

Fletcher 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

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Moniqua S McLean
ABC Board Auditor
919-779-8365

September 10, 2015

Fletcher ABC Board
Mr. Larry Waldrop, Chairman
37 Rockwood Road
Fletcher, NC 28732

Dear Chairman Waldrop,

We are pleased to submit this performance audit report on the Fletcher 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,

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 2014;
- Visited the store;
- Interviewed key ABC board personnel.

BACKGROUND INFORMATION

G.S. 18B-601 authorized the Town of Fletcher to hold an election for an ABC store. The referendum was held on April 16, 1991 and passed 431 to 235. A mixed beverage election occurred on the same date and passed with the same votes. The first retail sale occurred on May 1, 1993.

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 three year staggered terms. Current board members are Larry Waldrop, board chairman, Louis Linn and John Grafing, board members.

The Fletcher ABC Board operates one retail store with mixed beverage. The board staffs two full-time and five part-time employees. The general manager provides oversight of all daily operations of the ABC system including, but not limited to, human resources and inventory management. The board has hired a finance officer within the organization to handle all bookkeeping duties for the board. An external accounting firm provides financial services and to provide appropriate checks and balances. All store employees are responsible for providing friendly customer service, general store upkeep, and stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On May 20, 2015, ABC Board Auditor, Moniqua S. McLean, visited the Fletcher ABC store and interviewed Tony Patterson, general manager, and Christine Cutshaw, finance officer. 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 2014, the Fletcher ABC Board had gross sales of \$1,737,800; income from operations was \$97,383, a 5.6% profit percentage to sales.

Factors affecting sales and profitability:

- Estimated population is 7,378 in 2013, a 2.6% increase over 2010
- Surrounding towns with ABC stores include Hendersonville and Asheville;
- One of Asheville ABC's locations is approximately 3 miles from the Fletcher location;
- Relocated and built new store in October 2007.

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 FY2014, Fletcher ABC made the minimum distribution of \$50,210, plus \$290 additional distribution to the town. \$390,398 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, and the town.

G.S. 18B-805 (c) (2) and (3) requires the board to distribute at least five percent (5%) of profits to law enforcement and at least seven percent (7%) toward alcohol education/rehabilitation purposes. The remaining profits are to be distributed to the City of Fletcher General Fund.

In FY2014, the Fletcher ABC Board distributed to the town \$1,594 for law enforcement and \$2,231 for alcohol education.

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 FY2014, the Fletcher ABC Board had a working capital of \$233,052, which is less than the maximum allowed of four months gross sales (\$446,875) and is within the limits of NCAC 02R .0902.

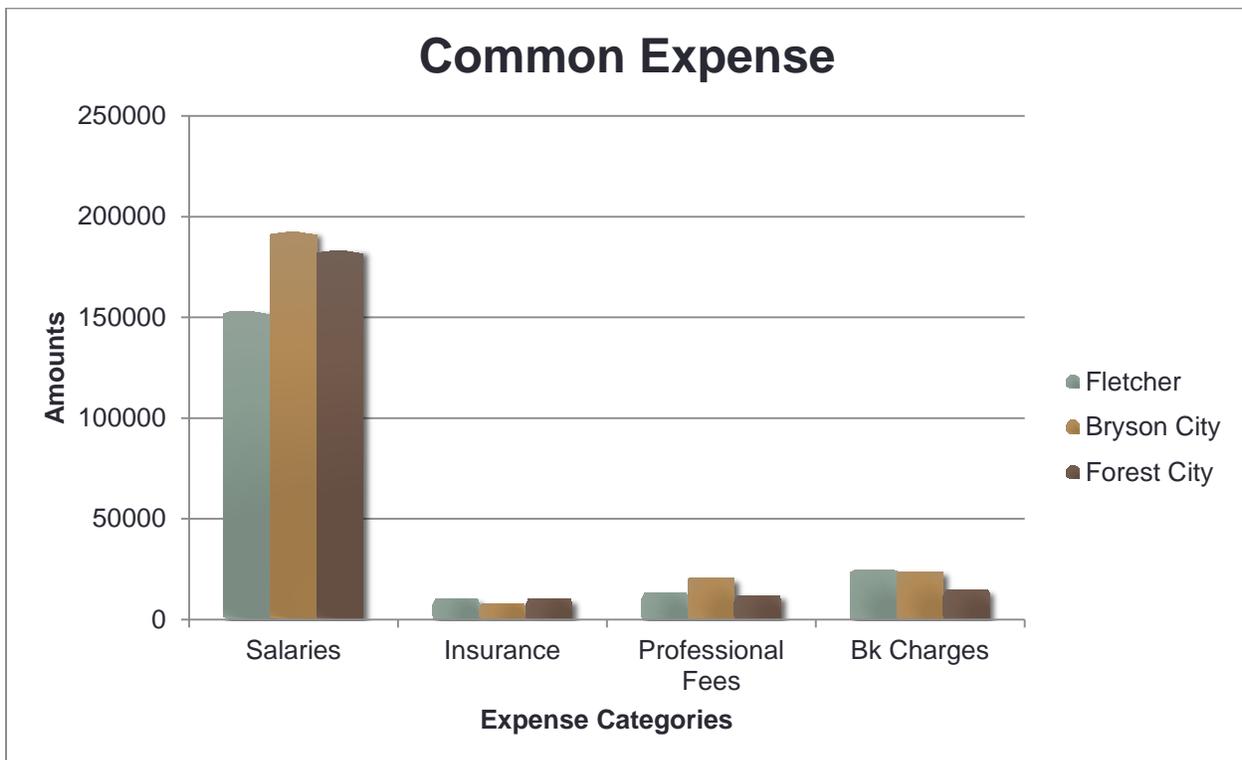
OPERATING COST RATIO

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):

- 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 Fletcher ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.69. Mixed beverage sales make up 1.6% of total gross sales. Compared with the state's increase in sales of 4.81% in fiscal year 2014, sales increased 5.0% over fiscal year 2013 while expenses increased 5.4% over the same time period. The board acquired a bank loan to fund the new store in 2006. At the end of the fiscal year 2014, the board has \$316,762 outstanding on the bank loan. Monthly payments are \$6,836 including interest.

A common expense analysis shows that Fletcher ABC Board's expenses are comparable with other similar size boards. The board contributes to significant savings as a result of owning the store and reducing overhead expenses.



STORE APPEARANCE

The Fletcher ABC Board operates one retail store with approximately 1,400 linear feet and carries approximately 1,200 product codes.

- The store appeared clean and free of trash. Counter areas were neat and well-organized.
- The store displayed neat and well-visible signage in a designated area. The Fetal Alcohol Syndrome poster is displayed and visible to the public.
- Landscaping around the store is well-maintained with no evidence of trash.
- Each product is displayed within its designated category. Bottles are fronted and dusted.
- A shelf management plan is utilized that exhibits a strategy following 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 going from largest on the right and smallest to the left. Vertical brand blocking is shown for similar size products. Cross merchandising is utilized to encourage impulse shopping.
- The store is set up to re-stock shelves from the stock room as a means to evenly rotate stock. (The interior “walls” raise up much like garage doors to allow easy access to shelves.)

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 marketing strategy, management creates gift bags of product and offers gift-wrapping.

NO RECOMMENDATIONS

PERSONNEL AND TRAINING

- All board members, the general manager, and the finance officer have completed the initial ethics training required by the statute. Board members have since been reappointed and have not yet completed the ethics training.
- Cross training has been extended on key administrative duties to employees in the event the general manager was suddenly unavailable. In the event the finance officer is unavailable, management has implemented back up procedures to ensure that financial operations continue.
- Training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities.
- Personnel files are available and include human resource documentation and other personnel information as required.

RECOMMENDATIONS

1. Have all reappointed board members complete the ethics requirement within 12 months of reappointment. *Refer to Appendix A (1) for statute.*
2. 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
 - FY2014 Annual Audit
 - FY2015 (Proposed and Adopted)
 - Employee Handbook
 - Mixed Beverage Policy
 - Price Discrepancy Policy
 - Shelf Management Policy
 - Refund Policy

- Policies not adopted and submitted include:
 - Travel Policy

RECOMMENDATIONS

1. Adopt a travel policy that conforms to either the appointing authority's or the State's policy. If the town's travel policy is adopted, submit a copy of the town's travel policy and a copy of the Town Board's minutes stating they have approved the ABC board to adopt the policy. If the State's travel policy is adopted, submit a copy of the ABC board's minutes stating the travel policy was adopted. *Refer to Appendix A (3) for statute.*

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 and appropriate practices. Below are internal control findings that were observed during the audit fieldwork.

- The general manager schedules employees for work shift hours. All employees use time sheets to record hours worked. At the end of the payroll week, the assistant manager will verify all time sheets and input all time sheets in the accounting payroll program.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures in handling cash drawer overages/shortages.
- Bank deposits are made regularly by the ABC Commission rule. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed by the finance officer.
- Physical inventory counts are conducted two times a year with frequent spot checks throughout. If discrepancies occur, the general manager and assistant manager will investigate and recount for accuracy and verification. Once completed, the general manager and/or finance officer will adjust the inventory system to match with the actual store counts.
- Unsalable merchandise is adjusted from inventory as soon as the forms are completed. Breakage forms are submitted as required by the Commission rule. Management has implemented a policy/procedures on damaged or distressed bottles.
- Out of approximately 1,200 product codes, approximately 140 codes were sampled to ensure accurate pricing and four 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 AND OBSERVATIONS

- Board meeting minutes were viewed and followed the order of proceedings, providing sufficient detail that a reasonable person would be able to follow what transpired. Board meeting minutes do not include a conflict of interest statement asking board members if conflicts exist with items on the meeting agenda.
- Board member appointment dates and compensation amounts are current on the Commission website.
- Board member and general manager compensation is in compliance with G.S. 18B-800 (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 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 orders and miscellaneous purchases are pre-audited by the finance officer/general manager. The board is usually invoice by vendors for purchases.
- In reviewing a sample of liquor invoices, payments were made within thirty days.
- The board reimburses key employees for mileage to and from the bank. In reviewing a sample of travel reimbursement forms, travel expenses were paid according to the town's travel policy.
- 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 finance officer or general manager is unavailable, the assistant manager and all board members are authorized to sign checks.

RECOMMENDATIONS

1. Have the board chairman read the conflict of interest statement to all board members at the start of each meeting. *Refer to Appendix A (4) for rule.*

AUDITOR'S SUMMARY

On July 20, 2015, ABC Board Auditor, Moniqua S. McLean, presented the performance audit findings and recommendations to the board. The board strives to implement strategies to maintain and improve profitability while maintaining or reducing costs and meeting budget appropriations. Policies and procedures have been implemented to ensure compliance with statutes and Commission rules and to ensure efficient operations while having sufficient checks and balances.

**Fletcher ABC Board
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Ms. Moniqua McLean
ABC Board Auditor
North Carolina ABC Commission
4307 Mail Service Center
Raleigh, North Carolina. 27699-4307

Date 8-10-15

The Fletcher ABC Board and its staff appreciate the time and effort you took to inspect report and share your findings of your review of the Fletcher ABC Board's operations.

The Fletcher ABC Board takes immense pride in what we do for our customers in regards to a friendly atmosphere, outstanding customer service and a quality selection of the items offered by the state of North Carolina ABC Commission. We continue to strive for improvement to make our location one of the best in the state.

RECOMMENDATIONS

1. Have all reappointed board members complete the ethics requirement within 12 months of reappointment. *Refer to Appendix A (1) for statute.*
2. Consider additional training opportunities through the Commission and other Commission-approved courses. *Refer to Appendix A (2) for rule.*

Jack Grafing, ABC Board Member was re-appointed March 9, 2015 for a 2 year term. We had already contacted Mr. Grafing prior to the Performance Audit to arrange a time for him to watch and review the Ethics Training Class. This seminar was purchased last year and we were told we could still log in and view again.

We do additional training with other personnel on a daily basis and have asked them to go on line and do the refresher course on selling alcohol.

RECOMMENDATION

Adopt a travel policy that conforms to either the appointing authority's or the State's policy. If the town's travel policy is adopted, submit a copy of the town's travel policy and a copy of the Town Board's minutes stating they have

approved the ABC board to adopt the policy. If the State's travel policy is adopted, submit a copy of the ABC board's minutes stating the travel policy was adopted. *Refer to Appendix A (3) for statute.*

The Fletcher ABC Board will be using the same travel policy that the State of North Carolina uses. Copies of the forms used are attached. This policy was adopted by the Board on

RECOMMENDATIONS

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.

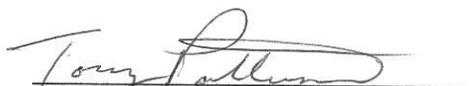
The Fletcher ABC Board does a full inventory audit twice a year. In addition, we also conduct periodic audits on items on a weekly basis. We will take 15-30 items and Spot check the inventory to ensure it is correct.

We have also implemented a form to request price reductions from the NC ABC Commission on items that have are discontinued or failure to sell. This form will be Completed, faxed or e-mailed to the commission for permission to lower the price. Totals will be added to the Spirituous Liquor Tax Report for the end of each month.

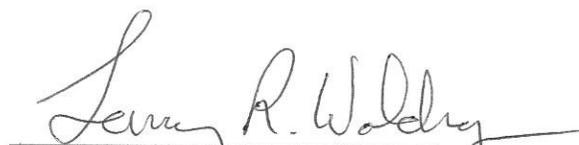
RECOMMENDATION

Have the board chairman read the conflict of interest statement to all board members at the start of each meeting. *Refer to Appendix A (4) for rule.*

We have adopted an agenda letter to give each Fletcher board member prior to the Board meeting. This form will note items that will be discussed during the meeting. The Conflict of Interest statement is at the top of the agenda form and is read prior to start of the board meeting.



Tony Patterson
Fletcher ABC Store Manager



Larry Waldrop
Chairman
Fletcher ABC Board

8-10-15

Date

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) *18B-700(g2) states "...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 [or adopts the state policy]."*

NCAC02R.0909 (c) Rules to be filed with Commission. Each local board shall file a certified copy of its travel policies and procedures, and any amendments thereto, with the Commission within 10 days of the adoption, or amendment, of the policies by the local board.

- (4) *OP 4.19.4 states, "In an effort to avoid possible conflicts of interest it is recommended at the beginning of each meeting the Chairman ask fellow board members if there are any potential conflicts of interest. This can be done by reading the following ethics reminder:*

'In accordance with G.S. 18B-201, it is the duty of every Board member to avoid both conflicts of interest and appearances of conflicts. Does any member have any known conflict of interest or appearance of conflict with respect to any matters coming before the Board today? If so, please identify the conflict or appearance of conflict and refrain from any undue participation in the particular matter involved.'"

APPENDIX B

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Personnel and Training:</p> <p>Have all reappointed board members complete ethics training</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 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 contacted the board member to take the ethics training and is making plans to schedule a time to complete. Once completed, a copy of the ethics verification will be forwarded to the Commission.</p>
<p>ABC Board Policies:</p> <p>Adopt a travel policy that conforms to either the appointing authority's or the State's policy.</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 ___% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The board has adopted the State's travel policy. A copy of the board meeting minutes has been submitted for verification.</p>