

Spruce Pine 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:
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COMMISSIONERS:
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Wake Forest

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Your Name
Director
Permit Division
(this is editable)

May 9, 2013

Spruce Pine ABC Board
Mr. Danny Burleson, Chairman
12344 Hwy 226 South
Spruce Pine NC 28777

Dear Chairman Burleson,

We are pleased to submit this performance audit report on the Spruce Pine 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 new 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 Spruce Pine ABC Board submitted a response to the performance audit recommendations and is striving to take steps toward becoming profitable through analyzing and reducing current costs while continuing to meet the needs of customers. Policies and procedures have been adopted and implemented to maintain compliance with statutes and ABC Commission rules and to maintain stronger segregation of duties.

BACKGROUND INFORMATION

G.S. 18B-601 authorized the Town of Spruce Pine 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 March 10, 2009 and passed 460 to 372. A mixed beverage election was held on the same date and passed 462 to 366.

Upon election of an ABC store, the Town of Spruce Pine was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members include Danny Burlison, chairman, Matt Miller and McDaniel Robinson, board members.

The Spruce Pine ABC Board operates one retail store. The board staffs one full-time general manager, one full-time assistant manager, and five 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 assistant manager assists the general manager with duties as described above in the absence of the general manager as well as various clerk duties. The board has appointed a finance officer within the organization to perform accounts payable duties. All clerks' are responsible for routine store upkeep, stock maintenance, and customer service. The board has hired a CPA firm for conducting 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 Spruce Pine ABC Board receives deliveries twice a month: the inventory turnover rate is 4.1.

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.

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 Spruce Pine ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.88. In fiscal year 2012, sales decreased 1.7% and expenses decreased by 7.1% in the same time period. Mixed beverage sales make up 6.6% of total gross sales. Although the board has reduced expenses, annual rental expense totaling \$33,300 contributes to high overhead. The board acquired a \$400,000 line of credit and paid the balance of \$124,000 in June 2012. To meet the cost ratio goal and remain at current expense of \$221,707, revenues must be increased to \$1,200,000, a

10% increase over last fiscal year's sales. To meet the cost ratio goal and remain at current revenue of approximately \$1,095,340, expenses must be reduced to approximately \$195,000, a decrease of 14% over last fiscal year's expenses. *Refer to Appendix A for on 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 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:

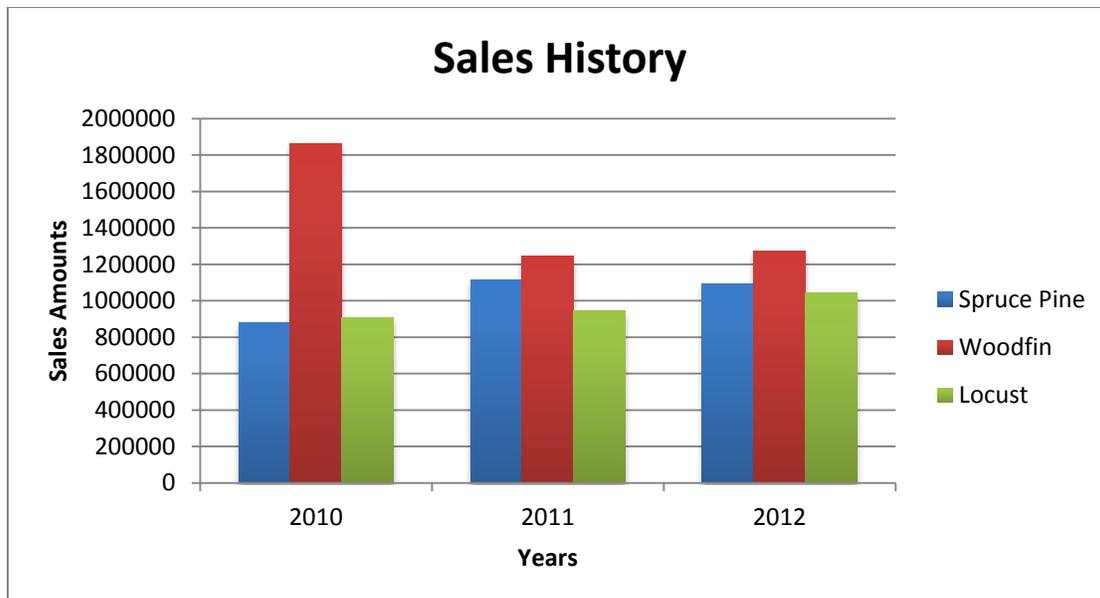
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Spruce Pine ABC Board had gross sales of \$1,095,340 (excluding wine sales); income from operations was \$20,449, a 1.9% profit percentage to sales.

Factors affecting sales and profitability:

- US Census Bureau reports a population of 2,175 in 2010;
- 10.6% unemployment rate for Mitchell County in September 2012, a decrease of 1.3% from the previous month and a decrease of 0.1% over the previous year;
- Surrounding towns with ABC stores within a thirty mile radius include Burnsville, Marion, and High Country;
- Growth and development in surrounding and heavily populated areas contribute to the different shopping patterns which affect sales and profitability

Below is a sales history analysis of similar size boards. The chart analyzes the sales trends since the opening of the store.



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 Spruce Pine ABC Board had a working capital of -\$18,687 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 Spruce Pine General Fund.

In FY2012, the board made required distributions totaling \$27,788 to the Town of Spruce Pine, plus additional distributions of \$3,900. A total of \$309,752 in Excise and other taxes were paid to the NC Department of Revenue and \$424 to law enforcement.

FINDINGS, OBSERVATIONS, AND RECOMMENDATIONS

On October 2, 2012, ABC Commission Board Auditor, Moniqua S. McLean, visited the Spruce Pine ABC store and interviewed Bob Robinson, general manager and Danny Burleson, board chairman. The following are the findings, observations, and recommendations relating to the performance audit.

Store Appearance and Customer Service Observations

The Spruce Pine ABC Board operates one retail store with approximately 1,000 linear feet of shelf space and carries approximately 1,200 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 greeted customers in a professional manner and were attentive to customer needs exhibiting good customer service. When not assisting customers, clerks were busy stocking shelves and filling mixed beverage orders.

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 not 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 other boards that have a training module(s) in these areas.

ABC Board Policies

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract
 - State Travel Policy
 - FY2013 Budget (Proposed and Adopted)
- Policies not adopted include:
 - Employee Handbook
 - Mixed Beverage Policy
 - Price Discrepancy Policy

Recommendations:

- Adopt an employee handbook that outlines the duties and responsibilities of each employee, board policies, and benefits offered, if any. Once adopted, submit to the Commission. *Refer Appendix C (1) for rule.*
- Adopt a written mixed beverage policy. The Commission prefers a flexible mixed beverage policy that reflects good customer service and allows customers to order and pickup Monday through Saturday.
- 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 (2) for rule.*

Internal Control Procedures

- Board credit cards are issued to the general manager and all board members. A credit card policy has not been adopted.
- All employees maintain their own cash drawer. Deposits are made daily. Deposit reconciliation against register receipts are made by the bookkeeper. Although understood, an overage and shortage policy has not been adopted should instances occur.
- Physical inventory counts are performed weekly by section resulting in a full inventory count at the end of the month. Counts are conducted by whoever is scheduled to work. Once completed, the general manager and assistant manager investigate discrepancies and make adjustments in the inventory management system. Unsalable items are adjusted from inventory when sales representatives have signed off on the claim form.

Recommendations:

- Consider reducing the number of credit cards in circulation. Have one card for board members' that is checked out as needed. To ensure accountability, have board members view the monthly credit card statements.

- Adopt a written credit card usage policy. Document procedures for the usage include:
 - Who has authority to use the card,
 - What types of items the card may be used for,
 - Personal usage is prohibited;
 - An itemized receipt for every transaction is required,
 - Maximum limit allowed on purchases before approval is needed from the finance officer,
 - Receipts are to be submitted within 15 days of the purchase.

- 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.

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 were not current 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 for August 2011 have not been submitted to the Commission.

- Nepotism – The board is in compliance with G.S. 18B-700 (k).

- All board members, general manager, and finance officer are bonded in the amount of \$50,000 as required by G.S.18B-700(i).

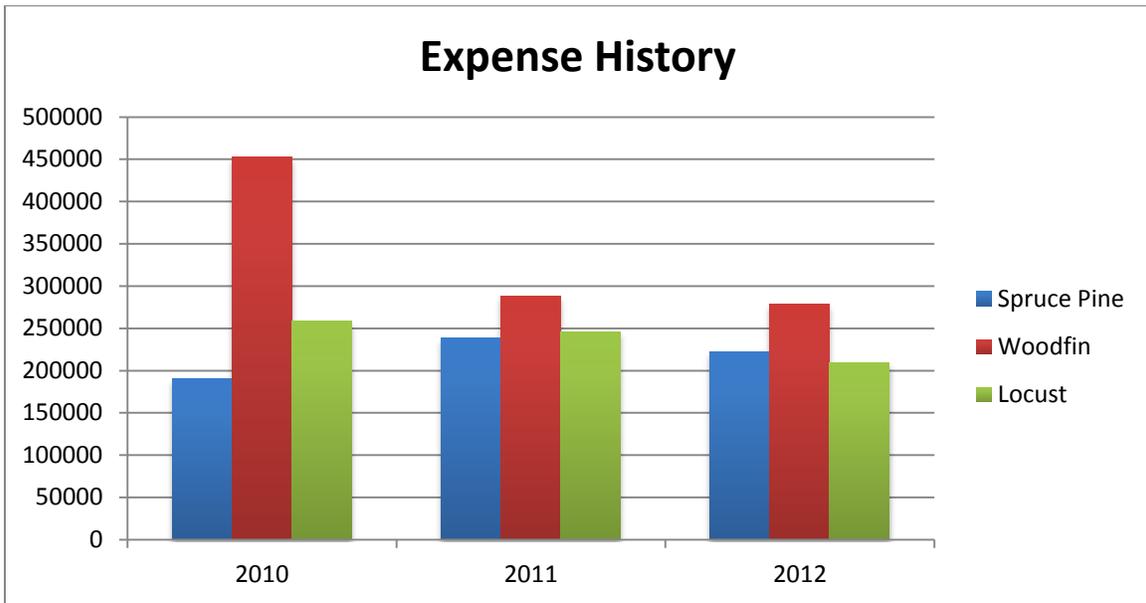
- Liquor orders and purchase orders used have the pre-audit certificate and are stamped by the finance officer as required by G.S. 18B-702(m).

- At the time of the initial audit, checks were not stamped with the approved certificate. The board has obtained the approved certificate and is placed on all checks. Checks are signed by the finance officer and the general manager.

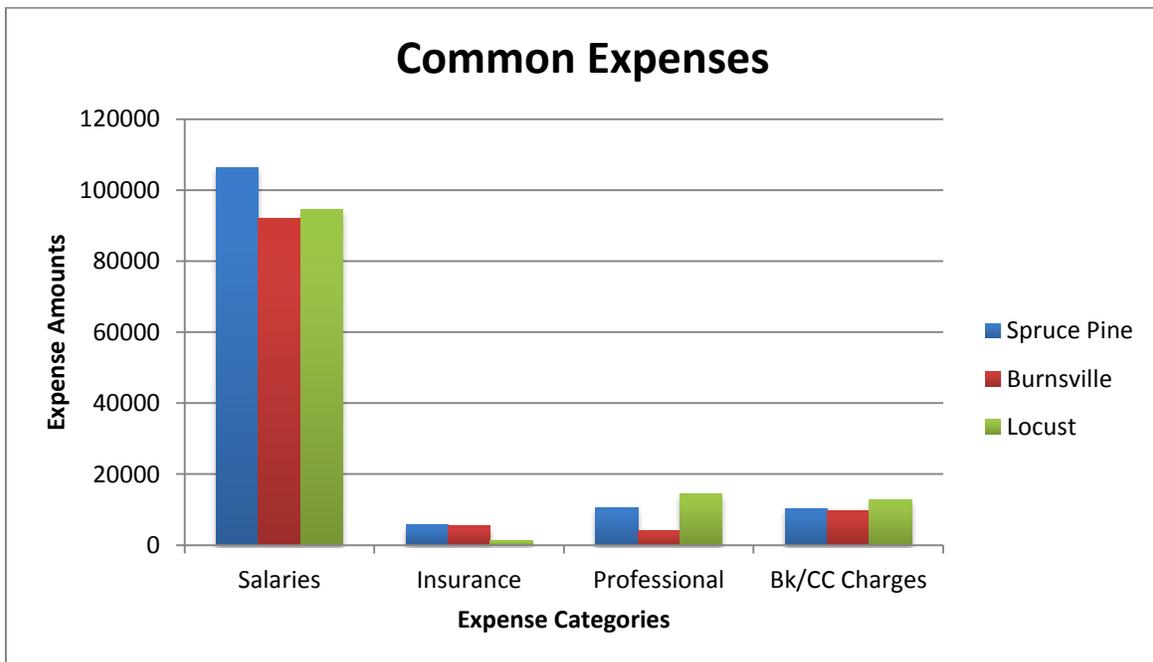
Recommendations:

- Update the Commission internal website to reflect board members' current appointment dates.

APPENDIX A



The expense history data indicates that Spruce Pine ABC Board's overall expenses have increased by 16% since the opening of the store and decreased 7.1% from the previous year.



Excluding salaries and insurance expenses, other common expenses are in line with other board's common expense amounts.

APPENDIX B



Interior view.



Interior view.

APPENDIX C

- (1) 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.
- (2) 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."

Mclean, Moniqua S

From: Spruce Pine ABC Board <spruceabc@att.net>
Sent: Thursday, April 11, 2013 2:58 PM
To: Mclean, Moniqua S
Subject: Reply to Audit

Dear Moniqua,

I am writing to you in reply to your questions regarding how the board felt about our audit. We learned a lot of new rules and things that we need to address. You have been very helpful and informative during this process. The meeting after the audit was very helpful too and we now feel that we have a better understanding of these things that you addressed.

With sincere appreciation,
Danny Burleson, Chairman
Board 177, Spruce Pine

SPRUCE PINE ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>ABC Board Policies: Adopt the following policies:</p> <ul style="list-style-type: none"> • **Employee Handbook • **Mixed Beverage Policy • **Price Discrepancy Policy • Credit Card usage Policy • Cash overage/shortage policy 	<p style="text-align: center;"> <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 type="checkbox"/> Fully Implemented <input checked="" type="checkbox"/> Partially implemented 35% complete. (Explain below.) <input type="checkbox"/> Not implemented (Explain below.) </p> <p>The Board is in the process of adopting all policies mentioned.</p>
<p>Administrative Compliance Findings and Observations: Update the Commission website with current information.</p>	<p style="text-align: center;"> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No </p>	<p>(Please provide documentation supporting implementation status.)</p> <p> <input type="checkbox"/> Fully Implemented <input type="checkbox"/> Partially implemented ____% complete. (Explain below.) <input checked="" type="checkbox"/> Not implemented (Explain below.) </p> <p>Management has not updated the website with current appointment dates.</p>