

# Tryon ABC Board

## Performance Audit Report



Alcoholic Beverage Control Commission  
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**ABC**  
COMMISSION  
NORTH CAROLINA



# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

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April 23, 2012

Tryon ABC Board  
Mr. Bill Ingham, Chairman  
354 South Trade Street, Suite C  
Tryon, NC 28782

Dear Chairman Ingham,

We are pleased to submit this performance audit report of the Tryon 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 partial 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  
Joey Davis, Tryon Town Manager

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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 Tryon ABC Board has submitted a partial written response to the performance audit report. Once a full written response is submitted, the final report will be updated. The board has begun to take steps toward adopting new policies and implementing new procedures for an efficient operation. Since the audit fieldwork, the appointing authority has appointed a new board member and the ABC board has appointed a finance officer. Internal controls have been improved to maintain proper segregation of duties.

## **BACKGROUND INFORMATION**

Tryon, NC, incorporated in 1885, is located at the foot of the Blue Ridge Mountains of North Carolina. It stands between the popular cities of Asheville and Charlotte, NC and Greenville and Spartanburg, SC. It is approximately five miles from an ABC store in Columbus, NC and approximately one mile from an ABC store in South Carolina. The current population is approximately 1,709.

Chapter 939 of the 1951 Session Law authorized the town of Tryon to hold an election upon a petition signed by at least fifteen percent of the registered voters. The referendum was held on October 2, 1951. The vote for an ABC store passed 356 to 339. The date of the first retail sales was December 12, 1951. A mixed beverage referendum held on November 20, 1984 passed 279 to 90.

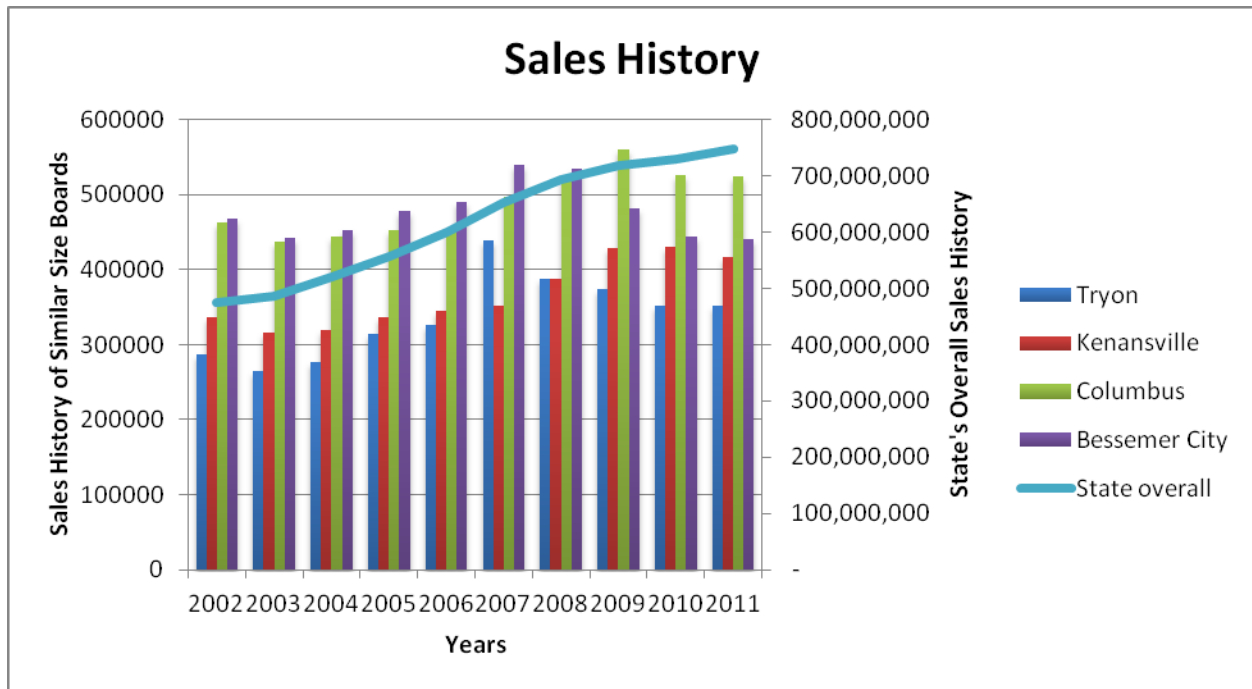
The Tryon ABC Board staffs a full-time general manager and two part-time clerks. The general manager/finance officer is responsible for the daily operations of the store including supervising personnel, retail operations, and administrative functions. The clerk duties involve various retail functions including selling products and accounting for stock. At the time of the audit fieldwork, the town accountant kept the books and produced monthly financial statements.

## Profitability

For fiscal year 2011, the board showed a loss; total liquor sales were \$351,579, profit before distributions was -\$14,271, resulting in a profit percentage to sales of -4.06%. In comparing sales over the past five years along with other similar size boards, Tryon ABC sales have steadily dropped and remained stagnant while the state continues to increase. In past months, Tryon ABC sales have steadily decreased, however, in the month of March 2012 sales have showed a significant increase of 9.78%. See chart below.

Factors affecting sales and profitability:

- Overall population has decreased 3% over the past ten years
- Adult working population has decreased 20% over the past ten years
- Population below poverty levels has increased 50% over the past ten years
- 7.7% unemployment rate in Polk County
- Recent opening of an ABC store in South Carolina within a 5 mile radius

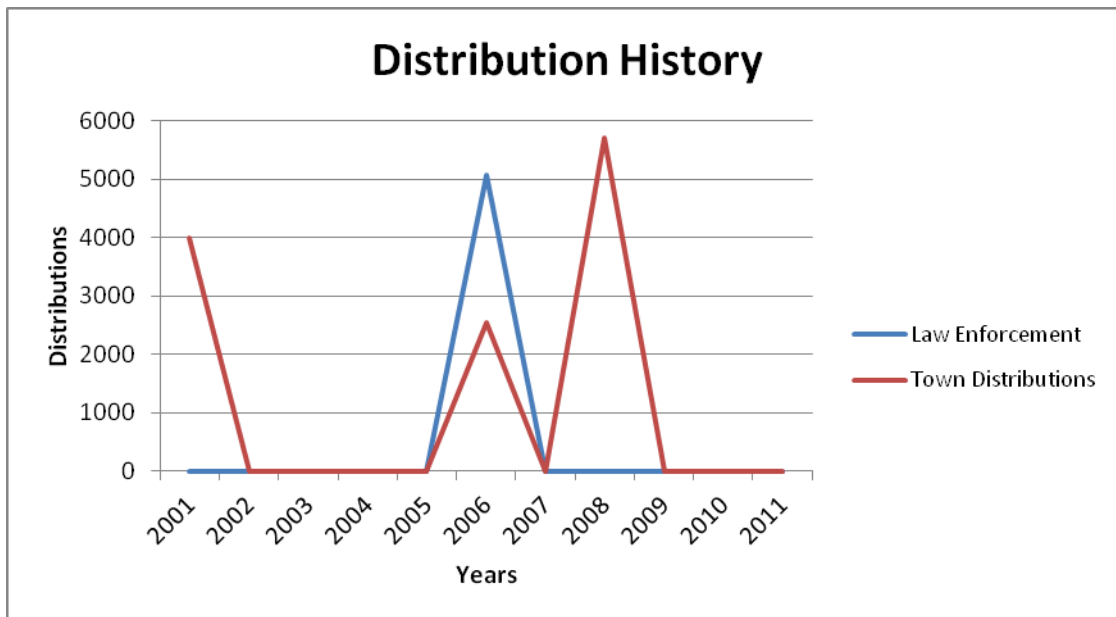


## Distribution Schedule

G.S. 18B-805 (c) (2) requires the board expend quarterly at least five percent of profits for law enforcement. Tryon is not required to make a distribution for alcohol education. The statute requires the board to expend quarterly five percent to the Harmon Field Commission solely for capital improvements useful in recreation. The remaining profits are to be expended quarterly as follows:

- 70% to Tryon General Fund
- 30% to Harmon Field Commission for maintenance and current operations of its recreational activities and programs

In 2011, the Tryon ABC Board did not make distributions to law enforcement or to the appointing authority. *See chart below.*



## **FINDINGS AND RECOMMENDATIONS**

On August 11, 2011, ABC Commission Auditor, Moniqua S. McLean, visited the Tryon ABC store and interviewed Misty Mroz, general manager. 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 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:

- Once a week deliveries target at 6 times per year
- Twice a month deliveries target at 5 times per year
- Monthly deliveries target at 4.5 times per year

The Tryon ABC Board has a bi-weekly delivery schedule. The inventory turnover rate for Tryon ABC is 2.8 and does not meet the target rate set by the Commission.

#### *Recommendations:*

- Continue to identify 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,
- Take advantage of SPA's and quarterly price reductions whenever possible,
- Use recipe cards, displays, and other marketing techniques to increase sales.

### **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 Tryon ABC board has an operating cost ratio of 1.19 while the average for similar size boards is .77 or less. In comparison with other single store boards with MXB sales, Tryon's operating expenses are not out of line, however, sales are not sufficient to absorb all expenses. Overhead expenses are relatively higher because of the lease on the building. To meet the goal of .77 and remain at current expense levels \$100,848, revenues must be greater than \$400,000. To meet the goal and remain at current revenues \$351,579, expenses must be less than \$100,000.



*Recommendations:*

- Request bids annually from various vendors to get the best rates possible on audit, credit card processing fees, and insurance and bonding rates.
- Analyze store hours vs. sales to determine the optimum hours of operation.
- Because salaries and rent is the largest segment of operating expenses, analyze personnel hours to assess efficient personnel usage and re-negotiate rental agreement to get a better rate.

**Profit percentage to sales**

The 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 Tryon ABC Board has a profit percentage to sales of -3.79% and does not meet the targeted rate set by the Commission.

*Recommendations:*

- Increase sales using the strategies recommended under inventory turnover and store appearance.
- Consider merging with the nearest ABC board in order to reduce overhead.
- Alternatively, consider closing the ABC store if it cannot become profitable.

**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 GS 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 Tryon ABC board has a working capital of \$48,939 and meets the minimum goals set by the Commission.

**Store Appearance**

The linear footage for the Tryon ABC store is approximately 659 linear feet of shelf space. The store holds approximately 750 product codes. *Refer to Appendix B for photos.*

- The interior and exterior areas were well-lit and well-kept.
- The counter area was clean but was filled with products and signs.
- The shelf management system was clearly defined, consistent, and easily understood.
- The Fetal Alcohol Syndrome poster was displayed.
- Customers were greeted in a professional manner exhibiting good customer service.

### **Policies and Procedures**

- The board does not have the following written policies:
  - Price Discrepancy
  - Mixed Beverage
- The board does not have a law enforcement contract.

#### *Recommendations:*

- 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 C (1) for rule.*
- Adopt a flexible mixed beverage policy. The Commission recommends an open mixed beverage policy that reflects good customer service and allows customers to order and pickup Monday through Saturday. This discourages permit holders from breaking the law by purchasing at retail.
- 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 and funds are unavailable. *Refer to Appendix C (2) for statute.*

### **Administrative Compliance**

- Board meeting minutes were available and followed the order of proceeds for conducting business meetings. However, they did not reference the conflict of interest statement.
- The appointing authority has appointed new board members. All board members are scheduled to attend the ethics class in Asheville October 19, 2011.
- Law enforcement reporting has not been submitted to the Commission for months May through September.
- Nepotism – The board does not employ immediate family members.
- Purchase orders are not used when ordering store and office supplies.
- Order acknowledgements from LB&B do not bear the pre-audit certificate required by GS18B – 702(m). Effective immediately, all purchase orders and contracts must bear the certificate.

*Recommendations:*

- 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 and reference this in the board meeting minutes. *Refer to Appendix C (3) for statement reference.*
- Update board information on the Commission website to reflect current board member appointment dates and compensation amounts.
- Submit law enforcement reports to the Commission for the stated months. Submit law enforcement reports by the 10<sup>th</sup> business day of the month. *Refer to Appendix C (4) for statute.*
- Use purchase orders when ordering all store and office supplies. Have the finance officer sign and stamp with the pre-audit certificate. *Refer to Appendix C (5).*
- Have the pre-audit certificate stamped and signed by the finance officer before liquor orders are placed.

**Personnel/Training Compliance**

- Employee training is conducted whenever the need arises and whenever new information is available. Staff meetings are held the same day as deliveries are made.
- Cross training opportunities are not available to employees to aid in the operations of the store should the manager be unable to continue to work.

*Recommendations:*

- 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.

**Internal Control**

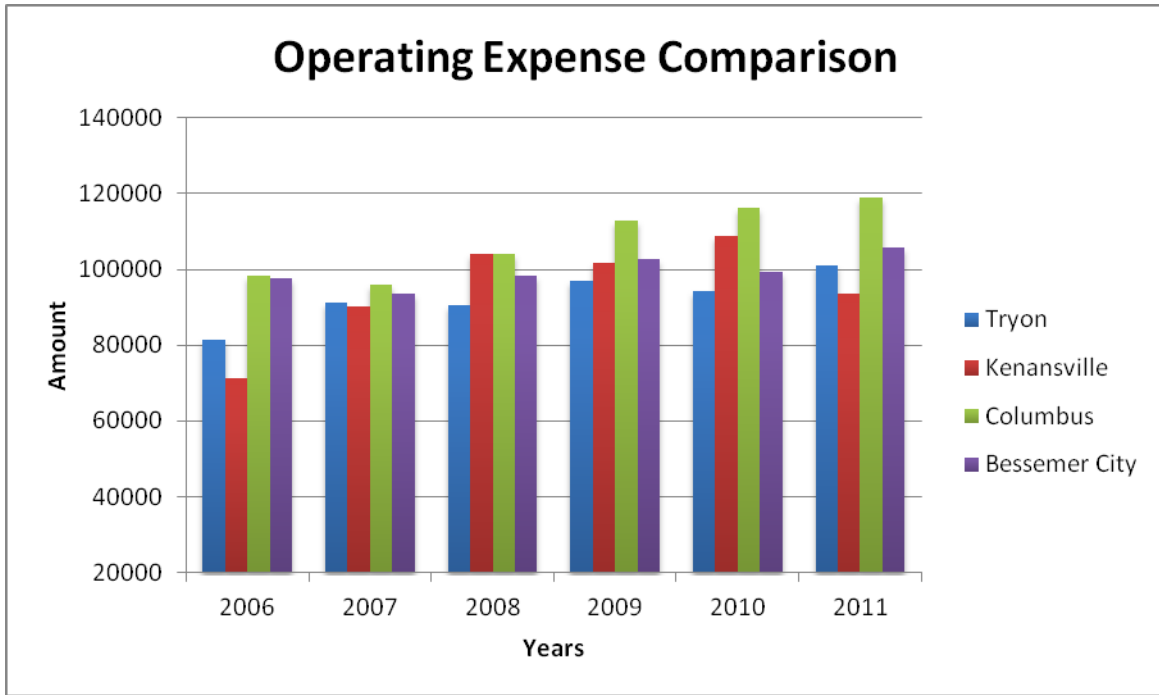
- Currently, the general manager performs the finance officer duties. The general manager and a board member currently sign checks.
- A deputy finance officer has not been appointed to fill in if the finance officer is absent.
- Annual inventory counts are performed by the general manager and staff. Spot checks are performed throughout the year.
- Invoices are not verified with the checks when presented to the board members to sign.
- A petty cash fund is available to purchase store supplies. The general manager authorizes purchases and reconciles the fund.

*Recommendations:*

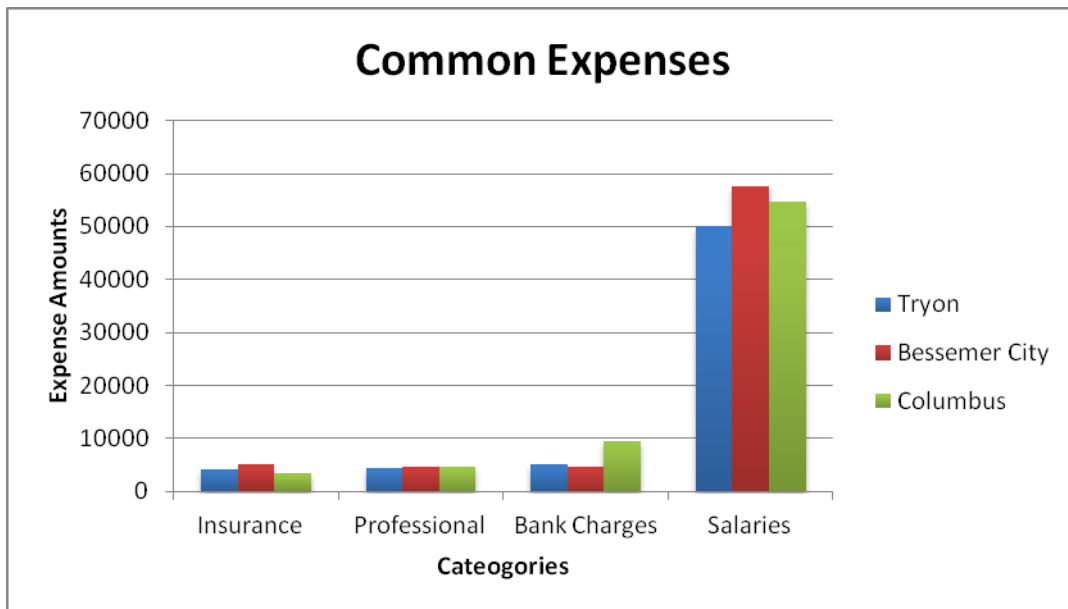
- Appoint a finance officer independent of the general manager. *Refer to Appendix C(6) for statute.*

- Appoint a deputy officer to aid in the duties of finance officer when he/she is absent. *Refer to Appendix C (7) for statute.*
- To improve internal controls on inventory, take physical inventory monthly. Schedule board members or persons not responsible for inventory to spot check on a regular basis. Have board members review all monthly inventory adjustments.
- To ensure stronger internal controls on cash management, the following need to occur:
  - Have all invoices available to verify the correct checks are being disbursed; keep invoices with checks for verification by both signatories.
  - Appoint someone other than the general manager to reconcile the petty cash fund. A board member or finance officer could do this each month during the course of the monthly board meeting.

## APPENDIX A

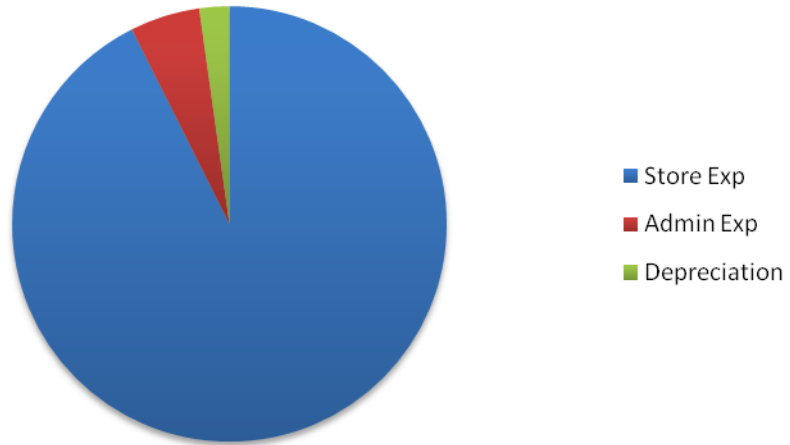


*The expense history analysis reveals that Tryon ABC's expenses are not out line.*



*A common expense analysis of similar size boards reveal that Tryon ABC's expenses are lower than other similar size boards.*

## FY2011 Breakdown of Expenses



*This chart analyzes the breakdown of expenses and distributions of the Tryon ABC Board.*

## APPENDIX B

Picture 1



*Current shelf management system defined as having higher priced items displayed on top shelves.*

Picture 2



*View of counter area.*

## APPENDIX C

- (1) *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."*
- (2) *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."*
- (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-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."*

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*(Signature of finance officer)*



*(6) GS 18B-702 (j) states "...the local board shall designate (i) a part-time or full-time employee of the board other than the general manager or (ii) the finance officer of the appointing authority with consent of the appointing authority to be the finance officer for the local board."*

*(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."*

## **TRYON ABC AUDIT RECOMMENDATION RESPONSES**

### 1. Inventory Turnover

#### **Recommendations:**

- Identify unsold inventory for transfers to another board which has demand,  
Response: Transfer(s) to another board in process.
- Request permission from the Commission for a price reduction to sell off slow moving products.  
Response: Permission granted; Exercising a "Super Sale" per Laurie Lee recommendations.  
Use proceeds for distribution or for more saleable inventory,
- Take advantage of SPA's and quarterly price reductions whenever possible,  
Response: In compliance.
- Use recipe cards, displays, and other marketing techniques to increase sales.  
Response: Created "Information Station" with all these techniques.

### 2. Operating costs

#### **Recommendations:**

- Request bids annually from various vendors to get the best rates possible on audit, credit card processing fees, and insurance and bonding rates.  
Response: Currently, we're looking into other resource for the CC processing fees, and will be looking into the rest.
- Analyze store hours vs. sales to determine the optimum hours of operation.  
Response: Currently taking hourly readings for analysis.
- Because salaries and rent is the largest segment of operating expenses, analyze personnel hours to assess efficient personnel usage and re-negotiate rental agreement to get a better rate.  
Response: Currently taking hourly readings for analysis, and looking into other rental properties for lower rent. Will also look into re-negotiation of current rental agreement.

### 3. Profit percentage to sales

#### **Recommendations:**

- Increase sales using the strategies recommended under inventory turnover and store appearance,  
Response: See response under inventory turnover, and photos under store appearance.
- Consider merging with another ABC board in order to reduce overhead,  
Response: Considering merging with another board.
- Alternatively, consider closing the ABC store if it cannot become profitable.  
Response: Do not want to close, as we are celebrating 60 years in Tryon. We are considering all possible alternatives.

### 6. Policies and Procedures

- The board does not have the following written policies:

- Price Discrepancy
- Mixed Beverage

**Recommendations:**

- 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 (1) for rule.*
- Adopt a flexible mixed beverage policy. The Commission recommends an open mixed beverage policy that reflects good customer service and allows customers to order and pickup Monday through Saturday. This discourages permit holders from breaking the law by purchasing at retail.

## TRYON ALCOHOL BEVERAGE CONTROL BOARD

### Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Policies and Procedures:</b> Adopt the following policies and/or contracts:</p> <ul style="list-style-type: none"> <li>• **Price discrepancy policy</li> <li>• **Mixed Beverage policy</li> <li>• Law Enforcement contract</li> </ul>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p> <p>Note: Not required by Rule.</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 is in the process of adopting policies mentioned in the audit.</p>
<p><b>Administrative Compliance:</b> **Have the chairman ask fellow board members if there are any potential conflicts of interest.</p> <p>Update the Commission website with board member appointment dates.</p> <p>Submit law enforcement activity reports for the missing months.</p> <p>Use purchase orders when ordering all store and office supplies.</p> <p>Have all liquor orders stamped with the pre-audit certificate and signed by the finance officer.</p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></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 is in the process of implementing new procedures to be in compliance with the statutes. A sample purchase order template was provided to the general manager. A completed response from the board will specify if the remaining recommendations have been implemented.</p>

## TRYON ALCOHOL BEVERAGE CONTROL BOARD

### Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Personnel/Training Compliance:</b> Cross train employees on key functions in the event the general manager is unavailable.</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" 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>A completed response from the board will specify if the remaining recommendations have been implemented.</p>
<p><b>Internal Control:</b> Appoint a finance officer other than the general manager.</p> <p>Appoint a deputy finance officer to serve as a “back up” to the 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 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 appointed a finance officer. A completed response from the board will specify if the remaining recommendations have been implemented.</p>