

Lake Lure ABC Board

Performance Audit Report



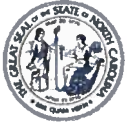
Alcoholic Beverage Control Commission
400 East Tryon Road, Raleigh, NC 27610
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ABC
COMMISSION
NORTH CAROLINA

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ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

CHAIRMAN:

A. D. "Zander" Guy, Jr.

January 6, 2020

COMMISSIONERS:

Norman A. Mitchell, Sr.
Charlotte

Karen L. Stout
Black Mountain

Anthony Brodfuhrer,
Chairman,
Lake Lure ABC Board
PO Box 26,
Lake Lure, NC 28746

ADMINISTRATOR:

Agnes Stevens

Dear Chairman Brodfuhrer,

LOCATION:

400 East Tryon Road
Raleigh NC 27610

On the following pages you will find the performance audit report conducted by the staff of the ABC Commission reviewing the operations of the Lake Lure ABC Board.

MAILING:

4307 Mail Service Center
Raleigh NC 27699-4307

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.

PHONE: (919) 779-0700

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

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,

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 FY2019, the Lake Lure ABC Board had a profit percentage to sales of 5.2%, a 1.3% increase over FY2018. The initial performance audit conducted in FY2015 concluded a profit percentage to sales of -2.17%. 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 Lake Lure ABC Board was 0.78 in FY2019. The Lake Lure ABC Board's operating expenses increased 1.9% over FY2018. The NC ABC Commission operating cost standard for ABC Boards with one or two stores with mixed beverage sales is less than 0.73.

Thus, the Lake Lure ABC Board met the profitability but did not meet the cost standards set by the NC ABC Commission. Below is a chart showing expenses and income from operations for the previous two years.

	FY2019	FY2018
Expenses excluding Depreciation	\$193,325	\$189,790
Income from Operations	\$50,389	\$35,639

Factors affecting profitability and sales:

- Profitability has increased 7.37% since FY2015
- Cost ratios have decreased by 37.2% or 0.29
- Other ABC stores within a thirty mile radius include:
 - Rutherfordton ABC store (20 miles)
 - Forest City ABC (25 miles)
 - Columbus ABC (17 miles)
 - Hendersonville (20 miles)

BUDGET ANALYSIS

In reviewing the budget to actual analysis of the FY2019 financial audit, sales revenues exceed budgeted projections by 6.7%. Total expenses were not within budget for the respective year and exceeded budgeted projections by 1.9%. Amendments to the budget were not forwarded to the Commission as required in G.S. 18B -702 (h).

The below charts shows the final budget to actual amounts and the variances in the financial audit of FY2019.

	FY2019 Budget Projections	FY2019 Actual	Variance \$	Variance %
Sales	\$914,400	\$975,533	\$61,133	6.7%
Total Operating Expenses	\$905,200	\$922,018	(\$16,818)	-1.9%

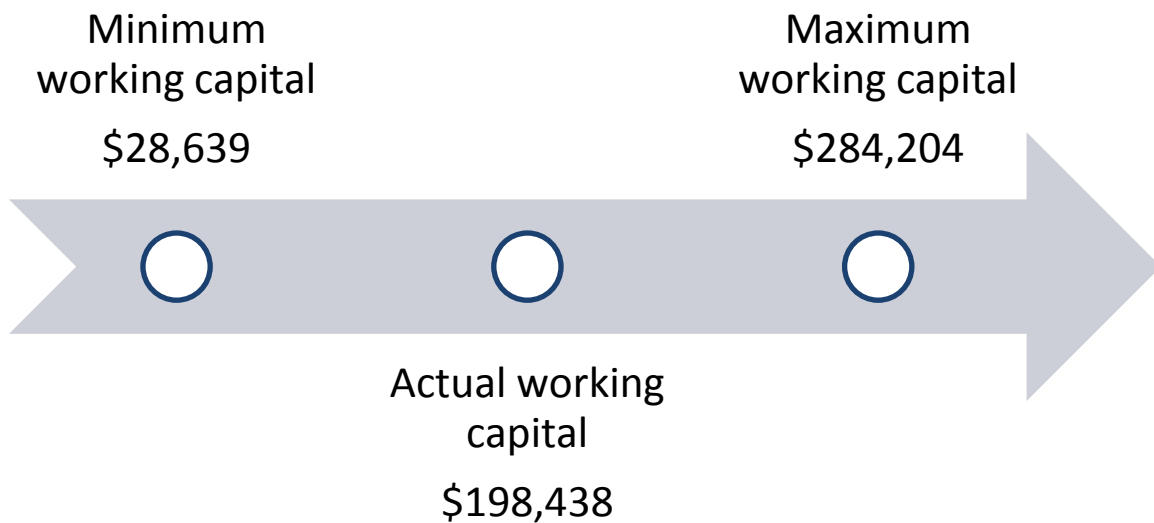
REQUIRED ACTION: *All ABC Boards are required to operate within a balanced budget. When actual sales exceed budget projections, amend the budget to adjust for the increase. If budgeted line items are not balanced, adopt budget amendments to correct specific items or add omitted line items. G.S. 18B-702(h) 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 less than \$1.5M an amount equal to four months of sales revenue.

Based upon the existing rules, the Lake Lure ABC Board is allowed to maintain a minimum working capital of \$28,639 and a maximum working capital of \$248,204. The board retained an actual working capital of \$198,438.

Note: The financial audit revealed a different calculation for actual working capital retained of \$270,066. The audit noted the additional working capital retained of \$21,862 is to be distributed to the Town of Lake Lure following the statute requirement.



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 and the Town of Lake Lure.

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. The local enabling act requires the board to distribute one hundred percent (100%) of profits to the Town of Lake Lure of which not less than seven percent (7%) goes towards alcohol education.

Revenues Less Taxes and Cost of Sales FY2019	
Sales (Retail, Mixed Beverage, and Wine)	\$ 975,533
Excise Tax	\$206,809
Mixed Beverage Tax (Combined)	\$134,308
Rehabilitation Tax	\$2,460
Wine Sales Tax	\$256
Net Sales	\$231,176
Cost of Liquor Sold	\$497,517
Gross Profit	\$246,840

	FY2019 Minimum Distribution Calculation	FY2019 Actual Distribution
Gross Profit (Taken from Above)	\$246,840	
Total Operating Expenses	\$196,454	
Income from Operations	\$50,386	
Net Position before Distributions	\$51,534	
3 ½% Minimum Distribution	\$27,176	\$37,206
Law Enforcement	\$1,218	\$1,241
Alcohol Education	\$1,705	\$1,738

A contract between the Lake Lure ABC Board and the Lake Lure Police Department is in effect and requires the board to distribute at least five percent (5%) of profits if warranted. Referenced in the above chart, the Lake Lure ABC Board made a law enforcement distribution totaling \$1,241. The local enabling act sets a distribution schedule for alcohol education. As referenced above, not less than seven percent (7%) of the town distribution is focused on alcohol education.

STORE APPEARANCE

The findings for the store's appearance are as follows:

- The required Fetal Alcohol Syndrome poster is displayed as required by G.S. 18B-808.
- A North Carolina product selection is available within its own section.
- Products are placed within designated categories; premium products are found at eye-level or top shelf.
- A consistent size flow shows a pattern from largest size on the right and smaller size on the left. New products and bestselling items are located at the front of the store on end caps or where space allows.

RECOMMENDATIONS: Consider utilizing resources that would create a shelf management system that is conducive to industry norms but considers sales history and trends.

OPERATIONAL AND ADMINISTRATIVE COMPLIANCE

- While inspecting the store, a random sample of approximately 65 items was selected to determine if uniform pricing is displayed. Of those selected, all were correct. While conducting an inventory spot check, one product was more than what the inventory management system showed.

REQUIRED ACTION: To ensure accuracy in product pricing, conduct frequent spot checks that incorporate physical counts and pricing.

CORRECTIVE ACTION TAKEN: Management has implemented procedures to ensure correct pricing is located on the store shelves and within the inventory management system.

- The board follows the requirements of G.S. 18B-700 (k) whereas the board does not employ members of the immediate family of the general manager and/or board members.
- Board members are appointed by the Town of Lake Lure for three-year staggered appointment terms. Board members are required to complete ethics training provided by the NC ABC Commission within one year of appointment or reappointment. To date, all have completed the required ethics training. The NC ABC Commission website displays expiration dates for board members indicating terms have not been reappointed.

REQUIRED ACTION: Update the NC ABC Commission website to reflect current appointment terms for all board members. Confirm with the town the correct appointment or reappointment dates of all board members.

CORRECTIVE ACTION TAKEN: Management has updated the Commission website to reflect the current board member appointment dates.

- In reviewing the ABC Board's employee manual, certain policies do not reflect current practices or are not clear. Additional operational policies are not approved by the NC ABC Commission prior to adoption.

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.

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 plans to review the current employee manual to ensure policies presented are currently practiced. Management will forward any changes made to the NC ABC Commission following the fifteen day requirement.**

- In the initial performance audit conducted in FY2015, the findings indicated that pre-authorization procedures are not evident in accordance with G.S. 18B-702(m). Management has not implemented procedures to ensure expenditures have been appropriately authorized in accordance with the general statutes.

REQUIRED ACTION: All ABC Boards must follow the pre-authorization practices as indicated in G.S. 18B-702(m). Affix the pre-audit certificate with the financier's signature on the initial order to LB&B or applicable invoice. When ordering supplies or services, have a purchase order, order confirmation, or vendor invoice for authorization from the finance officer before the transaction occurs. G.S. 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 shall be signed by the finance officer or any deputy finance officer approved..."

CORRECTIVE ACTION TAKEN: **No known corrective action taken.**

- The board has indicated the adoption of the town's travel policy. However, annual documentation of approval has not been forwarded to the Commission.

REQUIRED ACTION: ABC Board's may elect to adopt the state's travel policy or the travel policy of the appointing authority. If the board is to adopt the policy of the town, the town must approve the board's use and copies of the approval and the town's travel policy along with the ABC Board's specific policy are to be forwarded to the NC ABC Commission. G.S. 18B-700 (g2) states, "Approved travel on official business by the members and employees of local boards shall be reimbursed pursuant to G.S. 138-6 unless the local board adopts a travel policy that conforms to the travel policy of the appointing authority and such policy is approved by the appointing authority. 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."

CORRECTIVE ACTION TAKEN: **No known corrective action taken.**

TONY BRODFUHERER

MA LEE . KELLER

LINDA SAMAROTTO

WOODROW PRICE

JOHN D'AMBRA

MANAGER

CHAIRMAN

BOARD MEMBERS

TOWN OF LAKE LURE ABC BOARD

2654 MEMORIAL HWY.

P.O. BOX 26

LAKE LURE, NC 28746

OFFICE: (828) 625-2306

FAX: (828) 625-0902

December 9, 2019

Dear Moniqua,

Enclosed you will find our response to the audit you performed here at our Lake Lure ABC Store # 136. I have addressed all the main issues of your recommendations. We are presently implementing them as we move forward.

Again, thank you for taking the time to assist us. I feel these changes will help us be more efficient in our daily operations.

Hope you have a joyous holiday season.

Thank you,



John D'Ambra
General Manager
ABC Store 136

TOWN OF LAKE LURE ABC BOARD

2654 MEMORIAL HWY.

P.O. BOX 26

LAKE LURE, NC 28746

OFFICE: (828) 625-2306

FAX: (828) 625-0902

December 10, 2019

Attn: Moniqua McLean

Here at the Lake Lure ABC Store #136, the Board Members and I, would like to thank you for conducting the performance audit of our store. This audit will be of great use for us and will help us to comply with your recommendations.

Implementation of your suggested concerns will be addressed by the following actions.

Inventory Presentation

We will utilize a management system which will follow trends, history and allow us the ability to adhere to the industry standards. All inventory documents are being kept according to the retention manual.

Inventory Control

We will make sure that random spot checks are performed to check product pricing and inventory accuracy.

Hiring of Family Members

The board will not/and has not in the past hired any family members related to themselves or the general manager.

Personnel Manual and other issues

The general manager will review the existing manual and make the necessary changes to update it so it conforms closer to the ABC Personnel policies. The changes will be submitted to the Commission 15 days prior to implement.

Conflict of Interest Statement is read before each Board Meeting.

All approved pay increases and bonuses are documented in the board Minutes.

The Commission's website is up to date.

The Board will adhere, as always, to a balanced budget.

Thank you,



John D'Ambra, General Manager