

Bryson City 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

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February 6, 2012

The Honorable Tom Sutton, Mayor
Town of Bryson City
PO Box 726
Bryson City, NC 28713-0726

Dear Mayor Sutton,

We are pleased to submit this performance audit report of the Bryson 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.

This report consists of an executive summary, background information and operational findings and recommendations. The ABC Board reviewed a draft copy of this report and their written proposals to our recommendations are included.

We would like to thank the ABC Board and their staff for the assistance and cooperation provided to us during the audit and we hope you and your fellow Town Council Members will find the report informative.

Respectfully,

A handwritten signature in black ink, appearing to read "Michael C. Herring".

Michael C. Herring
Administrator

Cc: Larry Callicutt, Town Manager
Bryson City ABC Board

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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 audits 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 2011;
- Visited the store;
- Interviewed key ABC store personnel.

The Bryson City ABC Board has submitted a response to the performance audit recommendations and has begun to take steps toward becoming more profitable through analyzing and reducing current costs. Policies were adopted ensuring compliance with the statutes as well as maintaining efficient operations.

BACKGROUND INFORMATION

Located in Swain County and home to the Great Smoky Mountain Railroad, Bryson City is surrounded by scenic views of the Great Smoky Mountains in the north, Cowee Mountains in the south, and the Plott Balsams in the east. The US Census Bureau reported in 2009 the population at 1,353.

Chapter 211 of the 1979 Session Law authorized the town of Bryson City to hold an election upon a petition signed by fifteen percent of the registered voters. The referendum was held on June 9, 1979. The vote for an ABC store passed 297 to 280. The date of the first retail sales was August 1, 1979. A mixed beverage election held on August 20, 1991 passed 286 to 109. A merger agreement with the Sylva ABC Board was established in October 2009 to share in the expenses and profits of servicing the Harrah's Cherokee Gaming Casino.

Upon election of an ABC store, the town of Bryson City was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members are Montaville Clampitt, board chairman, Nancy Gibson and Talmadge Jones, board members.

The Bryson City ABC Board staffs three full-time and two part-time employees. The general manager is responsible for the daily operations including supervising personnel, retail operations, and administrative functions of the store. Duties and responsibilities of clerks include daily stocking, upkeep of the store, assisting with inventory and selling products. The board has appointed an outside CPA as finance officer.

Profitability

For fiscal year 2011, the board showed a profit; gross sales were \$1,525,229, income from operations was \$69,702, resulting in a profit percentage to sales of 5.4%. (These figures do not include sales to Harrah's Cherokee Casino.) In comparing sales over the past ten years of similar size boards, Bryson City ABC sales have dropped following other similar size boards while the state continues to maintain a 56% ten year increase. Current sales have increased over last year's sales. *Refer to Charts 1 and 2.*

Factors affecting sales and profitability:

- Overall population has increased 5% over the past ten years
- Adult working population has increased 18% over the past ten years
- Approximately 43% of population is at or below poverty level
- 11.6% unemployment rate in Swain County in September 2011

Distribution

G.S. 18B-805 (c) (2) requires the board expend quarterly at least five percent of profits for law enforcement. The statute requires the board to expend quarterly as follows:

- 70% to Bryson City General Fund
- 20% to Bryson City for law enforcement
- 10% to Bryson City for parks and recreation

In 2011, the Bryson City ABC Board made distributions to law enforcement and the town totaling \$46,389 and alcohol education for \$2,611. *Refer to Chart 3.*

FINDINGS AND RECOMMENDATIONS

On October 6, 2011, ABC Commission Board Auditor, Moniqua S. McLean, visited the Bryson City ABC store and interviewed Michael Perry, general manager. The following are the findings and recommendations relating to the performance audit.

1. Inventory Turnover

The inventory turnover rate is calculated by dividing the cost of goods sold by the average inventory in the system. 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:

- Daily/weekly deliveries target at 6 times or more per year
- Bi-weekly deliveries target at 5 times or more per year
- Monthly deliveries target at 4.5 times or more per year

The Bryson City ABC Board has a bi-weekly delivery schedule. The inventory turnover rate for Bryson City ABC is 3.5 and does not meet the target rate set by the Commission.

Recommendations:

- Explore other strategies for eliminating slow moving products by:
 - Identifying unsold inventory for transfers to another board which has demand
 - Request permission from the Commission for a price reduction to sell off slow moving products; use proceeds for distribution or for more saleable inventory
 - Analyzing sales history reports carefully to avoid overstocking
 - Moving stock within the store to increase visibility and to initiate more impulse shopping
 - Using recipe cards, displays, and other marketing techniques to increase sales
- Take advantage of SPA's and quarterly price reductions whenever possible.
- Borrow selling/ordering techniques from boards that exceed their target rate.

2. Operating costs

Operating costs are calculated by dividing total operating expenses less depreciation by gross profit on sales. Below are the average cost ratios for boards with and without mixed beverage sales:

- 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 – 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 Bryson City ABC Board has an operating cost ratio of .75 and meets the goal set by the Commission.

Recommendations:

- Monitor budget monthly to ensure that expenses do not exceed budgeted amounts.
- Request bids annually from various vendors to get the best rates possible on audit, credit card processing fees, and insurance and bonding rates.

3. Profit percentage to sales

Profit percentage to sales is calculated by dividing the total profit before distributions by gross sales. The Commission has set efficiency goals based on the following breakdown:

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

The Bryson City ABC Board has a profit percentage of 5.4% and meets the targeted rate set by the Commission.

Recommendations:

- Continue to improve sales using the strategies recommended under inventory turnover.
- Continue analyzing and reduce operating expenses by referring to the recommendations under operating costs.

4. 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

For FY2011, the Bryson City ABC Board had a working capital of \$403,697 and exceeds the maximum working capital allowed. The board has made additional distributions to the Town in September 2011 to reduce working capital.

Recommendations:

- Consider distributing more of the working capital retained.
- If the board elects to continue retaining the maximum amount of working capital allowed, develop a strategic plan detailing future capital improvements for which these funds are being retained.

5. Store appearance

The linear footage for the Bryson City ABC store is approximately 1325 feet of shelf space. The store has approximately 1285 product codes. *Refer to Appendix A for photos.*

- The store was clean, well-lit, and smoke-free. Countertops were free of clutter but bottles were dusty.
- The shelf management system was clearly defined, consistent, and easily understood.
- The required Fetal Alcohol Syndrome poster was displayed. The Commission Auditor supplied the store with updated posters.
- Upon entering the store, each employee greeted the ABC Commission auditor as well as entering customers in a professional manner exhibiting good customer service.

6. Policies and Procedures

- The employee handbook on file has not been updated since 1997.
- Board does not have a price discrepancy policy.
- The mixed beverage policy on file does not reflect the current mixed beverage policy.

Recommendations:

- Update the employee handbook and send a copy to the Commission. *Refer to Appendix B (1) for rule.*
- Adopt a price discrepancy policy. While it is true that the State has uniform pricing requirements, if a shelf tag is incorrect and shows a lower price than the register, it is good customer relations to honor it and just book the difference to cash over/short. The Commission will provide a sample policy upon request. *Refer to Appendix B (2) for rule.*
- Update the current mixed beverage policy. The Commission prefers an open mixed beverage policy that reflects good customer service and allows customers to order and pickup Monday through Saturday.

7. Administrative Compliance

- Board meeting minutes were available and followed the order of proceedings for conducting business meetings. However, the minutes did not reference the conflict of interest statement.
- Board information on the Commission website does not reflect the board members' latest appointment dates.
- Nepotism – The board does not employ immediate family members.
- Purchase orders are not used for store and office supplies.
- Orders to LB&B do not bear the pre-audit certificate required by G.S. 18B-702 (m).

- Distributions for alcohol education have been made even though the enabling act does not require payments.
- The finance officer maintains all invoices until the year-end. The general manager maintains copies of invoices given to the finance officer.
- Current shelf prices do not reflect the price set by the Commission. Crown Royal Black 1.75L showed May prices on shelf. Parrot Bay Coconut Rum 1.75L showed an incorrect price.

Recommendations:

- ABC boards are required to keep full and accurate minutes of all official meetings, including any closed sessions held. Minutes may be in the form of sound or video recordings. Minutes shall reflect that the meeting has been called to order, a record of attendees, the minutes of the last meeting have been approved, any votes taken and how members voted, policies adopted, and any other business presented in sufficient detail so that anyone reading the minutes could understand what transpired.
- In an effort to avoid possible conflicts of interest, it is recommended that at the beginning of each board meeting the Chairman asks fellow board members if there are any potential conflicts of interest. *Refer to Appendix B (3) for rule.*
- Use purchase orders for ordering all store and office supplies. Purchase orders are required to have the pre-audit certificate signed by the finance officer. A sample purchase order template was provided to management by the ABC Commission auditor. *Refer to Appendix B (4) for statute.*
- Orders to LB&B for liquors must have a pre-audit certificate signed by the finance officer.
- Boards subject to a local act setting a different distribution schedule are exempt from alcohol education distributions. *(See 18B-805 (c) (3)).* Either discontinue the distribution or request approval from the appointing authority to allow alcohol education payments.
- To reduce time and expense of duplicate paperwork, have finance officer return paperwork once monthly financial statements have been completed.
- North Carolina statues require uniform pricing in all ABC stores. Immediately audit all shelf tags in the store and the cash register system for correct pricing.

8. Personnel/Training Compliance

- Board members, general manager, and finance officer have attended the mandatory ethics class.
- Employee training is conducted whenever the need arises and whenever new information is available.

Recommendations:

- Attend annual training, such as the Responsible Alcohol Seller Program, offered by the Commission and other approved venues.

- Create a checklist for use in training new and existing employees and have each employee sign once training is complete.
- Have regular training for employees on customer service, policy changes, and store functions.
- Continue cross training employees on key functions that include ordering liquor, closing the month, paying bills, and filing taxes in the event the general manager were suddenly unavailable.

9. Internal Control

- Inventory counts are performed twice a year by all scheduled staff with monthly spot checks.
- Checks are signed by a board member and the finance officer. In the absence of either check signer, the general manager can sign the checks.
- A deputy finance officer has not been appointed to fill in if the finance officer is absent.

Recommendations:

- To ensure strong internal controls on inventory management, the following need to occur:
 - Take physical inventory monthly rather than twice a year. Stock can be counted on a rotating basis that does not require additional staff or overtime.
 - Have board members spot check inventory on a regular basis and review all monthly inventory adjustments.
 - To better account for inventory, take breakage or unsalable product out of regular inventory within the month it occurs.
- Appoint a deputy finance officer to aid in the duties of the finance officer when he/she is absent. *Refer to Appendix B (5) for statute.*

Chart 1

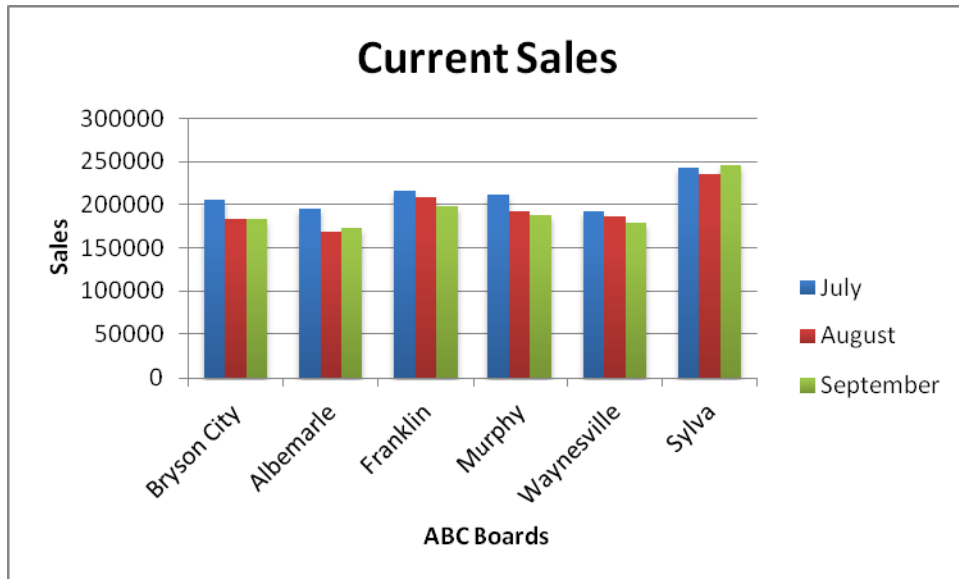


Chart 1 reflects the current year sales comparisons for similar size boards.

Chart 2

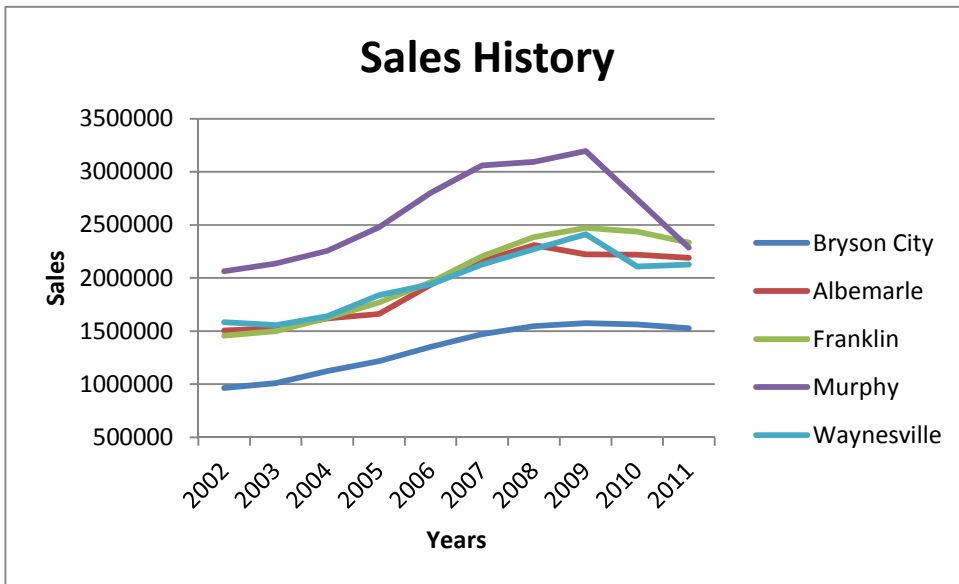


Chart 2 reflects the sales history comparison of similar size boards. Note: Murphy ABC's sales declined after the opening of Clay County ABC store in 2009.

Chart 3

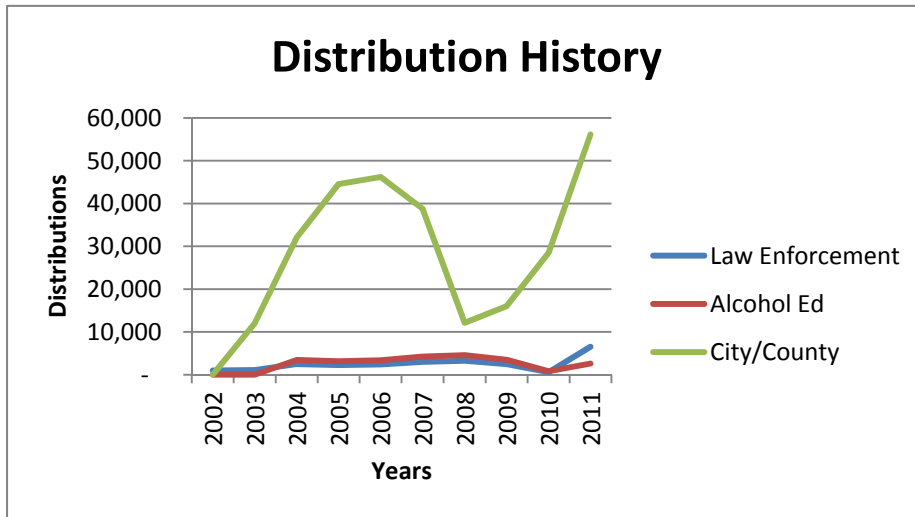


Chart 3 reflects the distribution history for the past ten years.

Chart 4

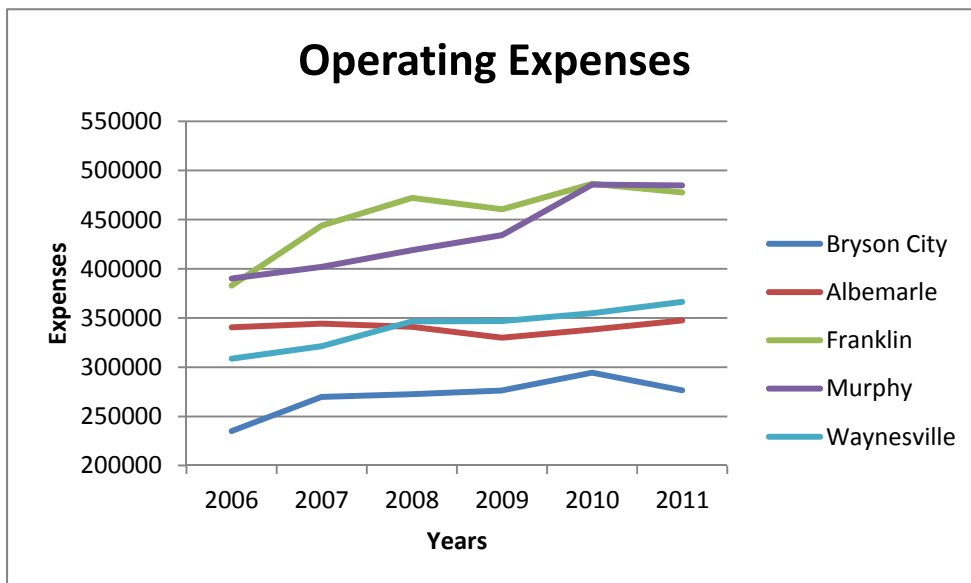


Chart 4 reflects the operating expense comparison of similar size boards.

Chart 5

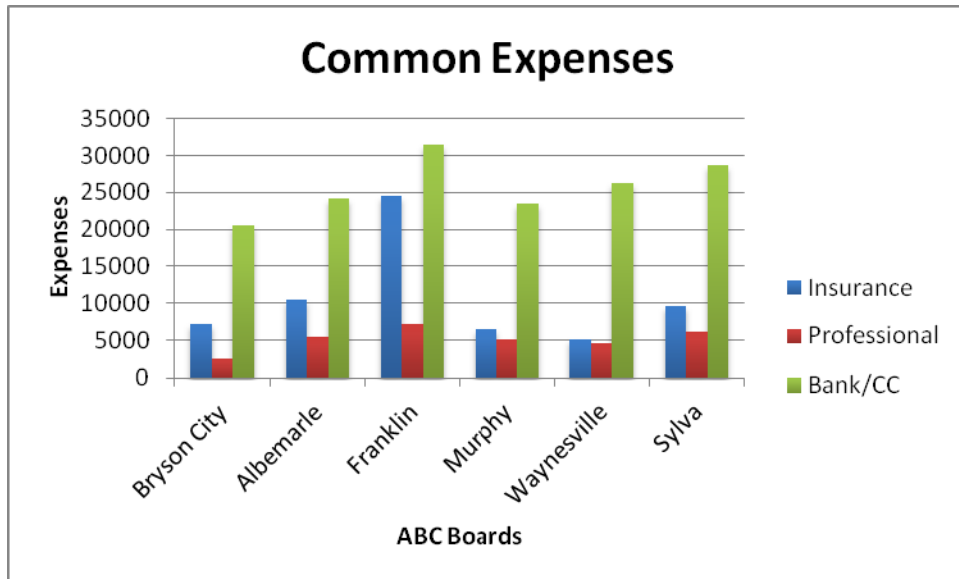


Chart 5 reflects common expense comparison of similar size boards. Note: Franklin insurance charges cover additional insurance for employees.

Chart 6

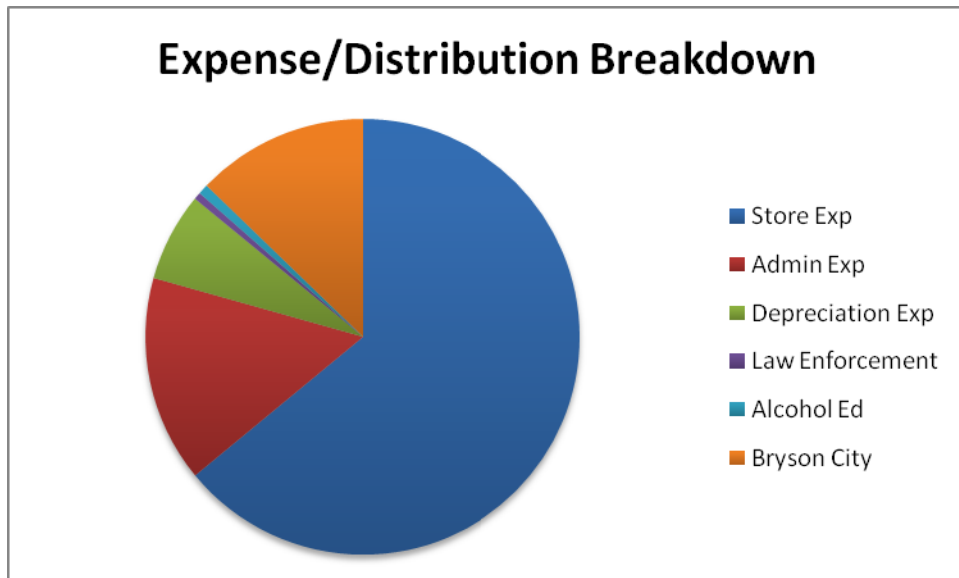


Chart 6 reflects the breakdown of expenses and distributions of FY2011.

APPENDIX A

Picture 1



Picture 2



Current shelf price is incorrect.

Picture 3



Current shelf management system.

APPENDIX B

(1) NCAC 02R .1009 states "(a) 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.

(b) A local board is encouraged to model its personnel policies and procedures after those adopted by the county or municipality in which it operates."

NCAC 02R .1102 states "(a) A copy of all rules or amendments thereto that may be adopted by a local board to govern the operation of ABC stores or the enforcement of the ABC laws shall be submitted

(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."

(3) OP 4.19.4 states, "In an effort to avoid possible conflicts of interest it is recommended at the beginning of each meeting the Chairman ask fellow board members if there are any potential conflicts of interest. This can be done by reading the following ethics reminder:"

In accordance with GS 18B-201, it is the duty of every Board member to avoid both conflicts of interest and appearances of conflicts. Does any member have any known conflict of interest or appearance of conflict with respect to any matters coming before the Board today?

(4) 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)

(5) GS 18B-702 (p) states "'...all checks or drafts on an official depository shall be signed by the finance officer or a properly designated deputy finance officer."

Bryson City ABC Board #133
P.O. Box 495
Bryson City, NC 28713

Moniqua McLean
ABC Board Auditor

Dear Ms. McLean,

In response to your recent Performance Audit, we are in the process of updating all policies and procedures as recommended. I have updated the Personnel Manual and the Mixed Beverage Policy. I have designated a section of shelving for discontinued and slow-moving items in order to reduce excess inventory. We are moving forward with the other recommendations as time permits.

Thank you,

Steven Mann Finance Officer

Michael J. Perry
Bryson City ABC
Store Manager

RECEIVED

JAN 03 2012

NC ABC COMMISSION

BRYSON CITY ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><u>Policies and Procedures:</u> **Update the employee handbook.</p> <p>**Adopt a price discrepancy policy.</p> <p>**Update the mixed beverage policy.</p>	<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 checked="" type="checkbox"/> Partially implemented 25% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The Board is in the process of updating the employee handbook and all policies. A copy of the update mixed beverage policy has been submitted to the Commission.</p>
<p><u>Administrative Compliance:</u> Use purchase orders when ordering store and office supplies.</p> <p>Include the pre-audit certificate and the signature of the finance officer on all orders to LB&B.</p> <p>Audit all shelf tags with the register to ensure accurate pricing.</p> <p>Discontinue or request approval from appointing authority to allow alcohol education distributions.</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input checked="" type="checkbox"/> Partially implemented 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management is currently utilizing the purchase orders when ordering store and office supplies. Management is in the process of implementing other recommendations.</p>

BRYSON CITY ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><u>Internal Control:</u> Appoint a deputy finance officer to aid in the duties of the finance officer when he/she is absent.</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</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 has not appointed a deputy finance officer.</p>