

North Wilkesboro 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

CHAIRMAN:
JAMES C. GARDNER

COMMISSIONERS:
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Wake Forest

KEVIN M. GREEN
Greensboro

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Moniqua S. McLean
ABC Board Auditor

January 31, 2014

North Wilkesboro ABC Board
Mr. Gerald Lankford, Chairman
PO Box 1151
North Wilkesboro, NC 28659

Dear Chairman Lankford,

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

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 North Wilkesboro ABC Board responded to the performance audit recommendations and has implemented standards and goals to obtain more profits while retaining expenses. Policies and procedures have been established to maintain compliance with statutes and ABC Commission rules and to ensure efficient operations.

BACKGROUND INFORMATION

Chapter 412 of the 1965 Session Laws authorized the town of North Wilkesboro to hold an election for an ABC store upon fifteen percent (15%) of registered voters. The referendum was held on July 20, 1965 and passed 1,072 to 491. The first sale occurred on October 1, 1965. A mixed beverage election was held on April 7, 1987 and passed 317 to 270.

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 for three year terms. Current board members are Gerald Lankford, board chairman, Albert Miller and Stephen Gentry, board members.

The North Wilkesboro ABC Board operates one retail store. The board staffs three full-time employees and one part-time employee. The general manager is primarily for overseeing and managing daily operations of the store including supervising personnel, inventory control, budget maintenance, and providing customer service. The finance officer, previous general manager, is responsible for overseeing and adhering to the budget as required by the ABC statutes and rules. The board has hired an external accountant whose duties consist of providing assistance to the general manager with all financial responsibilities related to bookkeeping and monthly account reconciliations. Store employees are primarily 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 North Wilkesboro ABC Board receives deliveries twice a month: the inventory turnover rate is 3.6.

Recommendations:

- To increase inventory turns, consider the following:
 - Analyzing sales data and history reports more closely and more frequently to plan orders while taking advantage of Special Purchase Allowance offers,
 - Selling slow-moving inventory to other boards with greater demand or asking the Commission for a reduced price,
 - Cross-merchandising or moving stock within store to increase visibility and to encourage more impulse shopping;
 - Investigate new/updated shelf management theories.
- Contacting other boards who have a high inventory turnover rate and have recently opened a new store or a second location for ideas that may be implemented.

Operating Cost Ratio

Operating costs are calculated by dividing total operating expenses less depreciation by the gross profit on sale (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 25% of gross sales – cost ratio 0.75
- 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 North Wilkesboro ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.93. Mixed beverage sales make up 8.12% of total gross sales. Sales have decreased 4% over the previous year, while expenses have increased 3.7% over the same time period. To meet the cost ratio goal and remain at current operating expense of \$232,688, revenues must be increased to \$1,150,000, an 11% increase. To meet the cost ratio goal and remain at current revenue of \$1,034,353, expenses must be reduced to \$210,000, a 10% decrease. *An expense analysis is located in Appendix A.*

Recommendations:

- 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.

- Request bids annually from various vendors to get the best rates possible on financial audits, specific utilities, maintenance contracts, and credit card processing fees.

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, North Wilkesboro ABC had a working capital of \$236,266, which is equivalent to approximately 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:

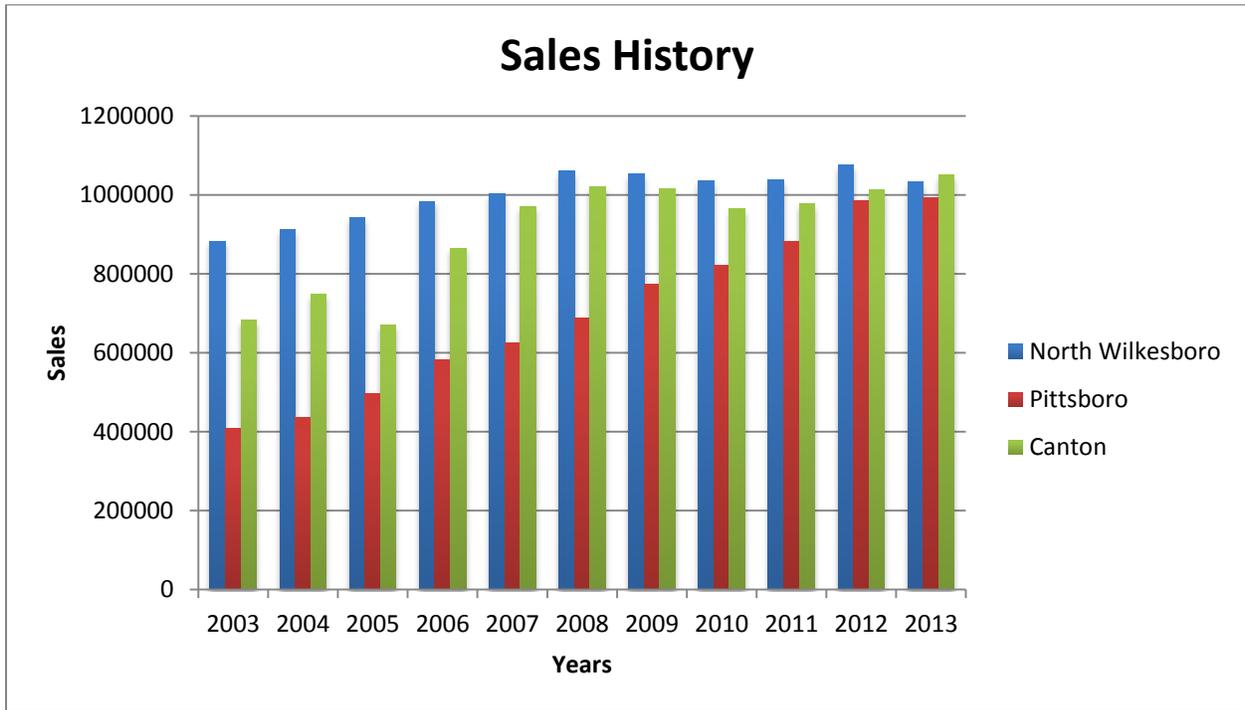
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2013, the North Wilkesboro ABC Board had gross sales of \$1,034,353; income before distributions was \$15,321, a 1.5% profit percentage to sales.

Factors affecting sales and profitability:

- Surrounding towns with ABC stores include Wilkesboro, Boone, and West Jefferson;
- Sales decreased 4% over previous year;
- Growth and development in surrounding, more easily trafficked areas contribute to the shift in shopping patterns away from rural areas which affect sales and profitability.

Below is a sales history analysis of similar size boards compared with North Wilkesboro ABC Board. This chart analyzes the sales trends for the past ten years.



Recommendations:

- To increase profitability, consider testing different marketing strategies such as cross-merchandising;
- Invite the Association's Efficiency Committee to visit the store with the possibility of making additional recommendations to improve profitability.

Distributions

G.S. 18B-805 (c) (2) requires the board to distribute at least five percent (5%) of profits to law enforcement. The remaining profits are to be distributed as follows:

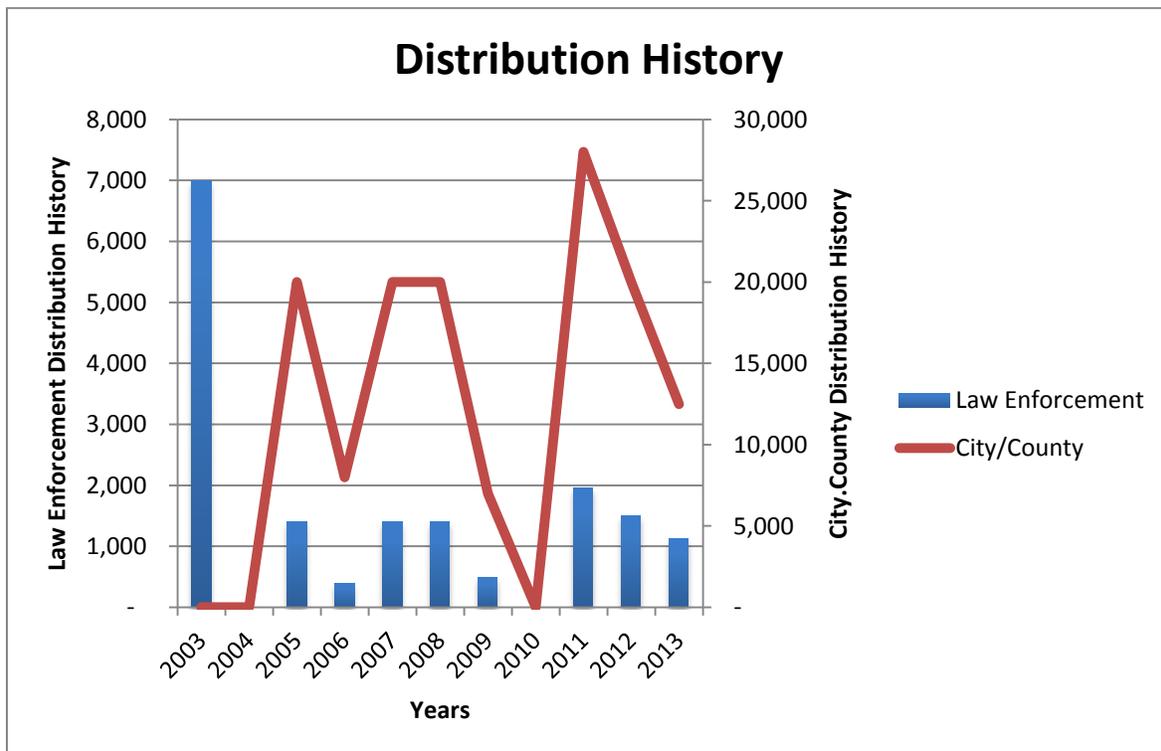
- 10% to Wilkes General Hospital
- 20% to Wilkes County General Fund
- 70% to North Wilkesboro General Fund of which 5% goes to recreational fund

In FY2013, North Wilkesboro ABC did not meet the required minimum distribution. However, \$1,125 was distributed to law enforcement and \$13,874 was distributed to the city and county. \$237,316 in Excise and other taxes were paid to the NC Department of Revenue and the town. The ABC store was built by the ABC Board and on land owned by the Town of North Wilkesboro. An agreement between the town and the board sets a rental payment in the form of a distribution of \$300 plus 1 ½% of gross monthly sales in excess of \$20,000. The board has made an additional distribution to the town of \$3,600 to uphold this agreement.

Recommendations:

- To remain in compliance with the statute, ask the appointing authority for an approval to withhold the required distribution for a specific period of time.

Below is a chart analyzing the high-low trend of distributions to law enforcement and to the city/county.



OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On August 6, 2013, ABC Board Auditor, Moniqua S. McLean visited the North Wilkesboro ABC store and interviewed Jim Lovette, Jr., general manager. The following are the operational observations, findings, and recommendations related to the performance audit.

Store Appearance and Customer Service Observations

The North Wilkesboro ABC Board operates one retail store with approximately 1,000 linear feet of shelf space and carries approximately 1,100 product codes. *Refer to pictures in Appendix B.*

- The store was clean, well-lit, and well-dusted. Bottles were fronted. Counter areas were free of clutter and supplies easily accessible.
- Exterior signage and landscaping around the store was clean and free of trash. The Fetal Alcohol Syndrome poster is displayed.
- The store displayed a shelf management plan that exhibits highest priced products on top shelves and lowest priced products on the lower shelves. End caps and display cases featured new items, bestselling products, as well as North Carolina distillery products. See pictures on page 12.
- Security systems are in place and functional.
- The state price book is available should customers inquire about a specific product.
- Sales clerks' interaction with customers was attentive, courteous, and eager to meet the needs of customers.

No Recommendations.

Personnel and Training

- All board members, general manager, and finance officer have attended the initial mandatory ethics class.
- Training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities.
- Cross training opportunities have been extended to key employees in the event the general manager and finance officer was suddenly unavailable.

No Recommendations.

ABC Board Policies

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract
 - State Travel Policy
 - FY2012 Annual Audit
 - FY2014 Budget (Proposed and Adopted)
 - Employee Handbook (Adopted 1999)
- Policies not adopted and submitted to the Commission include:
 - Price Discrepancy Policy
 - Mixed Beverage Policy

Recommendations:

- Adopt a mixed beverage policy that details customer friendly and flexible ordering and pickup guidelines. Once adopted, distributed to all mixed beverage accounts of any changes and submit a copy to the Commission.
- Adopt a price discrepancy policy that incorporates customer friendly practices. *Refer to Appendix C (1) for rule.*
- Update or revise the employee handbook to outline the duties and responsibilities of each employee, board policies, and benefits offered, if any. Forward copies to all employees and implement an acknowledgement of receipt from every employee to be filed in the personnel files. Once adopted, submit to the Commission. *Refer to Appendix C (2) for rule.*

Internal Control Procedures

- Time sheets are used for all part-time clerks and are completed by the general manager. During payroll, the general manager will verify time sheets and manually calculate tax and other withholdings. If discrepancies occur, the general manager will adjust hours worked in the master payroll ledger. The board is planning to obtain accounting and payroll software.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. A written policy has not been adopted should cash discrepancies occur.
- Bank deposits are made regularly as required by the ABC Commission rule. Bank notification is received and matched with corresponding daily register reports by the general manager and are forwarded to the accountant. Bank reconciliations are completed by the accountant.
- Physical inventory counts are not specifically scheduled but are completed on an as needed basis and are performed by all persons. If discrepancies occur, the general manager will investigate and recount for accuracy and verification. Once completed, only the general manager will adjust the system to match with the actual store counts. Unsalable items are adjusted once the distiller representative discards the damaged product.

- When ordering supplies and using board petty cash, only the general manager is authorized to purchase and reimburse the fund. The board plans to obtain a board credit card for common purchases.

Recommendations:

- Adopt a written cash shortage and overage policy. While this is understood, it is good business practice to have written procedures in place for current and future employees. Once adopted, submit a copy to the Commission and include in the employee personnel manual.
- To ensure stronger internal controls of inventory, set a consistent schedule to count physical inventory or count inventory by category on a consistent basis. Incorporate frequent spot checks between full inventory counts.
- To strengthen internal control on cash management, have a different person review and reimburse the board petty cash fund when used. Once a credit card is obtained, incorporate procedures and a policy detailing usage. Have all board members view the credit card statements to ensure that purchases have been made according to the credit card policy in place.

Administrative Compliance Observations and Findings

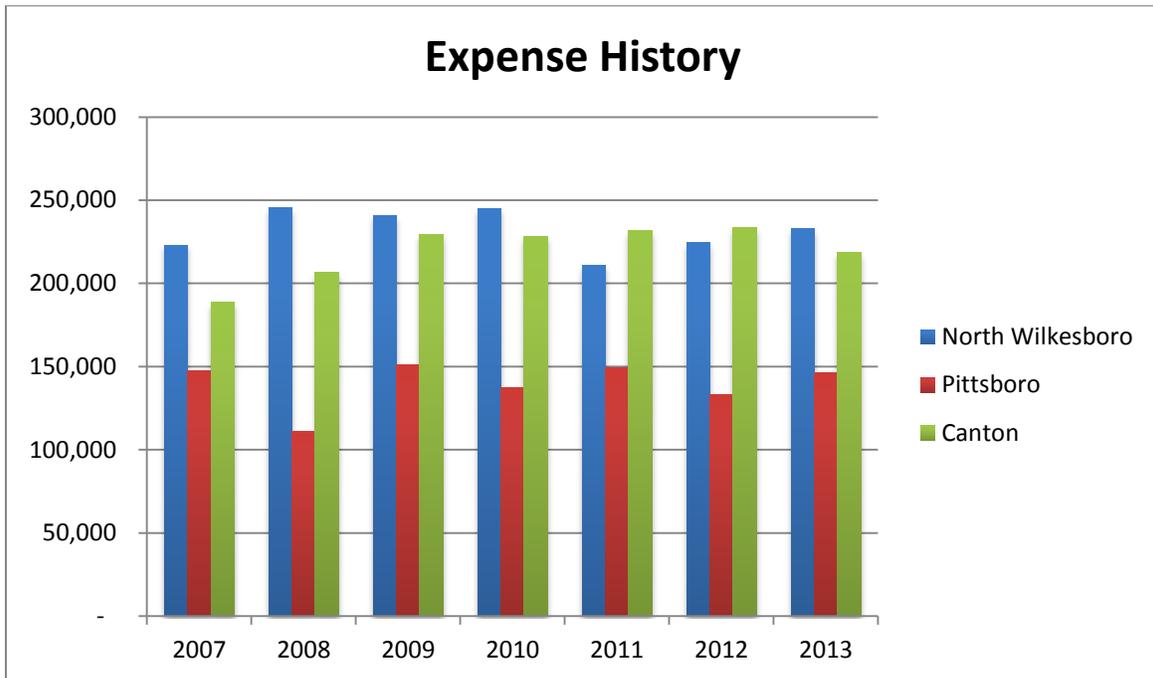
- Board meeting minutes were viewed and revealed that voting procedures were not included in the minutes, nor has a conflict of interest statement been read.
- Although board member appointment dates and compensation amounts are current on the Commission website, the general manager compensation amounts are not current.
- 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 employs two family members – the general manager and finance officer – who were grandfathered in when the law changed. At this time, there is no indication of favoritism or potential misuse of position. To ensure the position of the finance officer, a contract has been drafted detailing the organization structure between finance officer and general manager.
- All board members, general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- Orders for liquor and other miscellaneous orders do not 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 a board member. In the event the finance officer is unavailable, board members are authorized to sign checks.

- A review of budget to actual expenses reveals that actual expenses are over budgeted.
- Out of approximately 1,100 product codes, approximately 100 codes were sampled, and two were incorrect.

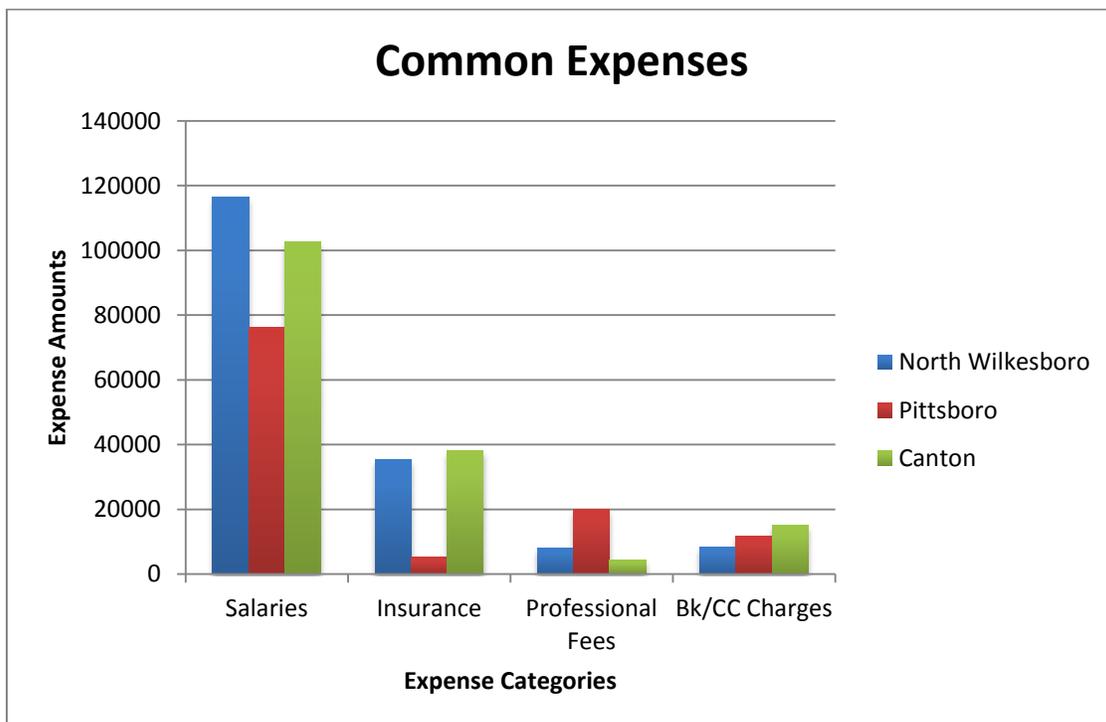
Recommendations:

- Include voting procedures in the board meeting minutes. Refer to sample board meeting minutes in the Appendix of the Operations Manual.
- Update the Commission website to reflect current information on board member and general manager.
- Place the pre-audit certificate with the finance officer's signature on the order to LB&B. When ordering supplies, have a purchase order or order confirmation that will have authorization from the finance officer before the transaction takes place. *Refer to Appendix C (3) for statute.*
- Make budget amendments when sales are under budget and expenses are over budget. Once budget amendments have been adopted, forward copies to the Commission and to the appointing authority. *Refer to Appendix C (4) and (5) for statute.*
- Audit shelf tags more frequently. Incorporate such practices within spot check time periods.

APPENDIX A



The expense history analysis reveals that North Wilkesboro ABC's total expenses have increased 3.7% since fiscal year 2012 while sales have decreased 4% over the same time period. After decreasing in 2011, North Wilkesboro's expenses have risen during each of the past two fiscal years.



Common expense analysis indicates that North Wilkesboro ABC's common expenses are within range compared with other similar size board, excluding salaries.

APPENDIX B



Exterior view.



Counter view.



Interior view.



Counter view after audit fieldwork



Interior view after audit fieldwork



Interior view after audit fieldwork

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) NCAC 02R.1009 (a) states, "Each local board shall establish policies and rules governing each of the following:
- (1) Initial employment of employees, including qualifications and requirements for new employees;
 - (2) Compensation and benefits;
 - (3) Hours and days of work, holidays, vacation, sick leave and other matters pertaining to the conditions of employment;
 - (4) Promotion, transfer, demotion and suspension of employees;
 - (5) Separation or termination of employees;
 - (6) Granting of salary increases;
 - (7) Employee grievance procedures; and
 - (8) Any other programs or procedures as may be necessary to promote efficiency and to provide for a fair and reasonable system of personnel administration.
- (3) 18B-702 (m) states "...the contract, agreement, or purchase order shall include on its face a certificate stating that the instrument has been pre-audited to assure compliance. The certificate, which shall be signed by the finance officer or any deputy finance officer approved, shall take substantially the following form:

"This instrument has been pre-audited in the manner required by GS 18B-702."

(Signature of finance officer)

- (4) G.S. 18B-702 (c) states, "Each local board shall operate under an annual balanced budget administered... A budget is balanced when the sum of estimated gross revenues and both restricted and unrestricted funds are equal to appropriations. Expenditures shall not exceed the amount of funds received or in reserve for the purpose to which the funds are appropriated."
- (5) G.S. 18B-702 (h) states, "Except as otherwise restricted by law, the local board may amend the budget at any time after adoption..."

North Wilkesboro

ABC

Board

297 Wilkesboro Ave.
PO Box 1151
North Wilkesboro NC, 28659
Phone (336)-838-4713
Manager: Jim Lovette

12/10/13

Dear Sir/Madam,

All of us at the North Wilkesboro ABC Board would like to thank the North Carolina ABC Commission for helping us improve our store. It was truly a pleasure working with Ms. Moniqua Mclean during the entire 2013 audit process. We found her to be extremely informative and professional and we know that enacting her recommendations have already contributed to improving our store operations. We take a great deal of pride in what we do and appreciate the cooperation we regularly receive from the North Carolina ABC commission. We feel that great strides have been made since our audit and look forward to further improvement in the coming months. Our door is always open and we welcome any other information or further assistance. Thanks again for helping us better serve the people of North Wilkesboro and North Carolina!

Sincerely,

Jim Lovette

NORTH WILKESBORO ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>ABC Board Policies:</p> <p>Adopt the following policies:</p> <ul style="list-style-type: none"> • Mixed Beverage Policy • **Price Discrepancy Policy • Cash Overage/Shortage Policy 	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>**Note: Required by 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 checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>The board is working on updating policies to incorporate current practices. Once adopted, copies will be submitted to the Commission.</p>
<p>Administrative Compliance:</p> <p>Affix the pre-audit certificate on orders before the transaction occurs.</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 implemented policies and procedures to be in compliance with the statute.</p>