

# Locust ABC Board

## Performance Audit Report



Alcoholic Beverage Control Commission  
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**ABC**  
COMMISSION  
NORTH CAROLINA



# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

CHAIRMAN:  
JAMES C. GARDNER

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COMMISSIONERS:  
JOEL L. KEITH  
Wake Forest

KEVIN M. GREEN  
Greensboro

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ADMINISTRATOR:  
MICHAEL C. HERRING

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LOCATION:  
400 East Tryon Road  
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February 11, 2013

Locust ABC Board  
Mr. David Montague, Chairman  
1772 West Main Street  
Locust, NC 28097

Dear Chairman Montague,

We are pleased to submit this performance audit report on the Locust 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 being taken to increase operating efficiencies at your ABC 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 2012;
- Visited the store;
- Interviewed key ABC board personnel.

The Locust ABC Board submitted a response to the performance audit recommendations and has begun to take steps toward becoming more profitable through analyzing and reducing current costs while continuing to meet the demands of customers. Policies and procedures have been adopted and implemented to maintain compliance with statutes and Commission rules and to maintain stronger segregation of duties.

## **BACKGROUND INFORMATION**

G.S. 18B-601 authorized the Town of Locust to hold an election upon either a written request for an election from the city governing body or a petition signed by at least thirty-five percent of voters. The referendum was held on February 5, 2008 and passed 541 to 360. A mixed beverage election was held on the same date and passed 567 to 333.

Upon election of an ABC store, the Town of Locust was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. The appointing authority has increased the board to five members. Current board members include Michael Harwood, chairman, Wayne Cole, John White, David Montague, and Russell Efird, board members. Board has since been reduced to three members.

The Locust ABC Board operates one retail store. The board staffs one full-time manager and four part-time store clerks. The general manager's duties consist of the overall operations of the store including supervising personnel, inventory management, and customer service. All clerks' are responsible for routine store upkeep, stock maintenance, and customer service. The board has hired a CPA to perform the duties of the finance officer and monthly bookkeeping services.

## **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 Commission has set goals for determining an effective rate based on the frequency of deliveries. Below are the turnover rates:

- Once a week deliveries target at 6 times or more per year
- Twice a month deliveries target at 5 times or more per year
- Monthly deliveries target at 4.5 times or more per year

The Locust ABC Board receives deliveries twice a month: the inventory turnover rate is 6.2 and exceeds the goal set by the Commission.

*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):

- Boards with 3 or more stores with MXB – cost ratio 0.67 or less
- Boards with 3 or more stores without MXB – cost ratio 0.94 or less
- Boards with 2 stores (with and without MXB) – cost ratio 0.83 or less
- Single store boards with MXB – cost ratio 0.77 or less
- Single store boards without MXB – cost ratio 0.93 or less

The Locust ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.82 and does not meet the targeted rate set by the Commission. In fiscal year 2012, sales have increased 10.7% whereas expenses have decreased 15.2% over the same time period. Although the board has reduced expenses, rental expense totaling \$33,000 for one year and long-term debt expense totaling \$168,010 until 2016, continue to be the driving force of high overhead expenses. To meet the cost ratio goal and remain at current expense of \$208,555, revenues must be increased to \$1,200,000, a 15% increase in current profits. To meet the cost ratio goal and remain at current revenue levels of \$1,045,872, expenses must be reduced to \$195,000, a 6% decrease in current expenses. Analysis of the data indicates that Locust ABC's expenses have decreased since the opening of the store and are coming in line with other similar size boards. *Refer to chart in Appendix A for analyses of expense trends.*

*Recommendations:*

- Request bids annually from various vendors to get the best rates possible on financial audits, professional fees, specific utilities, maintenance contracts, and credit card processing fees.
- Monitor budget frequently and more closely to ensure that actual expenses do not exceed budgeted amounts. Provide year-to-date reports to board members detailing how much has been spent.

### **Profit Percentage to Sales**

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

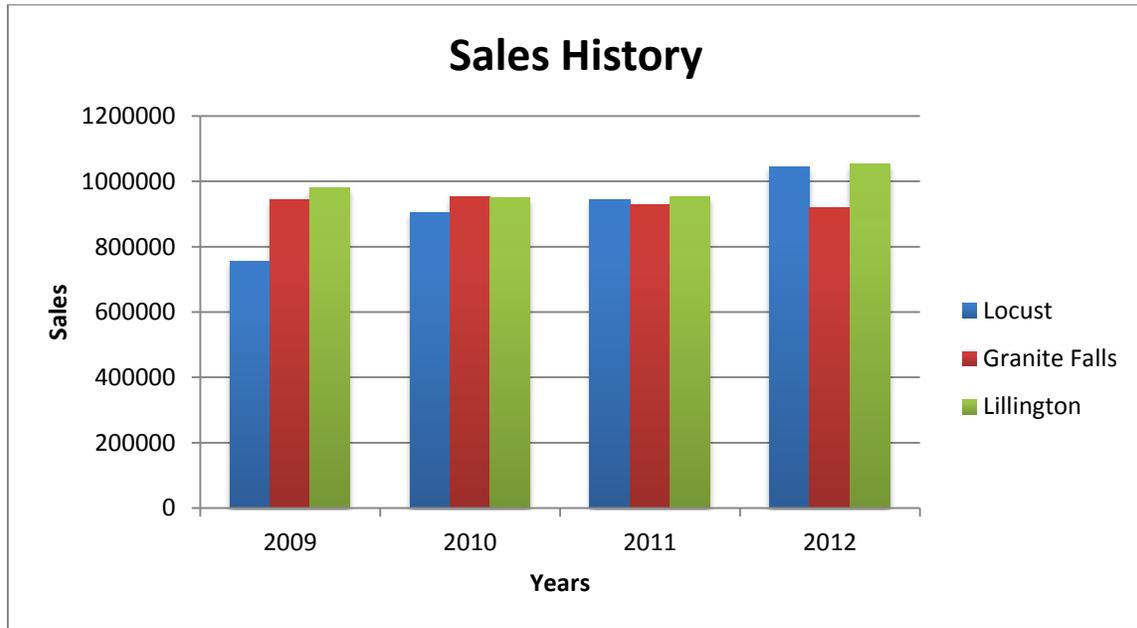
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Locust ABC Board had gross sales of \$1,045,872; income from operations was \$35,126, a 3.4% profit percentage to sales and has not met the goal.

Factors affecting sales and profitability:

- US Census Bureau reports a population of 2,930 in 2010;
- Overall population has increased by approximately 21% since 2000;
- Individuals below poverty levels is 7.6% to the state's 15.5%, an increase of 3.5% since 2000;
- 9.8% unemployment rate for Stanly County in August 2012, a decrease of .3% since the previous month;
- September sales increased 8.44% over last September;
- Surrounding towns with ABC stores within a thirty mile radius include Albemarle, Concord, Norwood, and Mt. Pleasant;
- Population shifts affect profitability due to growth and development and shopping patterns in surrounding areas.

Below is a sales history analysis of similar size boards. The analysis continues to show an increase since 2009.



*Recommendations:*

- Improve sales strategies by developing new marketing techniques. Refer to recommendations addressed under inventory turnover.
- Analyze expenses more closely to increase profits by monitoring budget closely and reducing costs where possible.

## **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

Based upon the new limits, the Locust ABC Board had a working capital of -\$74,704 and has not met the minimum requirements set by the Commission.

### *Recommendations:*

- Increase working capital by paying down line of credit while at the same time reducing payables.
- Obtain approval from appointing authority to withhold minimum distributions for a period of time in order to retain the minimum working capital.

## **Distributions**

G.S. 18B-805 (c) (2) and (3) requires the board to distribute quarterly at least five percent of profits for law enforcement and at least seven percent of profits for alcohol education. The remaining profits are to be distributed to the Town of Locust General Fund.

In FY2012, the board did not make distributions toward law enforcement or alcohol education. However, the minimum distribution totaling \$30,489 was met.

## **FINDINGS, OBSERVATIONS, AND RECOMMENDATIONS**

On September 21, 2012, ABC Commission Board Auditor, Moniqua S. McLean, visited the Locust ABC store and interviewed Heather Hughey, general manager. The following are the findings, observations, and recommendations relating to the performance audit.

### **Store Appearance and Customer Service Observations**

The Locust ABC Board operates one retail store with approximately 1,000 linear feet of shelf space and carries approximately 1,190 product codes.

- The Fetal Alcohol Syndrome poster was displayed.
- The store was clean and well-maintained. Bottles were dusted and fronted.
- A consistent and easily understood shelf management system was present conforming to the latest industry and marketing strategies while catering to customer interests.
- Upon entering the store, employees greet customers in a professional manner and were attentive to customer needs exhibiting good customer service.
- End caps and display cases were creatively used to highlight new, discontinued and sale items.

*No Recommendations.*

### **Personnel and Training**

- All board members, general manager, and finance officer have attended the initial mandatory ethics class.
- Training is provided as new information becomes available to new and current staff. Other training opportunities, such as the RASP class, have been provided to staff.
- Cross training opportunities have been extended to key employees in the event the general manager was suddenly unavailable.

*Recommendations:*

- Provide additional training that will include alcohol education, customer service, and product knowledge. Contact the Commission for RASP class training and other boards that have other training module(s) to be included in employee professional development.

### **Policies and Procedures**

- Policies adopted and submitted to the Commission include:
  - Code of Ethics
  - Law Enforcement Contract
  - State Travel Policy
  - Employee Handbook
  - Mixed Beverage Policy
  - Price Discrepancy Policy
  - Shelf Management Policy
  - FY2013 Budget (Proposed and Adopted)

- All employees maintain their own cash drawer. Morning shift opener counts night shift clerks' cash drawer. Deposits are made nightly by evening clerks. Shortages and overages are recorded on a log. Deposit reconciliations against register receipts are made by the finance officer.
- Physical inventory counts are performed annually by general manager and scheduled staff with frequent spot checks. Once completed, the general manager investigates discrepancies and makes adjustments in the inventory management system. Unsalable items are adjusted whenever suppliers have signed off on the claim form.

*Recommendations:*

- To have strong internal controls of inventory, take physical inventory monthly or bi-monthly. Have employees perform spot checks as part of their daily duties and responsibilities. Incorporate a procedure that would allow one clerk to cross check another's. Adjust unsalable inventory immediately.

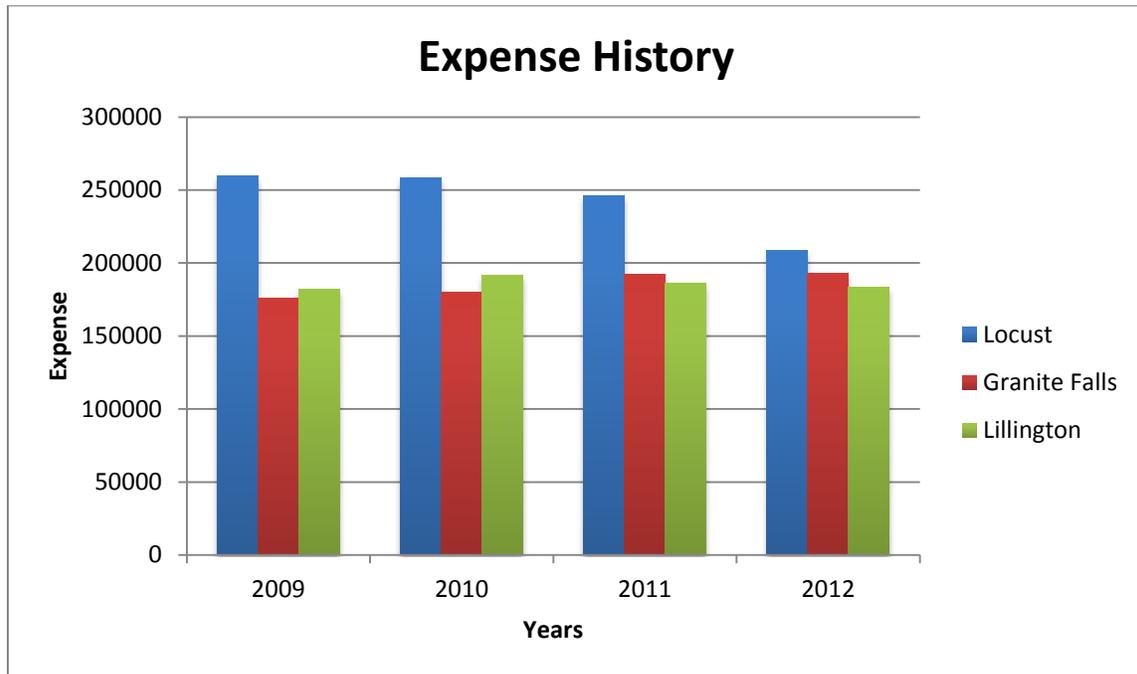
**Administrative Compliance Findings and Observations**

- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting. The conflict of interest statement was referenced in the board minutes.
- Board member appointment dates and compensation amounts are current on the Commission internal website.
- 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).
- Nepotism – The board is in compliance with G.S. 18B-700 (k).
- All board members, general manager, and finance officer is bonded in the amount of \$50,000 as required by G.S. 18B-700 (i).
- Liquor orders and purchase orders used have the pre-audit certificate and are stamped by the finance officer as required by G.S. 18B-702(m).
- Some liquor invoices are more than 45 days past due.
- All checks bear the approved certificate and are signed by the finance officer as required by G.S. 18B-702(q).

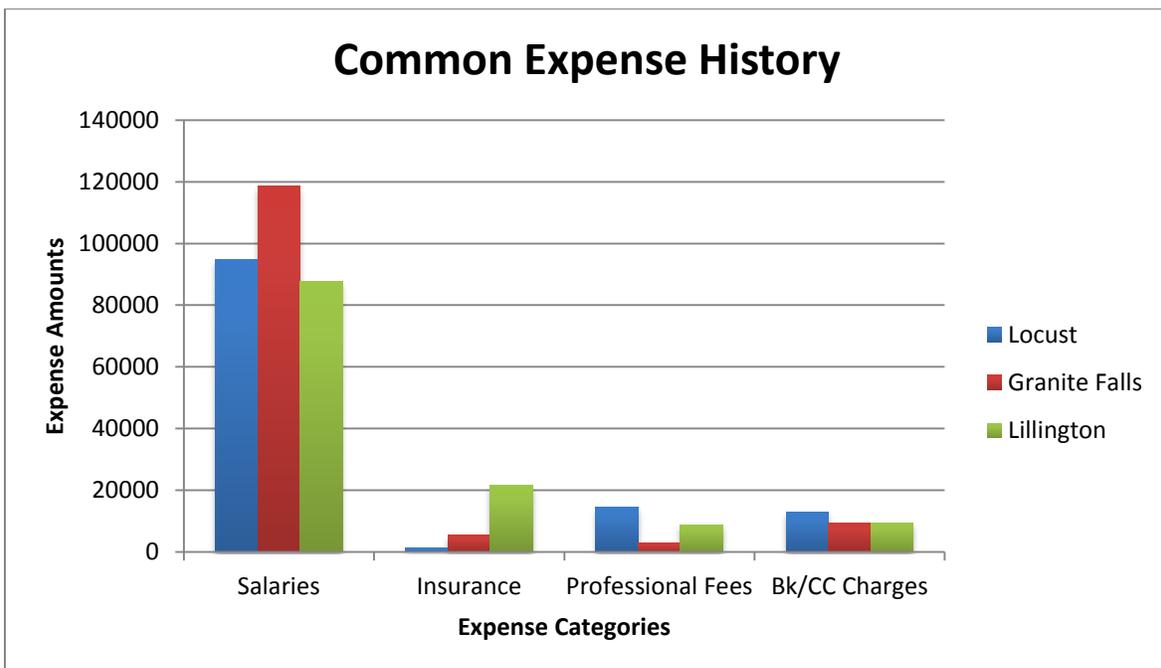
*Recommendations:*

- Pay all liquor bills within thirty days of receipt of liquor. It is the Commission's policy to stop liquor shipments when liquor invoices become delinquent. *Refer to Appendix C (1) for rule.*

## APPENDIX A



*The expense history data indicates that Locust ABC Board's overall expenses have decreased 19.7% since the opening of the store and have decreased 15.2% from the previous year. Compared to other board's expenses, Locust ABC's expenses are higher but the trend shows that expenses are decreasing at a significant rate.*



*Excluding salaries and insurance expenses, other common expenses are higher compared to other similar size boards.*

## APPENDIX B



*Counter view.*



*External view.*

## APPENDIX C

(1) NCAC 02R .1407 (c) states, "Local boards shall remit full payment of the distiller's invoice within thirty days of delivery of the liquor."

# LOCUST ABC BOARD

## MEMO

To: Moniqua Mclean, ABC Board Auditor  
NC ABC Commission

From: Heather Hughey, General Manager  
Locust ABC Board

Date: January 2, 2013

Subject: Response to Performance Audit

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The Locust ABC Board has reviewed the Performance Audit Report that was presented at the Locust ABC Board meeting on December 17, 2012. All recommendations made have been implemented or are in the process of being implemented.

As noted in the report, revenues continue to increase and expenses to decrease at a rate higher than average, based on Commission data. We will continue to monitor the budget closely and to cut expenses wherever possible. It is our goal to continue to be a leader in our percentage increase over last year's sales as reported by the Commission monthly. It is also our intention to meet and exceed the targeted goal of the operating cost ratio once the long term debt expense has been satisfied.

Thank you for your careful analysis of our efforts to be a model Board for the State of North Carolina.

RECEIVED

JAN 03 2013

NC ABC COMMISSION

**McClean, Moniqua S**

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**From:** Locust ABC Board <locustabcboard@aol.com>  
**Sent:** Thursday, January 17, 2013 4:02 PM  
**To:** McClean, Moniqua S  
**Subject:** RE: Past Due Invoice Clarification

Moniqua:

All liquor invoices were current when I sent you my response on January 2, 2013. I did not include that in my response.

Thanks,

Heather

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**From:** McClean, Moniqua S [<mailto:moniqua.mcclean@abc.nc.gov>]  
**Sent:** Wednesday, December 19, 2012 12:11 PM  
**To:** Locust ABC Board  
**Subject:** Past Due Invoice Clarification

Heather,

Please forward to your board members. I wanted to clarify with you regarding our discussion in the board meeting regarding the past due invoices. Because it is our rule and we have to make sure that everyone is following that rule, all liquor invoices have to be paid within 30 days of shipment. I'm not sure if you are paying more than the minimum on the line of credit. If so, in order to remain in compliance with this rule, you will need to pay the minimum of the line of credit in order to get your invoices current or borrow against your line of credit to get your liquor invoices current.

Thank you.

Moniqua S McLean, MAFM  
ABC Board Auditor

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## LOCUST ALCOHOL BEVERAGE CONTROL BOARD

### Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Administrative Compliance:</b> **Pay liquor bills within thirty days of receipt of liquor.</p>	<p> <input type="checkbox"/> Yes  <input checked="" type="checkbox"/> No                        **Note: Required by rule.                 </p>	<p>(Please provide documentation supporting implementation status.)</p> <p> <input checked="" type="checkbox"/> Fully Implemented  <input type="checkbox"/> Partially implemented ___% complete.                      (Explain below.)  <input type="checkbox"/> Not implemented (Explain below.)                 </p> <p>The board has brought all liquor bills current to be paid within the 30 day period.</p>