

Norwood ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
400 East Tryon Road, Raleigh, NC 27610
p: 919-779-0700 | f: 919-661-5927 | <http://abc.nc.gov>



ABC
COMMISSION
NORTH CAROLINA



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

CHAIRMAN:
A.D. "ZANDER" GUY, JR.

January 11, 2013

COMMISSIONERS:
DANIEL L. BRIGGS
Lexington

ALLEN M. THOMAS
Greenville

Norwood ABC Board
Mr. Jerry Rogers, Chairman
317 North Main Street
Norwood, NC 28128

ADMINISTRATOR:
MICHAEL C. HERRING

Dear Chairman Rogers,

LOCATION:
400 East Tryon Road
Raleigh NC 27610

We are pleased to submit this performance audit report on the Norwood 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.

MAILING:
4307 Mail Service Center
Raleigh, NC 27699-4307

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.

PHONE: (919) 779-0700
FAX: (919) 661-5927
<http://abc.nc.gov/>

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 recent steps taken to increase operating efficiencies at your ABC store.

Moniqua S McLean
ABC Board Auditor

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

Respectfully,

Michael C. Herring
Administrator

CC. North Carolina Association of ABC Boards

TABLE OF CONTENTS

Findings and Recommendations.....	10
Norwood ABC Board Response.....	16
Recommendation Follow up.....	17

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 Norwood 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

Chapter 722 of the 1954 Session Law authorized the Town of Norwood to hold an election upon a written petition signed by at least fifteen percent of voters. The referendum was held on October 22, 1968 and passed 468 to 301. The first retail sale was March 3, 1969. A mixed beverage election was held June 14, 2005 and passed 363 to 196.

Upon election of an ABC store the Town of Norwood was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members include Jerry Rogers, chairman, Chalmers Glenn and Raymond Skidmore, board members.

The Norwood ABC Board operates one retail store. The board staffs one full-time manager, one part-time accountant/bookkeeper, and three part-time clerks. The general manager's duties consist of the overall operations of the store including supervising personnel, inventory management, and customer service. The accountant/bookkeeper is responsible for accounts payable and financial documentation pertaining to store operations. All clerks are responsible for routine store upkeep, stock maintenance, and customer service.

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 Norwood ABC Board receives deliveries monthly: the inventory turnover rate is 1.3 and does not meet the target rate set by the Commission.

Recommendations:

- To increase inventory turns, consider the following:
 - Splitting cases with surrounding boards to increase variety as well as to reduce cost,
 - Cross-merchandising or moving stock within the store to increase visibility and to encourage more impulse shopping,
 - Analyzing sales data and history reports to plan orders and to take advantage of Special Purchase Allowance offers whenever possible,
 - Utilizing end caps and shelf space as much as possible to highlight slow moving and new products,
 - Selling slow-moving inventory to another board with demand for the products or requesting price reductions from the Commission to clear out dead stock.
- Contact other boards whose inventory turnover rate exceeds the target for other ideas that may be implemented,
- Manage your profitability and cash flow by effectively managing your shelf space.

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 Norwood ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.92 and does not meet the rate set by the Commission. Note: Although the board has mixed beverage, much of the business is retail due to a limited number of mixed beverage permit holders. Norwood does meet the goal for single store boards without mixed beverage sales. In

fiscal year 2012, sales have decreased 1.9% since the previous year and overall operating expenses have increased 5.6% over the same time period. The board's operating expense has decreased primarily due to the acquiring debt for the current building. To meet the cost ratio goal and remain at current expense levels of \$97,010, revenues must be increased to \$550,000, a 24% increase in current sales. To meet the cost ratio goal and remain at current revenue levels of \$442,564, expenses must be reduced to \$82,000, a 15.5% decrease in current expenses. Analysis of the data indicates that Norwood ABC's expenses are increasing at the same rate as 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, 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 total liquor sales (Total Income before Distribution/Total Liquor Sales). The Commission has set goals based on the following breakdown:

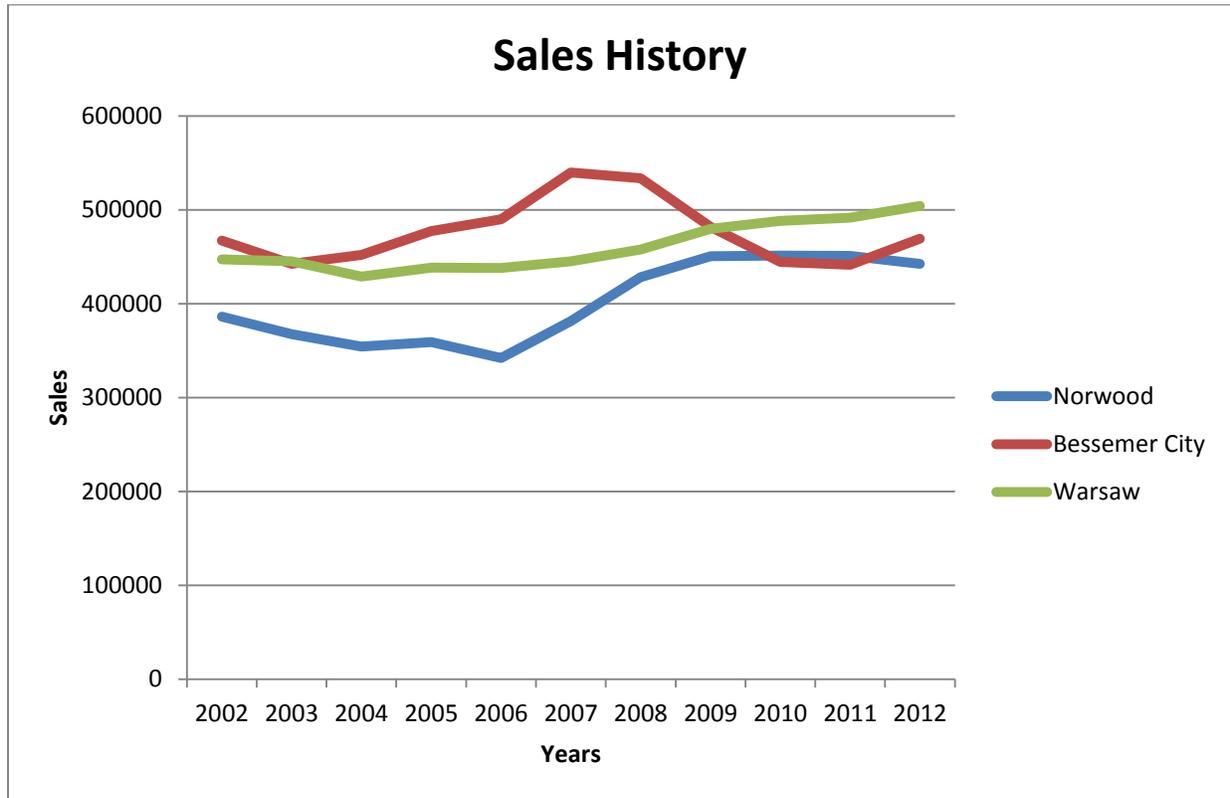
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Norwood ABC Board had gross sales of \$442,564; income from operations was \$3,350, a 0.86% profit percentage to sales and has not met the goal.

Factors affecting sales and profitability:

- US Census Bureau reports a population of 2,379 in 2010;
- Overall population has increased by approximately 7.4% since 2000;
- Individuals below poverty levels is 11.5% to the state's 15.5%, a decrease of 3.2% since 2000;
- 9.8% unemployment rate for Stanly County in August 2012, a decrease of .3% since the previous month;
- Sales have decreased 1.9% over the previous fiscal year but have increased 14.6% over a ten-year period;
- Surrounding areas with ABC stores include Locust and Albemarle within a twenty mile radius;
- Population shifts within the state and shifts in shopping patterns through growth and development in larger, urban areas affect board profitability.

Below is a sales history analysis of similar size boards. The analyses show a steady increase from 2002 to 2009 and have since decreased.



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 needed.
- Explore merging opportunities with surrounding boards to increase profitability for the system while reducing operating expenses.

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 Norwood ABC Board had a working capital of \$79,497 and is within the limits set by the Commission.

Distributions

G.S. 18B-805 (c) (2) requires the board to distribute quarterly at least five percent of profits for law enforcement. The board follows the enabling act for quarterly distributions of up to five percent for alcohol education. The remaining profits are to be distributed quarterly as follows:

- 85% to Town of Norwood General Fund
- 15% to Stanly County General Fund

In FY2012, the board did not make distributions. Law enforcement distributions were made in 2011 totaling \$143. Alcohol education distributions have not been made since 2008. City/county distributions have not been made in the past ten years.

FINDINGS, OBSERVATIONS, AND RECOMMENDATIONS

On September 19, 2012, ABC Commission Board Auditor, Moniqua S. McLean, visited the Norwood ABC store and interviewed Lanny Whitley, general manager/finance officer, and Amanda Bowers, deputy finance officer. The following are the findings, observations, and recommendations relating to the performance audit.

Store Appearance and Customer Service Observations

The Norwood ABC Board operates one retail store with approximately 700 linear feet of shelf space and carries approximately 800 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.
- The price book and monthly sales list were available to customers upon request.
- Upon entering store, employees greeted customers in a professional manner and were attentive to customer needs exhibiting good customer service.

No Recommendations.

Personnel and Training

- All board members and general manager have attended the initial mandatory ethics class. The board has appointed a deputy finance officer who has registered for the upcoming class in November.
- Training is provided as new information becomes available to current staff. However, other training opportunities, such as the RASP class, have not been made available 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 and other boards that have a training module(s) in these areas.

Policies and Procedures

- Policies adopted and submitted to the Commission include:
 - Code of ethics
 - Law Enforcement Contract
 - State Travel Policy
 - Mixed Beverage Policy
 - Credit and Debit Card Usage Policy
 - Employee Handbook
 - FY2013 Budget (Proposed and Adopted)
- A written price discrepancy policy has not been adopted; however employees do understand how to handle price differences between the shelf and the register.
- All employees maintain their own cash drawer. Cash drawers are counted at the beginning of each shift. Deposits are made daily and sometimes nightly by the general manger and another authorized person. Deposit reconciliations against the register receipts are performed by the deputy finance officer. Each clerk has signed an affidavit of responsibility for own drawer and is filed in their personnel files.
- Physical inventory counts are performed on a yearly basis by all clerks and occasionally with assistance from a board member. Discrepancies are checked by the general manager and are adjusted after verification is complete. Category spot checks are performed often by the general manager. Unsalable items are adjusted out of inventory immediately.

Recommendations:

- Although understood by all employees, have a written price discrepancy policy. Having written procedures will allow future employees to be knowledgeable about current practices. *Refer to Appendix C (1) for rule.*
- To have strong internal controls of inventory, take physical inventory 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.

Administrative Compliance Findings and Observations

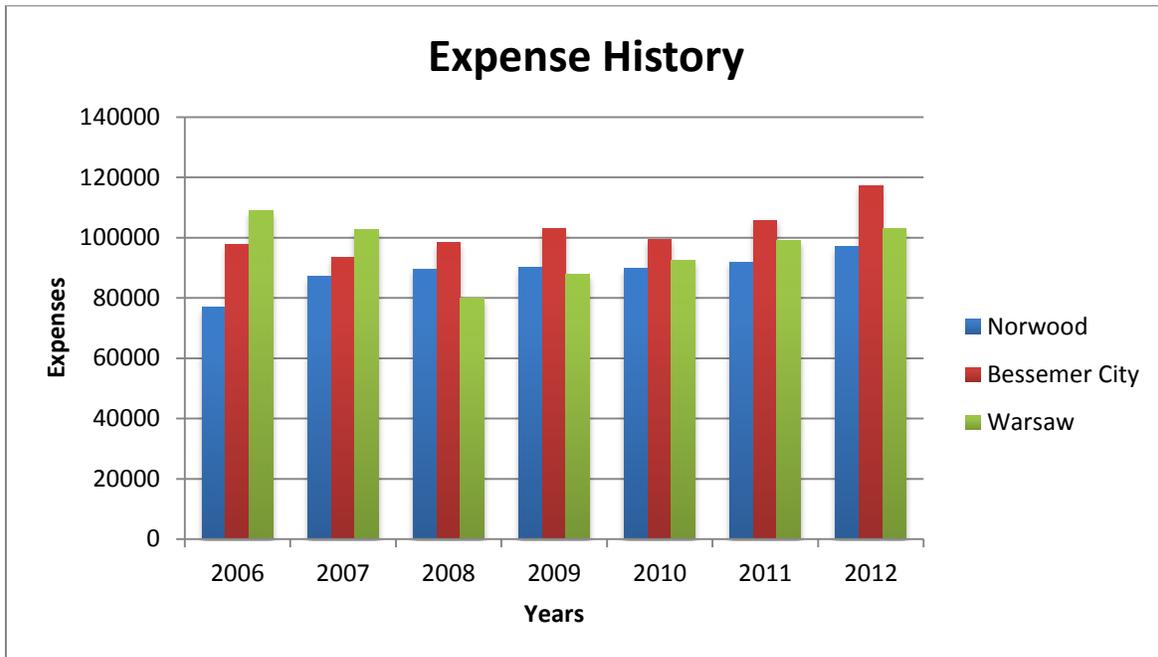
- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting. The conflict of interest statement was reference in the board minutes.
- Board member compensation was incorrect on the Commission internal website. However, the general manager salary information was current. The auditor corrected the required information 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).
- The general manager serves as the finance officer for the board. The board has obtained an approval from the Commission for the general manager to serve as the finance officer for two years. The exemption request expires on December 15, 2013. However, the board has appointed a deputy finance officer.
- The general manager and all board members are bonded in the amount of \$50,000 as required by G.S. 18B-700 (i).
- Liquor orders and purchase orders have the pre-audit certificate and are stamped by the general manager/finance officer or the deputy finance officer as required by G.S. 18B-702(m).
- All checks bear the approved certificate and are signed by the finance officer as required by G.S. 18B-702(q).

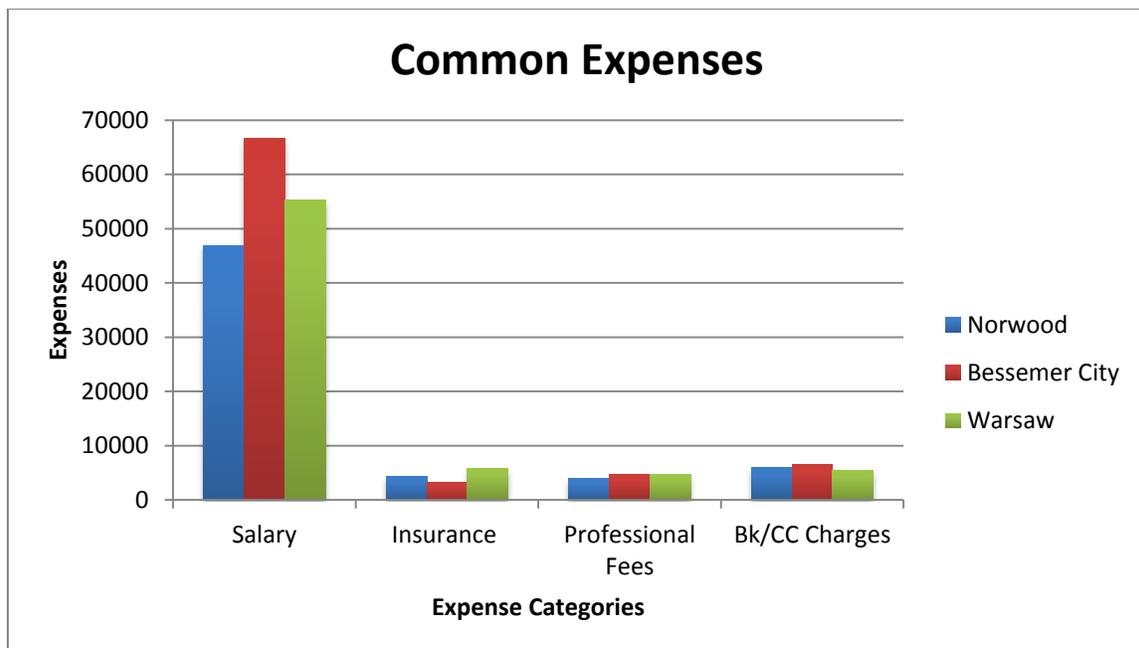
Recommendations:

- Appoint a finance officer other than general manager or ask the Commission for an additional one year exemption. *Refer to Appendix C (2) for statute.*

APPENDIX A



The expense history data indicates that Norwood ABC Board's overall expenses have increased 5.6% over the previous year and by 25.9% over a seven-year period. In analyzing sales and expenses, the data shows that as sales have decreased, expenses have increased. Compared to other board's expenses, Norwood ABC is not out of line.

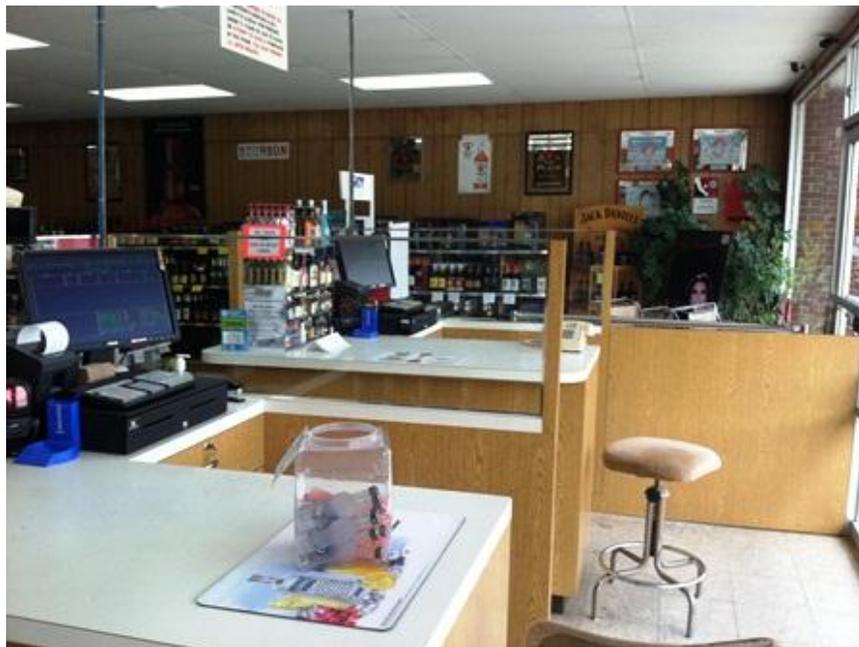


Common expenses for Norwood ABC Board are lower than other similar size boards.

APPENDIX B



Front view of Norwood ABC store.



Counter view.

APPENDIX C

- (1) NCAC 02R.1706 (b) states, "If a local board has a price discrepancy between the price on the shelf or bottle and the cash register, and the price on the shelf or bottle is lower, the local board shall sell the item at the shelf or bottle price and correct the shelf or bottle price to match the Commission's published uniform price."*
- (2) GS 18B-702 (j) states "...the local board shall designate (i) a part-time or full-time employee of the board other than the general manager or (ii) the finance officer of the appointing authority with consent of the appointing authority to be the finance officer for the local board."*

Norwood ABC Board

317 North Main Street
Norwood, NC 28128

The Norwood ABC Board would like to thank Moniqua McLean for a very proficient and productive audit. We were very pleased with the result.

The following is our response to the findings of our audit conducted on September 19, 2012.

Operating Cost Ratio

We are trying to monitor our budget and do our best to keep all expenses as low as possible.

Profit Percentage to Sales

In the past couple of months our sales have slightly increased. We are hoping that this continues and some new businesses come to town bringing increased mixed beverage sales.

Personnel and Training

All board members and finance officers have taken the Ethics and Responsibilities training class.

Policies and Procedures

We have adopted a price discrepancy policy.

Administrative Compliance Findings and Observations

We have a deputy finance officer who assists the general manager/finance officer in administrative duties. The deputy finance officer will be promoted to finance officer in the upcoming year of 2013.

Sincerely,


Jerry Rogers
Chairman

RECEIVED

DEC 18 2012

NC ABC COMMISSION

NORWOOD ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Policies and Procedures: **Adopt a price discrepancy policy.</p>	<p> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No </p> <p>**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 adopted and implemented a price discrepancy policy and has submitted a copy to the Commission.</p>
<p>Administrative Compliance: Appoint a finance officer.</p>	<p> <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No </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 promoted the deputy finance officer to serve as finance officer.</p>