping patterns;
 - Utilizing end caps and empty shelf space as much as possible to highlight slow moving and new products;
 - Moving stock within the store and between stores to increase visibility and to encourage more impulse shopping;
 - Splitting cases with other boards or taking advantage of the Special Purchase Allowance and the Boutique collections to increase variety but minimize investment;
 - Eliminating poor performing items to drive category sales and increase shopper satisfaction.

STORE APPEARANCE AND CUSTOMER SERVICE

The Martin County ABC Board operates two retail stores with an average shelf space of approximately 1,460 linear feet and carries an average of 950 product codes.

- Both stores 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 in both locations.
- Security systems are in place and functional in all designated areas.
- Shelf management follows a marketing plan applying the highest priced product on the top shelves and the lowest priced product on the bottom shelves. A reorganization of product placement is currently under way at the Robersonville location. In instances where a particular product has multiple flavors, brand blocking is used to keep similar products together. Multiple facing are used for bestselling items with heavy demand.
- The state price book is available should customers inquire about a 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 the customers.

RECOMMENDATIONS

1. Consider more efficient 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

- Three out of five board members and the general manager have not completed the ethics training as required by G.S. 18B-706.
- 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 being extended to key employees in the event the general manager was suddenly unavailable on key administrative duties.
- Personnel files were unavailable for all employees.

RECOMMENDATIONS

1. Have board members, the general manager, and finance officer complete the required ethics training. *Refer to Appendix B (1) for statute.*
2. 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.
3. Create personnel files for all employees and board members. Include in the files employment information, tax withholding documentation, and federal I-9 forms.

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Employee Handbook
 - FY2013 Budget (Proposed and Adopted)
 - FY2013 Annual Audit
 - Cell Phone Usage Policy
 - Shelf Management Policy

- Policies not adopted include:
 - Law Enforcement Contract
 - Travel Policy
 - Price Discrepancy Policy
 - Mixed Beverage Policy

RECOMMENDATIONS

1. Have an agreed upon 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 (2) for statute.*
2. Request approval annually from the county to adopt the county's travel policy or adopt the state's travel policy. *Refer to Appendix B (3) for statute.*
3. Adopt a price discrepancy policy that incorporates customer friendly practices. *Refer to Appendix B (4) for rule.*
4. Adopt a mixed beverage policy that details customer friendly and flexible ordering and pickup guidelines. Once adopted, distributed to all mixed beverage accounts of any changes and submit a copy to the Commission.

INTERNAL CONTROL PROCEDURES

- Time sheets are used for all clerks, shift managers, and the general manager. During payroll, the general manager will verify all time sheets. Time sheets are forwarded to the accountant for processing. A payroll activity report is generated and forwarded to the general manager for review and for record retention.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. Although no formal written policy, management has incorporated 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 finance officer. The accountant and the general manager reviews and matches daily logs and deposits each month. However, current procedures have allowed employees to utilize the deposit as a change fund to borrow from the deposit. With this procedure, the deposit is often short.
- Employees often cash payroll checks at the store.
- Physical inventory counts are completed weekly by all clerks in both locations. Spot checks are conducted more frequently is potential problems occur. If discrepancies occur, the general manager will investigate and recount for accuracy and verification. Unsalable items are deleted from the inventory on a monthly basis by the general manager. Once completed, the general manager will adjust the inventory system to match with the actual store counts.
- A credit card is issued to the board with the general manager as the only authorized used. Because of a recent change in management, the credit card has not been used. The card is intended to be used for store and office purchases and travel arrangements. A policy has not been enforced.
- Travel expense records were unavailable and are usually kept with the accountant.
- Out of an average of 950 product codes per store, approximately 150 product codes were sampled to ensure accurate pricing and two were incorrect.

RECOMMENDATIONS

1. Have a written policy in place for cash drawer overages and shortages. Present to clerks so that they will know what is expected.
2. Refrain from allowing employees to utilize deposit funds as a change fund. Increase the amount in the change fund so to ensure that clerks have enough reserve for the heaviest times.
3. Refrain from allowing employees to cash payroll checks in the stores.
4. To ensure strong internal controls for 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;
 - Have someone other than the persons authorized to make purchases reconcile the credit card statements.
5. To ensure correct pricing on the store shelves and in the computer system, audit shelf tags on a regular basis by incorporating this practice during or in between the regularly scheduled inventory counts.
6. All records should be kept at the store. Once the accountant has closed the end of the month, records should be returned and filed in the administrative office.

ADMINISTRATIVE COMPLIANCE FINDINGS AND OBSERVATIONS

- Board meeting minutes were viewed and followed the order of proceeding, providing sufficient detail that a reasonable person would be able to follow what transpired. Board meeting minutes included a conflict of interest statement asking board members if conflicts existed with items on the meeting agenda.
- Board member appointment dates were not correct on the Commission website. However, 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 is in compliance with G.S. 18B-700 (k) whereas there are no immediate family members employed related to board members or the general manager.
- 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 liquor and other miscellaneous orders do not 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.

RECOMMENDATIONS

1. Update the Commission website to include correct information for board member appointment dates.
2. 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 B (5) for statute.*

AUDITOR'S SUMMARY

ABC Board Auditor, Moniqua S. McLean, presented the performance audit recommendations on July 8, 2014. The board has since responded to the performance audit recommendations and continues to implement strategies to maintain profitability while maintaining and reducing current costs to meet 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.

On May 19, 2014, Mrs. Moniqua McClean visited the Martin County ABC Board and both retail stores. In August 2014, Mrs. McClean presented her findings to the board.

Since the presentation, we have had some major changes. On September 15, 2014, Chairman, Donald Norman resigned. Also, Roscoe Harris stepped down as Vice Chairman. James Hill accepted the office of Vice Chairman. The County Commissioners as well as the ABC Board recommended Janie Grady as the new Chairman.

All current board members, which include Janie Grady, Roscoe Harris and James Hill, have completed the ethics training as of September 16, 2014. Lynn Sadler, General Manager, completed the training in August 2014. All certificates have been faxed to Laurie Lee. The ABC website is also up to date.

We have also started the process of redoing the personnel files. The new employees have been completed. This process should be complete by December 1, 2014. Cross training is also in progress. The store manager in Williamston has started polling as well as ordering for the store. One part time employee has also been trained in our new ABC Boss program as well as the new Traverse Accounting System. In the event the General Manager is unavailable, the store manager and part time employees could continue on with the daily operations of the ABC store.

As far as shelf management, we are trying to cross merchandise and eliminate poor selling products. The Board adopted a shelf discrepancy policy. We are in the process of changing to shelf labels as opposed to plastic numbers. We think this will help in keeping our prices current as well as enhance the appearance of the shelves.

Our law enforcement contract is complete and will be sent to the Commission. We now have a LBD policy. It has been sent to our mixed beverage outlets. It will also be submitted to the Commission. We have a new credit card policy. We are in the process of obtaining a new credit card. The old card named our previous general manager. The Martin County ABC Board has been approved by the county commissioners to adopt their travel policy. We are following the current policy for all travel matters.

In an effort to maintain and cut costs, we changed credit card processors. This has reduced our cost of credit card processing fees. We now also accept Discover along with Mastercard and Visa.

We have addressed matters affecting our clerks and cash policies. We have a written policy of overages and shortages. We do not accept personal checks except for those approved by the board such as mixed beverage orders or special occasion orders. We do not cash checks in the stores. We hope the written policy will alleviate any concerns and make expectations perfectly clear. The Board increased out change fund eliminating the need to borrow from deposits. Deposits are made daily.

As a final note, we will be moving the paid bills from the accountant to the ABC Board office. We stamp the orders from LL&B with the pre-audit certification. All checks are stamped that they have been approved. We have a statement pertaining to any conflict of interest with our agenda at all board meetings.

Lastly, we are nearing completion of our remodeling project that began last September. The project included updating our registers, computers, and store checkout area. Our next project will be in our Robersonville location where we plan to update the checkout area and shelves.

Thank you for your help and suggestions. We will try to keep making changes and moving forward.

Janie Grady, Chairman

James Hill, Vice Chairman

Roscoe Harris

Lynn Sadler, General Manager

APPENDIX A

Illustration 1



Exterior view of Williamston location

Illustration 2



Counter view at Williamston location

Illustration 3



Shelf management/product placement view

Illustration 4



Shelf management/product placement view

Illustration 5



Exterior view of Robersonville location

APPENDIX B

- (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) *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."*
- (3) *G.S. 18B-700 (g2) states, "...The local board shall annually provide the appointing authority's written confirmation of such approval to the Commission and a copy of the travel policy authorized by the appointing authority."*
- (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) *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)

APPENDIX C

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Personnel and Training:</p> <ul style="list-style-type: none"> • Have board members, general manager, and finance officer complete the required ethics training. • Create personnel files for all employees and board members. 	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>**Note: Required by Commission 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>Board members and management have completed the required ethics training and submitted the verification form to the Commission. Management is creating personnel folders for all employees and board members.</p>
<p>ABC Board Policies</p> <p>Adopt the following policies:</p> <ul style="list-style-type: none"> • Law Enforcement Contract • Travel Policy • **Price Discrepancy Policy • **Mixed Beverage Policy • **Cash Drawer Overage/Shortage Policy • **Credit Card Purchase Policy 	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>**Note: Required by Commission 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 policies and procedures to ensure compliance with the ABC statutes and rules.</p>

<p>Administrative Compliance:</p> <p>Affix the pre-audit certificate on all orders before the transaction occurs.</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</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 policies and procedures to ensure compliance with the ABC statutes and rules.</p>
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