

Wadesboro 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

COMMISSIONERS:
JOEL L. KEITH
Wake Forest

KEVIN M. GREEN
Greensboro

ADMINISTRATOR:
MICHAEL C. HERRING

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Moniqua S McLean
ABC Board Auditor

January 8, 2014

Wadesboro ABC Board
Mr. Jerry Johnson, Chairman
326 E. Caswell St.
Wadesboro, NC 28170

Dear Chairman Johnson,

We are pleased to submit this performance audit report on the Wadesboro 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 General Managers 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 taken to control operating expenses 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 Wadesboro ABC Board has responded to the performance audit recommendations and is continuing to find new strategies to improve and maintain profitability 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 750 of the 1963 Session Laws authorized the town of Wadesboro to hold an election for an ABC store upon fifteen percent (15%) of registered voters. The referendum was held on August 29, 1963 and passed 758 to 404. The first retail sale occurred on December 2, 1963. A mixed beverage election was held on July 17, 2001 and passed 364 to 184.

Upon election of an ABC store, the town of Wades was authorized to create an ABC Board consisting of a chairman and two members. Current board members are John Dunlap, board chairman, Frank Richardson and Robert Blalock, board members. Since the initial fieldwork, new board members have been appointed and are Jerry Johnson, board chairman, Frank Richardson and James Dennis, board members.

The Wadesboro ABC Board operates one retail store. The board staffs three full-time and four part-time employees. The general manager is responsible for the overall operations of the store including providing friendly customer service, implementing policies, maintaining sufficient inventory, supervision of personnel, and store upkeep. The board has hired from within a finance officer whose primary responsibility is maintaining the financial duties as required. Clerks are primarily responsible for providing friendly customer service 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 Wadesboro ABC Board receives deliveries monthly: the inventory turnover rate is 8.0. This rate compares favorably to the benchmark of 5.0 for boards with the same delivery schedule.

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 Wadesboro ABC Board operates one retail store with mixed beverage sales; the operating cost ratio is 0.74. Mixed beverage sales make up 2% gross sales. In fiscal year 2012, sales have increased 4.7% over fiscal year 2011 and overall expenses have increased 0.44% over the same time period. *A chart analysis of expenses is found in Appendix A.*

No Recommendations.

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 FY2012, Wadesboro ABC had a working capital of \$292,670 which is equivalent to less than 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:

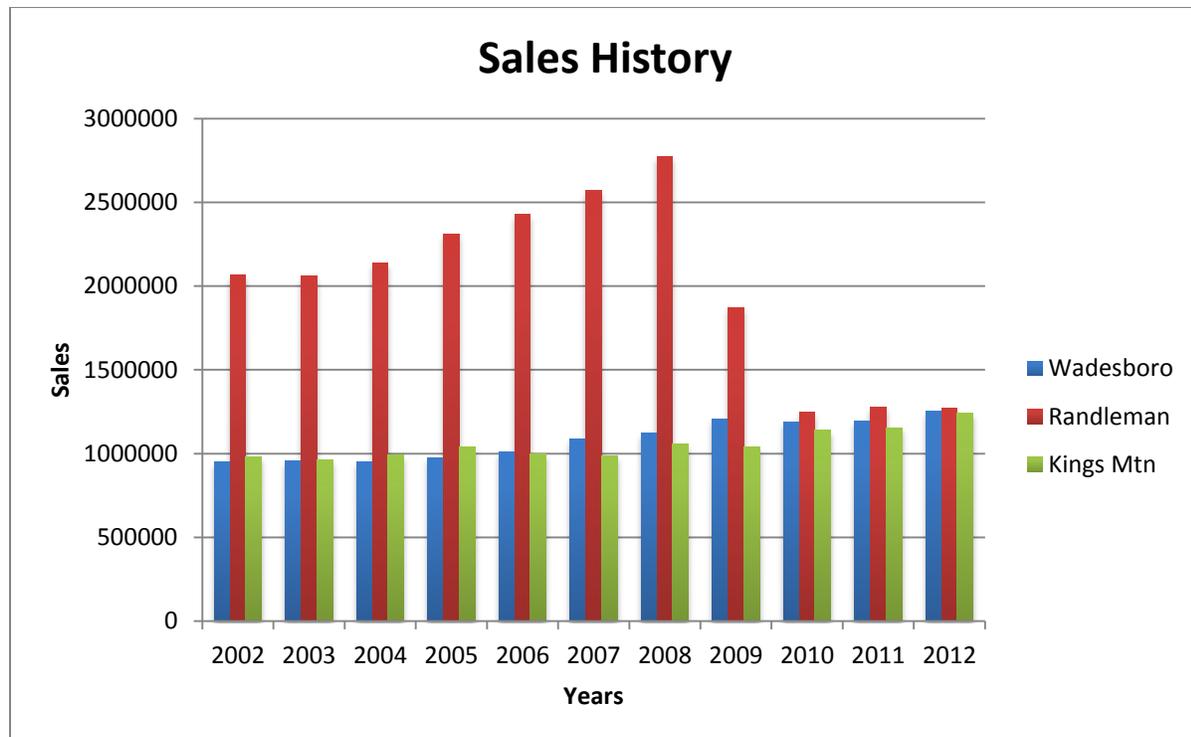
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Wadesboro ABC Board had gross sales of \$1,251,854; income from operations \$68,998, a 5.51% profit percentage to sales.

Factors affecting sales and profitability:

- US Census Bureau reports an estimated population of 5,813 in 2010;
- Surrounding towns with ABC stores include Rockingham, twenty-five miles to the east, and Wingate, twenty-five miles to the west;
- Sales increased 4.7% over fiscal year 2011, a 4% increase from fiscal year 2010;
- Growth and development in surrounding, more heavily populated areas has led to a shift in shopping patterns away from small towns.

Below is a sales history analysis of similar size boards compared with Wadesboro ABC Board. . This chart analyzes the sales trends for the past ten years. Note: Randleman decreased in sales due to a store opening in Asheboro.



No Recommendations.

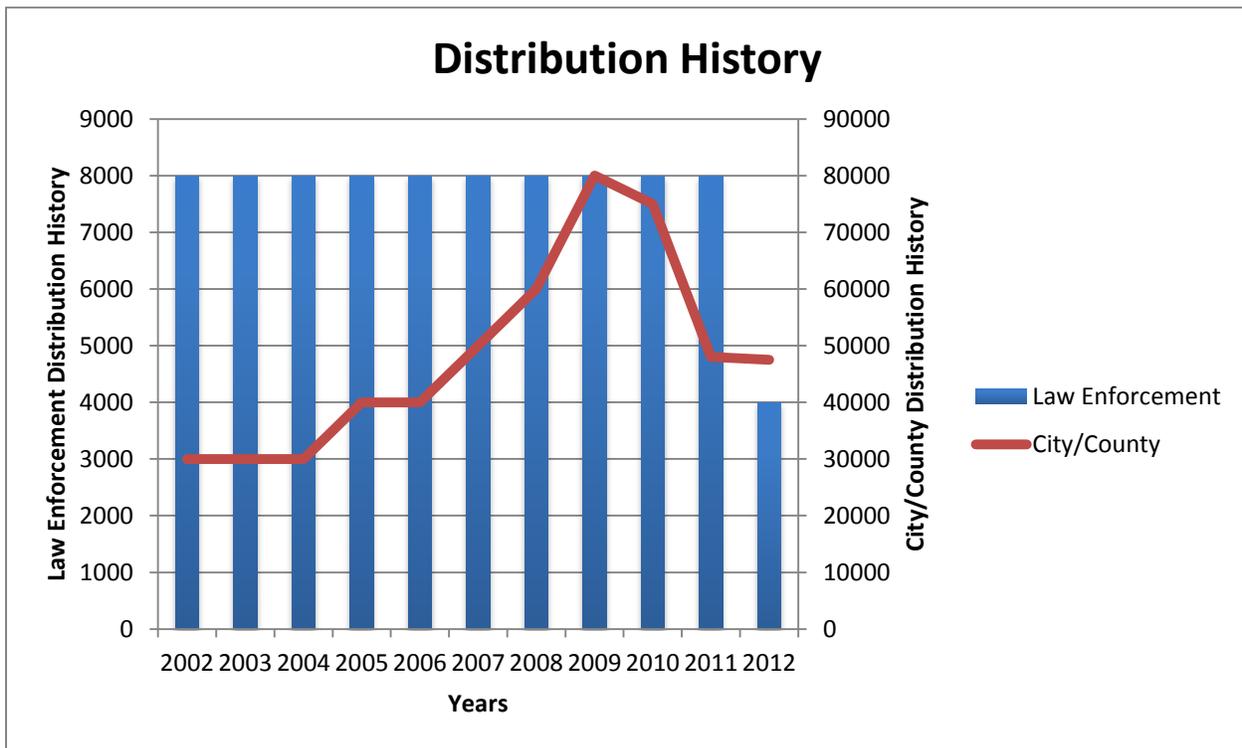
Distributions

G.S. 18B-805 (c) required the board to distribute at least five percent (5%) of profits to law enforcement. The board follows the local enabling act for alcohol education distribution. Alcohol education distribution follows the local enabling act that requires no more than 5%. The remaining profits are to be distributed as follows:

- 50% to Wadesboro General Fund
- 50% to Anson County General Fund

In FY2012, Wadesboro ABC made the minimum distribution to the town totaling \$37,552 plus additional distribution of \$47,500. \$283,817 in Excise and other taxes were paid to the NC Department of Revenue and \$4,000 was distributed to law enforcement. Alcohol education distributions have not been paid.

Below is a distribution chart analyzing the high-low trend of the Wadesboro ABC Board.



Recommendations:

- To get into compliance with enabling act, distribute the alcohol education distributions quarterly as required.

OPERATIONAL FINDINGS, OBSERVATIONS, AND RECOMMENDATIONS

On May 30, 2013, ABC Board Auditor, Moniqua S. McLean, visited the Wadesboro ABC store and interviewed John Gable Gathings, general manager. The following are the findings, observations, and recommendations related to the performance audit.

Store Appearance and Customer Service Observations

The Wadesboro ABC Board operates one retail store with shelf space of approximately 830 linear feet and carries approximately 630 product codes. *Refer to pictures in Appendix B.*

- The store was clean and well-lit. Bottles were fronted and dusted. Counter areas were free of clutter and supplies were easily accessible.
- Exterior signage and landscaping around the store was clean and free of trash. The Fetal Alcohol Syndrome poster and other signage is displayed.
- Some shelves were empty giving the impression that there were not enough products available or that the store is going out of business. Front end caps were under-utilized. The store displayed a shelf management plan that exhibits highest priced product on top shelf and lowest priced product on the lower shelf. A shelf management policy has been adopted and management strives to make changes as customer interest change. *See pictures on page 13.*
- Security systems are in place and functional displaying key areas.
- The state price book is available along with the monthly sales lists.
- Sales clerks' interaction with customers was attentive, courteous, and eager to meet the needs of customers.

Recommendations:

- Utilize end caps to highlight new, on sale or discontinued items. To reduce the amount of empty shelving, consider filling a section with a product display of bestselling products or add additional facings of product. Cross merchandising products in various categories will increase impulse shopping patterns and also make shelves look fuller.

Personnel and Training

- All board members, general manager, and finance officer have completed the initial mandatory ethics training. The chairman has been reappointed and has not taken the online training.
- Product knowledge training is consistently being provided to current staff as new information becomes available. However, formal training, focusing on topics of RASP and/or customer service, has not been provided.
- Cross training opportunities have been extended to key employees in the event the general manager was suddenly unavailable.

Recommendations:

- Bring all board members into compliance with state ethics requirement. All reappointed board members must receive ethics education within 12 months of the reappointment date. *Refer to Appendix C (1) for statute.*
- 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 and take advantage of RASP classes offered by the Commission.

ABC Board Policies

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract
 - Travel Policy (Town of Wadesboro Approval Submitted)
 - FY2012 Annual Audit
 - FY2013 Budget (Proposed and Adopted)
 - Price Discrepancy Policy
 - Debit Card Policy
 - Employee Handbook
 - Shelf Management Plan

Recommendations:

- Update the employee manual to include the town's travel policy information and other changes.

Internal Control Procedures

- Physical inventory counts are performed monthly by general manager only. Spot checks are conducted if problems occur. 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 immediately.
- Cash drawers are counted by all clerks. Full-time clerks are responsible for their own cash drawer. Part-time clerks share drawers. If a shortage occurs, the difference is deducted from the deposit to balance the cash drawers. Overages are combined with the deposit.
- Bank deposits are made regularly as required by the ABC Commission rule. Bank notification is received and matched with corresponding daily register reports. Bank reconciliations are completed monthly by the finance officer.
- Payroll documentation is completed by the finance officer. Payroll is completed manually to calculate tax and other withholdings.

Recommendations:

- To strengthen inventory controls, consider implementing procedures that would segregate duties. Physical inventories should be performed by someone other than the person(s) responsible for that inventory on a daily basis. When this is not possible, the physical inventory should be spot-checked by the bookkeeper, a board member, and/or finance officer (someone not handling the inventory daily).
- 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.
- Consider acquiring payroll software to aid in tax and other calculations to save time and to verify accuracy.

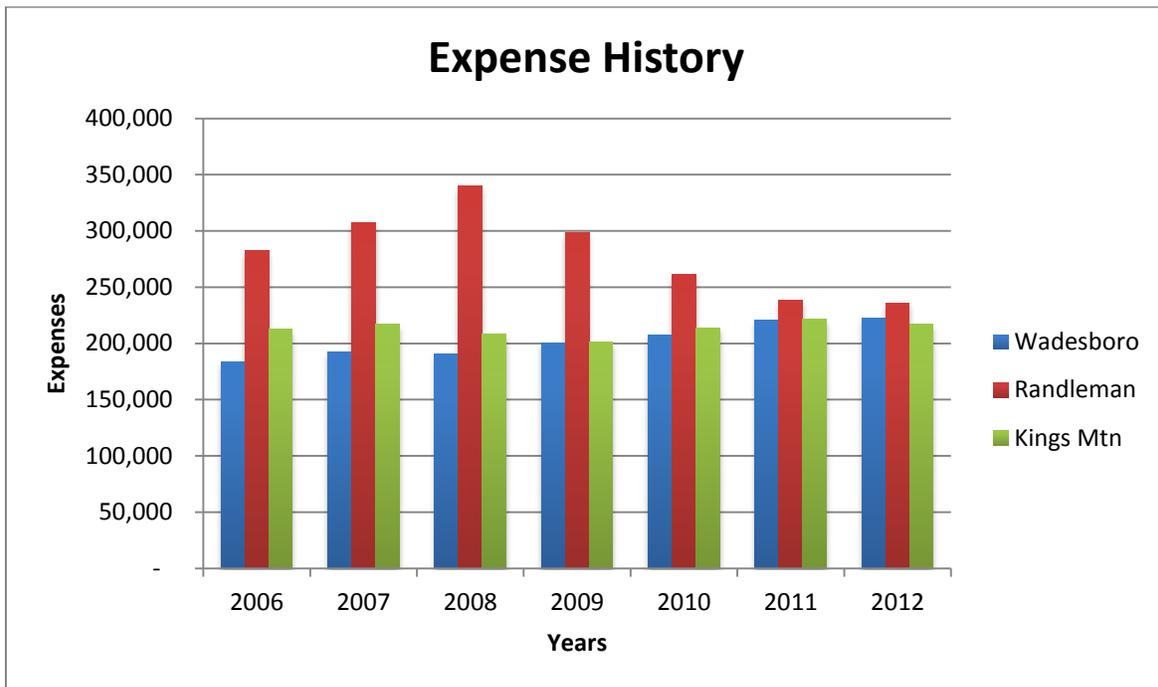
Administrative Compliance Findings and Observations

- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting. The certificate of accountability is submitted for each board member to sign at each meeting.
- Board member appointment dates and compensation amounts are 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 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 are bonded for \$50,000 as required by G.S. 18B-700 (j).
- Purchase orders are used and bear the pre-audit certificate as required by G.S. 18B-702 (m). Although the initial liquor order does not have the pre-audit certificate, each individual liquor invoices has the certificate and is signed by the finance officer.
- All checks bear the approved certificate and are signed by the finance officer and the general manager.
- Out of approximately 630 product codes, approximately 100 codes were sampled and all reflected the correct price.

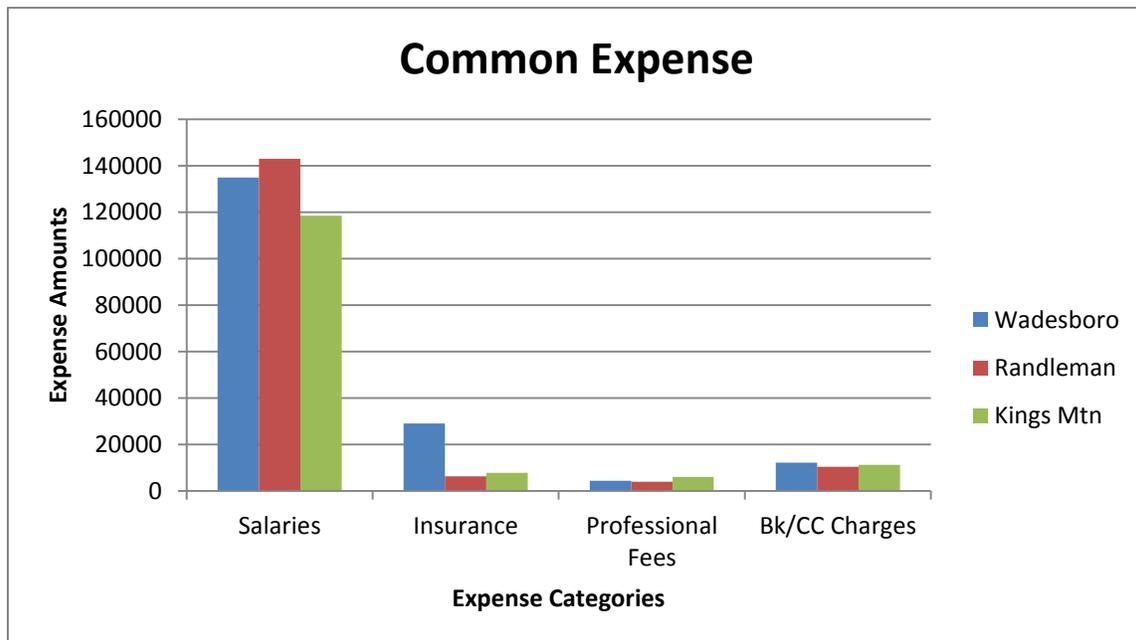
Recommendations:

- To save time, eliminate stamping each invoice and proceed to stamping the initial liquor order.

APPENDIX A



The expense history data indicates that Wadesboro ABC's total expenses have increased 0.44% in FY2012 but have decreased 6% from FY2011 to FY2012. Compared with other similar size boards, Wadesboro ABC's expenses are not out of line.



Common expense analysis indicates that Wadesboro ABC's expenses are relative lower compared with other similar size boards. Note: Insurance fees may have health insurance included resulting in a higher insurance amount. Bank/credit card fees have increased as credit card transactions have increased.

APPENDIX B



Counter view



Interior view



Interior view

APPENDIX C

(1) G.S. 18B-706 (b) states, "Each member of a local board shall receive a minimum of two hours of ethics education within 12 months after initial appointment to the office and again within 12 months after each subsequent appointment to the office."

TOWN OF WADESBORO
BOARD OF ALCOHOLIC CONTROL

326 EAST CASWELL STREET
WADESBORO, NORTH CAROLINA 28170-2243

704-694-3958

November 11, 2013

The Town of Wadesboro ABC Board has reviewed the performance audit conducted on May 30, 2013 by the North Carolina ABC Commission. The following is the ABC Board's response to the recommendations of the audit.

Distributions

The ABC Board follows the local enabling act that requires no more than 5% for alcohol education distribution. Distributions have not been paid.

Response:

The ABC Board is exempt from the requirement that no more than 5% of its profits be expended for alcohol education. Senate Bill No. 128, General Assembly of 1965. Senate bill ratified April 16, 1965.

Store Appearance and Customer Service Observations

The Wadesboro ABC Board operates one retail store with shelf space of approximately 830 linear feet and carries approximately 630 product codes. Some shelves were empty giving the impression that there were not enough products available or that the store is going out of business.

Response:

To reduce the amount of empty shelving, the ABC Board will consider filling a section with a product display of best selling products or add additional facings of a product. Also, cross merchandise products in various categories to increase impulse shopping patterns and make the shelves look fuller.

Personnel and Training

Formal training, focusing on topics of RASP has not been provided.

Response:

The ABC Board will take advantage of RASP classes and additional training that will include alcohol education, customer service and product knowledge offered by the NC ABC Commission.

ABC Board Policies

Price Discrepancy and Debit Card Policies.

Response:

The employee manual has been updated to include price discrepancy, debit card policy information and other changes.

Internal Control Procedures

Physical inventory counts are performed monthly by the manager only. If discrepancies occur, the manager will investigate and recount for accuracy and verification. Once completed, only the manager will adjust the system to match with the actual store counts.

Cash drawers are counted by all clerks. If cash drawers are short, to balance the difference is deducted from the deposit. If cash drawers are over, the overage is combined with the deposit.

Payroll documentation is completed by the finance officer. Payroll is completed manually to calculate tax and other withholdings.

Response:

To strengthen inventory controls, the ABC Board will implement procedures that will segregate duties. Physical inventories will be performed by someone other than the person responsible for inventory on a daily basis. When this is not possible, the physical inventory will be spot-checked by someone not handling the inventory daily such as a board member or the finance officer.

The ABC Board has adopted a cash drawer shortage and overage policy.

On the next cash register and computer upgrade the ABC Board will consider acquiring payroll software to aid in tax and other calculations.

Administrative Compliance Findings and Observations

Purchase orders are used and bear the pre-audit certificate, along with other common orders, as required by G.S. 18B-702 (m). Although the initial liquor order does not have the pre-audit certificate, each individual liquor invoices has the certificate and is signed by the finance officer.

Response:

To save time, the ABC Board has eliminated stamping each invoice and proceeded to stamp the initial liquor order only.

The Town of Wadesboro ABC Board is very pleased with the process and results of the audit. Also, the ABC Board would like to thank the North Carolina ABC Commission and ABC Board Auditor Moniqua S. McLean for the work on this audit.

Respectfully,



John Gable Gathings, Manager

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NC ABC COMMISSION

WADESBORO ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Personnel and Training:</p> <ul style="list-style-type: none"> Have all board members complete the state ethics requirement. 	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<p>(Please provide documentation supporting implementation status.)</p> <input type="checkbox"/> Fully Implemented <input type="checkbox"/> Partially implemented ____% complete. (Explain below.) <input checked="" type="checkbox"/> Not implemented (Explain below.) <p>A board member has not satisfied this requirement to complete the ethics training within one year of reappointment.</p>
<p>ABC Board Policies</p> <ul style="list-style-type: none"> **Update employee manual to reflect current policies and practices 	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No **Note: Required by rule	<p>(Please provide documentation supporting implementation status.)</p> <input checked="" type="checkbox"/> Fully Implemented <input type="checkbox"/> Partially implemented ____% complete. (Explain below.) <input type="checkbox"/> Not implemented (Explain below.) <p>The board has updated the employee manual to reflect current practices.</p>