

Maggie Valley ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA



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NORTH CAROLINA

Alcoholic Beverage Control

CHAIRMAN:
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April 16, 2012

Maggie Valley ABC Board
Mr. Ralph Wallace, Chairman
PO Box 337
Maggie Valley, NC 28751

Dear Chairman Wallace,

We are pleased to submit this performance audit report of the Maggie Valley 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 and 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 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 Maggie Valley ABC Board has responded to the performance audit recommendations and has begun to take steps toward becoming more profitable through analyzing and reducing current costs. Internal controls have been improved to maintain proper segregation of duties. Policies and procedures are being established to maintain compliance with statutes and to ensure efficient operations.

BACKGROUND INFORMATION

Maggie Valley, located in the heart of the Smoky Mountains, is best known for the scenic views and area outdoor attractions. Surrounding cities include Sylva, Canton and Waynesville, NC, all within a 20 mile radius. It is next door to the Cherokee Indian Reservation's Harrah's Casino Resort. The current population is approximately 788.

Chapter 213 of the 1979 Session Law authorized the town of Maggie Valley to hold an election upon a petition signed by at least fifteen percent of the registered voters. The referendum was held on June 13, 1979. The vote for an ABC store passed 67 to 18. The date of the first retail sales was August 1, 1979. A mixed beverage election held on June 13, 1979 passed 65 to 20.

Upon election of the ABC store, the town of Maggie Valley was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members are Ralph Wallace, Board Chairman, Cabe Carver and Joe Moody, Board Members.

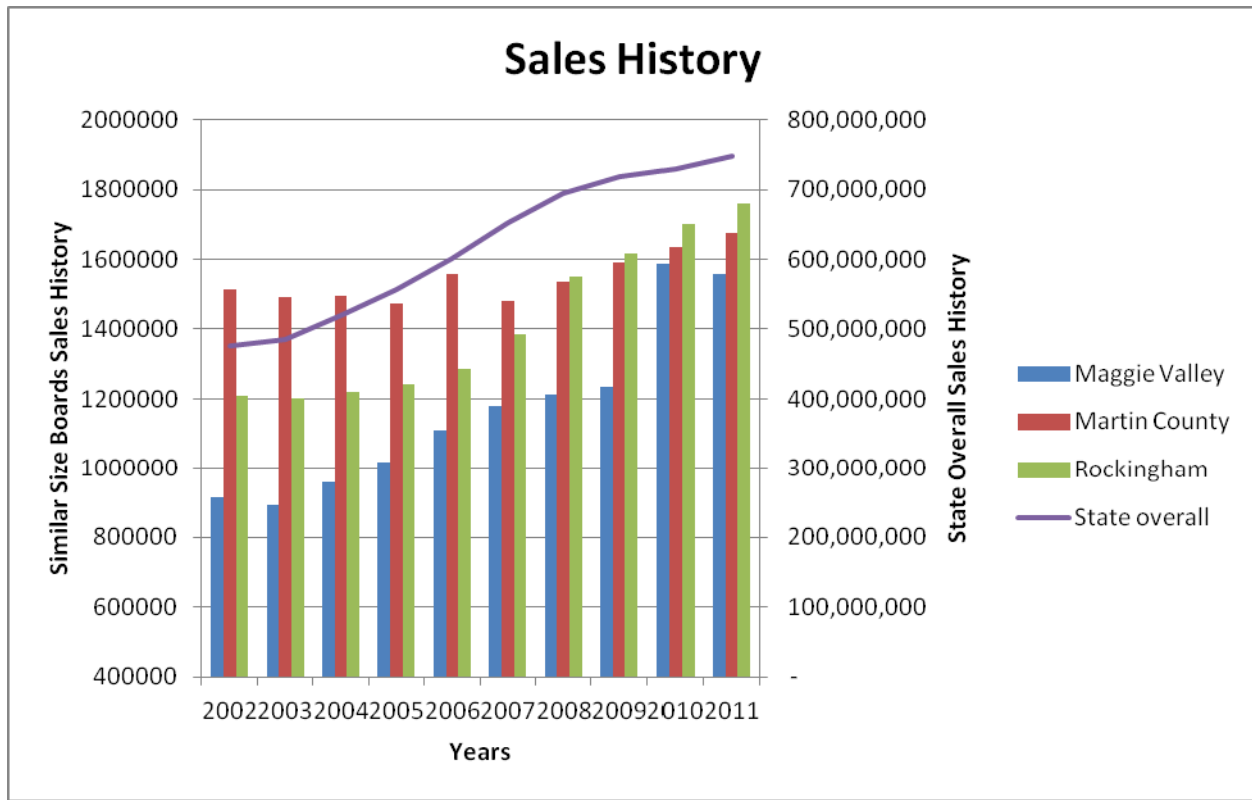
The Maggie Valley ABC Board staffs four full-time and five part-time employees. The general manager is responsible for the daily operations including supervising personnel, retail operations, and administrative functions of Store #1. A store manager for Store #2 is responsible for all administrative, store, and personnel functions for that location. In effect, each manager is responsible for her store. The finance officer duties are held by Store #2 manager. Other personnel handle the various retail functions including selling products and accounting for stock.

Profitability

For fiscal year 2011, the board showed a loss; gross sales were \$1,559,465, income from operations was -\$3,304, resulting in a profit percentage to sales of -0.21%. Maggie Valley ABC sales showed a small but steady increase from FY2003 to 2009, followed by a larger increase after the second store opened in FY2010. In FY2011, sales dropped from the previous year's high. *See chart below.*

Factors affecting sales and profitability:

- Overall population has increased 23% over the past ten years
- Adult working population has decreased 5% over the past ten years
- 9.4% unemployment rate in Haywood County in August 2011
- Second store opened in April 2009

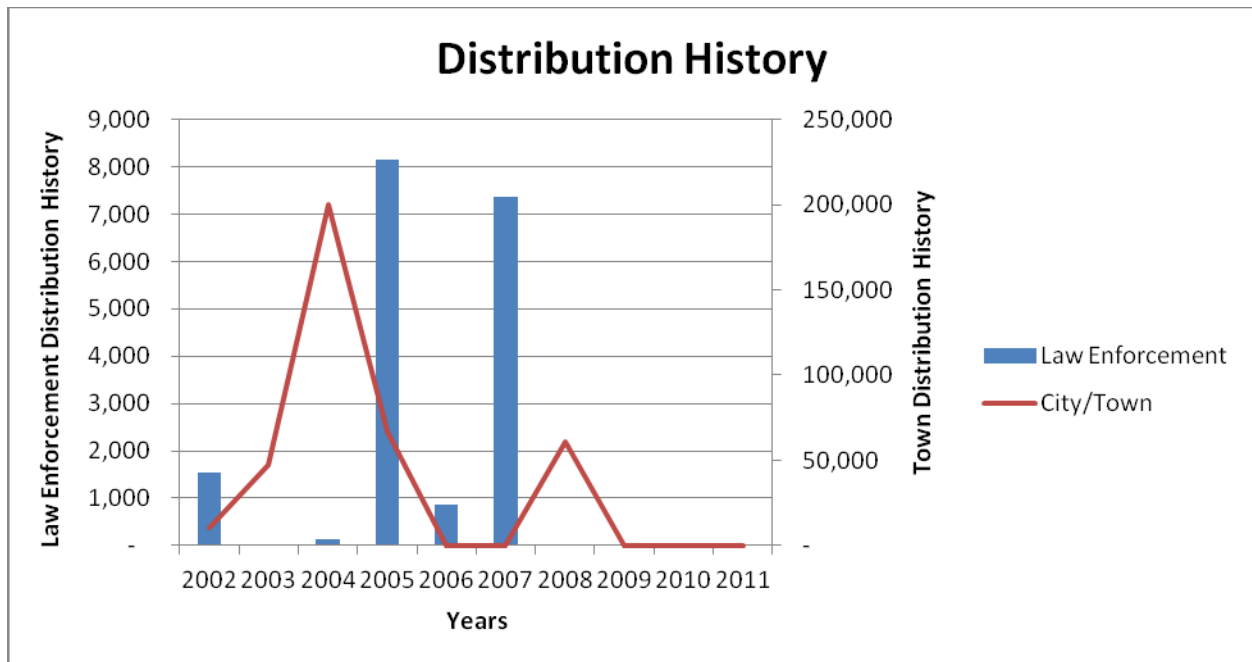


Distribution Schedule

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:

- 80% to Maggie Valley General Fund
- 10% to Maggie Valley General Fund for law enforcement
- 10% to Maggie Valley General Fund for community services and education

In 2011, the Maggie Valley ABC Board did not make distributions to law enforcement or to the town. Distributions have not been made to the appointing authority since 2008 and to law enforcement since 2007. *See chart below.*



Note: The Maggie Valley ABC Board opened a second store in 2009.

FINDINGS AND RECOMMENDATIONS

On October 5, 2011, ABC Commission Board Auditor, Moniqua S. McLean, visited both Maggie Valley ABC stores and interviewed Nancy Helsel, general manager, Nancy Grant, finance officer/store manager, and Joe Moody, board member. 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 Maggie Valley ABC Board has a bi-weekly delivery schedule. The inventory turnover rate for Maggie Valley ABC is 4.4 and does not meet the target rate set by the Commission.

Recommendations:

- Continue using recipe cards, displays, and other marketing techniques, such as cross merchandising, to increase sales. Distribute monthly sales information to mixed beverage customers to encourage additional sales.
- Take advantage of SPA's and quarterly price reductions whenever possible.
- Analyze and adjust ordering to minimize overstocking.
- Identify unsold inventory for transfers to another board which has demand. Additionally, consider asking the Commission for a price reduction to sell of dead stock.

2. Operating costs

Operating costs are calculated by dividing total operating expenses less depreciation by the 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 Maggie Valley ABC Board has an operating cost ratio of .89 while the average for similar size boards is .83 or less. In comparison with other two store boards, Maggie Valley's operating expenses are not out of line. A 19% reduction of operating expenses occurred in 2011 from 2010. To meet the goal of .83 and remain at current expense levels, revenues must be greater than \$1.6 million. To meet the goal and remain at current revenue levels, expenses must be less than \$350,000.

Recommendations:

- Analyze store hours vs. sales to determine the optimum hours of operation.
- Because salaries and benefits are the largest segment of operating expenses, analyze personnel hours to assess efficient personnel usage.
- Request bids annually from various vendors to get the best rates possible on audit, credit card processing fees, and insurance and bonding rates.
- Explore the feasibility of closing one store; weigh cost saving against lost sales to determine if this is the best course of action.
- Consolidate administrative functions. *See notes under "Administrative Compliance."*
- Monitor budget monthly to ensure that expenses do not exceed budgeted amounts.

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 Maggie Valley ABC Board has a profit percentage to sales of -0.21% and does not meet the targeted rate set by the Commission.

Recommendations:

- Increase sales using the strategies recommended under inventory turnover and store appearance.
- Analyze and reduce operating expenses to increase profits. Refer to 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

Under the new guidelines, the Maggie Valley ABC Board had a working capital of \$121,120 for FY2011. The working capital retained is within the limits set by the Commission.

5. Store Appearance

The linear footage for the Maggie Valley ABC stores ranges from approximately 1200 to 1400 feet of shelf space. Both stores average approximately 1200 product codes. *Refer to Appendix A for photos.*

- The interior and exterior areas of both stores were clean, well-lit, and inviting. Countertops were free of clutter and bottles were dusted.
- The shelf management system was clearly defined, consistent, and easily understood.
- The required Fetal Alcohol Syndrome poster was displayed in both stores. The Commission Auditor supplied both stores with updated posters.
- Upon entering stores, each employee greeted the ABC Commission auditor as well as entering customers in a professional manner exhibiting good customer service.
- Televisions displaying the weather channel were present in both locations.

6. Policies and Procedures

- Policies and/or contracts not adopted include:
 - Law enforcement contract
 - Credit card policy.
 - Price discrepancy policy.
 - Breakage policy.

Recommendations:

- Adopt a law enforcement contract and submit to the Commission. All local boards are required to have an agreement, even if the agreement results in no enforcement activity without pay. *Refer to Appendix C (1) for statute.*
- Adopt a credit card use policy. Include a maximum limit allowed on purchases before a board member is notified for approval. The board is to be notified of all purchases over the limit. Once adopted, submit a copy to the Commission. Have procedures for the usage of the credit card including:
 - Who has 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,
- Adopt a price discrepancy policy and submit to the Commission. The Commission will provide a sample policy upon request. *Refer to Appendix C (2) for rule.*

- Adopt a breakage policy that illustrates how to account for breakage when an employee or a customer breaks a bottle. It is not appropriate to have suppliers pay for an employee or customer's breakage within the store.

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. ABC Commission auditor has updated the appointment dates of board members.
- Management is maintaining two separate sets of accounting records for the two stores operated by the board. The accounting records are the responsibility of the respective store managers.
- Law enforcement reporting has not been submitted to the Commission for months March, May, and June 2011.
- Nepotism – The board does not employ immediate family members.
- Purchase orders are not used for store and office supplies.
- Order acknowledgements from LB&B do not bear the pre-audit certificate required by G.S. 18B – 702(m).
- Checks do not display the approved certificate as required by G.S. 18B – 702 (q).

Recommendations:

- Combine current accounting system for the two stores into one centralized accounting system handled by the general manager. *Refer to Appendix C (3) for statute.*
- Submit law enforcement activity reports to the Commission for the stated months. Submission of law enforcement reports are by the 10th business day of the month. *Refer to Appendix C (4) for statute.*
- Use purchase orders when ordering all store and office supplies. Purchase orders are required to have the pre-audit certificate signed by the finance officer. *Refer to Appendix C (5) for statute.*
- Orders to LB&B for liquors must have a pre-audit certificate signed by the finance officer.
- All checks must include the approval certificate with the finance officer's signature. *Refer to Appendix C (6) for statute.*

8. Personnel/Training Compliance

- Employee training is conducted whenever the need arises and whenever new information is available.
- Employees have not attended RASP training since April 2009.
- Employees rely on a calendar for scheduled hours. Both managers maintain records for employees of each store.

Recommendations:

- Attend annual training, such as the Responsible Alcohol Seller Program, offer 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.
- Cross train 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.

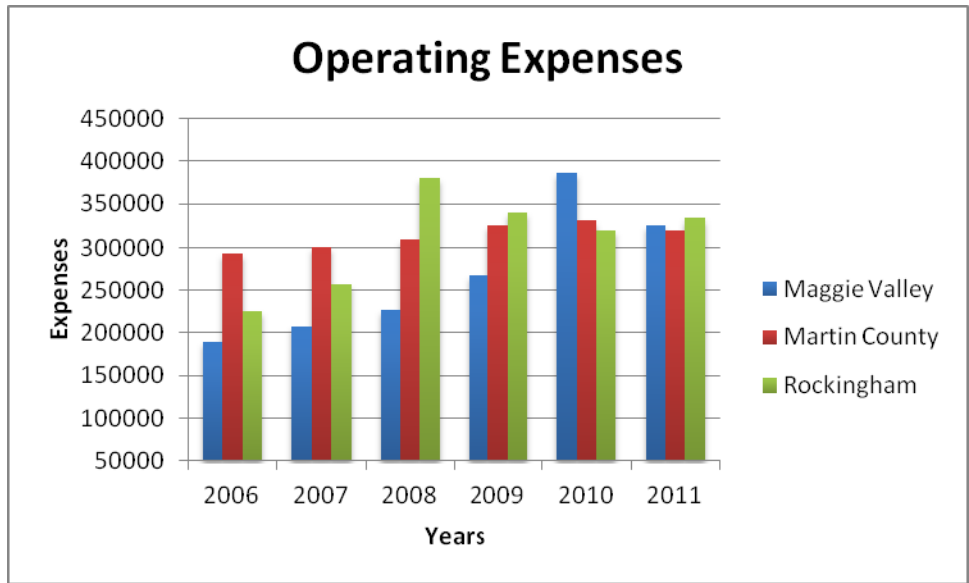
9. Internal Control

- Quarterly inventory counts are performed by all scheduled staff with monthly spot checks.
- Checks are signed by a board member and store managers. The finance officer only signs checks for one store. Once signed, checks are mailed by both store managers.
- A credit card is issued to each store manager for store purchases. Credit card statements are managed and reconciled by each store manager.
- A deputy finance officer has not been appointed to fill in if the finance officer is absent.

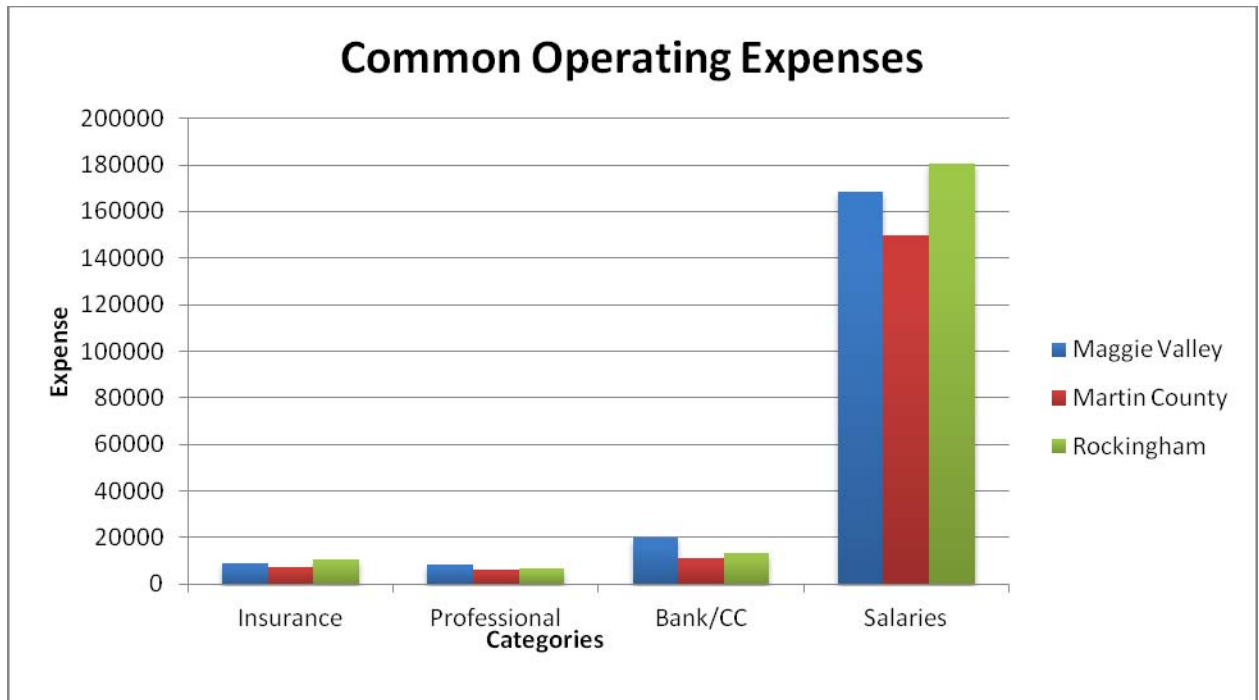
Recommendations:

- To ensure stronger internal controls, the following need to occur:
 - Take physical inventory monthly at both stores. Have board members spot check inventory on a regular basis and review all monthly inventory adjustments.
 - Consolidate accounting/bookkeeping to eliminate duplication and improve accuracy of financial statements. Separate duties of general manager and finance officer to remove overlap and improve segregation of duties. Assign credit card use to general manager only and assign reconciliation to finance officer. Consolidate personnel files at one location, under the general manager.
 - Have the general manager be responsible for purchases of both stores by credit card and invoice. Have the finance officer reconcile all credit card statements.
- Appoint a deputy finance officer to aid in the duties of the finance officer when he/she is absent. *Refer to Appendix C (7) for statute.*

APPENDIX A



The expense history comparisons of similar size boards reveals that Maggie Valley ABC's expenses are not out of line. A 19% reduction of operating expenses occurred in 2011 from 2010.



Common expense comparisons of similar size boards indicates that other than the bank and credit card charges, Maggie Valley ABC's expenses are not out of line.

APPENDIX B

Picture 1



Current shelf management system at Store #1.

Picture 2



View of Store #2.

APPENDIX C

- (1) 18B-203(f) states, "Instead of hiring local ABC officers, a local board may contract to pay its enforcement funds to a sheriff's department, city police department, or other local law enforcement agency for enforcement of the ABC laws within the law enforcement agency's territorial jurisdiction. Enforcement agreements may be made with more than one agency at the same time."
- (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) 18B-701 (a) (4) states "A local board shall have authority to designate one employee as manager of the ABC system and determine his responsibilities."

OM Section 3.0 (l) states, "Each local board shall establish and maintain an accounting system designed to show in detail its assets, liabilities, equities, revenues, and expenditures. The system shall also be designed to show appropriations and estimated revenues as established in the budget originally adopted and subsequently amended."

- (4) 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.

- (5) 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)

(6) 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)

(7) 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."

Maggie Valley Alcoholic Beverage Control

P.O. Box 337

Store 926-3481

Maggie Valley, NC 28751

Fax 926-3329

Dear Moniqua;ABC Board Auditor,

Re: ABC Commission Board Audit;

Thank you for the opportunity to formally respond to the performance audit of the ABC Commission. The Maggie Valley ABC Board supports the use of this audit as an important tool to improve the overall management of the ABC stores.

The Maggie Valley ABC Board recognizes the importance of good policies and procedures as well as good administrative and personnel compliance. We agree with many of the recommendations in the audit report and have started implementing them. We appreciate the Auditor's acknowledgment that the appearance, shelf management and good employee customer service was in place.

The Maggie ABC Board has already addressed many of the recommended changes:

- Use of purchase order forms;
- Orders to LB&B pre-audit certificate;
- Conflict of interest statement;
- Cross training employees;
- Deputy finance officer;
- Physical inventory;
- Strategies for increases in sales;
- All checks approval certificate;
- Analyze store hours;

We have also set the date for combining the two stores accounting systems beginning July 1, 2012 for the new fiscal year. The Board is also requesting for new audit bids.

The report also makes several recommendations for policy and procedure changes that the board will be completing as we move forward to strengthen and improve the management of our stores.

Sincerely,

Ralph Wallace, Chairman
Maggie Valley ABC Board

Nancy R. Helsel, General Manager

MAGGIE VALLEY ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Policies and Procedures: Adopt the following policies or contracts and submit copies to the Commission:</p> <ul style="list-style-type: none"> • Law enforcement contract • Credit card policy** • Price discrepancy policy** • Breakage policy** 	<p style="text-align: center;"><input checked="" type="checkbox"/> Yes</p> <p style="text-align: center;"><input 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 implementing and adopting new policies and procedures. Once adopted, copies of the new policies will sent to the Commission.</p>
<p>Administrative Compliance – **Combine current accounting system for the two stores into one main system.</p> <p>Submit law enforcement activity reports to the Commission.</p> <p>Use purchase orders when ordering all store and office supplies.</p> <p>Affix the pre-audit certificate to all orders to LB&B.</p> <p>Have all checks include the approval certificate.</p>	<p style="text-align: center;"><input checked="" type="checkbox"/> Yes</p> <p style="text-align: center;"><input 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 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The Board has implemented changes to administrative duties to include the recommendations outlined in the audit. The Board is planning to combine the accounting system at the beginning of next fiscal year. Law enforcement activity reports have not been submitted.</p>

MAGGIE VALLEY ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Internal Controls – Appoint a deputy finance officer.</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>The Board has appointed a deputy finance officer.</p>