

Mount Airy ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

COMMISSIONERS:

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

DANIEL L. BRIGGS
Lexington

ADMINISTRATOR:
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May 29, 2012

Mr. J.T. Bartley, Chairman
Mount Airy ABC Board
226 Starlite Road
Mount Airy, NC 27030

Dear Chairman Bartley,

We are pleased to submit this performance audit report on the Mount Airy 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 General Manager's 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 excellent service that your Board has provided to the citizens of Mount Airy during these tough economic times along with the efforts 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 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 2011;
- Visited the store; and
- Interviewed key ABC board personnel.

The Mount Airy ABC Board has responded to the performance audit recommendations and has begun to take additional steps to maintain and increase profits while analyzing and reducing current costs. Policies and procedures have been adopted and implemented to maintain compliance with statutes and Commission rules. Internal controls have been improved to maintain stronger segregation of duties.

BACKGROUND INFORMATION

Mount Airy is located at the foot of the Blue Ridge Mountains in Surry County. It is approximately four miles to the Virginia border. Surrounding towns with ABC stores include Dobson, Elkin, and Pilot Mountain. The US Census Bureau reports a population of 10,388 in 2010.

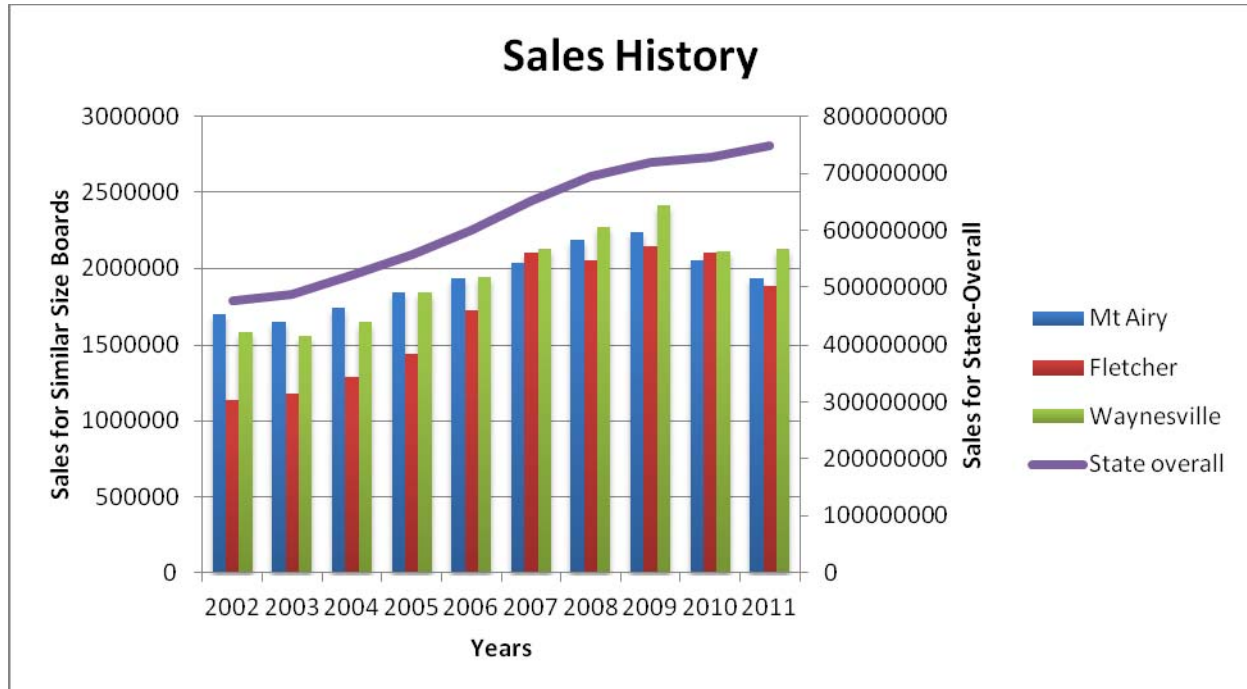
Chapter 426 of the 1971 Session Law authorized the town of Mount Airy to hold an election for an ABC store upon a petition of at least fifteen percent of voters. The referendum was held in September 1978. The vote for an ABC store passed 796 to 754. The date of the first retail sales was on April 2, 1979. A mixed beverage election was held on July 29, 2003 and passed 1,114 to 807.

Upon election of an ABC store, Mount Airy was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members are J. D. Bartley, chairman, J.T. Palmer and Dr. Hugh Sutphin, board members.

The Mount Airy ABC Board operates one retail store and employs five full-time employees, including the general manager, and four part-time employees. Duties of the general manager consist of administrative, personnel, inventory management, and all other operations as needed. The finance officer handles accounts payable. All clerks are responsible for daily stocking, floor upkeep, and retail functions including selling products.

Profitability

For fiscal year 2011, the board showed a profit; gross sales were \$1,931,937, income from operations was \$115,447, resulting in a profit percentage to sales of 5.98%. Current year sales have decreased -0.25% over fiscal year 2010. Below is a comparison of Mount Airy's sales and other similar size boards. Since 2009, Mount Airy's sales have been trending down while the state as a whole continues to show an increase over the same period. *See chart below.*



Factors affecting sales and profitability:

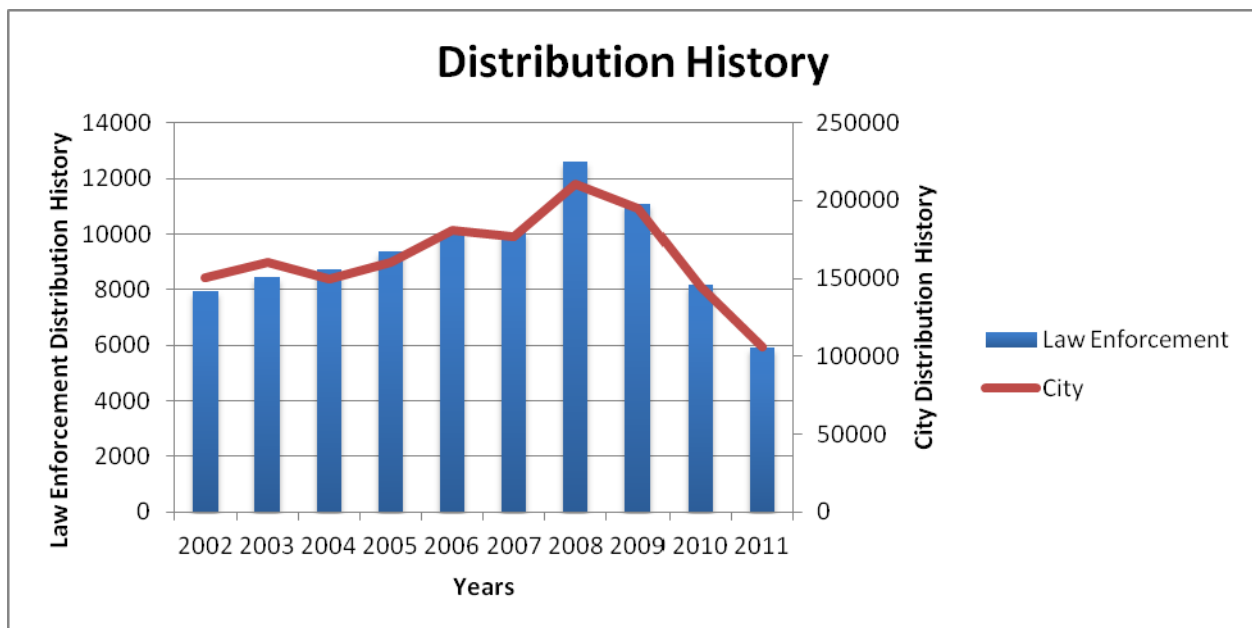
- Overall population has increased 22.4% over the past ten years
- Individuals below poverty levels have increased 21.1% over the past five years
- In March 2012, the unemployment rate for Surry County was 10.2%, a 0.7% decrease over the previous month
- ABC stores within a ten mile radius; Dobson, Elkin, and Pilot Mountain
- Virginia state operated ABC store within a five mile radius
- Virginia ABC will be open on Sundays beginning July 1

Distributions

G.S. 18B-805 (c)2 requires the board to expend quarterly at least five percent of profits for law enforcement purposes. A resolution from the Board of Commissioners authorized the ABC Board to expended the remaining profits in a quarterly distribution as follows:

- 10% to the Town for Parks and Recreation
- 5% to Reeves Community Center
- 5% to Mount Airy Library
- 5% to be used by the Board of Alcoholic Control for Alcoholic Rehabilitation
- 5% to Surry Arts Council
- 70% to Mount Airy General Fund

In 2011, the Mount Airy ABC Board made distributions totalling \$112,075; \$5,922 to law enforcement and \$106,123 to the allocated funds. Over the past three years, distributions have dropped. *See charts below.*



FINDINGS AND RECOMMENDATIONS

On February 28, 2012, ABC Commission Board Auditor, Moniqua S. McLean, visited the Mount Airy ABC store and interviewed Betty Hamm, general manager, and J. D. Bartley, chairman. The following are the findings and recommendations relating to the performance audit.

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 Mount Airy ABC Board has a bi-weekly delivery schedule. The inventory turnover rate for the Mount Airy ABC Board is 10.2 and exceeds the target set by the Commission.

Recommendations:

- Continue to maximize inventory turnover using the following methods already in place:
 - Analyzing sales data and history reports to plan orders and to take advantage of Special Purchase Allowance offers whenever possible
 - Identifying dead stock by moving to a more visible location until sold through, encouraging more impulse shopping
 - Splitting cases with surrounding boards to increase variety without tying up working capital

Operating Cost

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:

- 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 Mount Airy ABC Board has an operating cost ratio of .73 and is within the limits set by the Commission. Overhead expenses are relatively low because the board owns the building and the board handles all building maintenance projects in-house. In comparing expenses with similar size boards, Mount Airy ABC's expenses are not out of line. *Refer to charts in Appendix A for analyses of expense history and common expenses of similar size boards.*

Recommendations:

- Request bids annually from various vendors to get the best rates possible on audit, utilities, maintenance contracts, and credit card processing fees.

Store Appearance

The Mount Airy ABC store has approximately 1,100 linear feet of shelf space and currently carries approximately 900 product codes. *See Appendix B for photos.*

- The store was clean, well-lit and maintained, and smoke-free. Bottles were fronted and free of dust. The counter area was clean displaying neat signage.
- The shelf management system is consistent and follows Commission recommended practices. The manager has included a number system to help employees determine how many facings a product needs. The board has adopted a shelf management policy and submitted a copy to the auditor upon visit.
- The required Fetal Alcohol Syndrome poster was displayed.
- The price book and monthly sales list are available to customers.
- The store sits on a side street away from a major highway.

Recommendations:

- Continue to investigate relocating the store to a more visible location to further increase sales.

Profit percentage to sales

The profit percentage to sales is calculated by dividing the total profit before distributions by the gross sales (Total Profit 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%

In FY2011, the Mount Airy ABC Board had a profit percentage to sales of 5.98% and has exceeded the goal.

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 Mount Airy ABC Board had a working capital of \$334,325 for FY2011. The working capital retained is within the maximum allowed.

Policies and Procedures

- Deposits are made daily by whomever is working.
- All employees maintain their own cash drawer. The cash drawers are counted daily at the beginning of each shift. Any shortages that arise, the employee responsible will make up the difference. Overages are the property of the store.
- Inventory counts are performed every week by whoever is working. Unsaleable items are taken out of inventory whenever inventory is counted. Spot checks are conducted occasionally throughout the week. When discrepancies arise, the general manager will check behind to investigate the occurrences.
- The general manager creates a schedule for all employees and maintains vacation and sick hours for full-time employees.
- The board does not have a written debit card policy.

Recommendations:

- Even though the debit card is rarely used, adopt a written usage policy. Include a maximum limit allowed on 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 debit 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.

Personnel and Training Compliance

- All board members, the finance officer, and the general manager have attended the mandatory ethics class.
- The general manager holds monthly employee meetings to keep employees abreast of new and existing information. Additional training is provided by the Commission and ALE agents on regulatory issues.
- Cross training is made available to key employees on administrative duties such as ordering liquor and closing the end of the month.

Recommendations:

- Continue cross training employees on key functions to back up the general manager should she be suddenly unavailable.

Administrative Compliance

- Board meeting minutes were available to view and followed the order of proceedings for conducting a business meeting. However, the conflict of interest statement was not referenced.
- Board member information on the Commission website does not reflect the board members' latest appointment dates.
- The law enforcement activity report has not been submitted for July 2011, November 2011, and January 2012.
- Nepotism – The board is in compliance with G.S. 18B-700(k).
- Purchase orders are used and signed by the finance officer when ordering store and office supplies.
- Although orders to LB&B do not bear the pre-audit certificate, each individual vendor invoice has the pre-audit certificate and is signed by the finance officer.
- All checks have the approved certificate and signed by the finance officer as required by G.S. 18B-702 (q). The general manager is the second signature on all checks.

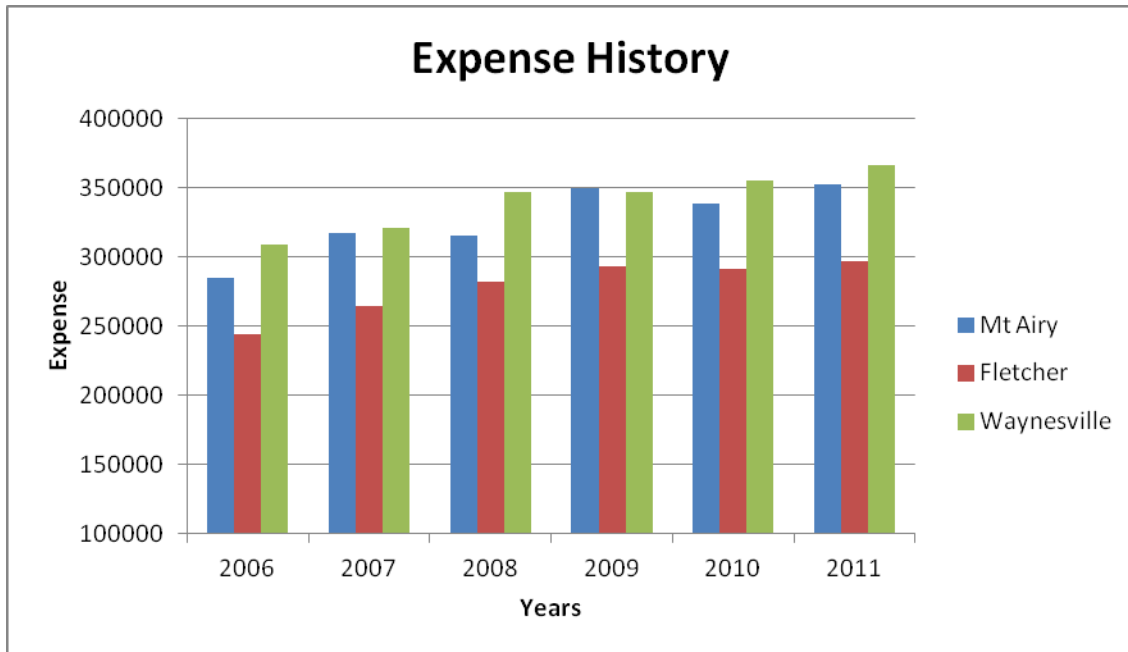
Recommendations:

- In an effort to avoid possible conflicts of interest, it is recommended that at the beginning of each board meeting the Chairman ask fellow board members if there are any potential conflicts of interest. *Refer to Appendix C (1).*
- Update board information on the Commission website to reflect current appointment dates and salary information of board members and general manager.
- To save time, eliminate stamping and signing each invoice; place the pre-audit certificate on the order to LB&B. Authorization should occur before the transaction takes place.
- If law enforcement does not submit an activity report, submit a blank report and note that fact in the Remarks section.

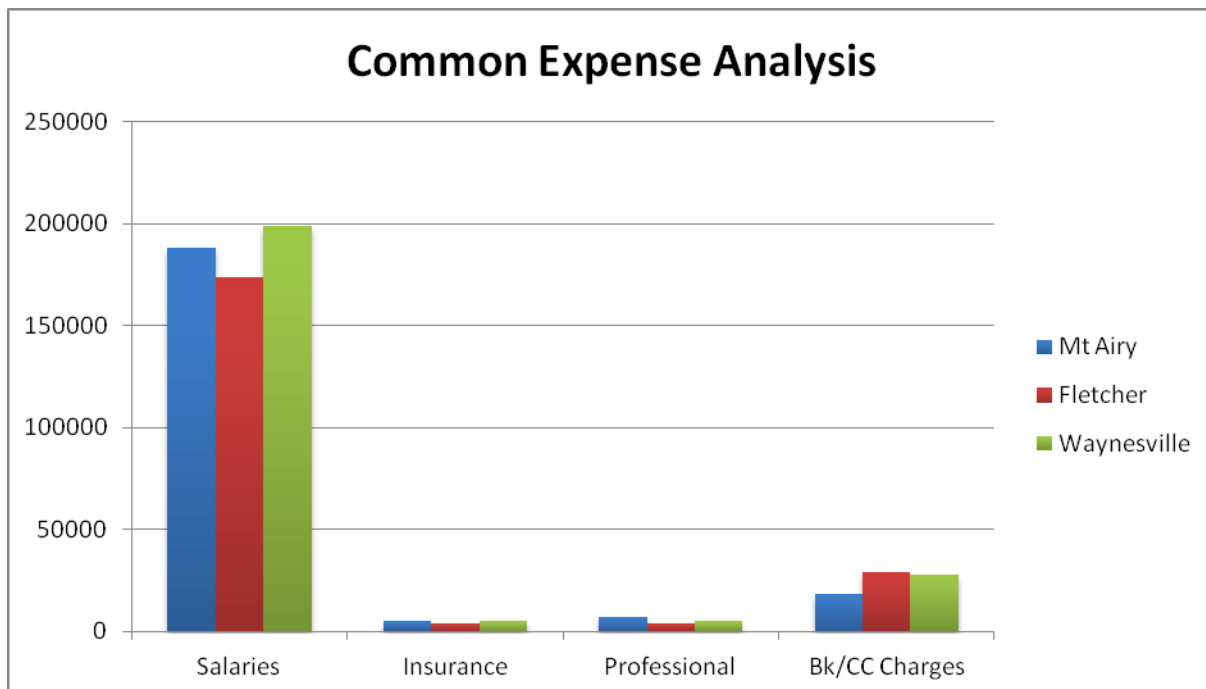
Internal Control

- The board has appointed a deputy finance officer to fill in if the finance officer is unable to work.

APPENDIX A

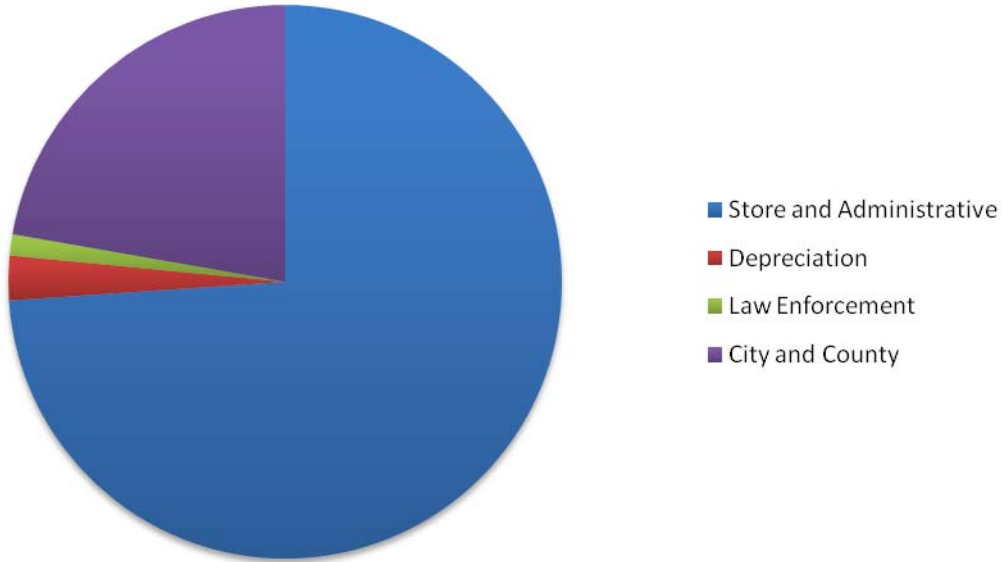


The expense history comparison indicates that Mt Airy ABC's expenses are not out of line compared to other similar size boards.



Common expense comparison reveals that Mt Airy ABC's professional expenses are slightly higher than other similar size boards.

Expense / Distribution Breakdown



This chart analyzes the breakdown of expenses and distributions of the Mt. Airy ABC Board.

APPENDIX B



Counter view.



View from Exit door.

APPENDIX C

(1) 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?'

MT. AIRY A B C BOARD #131

226 Starlite Road • Mount Airy, North Carolina 27030

Phone 336-789-9786

Fax 336-789-1971

Board:

J.D. Bartley, Chairman

J.T. Palmer

Dr. Hugh E. Sutphin

March 29, 2012

Moniqua McLean
ABC Board Auditor
NC ABC Commission
400 East Tryon Street
Raleigh, NC 27610

Re: Performance Audit

Dear Mrs. McLean:

We appreciate your input and recommendations from our audit. The audit helps us to understand what the performance audit consists of and the areas that we can improve in. The Mount Airy Board has reviewed the draft report of the performance audit you conducted on February 28, 2012.

We would like to note a statement to the summary under profitability. As noted under Profitability our sales have declined in the past 3 years, this is due to the economy being slow; we have lost several businesses here in Mt Airy in the past 3 years, as well as Pilot Mountain Board opening up. There are currently 32 empty buildings in our area and unemployment rate is 13%. We continue to see customers and Mixed Beverage accounts trading down.

Listed below are our responses to the findings in the Audit:

- We are on target with Inventory Turnover, Operating Cost, and Profit percentage to Sales. We will do as recommended in the audit:
 1. Will continue to get bids annually to get best rates on credit card processing fees and other items that we can possibly save money on.
 2. Continue to investigate relocating the store to a more visible location to further increase sales.

- We did not have a policy for the Debit Card:
 1. We have established a policy for the Debit Card Usage per your suggestion and have included copy with this response.

- Personnel and Training Compliance
 1. We will continue to cross train employees on key functions to back up the general manager should she be suddenly unavailable.
- Administrative Compliance
 1. Conflict of Interest Statement in Board minutes
We will start using the conflict of interest statement effective immediately in all Board Meetings.
 2. Board member information on the Commission website did not reflect board members' latest appointment dates.
Only updated Salary before and did not realize that the appointment date was also on the website. We have already updated this on all but one member and we are waiting on a City Meeting for a new date. As soon as we have the new date it will be posted.
 3. Law enforcement reports were not shown submitted for July 2011, November 2011 and January 2012.
We do not know why these do not show, each one was submitted timely. The person entering these may not have saved the information correctly. We have attached copies of the reports for the months listed as missing with this response.
 4. Orders to LB&B did not bear the pre-audit certificate, although each individual vendor invoice had the pre-audit certificate and was signed by the Finance Officer.
We have already quit stamping and signing each invoice, and started placing the pre-audit certificate on the order to LB&B; therefore authorization is before the transaction takes place as recommended.

We would like to invite you to come back to Mount Airy for our next Board Meeting scheduled for April 17, 2012 at 2:30 p m at the Mount Airy ABC Store.

We appreciate the opportunity to work with you and look forward to seeing you in April.

Sincerely,



Betty Hamm

General Manager

Enclosure

RECEIVED

APR 02 2012

NC ABC COMMISSION

MOUNT AIRY ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Policies and Procedures: Adopt a written debit card policy.</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" 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 adopted a written policy and a copy has been submitted to the Commission.</p>
<p>Administrative Compliance: **Have the chairman read the conflict of interest statement at the beginning of all board meetings.</p> <p>**Update board member information on the Commission website.</p> <p>Submit all law enforcement activity reports for the missing months.</p> <p>Affix the pre-audit certificate on all orders to LB&B.</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>**Note: Required by rule.</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 to include the conflict of interest statement at the beginning of each meeting. Management has updated and submitted all required information. All orders are pre-audited and signed by the finance officer before the transaction occurs.</p>