

Bessemer City 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

COMMISSIONERS:

A. D. "ZANDER" GUY, JR.
Surf City

DANIEL L. BRIGGS
Lexington

ADMINISTRATOR:
MICHAEL C. HERRING

LOCATION:
400 East Tryon Road
Raleigh NC 27610

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

PHONE: (919) 779-0700
FAX: (919) 662-3583
<http://abc.nc.gov/>

November 8, 2012

Bessemer City ABC Board
Mr. Jim Long, Chairman
208 West Alabama Ave
Bessemer City, NC 28016

Dear Chairman Long,

We are pleased to submit this performance audit report on the Bessemer City 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 recent steps taken to increase operating efficiencies 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

TABLE OF CONTENTS

Findings and Recommendations.....	10
Bessemer City ABC Board Response.....	16
Recommendation Follow up.....	18

EXECUTIVE SUMMARY

By state law, the ABC Commission shall ensure that all local ABC Boards comply with established performance standards by conducting regular performance audit 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 recommendation 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 2011;
- Visited the store;
- Interviewed key ABC board personnel.

The Bessemer City ABC Board has responded to the performance audit recommendations. After receiving the annual audit for fiscal year 2012, the board operated at a loss. The board strives to maintain a balanced budget that will reduce expenses where necessary in order to become more profitable. Policies and procedures have been adopted and implemented to maintain compliance with statutes and Commission rules. Internal controls have been implemented to ensure stronger segregation of duties.

BACKGROUND INFORMATION

Located in Gaston County, approximately five miles from Gastonia, Bessemer City is home to one of the largest producers of lithium. It is approximately five miles to Kings Mountain, eight miles to Cherryville, and twenty-five miles to Charlotte. Surrounding towns with ABC stores, include Gastonia, Kings Mountain, Shelby, and Cherryville. The US Census Bureau reports a population of 5,340 in 2010.

Chapter 77 of the 1969 Session Law authorized the town to hold an election for an ABC store. The referendum was held on May 17, 1969 and passed 759 to 460. The date of the first retail sales was November 24, 1969. A mixed beverage election was held on March 25, 2003 and did not pass. Another mixed beverage election was held on May 2, 2006 and passed 179 to 145.

Upon election of an ABC store, the town of Bessemer City was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. The appointing authority has increased the number of board members from three to five members. Current board members are Jim Long, chairman, Lottie Ann Smith-Jones, Otis Whitehurst, Rosa Dortch, Sandra Bolick, members.

The Bessemer City ABC Board operates one retail store and staffs one full-time manager and five part-time employees. The general manager is responsible for the daily store operations including supervising personnel, inventory management, and various retail functions. Clerk responsibilities include selling products, daily stocking, and floor upkeep.

FINANCIAL ANALYSIS

Inventory Turnover

The inventory turnover rate 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 based on the delivery schedule:

- 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 Bessemer City ABC Board receives deliveries twice a month: the inventory rate is 2.9 and therefore does not meet the goal set by the Commission.

Recommendations:

- Increase inventory turns using the following methods:
 - Analyzing sales data and history reports to plan orders so that the majority of inventory is on the shelves, not sitting in the warehouse.
 - Splitting cases with surrounding boards to increase variety as well as to reduce cost
 - Cross-merchandising or moving stock within store to increase visibility and to encourage more impulse shopping
 - Utilizing end caps as much as possible to highlight slow moving and new products
- Contact other boards whose inventory turnover rate exceeds the target for other ideas that may be implemented

Operating Cost

Operating cost ratio is 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 .67 or less
- Boards with 3 or more stores without MXB – cost ratio .94 or less
- Boards with 2 stores with or without MXB – cost ratio .83 or less
- Single store boards with MXB – cost ratio .77 or less
- Single store boards without MXB – cost ratio .93 or less

The Bessemer City ABC Board has an operating cost ratio of 0.96 and does not meet the goal set by the Commission. Overhead expenses are lower because the board owns the building. In order to meet the goal and remain at current revenue levels of \$442,583, expenses must be reduced to approximately \$84,000. To meet the goal and remain at current expense levels of \$105,771, revenues must be increased to approximately \$575,000. *Refer to Appendix A for chart analysis of operating expense history and common expense analysis of similar size boards.*

Recommendations:

- Because salaries are the largest segment of operating expenses, analyze personnel hours to assess efficient personnel usage by determining when the lowest hours occur and consider adjusting the number of personnel needed for those time periods.
- Request bids annually from various vendors to get the best rates possible on audit utilities, maintenance contracts, and credit card processing fees.
- Consider relocating the store to a more visible location.

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

The Bessemer City ABC Board had a working capital of \$128,074 in FY2011. Under the new guidelines, the working capital retained exceeds the maximum working capital allowed by \$12,897.

Recommendations:

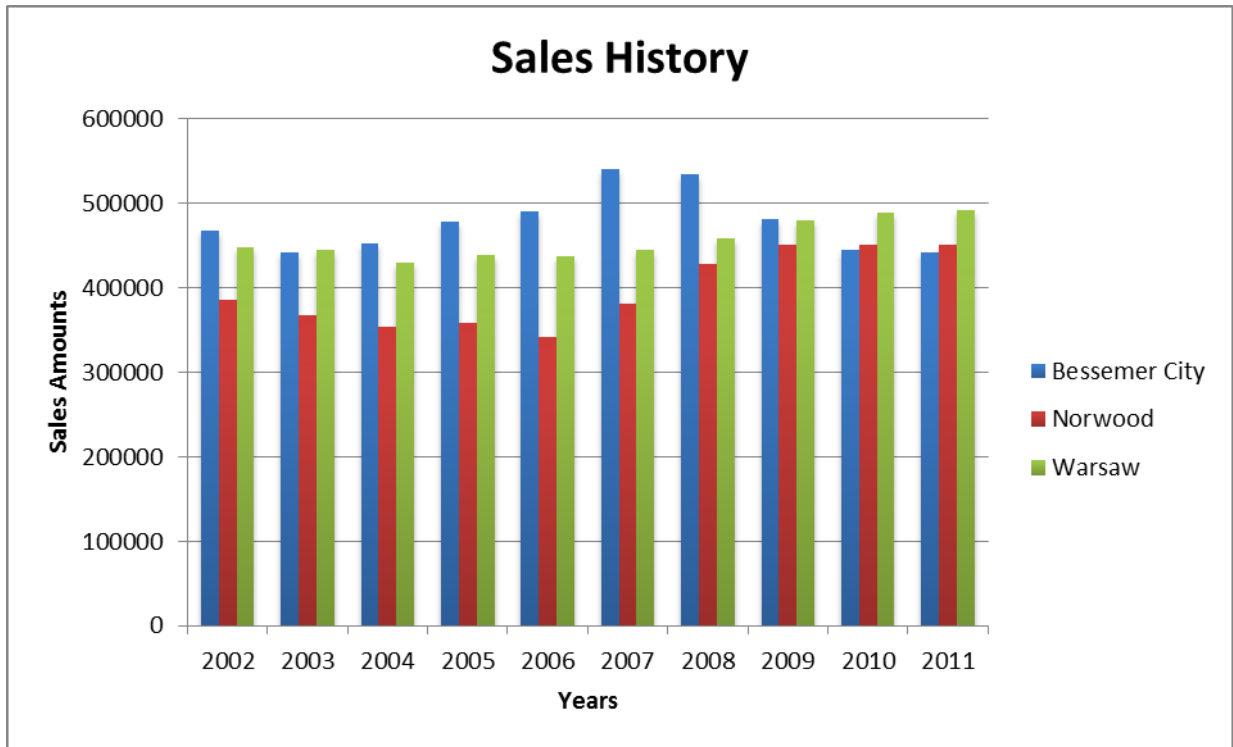
- Distribute more of the working capital retained or ask the appointing authority to allow a portion of the profits to be retained for a capital improvement plan.

Profit percentage to sales

The profit percentage to sales is calculated by dividing the total income before distributions by gross sales (Income before Distributions/Gross Sales). The Commission has set efficiency 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%

For fiscal year 2011, the Bessemer City ABC Board showed a loss; gross sales were \$442,583, income from operating was -\$3,038, resulting in a profit percentage to sales of -0.69%. Current sales have increased 7.51% over fiscal year 2010. In comparing Bessemer City with other similar size boards, sales over the past five years have decreased while other boards have either remain stagnant or follow the state's increase. *See chart below.*



Factors affecting sales and profitability:

- Overall population has increased 4.3% over the past ten years
- Individuals below poverty levels have increased 18.4% over the past five years
- 10.3% unemployment rate for Gaston County, a 0.50% increase since the previous month
- Other ABC stores located within a 10 mile radius include Kings Mountain, Gastonia, Shelby, and Cherryville.

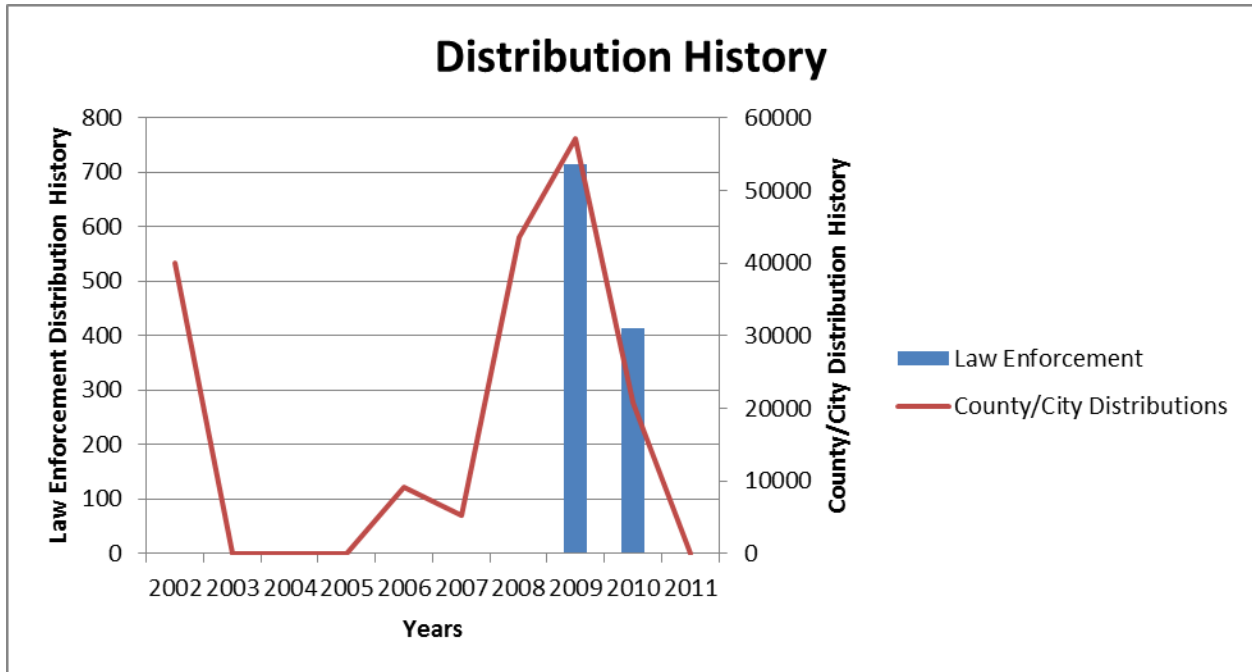
Recommendations:

- Analyze and reduce operating expenses to increase profits by monitoring budget. Provide year-to-date reports to board members detailing how much has been spent. *Refer to recommendations under operating costs.*
- Increase sales using the strategies recommended under inventory turnover.

Distributions

G.S. 18B-805 (c) requires the board to distribute quarterly at least five percent of profits for law enforcement. Alcohol education follows the local enabling act. The remaining profits are to be distributed quarterly to the Bessemer City General Fund.

In 2011, the Bessemer City ABC Board did not make distributions. Distributions were last made in fiscal year 2010 totaling \$21,124. Over the past two years, distributions have dropped. *See chart below.*



FINDINGS, OBSERVATIONS, AND RECOMMENDATIONS

On June 18, 2012, ABC Commission Board Auditor, Moniqua S. McLean visited the Bessemer City ABC store and interviewed Maxine Pasour, general manager. The following are the findings, observations, and recommendations relating to the performance audit.

Store Appearance and Customer Service Observations

The Bessemer City ABC store has approximately 1,000 linear feet of shelf space. The store holds approximately 787 product codes. *Refer to Appendix B for photos.*

- Both interior and exterior areas of the store were clean, well-lit, and inviting. Countertops were free of clutter.
- The shelf management system was clearly defined, consistent, and easily understood. Bottles were dusted, fronted, and well-stocked.
- The required Fetal Alcohol Syndrome poster was displayed.
- Upon entering the store, the employees greeted customers in a professional manner exhibiting good customer service. Employees expressed a high level of product knowledge when called upon by customers.

Policy and Procedure Observations

- The following policies were adopted and submitted to the auditor upon visit:
 - Code of Ethics Policy
 - Law enforcement contract
 - Price discrepancy Policy
 - Mixed Beverage Policy
- The board has obtained a credit card for supplies and travel arrangements. The general manager is the authorized user and also reconciles the monthly credit card statements. A credit card usage policy has not been adopted.
- A travel policy presented did not meet current statutory requirements. A copy of the State's travel policy was forwarded to the manager. Neither the board nor the general manager traveled during the current fiscal year or the previous year, therefore, travel expenses were in compliance with the current policy.
- The personnel manual on file is dated 1987. The board is in the process of updating the manual.
- All employees share a single cash drawer. The cash drawer is counted at the beginning and ending of each shift. The general manager makes all deposits daily.
- A physical inventory count is performed on a quarterly basis by scheduled staff. The general manager and whoever works the following day investigates any discrepancies that have occurred. Unsaleable items are taken out of inventory monthly. The general manager performs spot checks outside the inventory schedule.

Recommendations:

- Have and adopt a written credit card usage policy. Include a maximum limit allowed for purchases before a board member is notified for approval. A board member is to be notified of all purchases over the limit. Once adopted, submit a copy to the Commission. Document procedures for the usage of the credit card including:
 - Who has the authority to use the card,
 - What types of items the card may be used for,
 - Personal usage is not allowed,
 - A detailed receipt for every transaction is required,
 - A purchase order must accompany each receipt.
- Since the general manager is authorized to make purchases with the board credit card, appoint someone other than the general manager to open the monthly credit card statement and reconcile it.
- Adopt a travel policy that conforms to either the Town's or the State's policy. If the town's travel policy is adopted, submit a copy the town's travel policy, and a copy of the town council's minutes stating they have approved the ABC board to adopt the policy. If the State's travel policy is adopted, submit a copy of the ABC board's minutes stating the travel policy was adopted. *Refer to Appendix C (1) for statute.*
- Once the personnel manual is updated have each employee sign an acknowledgement of receipt and place in their personnel file.
- Cross train employees on key functions in the event the general manager were suddenly unavailable. *See recommendations under Personnel and Training.*

Personnel and Training

- The appointing authority has increased the board members from three to five. Three out of the five members and the general manager have attended the mandatory ethics class. The newly appointed board members are planning to attend the next scheduled class.
- Training is provided as new information becomes available. Other training opportunities, such as the RASP class, have not been provided.
- One other employee has been trained to handle certain duties in the event the general manager was unavailable.

Recommendations:

- Provide annual training including alcohol education, customer service, and product knowledge. Contact the Commission and other boards that have a training module(s) to incorporate into professional development for employees.
- Cross train employees on various function that include ordering liquor, closing out the end of the month, paying bills, filing taxes, etc. in the event the general manager were unavailable.

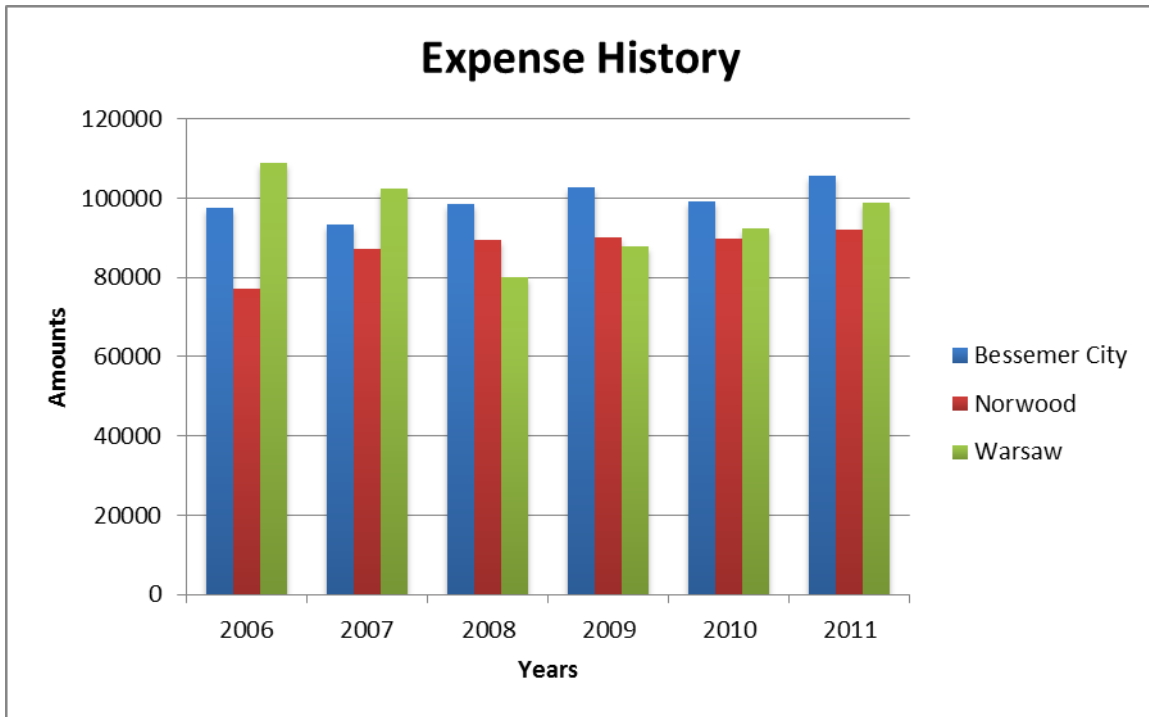
Administrative Compliance Findings and Observations

- Board meeting minutes were viewed, followed the order of proceedings for conducting a business meeting, and reference the conflict of interest statement.
- Board member information and general manager information on the Commission internal website reflected current appointment dates and salary information.
- Board member and general manager compensation is in compliance with G.S. 18B-700 (g) and (g1).
- Currently, the general manager serves as the finance officer. The board is planning to appoint a board member with Commission approval.
- Nepotism – The board is in compliance with G.S. 18B-700(k).
- Law enforcement activity reports were not submitted from February 2011 to August 2011.
- Liquor orders bear the pre-audit certificate and are signed by the general manager/finance officer. Although purchase orders are not used when ordering supplies, order confirmation printouts from various vendors have the pre-audit certificate and are signed by the general manager/finance officer.
- Checks are currently signed by the general manager and a board member. However, checks do not bear the approved certificate required by G.S. 18B-702(q).
- Out of approximately 780 product codes in the store, approximately twenty-eight codes were sampled and all reflected the correct price set by the Commission.

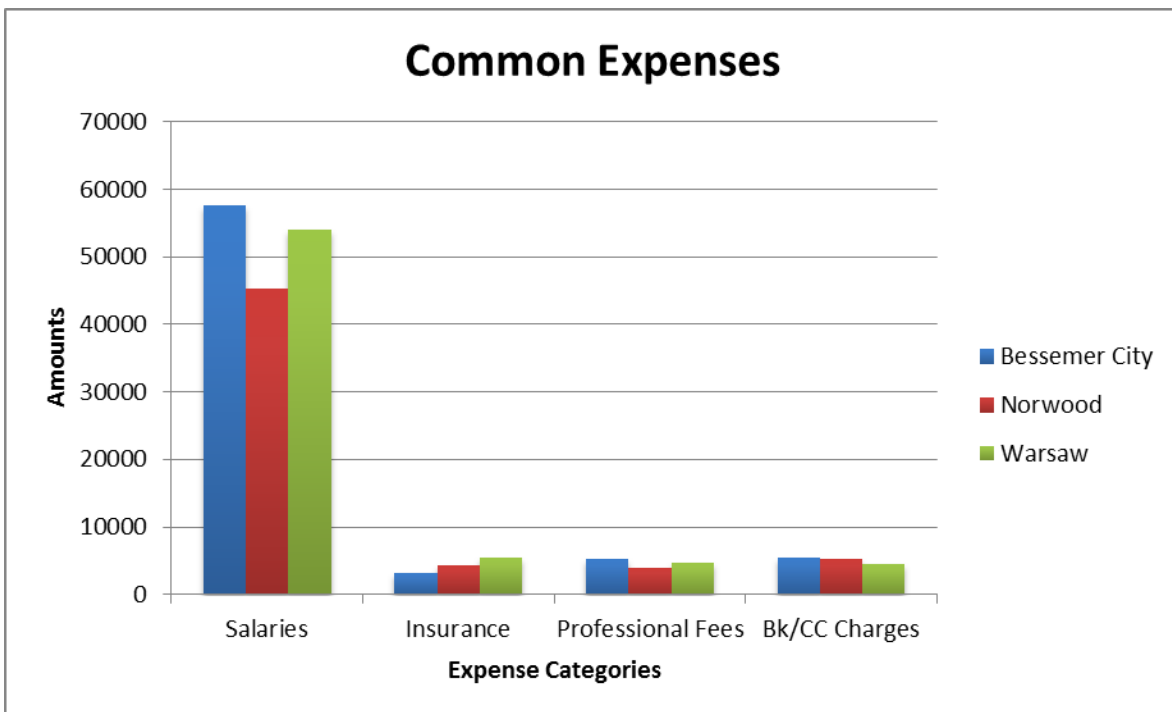
Recommendations:

- Submit all law enforcement activity reports for the missing months. If no activity is indicated, note that fact in the Remarks section and submit the form. *Refer to Appendix C (2) for statute.*
- The Commission strongly recommends purchases above \$50 (petty cash) receive written authorization (purchase orders) in addition to verbal approval by the finance officer.
- Affix the approved certificate on all checks as required. *Refer to Appendix C (3) for statute.*

APPENDIX A



For the past three years, Bessemer City ABC's expenses have been higher than other boards.



Common expenses of similar size boards indicate that, except for insurance rates, Bessemer City's expenses are high.

APPENDIX B



Exterior view.



Counter view of the store.

APPENDIX C

(1) 18B-700(g2) states "...the local board adopts a travel policy that conforms to the travel policy of the appointing authority and such policy is approved by the appointing authority [or adopts the state policy]."

NCAC02R.0909 (c) Rules to be filed with Commission. Each local board shall file a certified copy of its travel policies and procedures, and any amendments thereto, with the Commission within 10 days of the adoption, or amendment, of the policies by the local board.

(2) 18B-501(f1) states, "To ensure accountability to the appointing authority and the Commission, every local board's ABC officers and those law enforcement agencies subject to an enforcement agreement entered into shall report to the local board, by the fifth business day of each month, on a form developed by the Commission, the following:

- (a) The number of arrests made for ABC law, Controlled Substance Act, or other violations, by category, at ABC permitted outlets,
- (b) The number of arrests made for ABC law, Controlled Substance Act, or other violations, by category, at other locations,
- (c) The number of agencies assisted with ABC law or controlled substance related matters,
- (d) The number of alcohol education and responsible server programs presented,

The local board shall submit a copy of the enforcement report to the appointing authority and the Commission not later than five business days after receipt of the enforcement report by the local board.

(3) 18B-702(q) states "...each check or draft on an official depository shall bear on its face a certificate signed by the finance officer or a deputy finance officer approved for this purpose by the local board. The certificate shall take substantially the following form:"

This disbursement has been approved in the manner required by G.S. 18B-702.

(Signature of finance officer).

CITY OF BESSEMER CITY ABC BOARD

208 West Alabama Avenue
Bessemer City, North Carolina 28016
(704) 629-2271

Jim long, Board Chairman

Sandra Bolick, Board Member
Rosa Dortch, Board Member
Lottie Jones, Board Member
Otis Whitehurst, Board Member
Maxine Pasour, General Manager

August 21, 2012

Dear Ms. McLean,

Thank you for the opportunity to respond to the recent audit of the Bessemer City ABC Store and Board.

Being a new Board of five members, this audit serves as a very useful tool in helping us move forward. The Bessemer City ABC Board recognizes the need for proper administrative, financial, and personnel compliance. We have taken steps to address concerns expressed by the audit. We appreciate your reports acknowledgement of a pleasing store appearance, proper shelf management, and customer service.

In an effort to improve inventory turnover, we are ordering at a minimum. For new products coming in and being offered in mini bottles at promotional prices, we are bringing in those minis before ordering the larger bottles in order to receive interest from our customers. With the Commission's approval we have lowered the price on delisted items, have had special "SALE" signs made, and are in the process of putting these items in a more visible location.

We are continuing to reduce operating costs in every way possible. With a budget now in place, we feel this will help monitor operating costs.

Under the new guidelines, the working capital retained exceeds the maximum working capital allowed by \$12,897.00. The Bessemer City ABC Board's appointing authority has allowed us to retain this money for a capital improvement plan. The ABC Board will submit the Commission a copy of the minutes from the appointing authority reflecting this approval. The ABC Board is currently looking for a new location for our store.

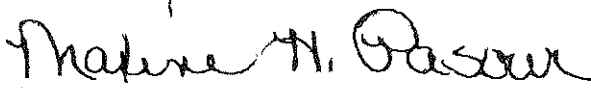
Internal control recommendations are being met. We have named a finance officer and cross training has begun and will continue to take place on key functions necessary to maintain daily and monthly operation requirements.

All checks bear the approved certificate required by G.S. 18-B-702(q).
Law enforcement activity reports have been submitted.
A credit card usage policy has been adopted.
A travel policy has been adopted.

We will continue to strive to meet the recommendations and requirements for compliance set forth by the audit.

Sincerely,


Jim Long, Board Chairman


Maxine Pasour, General Manager

RECEIVED

AUG 23 2012

NC ABC COMMISSION

BESSEMER CITY ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Policies and Procedures: Adopt the following policies:</p> <ul style="list-style-type: none"> ➤ Credit Card Policy ** ➤ Travel Policy 	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>**Note: Not required by statute.</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>The board has adopted the following policies as recommended.</p>
<p>Administrative Compliance, Findings, and Observations:</p> <ul style="list-style-type: none"> ➤ Submit all law enforcement activity reports. ➤ Affix the approved certificate on all checks. 	<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 submitted all outstanding law enforcement activity reports and has updated checks to include the approved certificate.</p>