

Calabash ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA



ABC

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NORTH CAROLINA

Alcoholic Beverage Control

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Moniqua S. McLean
ABC Board Auditor

February 21, 2014

Calabash ABC Board
Mr. Henry Rutter, Chairman
PO Box 4999
Calabash, NC 28467

Dear Chairman Rutter,

We are pleased to submit this performance audit report on the Calabash 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 the steps taken to control operating costs at your store.

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

Respectfully,

Michael C. Herring
Administrator

CC. North Carolina Association of ABC Boards

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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.

The Calabash ABC Board responded to the performance audit recommendations. Some 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. The Commission encourages the Calabash ABC Board to continue to address the areas of improvement noted in the audit in order to fully realize the opportunities for improved performance.

BACKGROUND INFORMATION

Chapter 1179 of the 1974 Session Law authorized the Town of Calabash to hold an election for an ABC store. The referendum was held on July 10, 1974 and passed 41 to 16. The first retail sale occurred on May 6, 1978. A mixed beverage election was held on January 27, 1979 and passed 32 to 14. The first mixed beverage sale occurred on March 27, 1979.

Upon election of an ABC store, an ABC board was created consisting of a chairman and two members to serve for three year terms. Current board members are Henry Rutter, board chairman, Charles Schreiber and Suzy King, board members.

The Calabash ABC Board operates one retail store. The board staffs three full-time and six part-time employees. The general manager is responsible for overseeing and managing daily operations of the store including supervising personnel, inventory control, budget maintenance, and providing customer service. The board has appointed a finance officer within the system to perform duties as required by the ABC statutes and rules. The board has also hired an external bookkeeper to provide assistance with the accounting software and checks tax reports. All store employees are responsible for providing friendly customer service, store upkeep, and stock maintenance.

FINANCIAL ANALYSIS

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 Calabash ABC Board receives deliveries twice a month: the inventory turnover rate is 5.3. This rate compares favorably to the benchmark of 5.0 for boards that receive deliveries twice a month.

No Recommendations.

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 Calabash ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.72. Mixed beverage sales make up 17.2% of total gross sales. In fiscal year 2013, sales decreased 2.5% over fiscal year 2012 and expenses decreased 0.19% over the same time period. *An expense comparison is located in Appendix A.*

No Recommendations.

Working Capital

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 Calabash ABC Board had a working capital of \$331,079, which is equivalent to four months gross sales and is within the limits of NCAC 02R .0902.

Profit Percentage to Sales

The profit percentage to sales is calculated by dividing the total income before distributions by the total liquor sales (Total Income before Distribution/Total Liquor Sales). The Commission has set goals based on the following breakdown:

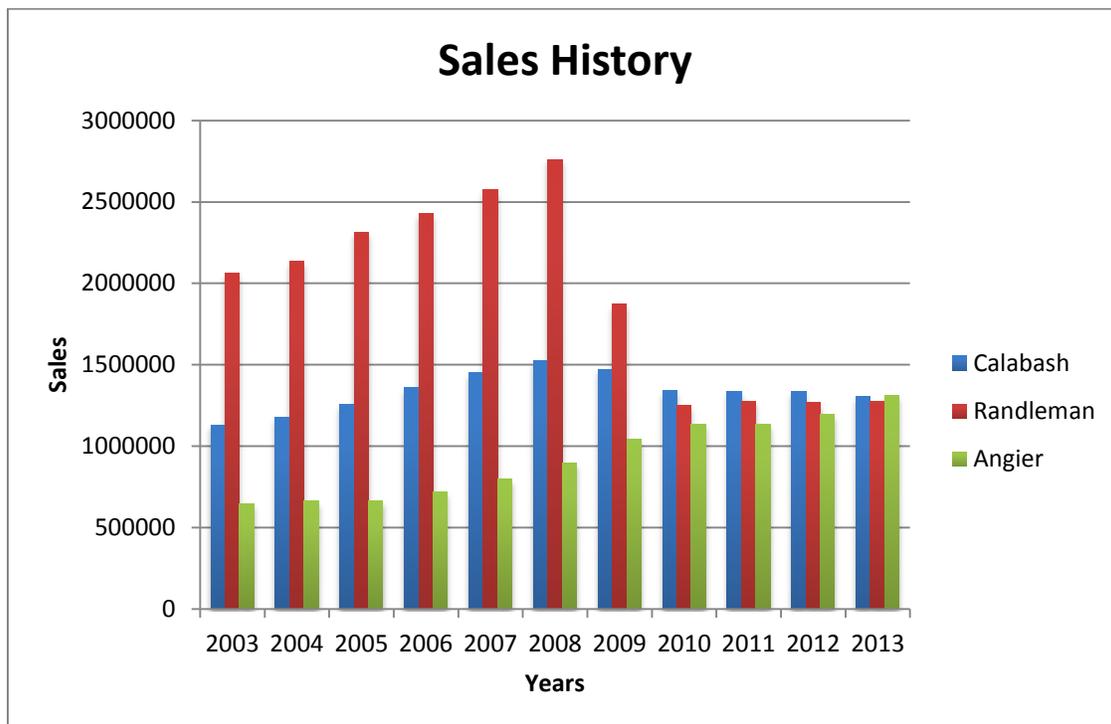
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2013, the Calabash ABC Board had gross sales of \$1,302,259; income before distributions was \$81,383, a 6.25% profit percentage to sales.

Factors affecting sales and profitability:

- Surrounding ABC boards within a twenty mile radius include Sunset Beach, Ocean Isle Beach, and Shallotte;
- South Carolina border is less than 2 miles from the ABC store;
- Sales decreased 2.5% over the previous fiscal year;
- Population of Calabash, NC is estimated to be 1,786 in 2010.

Below is a sales history analysis of similar size boards compared with Calabash ABC Board for the past ten years. This chart analyzes the sales trends for the past ten years. Note: Angier began mixed beverages sales in 2007.

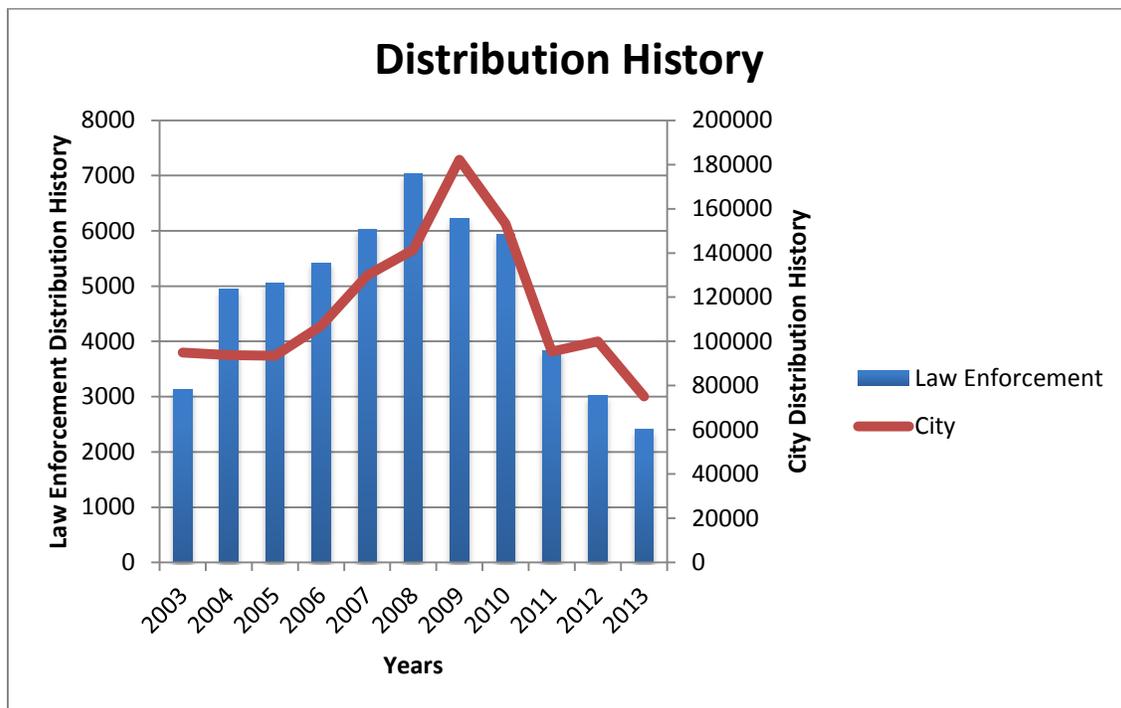


Distributions

G.S. 18B-805 (c) (2) requires the board to distribute at least five percent (5%) of profits to law enforcement. The board follows the local enabling act for alcohol education distributions, consequently these distributions are not required. The remaining profits are to be distributed to the Town of Calabash General Fund.

In FY2013, Calabash ABC made the required minimum distribution to the town totaling \$39,307, plus additional distribution of \$35,715. \$309,023 in Excise and other taxes were paid to the NC Department of Revenue and the town. A total of \$2,400 was paid to law enforcement.

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



OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On November 26, 2013, ABC Board Auditor, Moniqua S. McLean, visited the Calabash ABC board and interviewed Mark Buzzell, general manager and Henry Rutter, board chairman. The following are the operational observations, findings, and recommendations related to the performance audit.

Store Appearance and Customer Service

The Calabash ABC Board operates one retail store with approximately 990 linear feet of shelf space and carries approximately 1,050 product codes. *Pictures are found in Appendix B.*

- The store was clean, well-dusted, and maintained. Bottles were fronted and neat. Counter areas were free of clutter and supplies were easily accessible.
- Exterior signage and landscaping around the store was 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 locations.
- A consistent shelf management plan that exhibits a strategy per category following the highest priced product on the top shelf and the lowest priced product on the bottom shelves. *See pictures on page 11.*
- The state price book is available should customers ask for 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 all are eager to meet the needs of the customers.

No Recommendations.

Personnel and Training

- All board members, the general manager, and the finance officer have completed ethics training. One board member has been reappointed and has not completed the online ethics training.
- Cross training opportunities have been extended to all employees in the event the general manager is suddenly unavailable.
- Training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities on a continual basis.

Recommendations:

- Have all reappointed board members complete the ethics requirement within 12 months of reappointment. *Refer to Appendix C (1) for statute.*

ABC Board Policies

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract
 - Travel Policy (Town of Calabash Travel Policy Approval FY2012)
 - FY2013 Annual Audit
 - Employee Manual
 - FY2014 Budget (Proposed and Adopted)
 - Mixed Beverage Policy
 - Price Discrepancy Policy
 - Shelf Management Policy

Recommendations:

- As a reminder, have an annual approval from appointing authority to adopt the town's travel policy. *See Appendix C (2) for statute.*

Internal Control Procedures

- All clerks use time sheets to maintain scheduled hours. The general manager verifies all time sheets to determine accuracy and inputs data into payroll software to calculate tax and other withholdings. Once the payroll checks are drafted, the general manager will verify before checks are signed. The master payroll activity report is verified and reconciled by the general manager. Back up is conducted daily.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer.
- Bank deposits are made regularly as required by the ABC Commission rule. Bank notification is received and matched with corresponding daily register reports. Bank reconciliations are completed monthly by the general manager and assisted by the bookkeeper.
- Physical inventory counts are completed two times a year by all persons. Spot checks are conducted more frequently throughout the year by category. If discrepancies occur, the general manager will investigate and recount for accuracy and verification. Once completed, only the general manager will adjust the inventory system to match with the actual store counts.

No Recommendations.

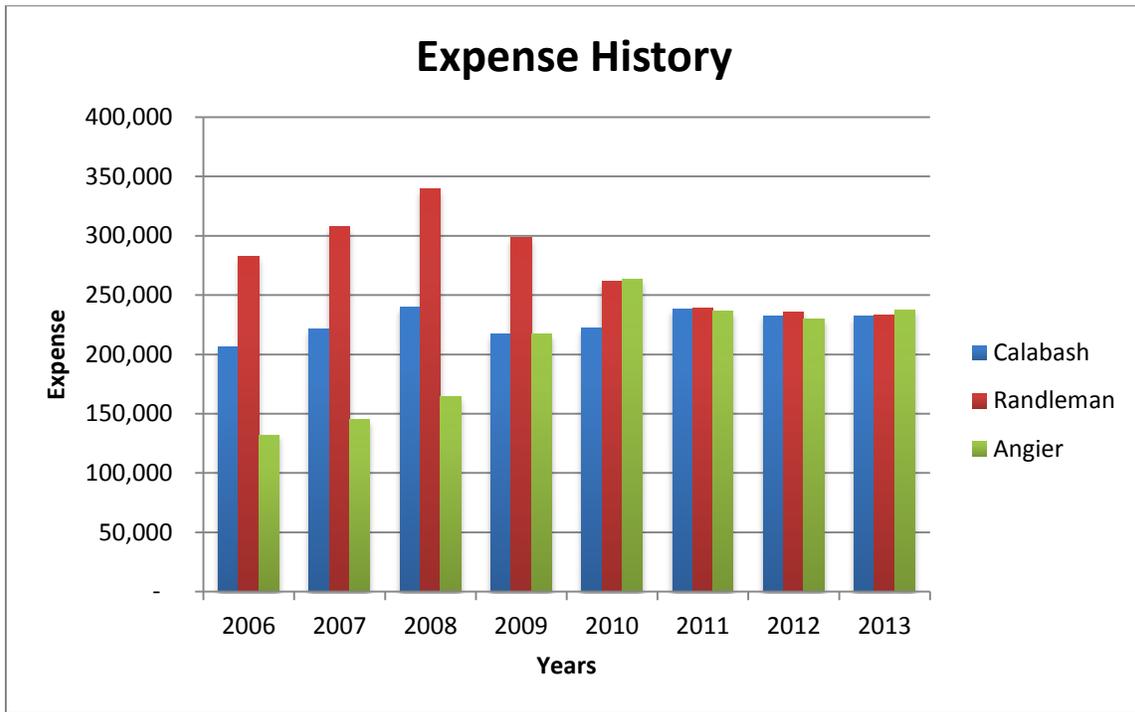
Administrative Compliance Findings and Observations

- Board meeting minutes were viewed and followed the order of proceedings providing information that a reasonable person would be able to follow. Board meeting minutes referenced the conflict of interest statement.
- Board member and general manager information, appointment dates and compensation amounts, are not current on the Commission website.
- Board member and general manager compensation is in compliance with G.S. 18B-700 (g) and (g1).
- Law enforcement activity reports for September have not been submitted to the Commission.
- Nepotism – The board is in compliance with G.S. 18B-700 (k).
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- A review of travel reimbursement expense reports revealed that expenses follow the travel policy adopted.
- Orders for liquor and other miscellaneous orders bear the pre-audit certificate as required by G.S. 18B-702 (m).
- All checks bear the approved certificate and are signed by the finance officer and the board chairman. In the event the finance officer or board chairman is unavailable, the general manager or other board members are authorized to sign checks.
- Out of approximately 1,050 product codes, approximately 100 product codes were sampled, and one was incorrect.

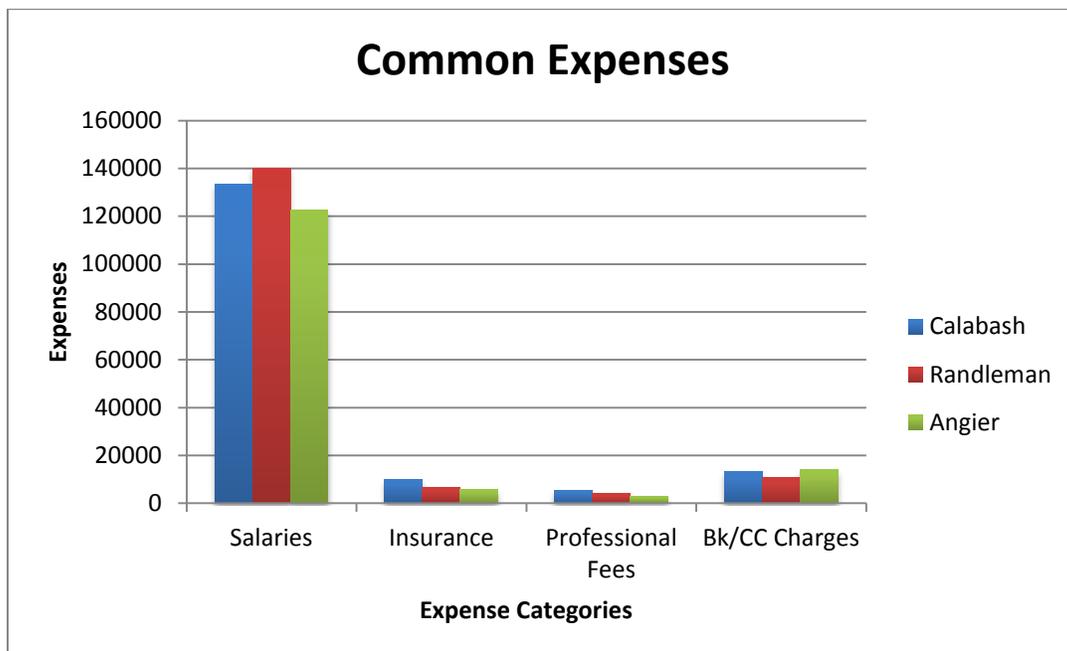
Recommendations:

- Update the commission website to reflect current information on board member and general manager.
- Complete all law enforcement activity reports for the months specified. *Refer to Appendix C (3) for statute.*
- Audit shelf tags more frequently. Incorporate such practices within spot check time periods.

APPENDIX A



The expense history analysis indicates that Calabash ABC's total expenses have decreased 0.19% in FY2013 and remain comparable with similar size boards.



As the chart indicates, Calabash ABC's common expenses are not out of line with other similar size boards. Note: Insurance expenses for Calabash ABC include all insurances, such as health and liability.

APPENDIX B



Exterior view



Counter area



Interior view

APPENDIX C

- (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-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."*
- (3) *18B-501(f1) states, "To ensure accountability to the appointing authority and the Commission, every local board's ABC officers and those law enforcement agencies subject to an enforcement agreement entered into shall report to the local board, by the fifth business day of each month, on a form developed by the Commission, the following:*
 - (a) The number of arrests made for ABC law, Controlled Substance Act, or other violations, by category, at ABC permitted outlets,*
 - (b) The number of arrests made for ABC law, Controlled Substance Act, or other violations, by category, at other locations,*
 - (c) The number of agencies assisted with ABC law or controlled substance related matters,*
 - (d) The number of alcohol education and responsible server programs presented,**The local board shall submit a copy of the enforcement report to the appointing authority and the Commission not later than five business days after receipt of the enforcement report by the local board.*

CALABASH ABC BOARD

Post Office Box 4999
10203 Beach Road
Calabash, NC 28467
910-579-2556

Ms. Moniqua McLean
ABC Board Auditor
4307 Mail Service Center
Raleigh, NC 27699-4307

January 22, 2014

Dear Ms McLean,

The Calabash ABC Board has reviewed the performance audit you conducted on November 26, 2013 and our response to your recommendations follow.

Inventory Turnover Recommendations:

- Continue cross-merchandising, moving stock within store to increase visibility, displaying bestselling and new products, creating appealing displays and analyzing sales data and history reports.

We will continue doing these.

- Sell slow-moving inventory to other boards with greater demand and splitting cases with neighboring systems to increase variety and to minimize expense.

We think these recommendations may be OK for multi-store systems with a common warehouse and transportation system, but it doesn't fit a single store operation like ours. We would have to pay an employee's auto mileage to transfer bottles to another store, which would increase our cost. Paying and receiving money from other stores might be an accounting and inventory nightmare and In addition, the implications could be bad if another store agrees to split a case with us and later on wants us to split a case of a product we don't want. We will pass on these recommendations.

Personnel and Training Recommendations:

- Have all reappointed board members complete the ethics requirement within 12 months of reappointment. Refer to Appendix C (1) for statute.

The Commission recently changed the ethics training from an online presentation and test that was done at our convenience to a webinar given on a specific day and time. One of our members was reappointed in 2013 but was out of town when the webinar was scheduled. We were told you would make the training available on DVD and we will be happy to comply when the training is

made available to us at no cost. The cost is an issue because over the past several years the legislature/ABC Commission has required us to prepare a budget, appoint a Financial Officer and attend initial and follow-up ethics training. All of these cost us money and reduce net income and distributions. We believe if these issues are important, you should be willing to reimburse our costs and refrain from passing down more unfunded mandates.

ABC Board Policies Recommendations:

- Have an annual approval from appointing authority to adopt the town's travel policy. See Appendix C (2) for statute.

We have complied with this every year.

Administrative Compliance Findings and Observations Recommendations:

- Update the commission website to reflect current information on board member and general manager.

We were unaware was not up to date and thank you for taking care of it for us.

- Complete all law enforcement activity reports for the months specified. Refer to Appendix C (3) for statute.

The missing activity report was due to the Brunswick County Sherriff's Dept not sending us the data and has been corrected.

- Audit shelf tags more frequently. Incorporate such practices within spot check time periods.

The audit indicates one incorrect shelf price out of about 100 checked. We strive for perfection but think a 1% error rate is not bad. It's a minor error like the one on page two where you noted our first mixed beverage sale was in 2979. We think you are nitpicking. We have a policy that covers price discrepancies and have never had a customer complaint.

We would like to correct another error made on page two. Our bookkeeper doesn't provide monthly reports; she double checks all tax reports done by Mark prior to payment and provides Sage software assistance.



Hank Rutter
Calabash ABC Chair

RECEIVED

JAN 24 2014

NC ABC COMMISSION

CALABASH ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Personnel and Training:</p> <p>Have all required persons complete the required ethics training.</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>The board is making plans to have the required persons complete the training. A verification form will be forwarded to the Commission once completed.</p>
<p>ABC Board Policies:</p> <p>Have an annual approval from the appointing authority allowing the board to adopt the town's travel policy.</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>The board has obtained the appointing authority's approval allowing the ABC Board to adopt the travel policy. A copy of the approval has been forwarded to the Commission.</p>

CALABASH ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Administrative Compliance:</p> <p>Complete all missing law enforcement activity reports.</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 completed all missing law enforcement activity reports.</p>