

Rutherfordton 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

KEVIN M. GREEN
Greensboro

MICHAEL C. HERRING
West Jefferson

ADMINISTRATOR:
ROBERT A. HAMILTON

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Moniqua S. McLean
ABC Board Auditor
919-779-8365

January 4, 2016

Rutherfordton ABC Board
Mr. Michael W. Taylor, Chairman
P.O. Box 104
Rutherfordton, NC 28139

Dear Chairman Taylor,

We are pleased to submit this performance audit report on the Rutherfordton ABC Board. The objective of this audit was to examine existing policies, practices, and controls and to provide recommendations on methods to improve operating efficiency at the ABC Board in accordance with new legislative mandates.

The report consists of an executive summary, background information, operational findings and recommendations along with your response to our recommendations. This report will be posted on the Commission's public web site.

We would like to thank you, the ABC Board and your staff for the assistance and cooperation provided to us during the audit. Additionally, we appreciate the efforts your Board has made to comply with the new performance standards along with your efforts to increase profitability and reduce expenses.

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

Respectfully,

A handwritten signature in black ink, appearing to read "R.A. Hamilton".

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 board annual audit for the fiscal year 2015;
- Visited the store;
- Interviewed key ABC board personnel.

BACKGROUND INFORMATION

S.L. 1979-350 authorized the Town of Rutherfordton to hold an election for an ABC store. The referendum was held on August 1, 1979 and passed 850 to 568. The first retail sale occurred on November 1, 1979. A mixed beverage election occurred on March 12, 2002 and passed 795 to 575.

Upon election of an ABC store, the town was authorized to create an ABC board consisting of a chairman and two board members to serve for three staggered year terms. Current board members are Michael W. Taylor, board chairman, H. Gregory Hodge and Sally Leshner, board members.

The Rutherfordton ABC Board operates one retail store with mixed beverage sales. The board staffs four full-time employees including the general manager. The general manager is responsible for the oversight of all daily operations including accounts payable, policy implementation, and human resource management. The board has hired within the organization a finance officer to provide checks and balances for the board and other duties as required by the ABC statutes. All store employees have a primary responsibility of providing friendly customer service, store upkeep, and regular stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On August 25, 2015, ABC Board Auditor, Moniqua S. McLean, visited the Rutherfordton ABC store and interviewed Russ Hester, 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 2015, the Rutherfordton ABC Board had gross sales of \$1,193,863; income from operations was \$34,196, a 2.9% profit percentage to sales.

Factors affecting sales and profitability:

- Population reported to the US Census Bureau as 4,213 in 2010;
- Surrounding ABC boards within a 10 mile radius include Forest City and Lake Lure.

DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, mixed beverage and bottle taxes. G.S. 18B-805 (c) requires the board to make a minimum quarterly distribution of the 3 ½% markup to the town. In FY2015, the Rutherfordton ABC Board did not make the minimum distribution of \$34,553 but made a distribution of \$17,923 to the municipality. \$272,710 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 profits to law enforcement. The board is not required to distribute toward alcohol education. The remaining profits are to be distributed as follows:

- Seventy percent (70%) to the Town of Rutherfordton General Fund to include law enforcement purposes;
- Fifteen percent (15%) to the Rutherford County Board of Education for specific use in meeting capital outlay needs at Rutherfordton-Spindale High School;
- Seven and one-half percent (7.5%) to Rutherfordton-Spindale Middle School for specific use in meeting capital outlay needs at Rutherfordton-Spindale Middle School;
- Seven and one-half percent (7.5%) to Rutherfordton Elementary School for specific use in meeting capital outlay needs at Rutherfordton Elementary School.

In FY2015, the Rutherfordton ABC Board distributed \$19,518 to law enforcement and \$7,354 toward alcohol education.

RECOMMENDATIONS

1. Refrain from distributing toward alcohol education – which is not included in the distribution formula in the enabling act. If the Board would like to make an alcohol education distribution, they must have approval from the town. G.S. 18B-805 (c) (3) exempts boards subject to a local act setting a different distribution formula from the seven percent (7%) alcohol education distribution.

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 FY2015, the Rutherfordton ABC Board had a working capital of \$225,964 which is less than the maximum allowed to retain of four months gross sales (\$225,964) and is within the limits of NCAC 15A .0902.

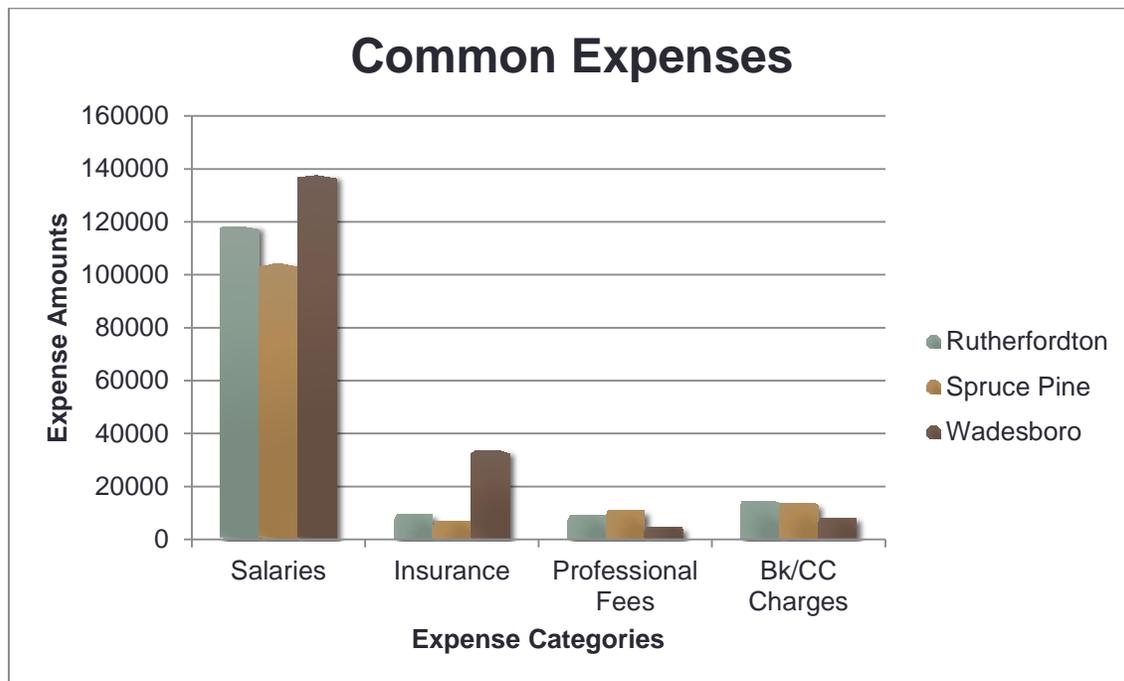
OPERATING COST RATIO

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):

- Boards with 3 or more stores – cost ratio 0.63 or less
- Board with 1 or 2 stores with MXB – cost ratio .73 or less
- Boards with 1 or 2 stores without MXB – cost ratio .85 or less

The Rutherfordton ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.85. Mixed beverage sales make up 6.4% of total gross sales. Compared with the state's estimated increase in sales of 7.68% in fiscal year 2015, the Rutherfordton ABC Board's sales increased 3.4% over fiscal year 2014. Expenses increased 0.7% over the same time period. To meet the goal and remain at current expense levels of \$240,338, revenues must be increased to \$1,375,000, a 15% increase. To meet the goal and remain at current revenue levels of \$1,193,863, expenses must be reduced to \$209,000, a 13% decrease.

Below is a common expense analysis showing the Rutherfordton ABC Board's expenses compared with other similar size boards.



STORE APPEARANCE

The Rutherfordton ABC Board operates one retail store with approximately 1,100 linear feet of shelf space and carries approximately 1,000 product codes.

- The store appeared clean and free of trash. Counter areas were neat and well-organized.
- The store displays neat and well-visible signage. The Fetal Alcohol Syndrome poster is displayed and visible to the public.
- Landscaping around the store is well-maintained and trash free.
- A shelf management plan is utilized that features products within its designated category and follows a diagram having the ultra-premium products on the top shelves, premium products at eye level, and value products on the lower shelves. Product placement is consistent with sizes arranged from largest on the right and smallest to the left. Cross merchandising is evident but minimal.

CUSTOMER SERVICE

- The state price book is available should customers ask for specific product. Sales clerks often refer to the price book for verification of product and pricing. Monthly sales information is shared with mixed beverage and retail customers on a consistent basis.
- Sales clerk's interaction with retail and mixed beverage customers is attentive, courteous, and all are eager to meet the needs of the customers.
- As a means to build up a loyal customer base, management provides a variety of higher end, limited availability products.
- To increase awareness of the ABC distribution system, a display board of distribution information is located in the store.

NO RECOMMENDATIONS

PERSONNEL AND TRAINING

- All board members have completed the initial ethics training as required. However, one board member has since been reappointed and ethics training has not yet been completed.
- Cross training has not been extended on key administrative duties to employees in the event the general manager or finance officer is unavailable.
- New hire training is provided to new staff on key areas, such as product knowledge, customer service, and clerk responsibilities. Additional training has not been offered recently on the same practices including the Responsible Alcohol Selling Program (RASP training) offered by the NC ABC Commission and other approved training courses.
- Personnel files are available and include the required human resource documentation and other personnel information as needed.

RECOMMENDATIONS

1. Have all reappointed board members complete the ethics requirement within 12 months of reappointment. *Refer to Appendix A (1) for statute.*
2. Cross train key employees on various administrative duties in the event the general manager and/or finance officer is unavailable.
3. Consider additional training opportunities through the Commission and other Commission-approved courses. *Refer to Appendix A (2) for rule.*

ABC BOARD POLICIES

Policies adopted and submitted to the Commission include:

- Code of Ethics
- Law Enforcement Contract (Rutherfordton Police Department)
- Travel Policy (State Travel Policy Adopted)
- FY2015 Annual Audit
- FY2016 Budget (Proposed and Adopted)
- Employee Handbook
- Price Discrepancy Policy
- Mixed Beverage Policy

NO RECOMMENDATIONS

INTERNAL CONTROL OBSERVATIONS

Internal control is the process by which the board provides assurance that operations are effective and efficient, reliable, and in compliance with applicable rules, laws and regulations. Internal control is strongest when activities are segregated creating a system of checks and balances, and adopting policies and procedures that follow current practices and appropriate. Below are internal control findings that were observed during the audit fieldwork.

- The general manager schedules and notifies employees for work shift hours. Time sheets are used by all employees. Management requires two persons at all times on each shift. In the event an employee fails to attend a shift, the general manager is notified and adjusts the schedule or finds a replacement. At the end of the payroll week, the general manager enters data into the payroll accounting program for processing. The auditor is able to view and verify all data entries and make adjustments through the accounting program. The accounting program is backed up daily.
- Cash drawers are maintained by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures for handling cash drawer overages/shortages.
- Bank deposits are made regularly according to the ABC Commission rule. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed by the accountant.
- The board and staff rarely travel consequently there were no travel expense reports to view.
- Physical inventory counts are performed yearly by all employees. Frequent spot checks are conducted throughout the year. If discrepancies occur, the general manager will investigate and recount for verification and accuracy. Once completed, the general manager will adjust the inventory system to match with the actual store counts. Unsalable merchandise is adjusted from the inventory system immediately. Breakage forms are submitted as required by the Commission rule.
- Out of approximately 1,000 product codes, approximately 125 product codes were sampled to ensure accurate pricing and two were incorrect.

RECOMMENDATIONS

1. 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.

ADMINISTRATIVE COMPLIANCE FINDINGS

- 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 included a conflict of interest statement asking board members if conflicts existed with items on the meeting agenda.
- In reviewing the board meeting minutes, procedures to enter into closed session are not followed and minutes are not taken.
- Board meeting notifications are not posted to the public.
- Board member appointment dates are incorrect on the Commission website. However board member compensation amounts are correct.
- 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).
- The board is in compliance with G.S. 18B-700 (k): there are no immediate family members employed who are 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).
- Liquor and miscellaneous purchases, accompanied by purchase orders, are approved in advance by the finance officer as to verify that there is budgeted money for such purchases and are indicated by placing a pre-audit certificate and signature of the finance officer/deputy finance officer.
- In reviewing a sample of liquor invoices, payments were made within thirty days as required by the NC ABC Commission rule.
- In reviewing the budget to actual expenses as referenced in the financial audit of FY2015, some expense items are not included in the budget.
- Checks bear the approved certificate as required by G.S. 18B-702 (q) indicating that the items have been approved by the finance officer for payment. Two signatures are located on all paid checks; that of the finance officer and the general manager. In the event the general manager or finance officer is unavailable, a board member is authorized to sign checks.

RECOMMENDATIONS

1. Follow the proper procedures when entering into closed session and taking minutes. *Refer to Appendix A (3) for statute.*
2. Post signage at the store and Town Hall notifying the public, when, where, and the time meetings are held. *Refer to Appendix A (4) for statute.*
3. Update the Commission website to reflect correct data on board member appointment dates and other pertinent information.
4. Monitor budget closely to ensure that the appropriate items are included.

AUDITOR'S SUMMARY

On November 12, 2015, ABC Board Auditor, Moniqua S. McLean, presented the performance audit findings and recommendations to the board at the monthly board meeting. Discussions were held regarding the future of the ABC system and the board's goals for increasing profitability. The board strives to improve profitability while maintaining 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.

"E"

The Town of Rutherfordton Alcoholic Beverage Control Board

P.O. Box 104
Rutherfordton, North Carolina 28139
828-287-2701

BOARD MEMBERS:
Michael W. Taylor, Chairman
Sally Leshner
Gregory Hodge

Russ Hester
Manager
Dale Logan
Finance Officer

November 12, 2015

Moniqua S McLean

NC ABC Commission
ABC Board Auditor
4307 Mail Service Center
Raleigh, NC 27699-4307

Dear Ms McLean,

The Town of Rutherfordton ABC Board has carefully reviewed and accept your findings and recomendations.

With regard to your recomendations, The Town of Rutherfordton ABC Board has been working on and adopted the following:

1. Distributions. Page 4
As per our enabling act with the Town of Rutherfordton, distributions henceforth will be made to the schools designated by the Town will be made as distributions to the schools and not under alcohol education.
2. Personnel and Traing. Page 8
 - A. All board members will complete the required ethics training within 12 months of reappointment.
 - B. All clerks will be cross trained on various duties in the event the manager or finance officer is unavailable.
 - C. The Rutherfordton ABC Board will provide additional training opportunities through the Commission.
On October 21, 2015 the Town of Rutherfordton ABC Board hosted a RASP Training session presented by John Ruth of The NC ABC Commission. The Marion ABC Board also paticipated in this session.
3. Internal Control Observations. Page 10
To ensure correct pricing on the store shelves and in the computer system, shelf tags will be audited on a monthly basis.

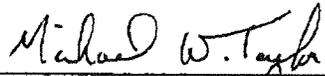
- 4. Administrative Compliance. Page 11
 - A. Proper procedure will be followed when entering into closed session and taking minutes.
 - B. Signage notifying the public when and where the monthly ABC Board meetings will occur will be posted in the ABC Store and at Town Hall.
 - C. The Commission web site has been updated to reflect the correct data concerning board member appointment dates.
 - D. The budget will be monitored on a monthly basis to ensure that all appropriate items are included.

- 5. Addressing Operating Cost. Page 6
 - A. The Town of Rutherfordton ABC Board continues to look for ways to cut operating cost. This year the the board had the lighting in the ABC store and warehouse retro fitted with LED lighting. This is expected to cut utility expenses by \$2,000.00 a year and pay for it's self in 2 years and 4 months.
 - B. Although our in our budget for 2015-2016 shows projected revenue as \$ 1,169,350.00 , we actualy expect our sales to be \$1,235,648.00. (\$66,298.00 over budget) For budgeting planning we are very conservative so we will not over spend.

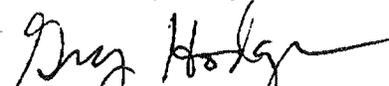
We would like to thank ABC Commission Auditor Moniqua McLean her work and time in preparing this audit. Also a thank you to the ABC Commission for it's help and support throughout the year.

As always, we welcome and will respond positively to any recomendations from the Commission.

Sincerely,



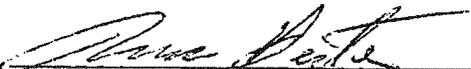
 Michael Taylor, Board Chairman



 Greg Hodge, Board Member



 Sally Leshner, Board Member



 Russ Hester, General Manager

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NC ABC COMMISSION

APPENDIX A

- 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 .2001 (a) (3) states, "After taking the initial Commission training course for local boards, all finance officers and general managers shall complete a Commission training course for local boards every three years that they are employed by a local board."*
- 3) *G.S. 143-318.11 states, "...A public body may hold a closed session and exclude the public only when a closed session is required:*
 - i. To prevent the disclosure of information that is privileged or confidential...*
 - ii. To prevent the premature disclosure of an honorary degree, scholarship, prize, or similar award.*
 - iii. To consult with an attorney employed or retained by the public body in order to preserve the attorney-client privilege between the attorney and the public body...*
 - iv. To discuss matters relating to the location or expansion of industries or other businesses in the area served by the public body, including agreement on a tentative list of economic development incentives that may be offered by the public body in negotiations.*
 - v. To establish, or to instruct the public body's staff or negotiating agents concerning the position to be taken by or on behalf of the public body in negotiation (i) the price and other material terms of a contract or proposed contract for the acquisition of real property by purchase, option, exchange, or lease; or (ii) the amount of compensation and other material terms of a n employment contract or proposed employment contract.*
 - vi. To consider the qualifications, competence, performance, character, fitness, conditions of appointment, or conditions of initial employment of an individual public officer or employee or prospective public officer or employee...*
 - vii. To plan, conduct, or hear reports concerning investigations of alleged criminal misconduct."*
- 4) *Operations Manual states "North Carolina General Statute 143-318.12 requires the following from public bodies:*
 - a. Must have regular meetings*
 - b. Post schedule with the Town Clerk (if the regular schedule changes, notice must be given to the clerk)*
 - c. If a meeting is to be held at a time other than the regular time*
 - i. Announce the time and place during a meeting or*
 - ii. Written notice stating the purpose – bulletin board, and notice mailed to the media and interest persons who have requested notice*
 - iii. Notice given at least 48 hours in advance*
 - iv. If an emergency meeting is called because of generally unexpected circumstances that require immediate attention, and then notice to the media and interested persons shall be made by telephone or other means."*

APPENDIX B

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Personnel and Training</p> <p>Have all reappointed board members complete the ethics requirement within 12 months of reappointment</p>	<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 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>One board member is expected to complete the required ethics training within 12 months of reappointment. Once completed, an ethics verification form will be submitted to the Commission.</p>
<p>Administrative Compliance:</p> <p>Post signage notifying the public of all meeting times and locations.</p> <p>Follow the proper procedures when entering into closed session and taking minutes.</p> <p>Update the Commission website to reflect current data for board member appointment dates and other pertinent information.</p>	<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 25% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management has implemented procedures to be in compliance with the statute.</p>