

High Country 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:
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Wake Forest

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Moniqua S. McLean
ABC Board Auditor

October 10, 2014

High Country ABC Board
Ms. Donna Dicks, Chairperson
4004 Hwy 105, Suite 11
Banner Elk, NC 28604

Dear Chair Dicks,

We are pleased to submit this performance audit report on the High Country 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 efficient manner in which your ABC store is operated.

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

Respectfully,

Michael C. Herring
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 store annual audit for the fiscal year 2013;
- Visited the store;
- Interviewed key ABC board personnel.

BACKGROUND INFORMATION

Through the resolutions of three towns with existing ABC stores, Town of Banner Elk, Town of Seven Devils, and the Town of Sugar Mountain, a merger agreement between the townships was created in 1998 to form the High Country ABC Board.

With this resolution, a new board was created consisting of three members and an alternate for each member, one member and alternate to be appointed by the governing body of each town. Current board members include Lois Dodson, board chairperson, David Johnson, Donna Dicks, Dedy Traver, Robin Dunn, and Sarah Manning, board members. Since the initial fieldwork, new board members have been appointed, Winston Aaman and Mike Tarlton. The board chairperson has been replaced by Donna Dicks.

The High Country ABC Board operates one retail store. The board staffs five full-time employees, including the general manager, and one part-time employee. The general manager is responsible for the oversight of all daily operations, inventory management, accounts payable, human resource organization and other administrative decisions for the board. The assistant general manager holds the same duties in the absence of the general manager and serves as the finance officer to the board. The board hired an external accountant who assists with payroll, financial reporting, the annual audit, and other bookkeeping duties as needed. All store employees primary responsibility is to provide friendly customer service to all customers, store upkeep and stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On June 9, 2014, ABC Board Auditor, Moniqua S. McLean, visited the High Country ABC store and interviewed Sara Brewer, general manager and Lois Dodson, board chairperson. 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 2013, the High Country ABC Board had gross sales of \$2,557,301; income from operations was \$226,003, a 8.84% profit percentage to sales.

Factors affecting sales and profitability include:

- Surrounding towns with ABC stores include Spruce Pine, Boone, Blowing Rock, and Burnsville;
- The Tennessee border is approximately 9 miles from the ABC store;
- County population is approximately 17,713 in 2013, a decrease of 0.5% since 2010.

DISTRIBUTIONS

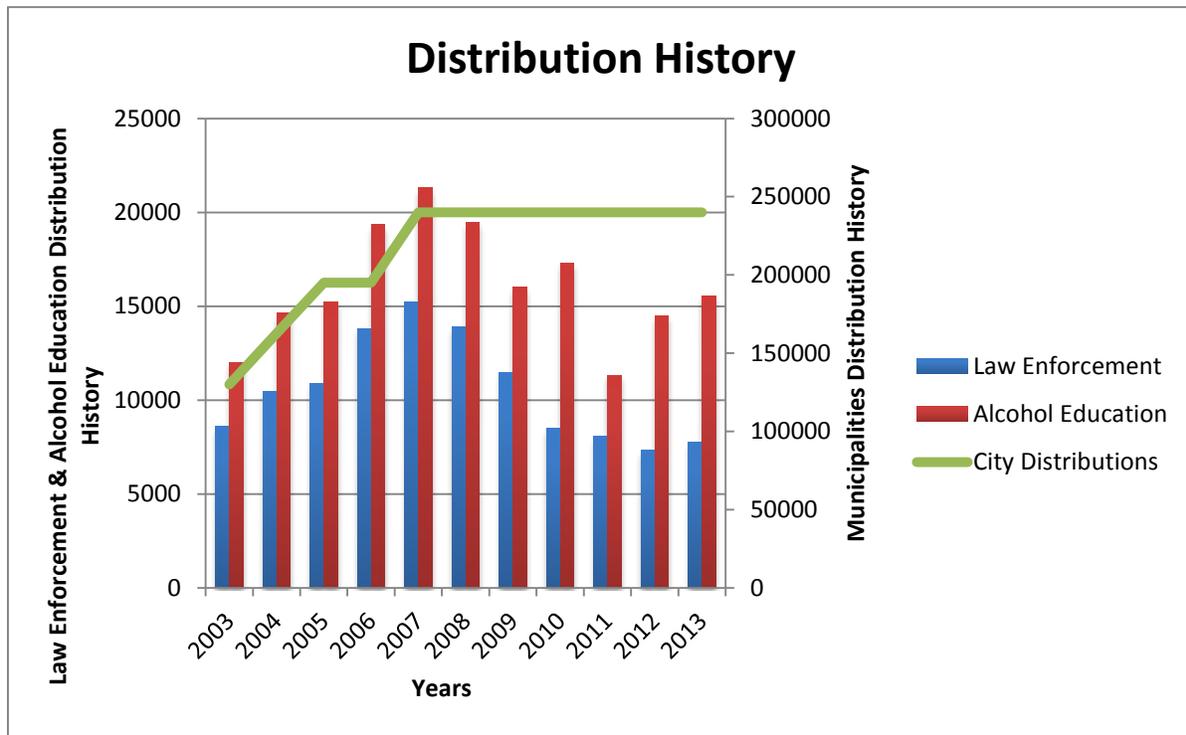
G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, mixed beverage and bottle tax. G.S. 18B-805 (c) (1) requires the board to make a minimum quarterly distribution of the 3 ½% markup rate to the county. In FY2013, the High Country ABC board made the required minimum distribution to the towns totaling \$65,106, plus an additional \$174,894. \$605,155 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) requires the board to distribute at least five percent of net profits to law enforcement and at least seven percent for alcohol education. The remaining profits are to be distributed as follows:

- 33 1/3% to the Seven Devils General Fund;
- 33 1/3% to the Banner Elk General Fund; and
- 33 1/3% to the Sugar Mountain General Fund.

The High Country ABC Board has distributed \$7,786 to law enforcement and \$15,573 to alcohol education.

Below is a distribution chart analyzing the high-low trend of the High Country ABC Board in the past ten years.



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 FY2013, the High Country ABC Board had a working capital of \$243,162, which is less than the maximum allowed to retain of three months gross sales (\$486,478) and is within the limits of NCAC 02R.0902.

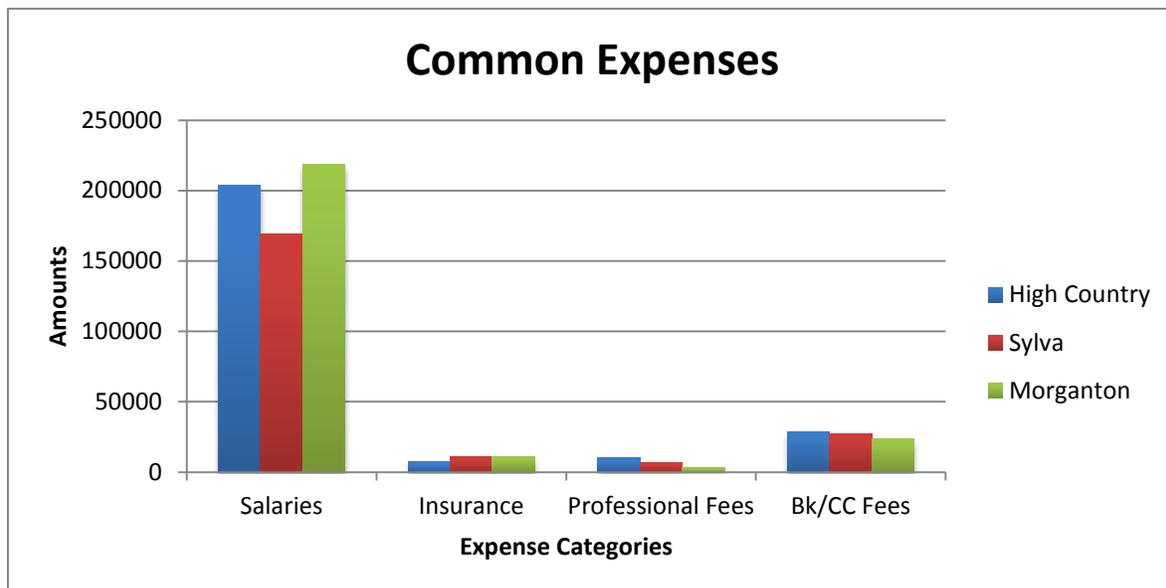
OPERATING COST RATIO

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):

- 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 High Country ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.60. Mixed beverage sales make up 21% of total gross sales. In fiscal year 2013, sales slightly increased 0.9% over previous fiscal year and expenses increased 2.10% over the same time period.

A common expense analysis shows the High Country ABC Board expenses compared with other similar size boards are in range with other boards.



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 High Country ABC Board receives deliveries twice a month: the inventory turnover rate is 7.3. The average inventory turnover rate for similar boards with the same delivery schedule is 5.6.

NO RECOMMENDATIONS

STORE APPEARANCE AND CUSTOMER SERVICE

The High Country ABC Board operates one retail store with approximately 900 linear feet of shelf space and carries approximately 1,000 product codes.

- The store appeared clean and free of trash. Counter areas were clear making supplies easily accessible to staff.
- Exterior signage and landscaping around the store is clean and free of trash. Interior signage is neat and visible. The Fetal Alcohol Syndrome poster is displayed.
- Security systems are in place and functional in all designated areas.
- Shelf management encompasses a strategy following the highest priced product on the top shelves and lowest priced product on the bottom shelves. Product placement is consistent with sizes going from largest to the right and smallest to the left. End caps and product displays are used to showcase bestselling, new, and seasonal items. Product cross merchandising is prevalent throughout the store. Brand blocking is displayed with value added products.
- The state price book is available should customers inquire about 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 customers.

NO RECOMMENDATIONS

PERSONNEL AND TRAINING

- All board members and the general manager have completed the initial ethics training as required by G.S. 18B-706. Board members have since been reappointed and have completed the reappointment training.
- Cross training opportunities are being extended to key administrative duties in the event the general manager was suddenly unavailable.
- Training is provided continuously to new and existing staff on areas applicable to job performance. Management often attends and has held office with the NC Association of ABC Boards for training opportunities on specific areas of interest.
- Personnel files are available and include human resource documentation and other personnel information as needed.

NO RECOMMENDATIONS

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract
 - Travel Policy (Appointing Authority Approval Submitted for FY14)
 - FY2013 Annual Audit
 - FY2014 Budget (Proposed and Adopted)
 - Employee Manual
 - Price Discrepancy Policy
 - Credit Card Usage Policy
 - Mixed Beverage Policy

NO RECOMMENDATIONS

INTERNAL CONTROL PROCEDURES

- The general manager schedules all employees for work shift hours. Time sheets are used for all clerks. During payroll, the general manager will verify all time sheets and enter into accounting/payroll software for processing. Once entered, a payroll activity report is generated for review by the accountant and the general manager.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures to handle cash drawer overages/shortages.
- Bank deposits are made regularly as required by the ABC Commission rule. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed by the general manager/finance officer.
- Physical inventory counts are completed monthly by whomever is scheduled to work. Spot checks are conducted frequently. If discrepancies occur, the general manager will investigate and recount for accuracy and verification. Unsalable items are deleted from inventory when supplier representatives write-off the product. Once completed, the general manager will adjust the inventory system to match with the actual store counts. The variance reports are forwarded to the accountant for adjustments to the general ledger.
- Out of approximately 1,000 product codes, approximately 75 product codes were sampled to ensure accurate pricing and all were correct.

NO RECOMMENDATIONS

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 referenced a conflict of interest statement asking board members if conflicts existed with items on the meeting agenda.
- Board member appointment dates and compensation amounts were correct 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 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 related to board members or the general manager.
- All board members, the general manager, and the finance officer are bonded for \$50,000.
- Amendments were made to the budget but not submitted to the Commission once 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 indicating that the item has been approved by the finance officer or an authorized person for payment. Two signatures are located on all paid checks: that of the finance officer and a board member. All board members and the general manager are authorized to sign checks.

RECOMMENDATIONS

1. Once amendments have been adopted, forward copies to all appointing authorities and the Commission. *Refer to Appendix B (1) for statute.*

AUDITOR'S SUMMARY

ABC Board Auditor, Moniqua S. McLean, presented to the board the performance audit recommendations on September 11, 2014. The board has since responded to the performance audit recommendation and continues to implement strategies that would improve profitability while reducing costs and maintaining budget appropriations. Policies and procedures have been implemented to ensure compliance with ABC statutes and Commission rules while ascertaining efficient operations and checks and balances.

High Country Municipal ABC Board

P.O. Box 1508
Banner Elk, NC 28604

September 25, 2014

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

Dear Ms. McLean:

Thank you for attending our meeting on September 11, 2014 and presenting the results of your performance audit of the High Country ABC Store. As the only ABC Board to represent three separate appointing authorities, we face unique challenges and appreciate the support of the ABC Commission in addressing these challenges.

With regard to your recommendation on page 12 that budget amendments, once adopted, be sent to all appointing authorities and to the Commission, please be assured that this has been done for the current year's budget and will continue to be done in the future.

The Board and General Manager appreciate your time and energy in preparing the performance audit. We were very pleased with the results and feel confident that the future of the High Country ABC Store is bright and likewise that the communities we serve will continue to benefit from its efficient operation.

Sincerely,

Anna P. Dicks
Chairman, High Country ABC Board

APPENDIX A

Illustration 1



Illustration 2



Illustration 3



APPENDIX B

(1) G.S. 18B-702(h) states, "...Amendments to the adopted budget shall also be provided to the appointing authority and the Commission."