

Wallace ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
400 East Tryon Road, Raleigh, NC 27610
p: 919-779-0700 | f: 919-661-5927 | <http://abc.nc.gov>



ABC
COMMISSION
NORTH CAROLINA



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

CHAIRMAN:
JAMES C. GARDNER

COMMISSIONERS:
JOEL L. KEITH
Wake Forest

KEVIN M. GREEN
Greensboro

ADMINISTRATOR:
MICHAEL C. HERRING

LOCATION:
400 East Tryon Road
Raleigh NC 27610

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

PHONE: (919) 779-0700
FAX: (919) 661-5927
<http://abc.nc.gov/>

Your Name
Director
Permit Division
(this is editable)

June 21, 2013

Wallace ABC Board
Mr. Francis Townsend, Chairman
301 North Norwood Street
Wallace, NC 28466

Dear Chairman Townsend,

We are pleased to submit this performance audit report on the Wallace ABC Board. The objective of this audit was to examine existing policies, practices, and controls and to provide recommendations on methods to improve operating efficiency at the ABC Board in accordance with new legislative mandates.

The report consists of an executive summary, background information, operational findings and recommendations along with your response to our recommendations. This report will be posted on the Commission's public web site.

We would like to thank you, the ABC Board and your staff for the assistance and cooperation provided to us during the audit. Additionally, we appreciate the efficient manner in which your Board is operated and commend you for reducing operating expenses over the past fiscal year.

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 2012;
- Visited the store;
- Interviewed key ABC board personnel.

The Wallace ABC Board submitted a response to the performance audit recommendations and has implemented standards and goals to obtain more profits while reducing expenses. Policies and procedures have been established to maintain compliance with statutes and ABC Commission rules and to ensure efficient operations.

BACKGROUND INFORMATION

Chapter 1004 of the 1965 Session Law authorized the Town of Wallace to hold an election upon a written petition signed by at least twenty-five percent of voters. The referendum was held on January 18, 1966 and passed 291 to 217. The first retail sale was on March 1, 1966. A mixed beverage election was held on November 2, 1999 and passed 129 to 103.

Upon election of an ABC store, the Town of Wallace was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members include Francis Townsend, chairman, David Brooks and N. H. Carter, board members.

The Wallace ABC Board operates one retail store. The board staffs thirteen employees consisting of one full-time manager, one full-time clerk, and eleven part-time clerks. The general manager's duties consist of the overall operations of the store including supervising personnel, accounts payable, inventory management, and customer service. All clerks are responsible for routine store upkeep, stock maintenance, and customer service. The board has hired an external bookkeeper to maintain records of payments and bank reconciliations.

FINANCIAL ANALYSIS

Inventory Turnover

The inventory turnover is calculated by dividing the cost of liquor by the average inventory in the system (Cost of Liquor/Average Inventory).

The Wallace ABC Board receives deliveries twice a month: the inventory turnover rate is 4.7.

Recommendations:

- To increase inventory turns, consider the following:
 - Splitting cases with surrounding boards to increase variety as well as to reduce cost,
 - Utilizing end caps and shelf space as much as possible to highlight slow moving and new items,
 - Analyzing sales data and history reports more closely to plan orders, take advantage of Special Purchase Allowance offers, and reduce overstocking;
 - Selling slow-moving inventory to another board with demand for the products
- Contact other boards for additional ideas that may be implemented in areas of shelf management and marketing techniques.

Operating Cost Ratio

Operating costs are calculated by dividing total operating expenses less depreciation by the gross profit on sale (Total Operating Expenses less Depreciation/Gross Profit). Below are the average cost ratios for boards with and without mixed beverage sales (MXB):

- Boards with 3 or more stores with MXB – cost ratio 0.67 or less
- Boards with 3 or more stores without MXB – cost ratio 0.94 or less
- Boards with 2 stores (with and without MXB) – cost ratio 0.83 or less
- Single store boards with MXB – cost ratio 0.77 or less
- Single store boards without MXB – cost ratio 0.93 or less

The Wallace ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.57 and meets the goal set by the Commission. Through careful budgeting, sales have increased 7.55% over last fiscal year and expenses have decreased 1.73% over the same period. *Refer to Appendix A for an analysis of the breakdown of overall expenses and common expenses.*

No Recommendations.

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

In FY2012, Wallace ABC had a working capital of \$173,793 which is equivalent to four months gross sales and is within the limits of NCAC 02R .0902.

Profit Percentage to Sales

The profit percentage to sales is calculated by dividing the total profit before distributions by the total liquor sales (Total Income before Distributions/Total Liquor Sales). The Commission has set goals based on the following breakdown:

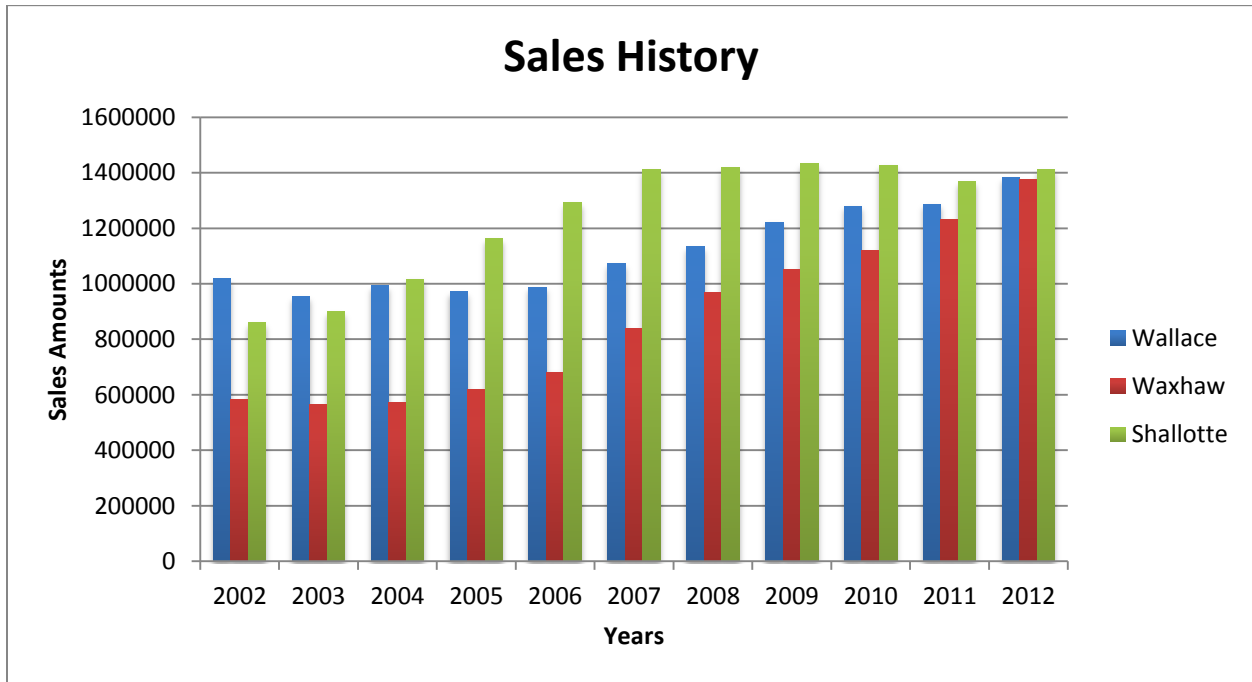
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2010, the Wallace ABC Board had gross sales of \$1,384,892; income from operations was \$139,636, a 10.1% profit percentage to sales and has exceeded the goal.

Factors affecting sales and profitability:

- US Census Bureau reports a population of 3,880 in 2010;
- Adult working population decreased 1.6% over a ten-year period;
- Individuals below poverty levels decreased 2.3% over a ten-year period;
- 9.9% unemployment rate for Duplin County in August 2012
- Over a ten year period, sales have increased 36.05%
- Other ABC stores within a thirty-mile radius include Warsaw and Kenansville

Below is a sales history analysis of similar size boards. In the analysis, Wallace ABC began showing a significant increase in 2007 and follows the state's increase.



No Recommendations.

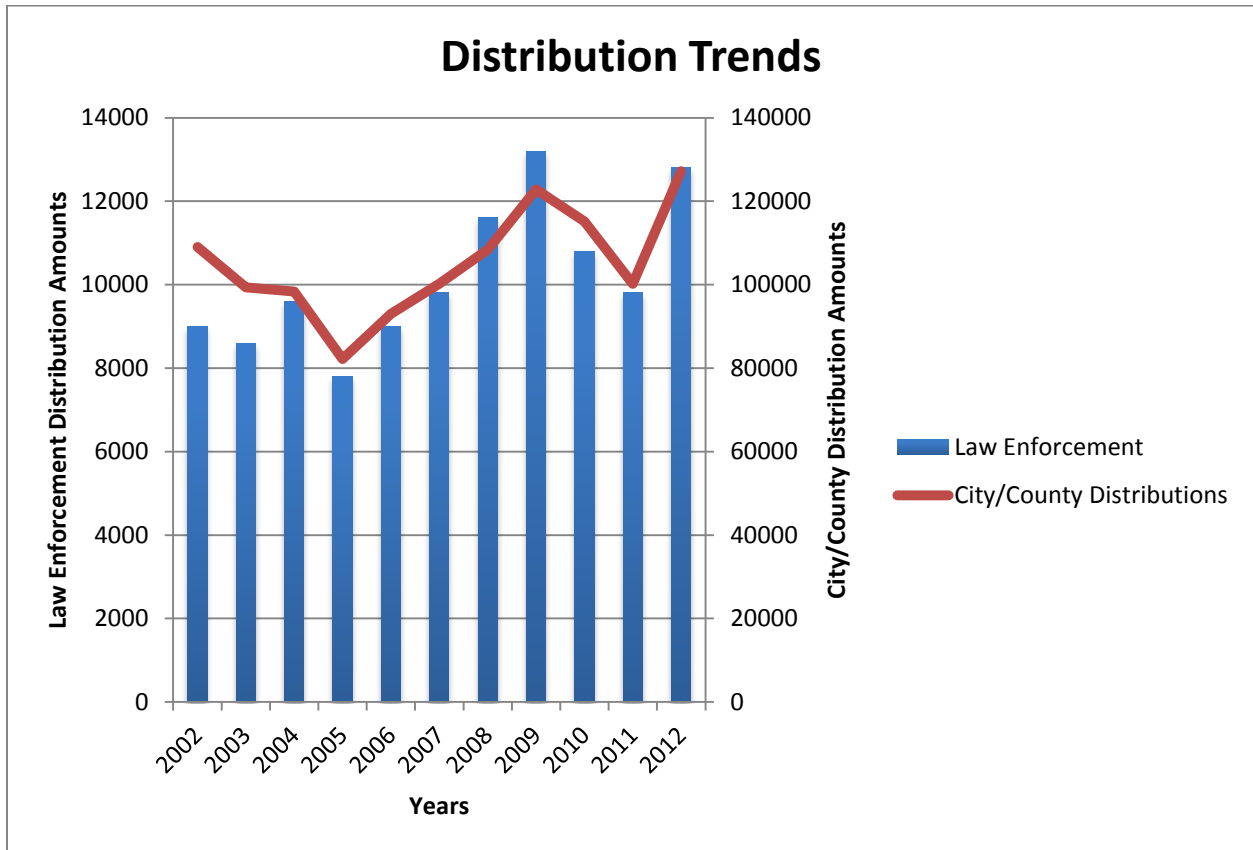
Distributions

G.S. 18B-805 (c) (2) requires the board to distribute quarterly at least five percent of profits for law enforcement. The remaining profits are to be distributed to the following:

- 10% to Duplin County for drainage control
- 35% to Duplin County General Fund
- 55% to Wallace General Fund

In FY2012, Wallace ABC Board made the minimum distribution to the town totaling \$10,432 plus additional distribution \$140,000. \$319,286 in Excise and other taxes were paid to the city/county and NC Department of Revenue and \$12,800 to law enforcement.

Below is a historical trend of Wallace ABC's distributions. The analysis indicates that law enforcement distributions peaked in 2009, tapered off for two years, and increased again in 2012. City and county distributions were at their peak this past fiscal year.



OPERATIONAL FINDINGS, OBSERVATIONS, AND RECOMMENDATIONS

On August 30, 2012, ABC Commission Board Auditor, Moniqua S. McLean, visited the Wallace ABC store and interviewed Myrle Beringer, general manager. The following are the findings, observations, and recommendations relating to the performance audit.

Store Appearance and Customer Service Observations

The Wallace ABC Board operates one retail store with approximately 900 linear feet of shelf space and carries approximately 1600 product codes.

- The Fetal Alcohol Syndrome poster was displayed.
- The store was clean and well-maintained. Bottles were dusted and fronted.
- A consistent and easily understood shelf management system was present conforming to the latest industry and marketing strategies while catering to customer needs. In order to hold the amount of product codes, two facings of products are displayed.
- Upon entering the store, employees greeted customers in a professional manner and were attentive to customer needs exhibiting good customer service.

No Recommendations.

Personnel and Training

- Board members have not completed the mandatory ethics training as required by G.S. 18B-706 (b).
- Training is provided as new information becomes available to new and current staff. However, other training opportunities, such as the RASP class, have not been made available to staff.
- Cross training opportunities have been extended to key employees in the event the general manager was suddenly unavailable.
- Personnel files were viewed to verify that applicable forms were documented. An acknowledgement letter stating that employees had received a current handbook was not included.

Recommendations:

- Register all reappointed board members for the online ethics training. All reappointed board members must receive ethics education within 12 months of the reappointment date. *Refer to Appendix C (1) for statute.*
- Provide additional training that will include alcohol education, customer service, and product knowledge. Contact the Commission and other boards that have a training module(s) in these areas.

- Provide each employee a copy of the employee handbook and have all employees sign an acknowledgement stating they have received and reviewed the current handbook.

ABC Board Policies

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Mixed Beverage Policy
 - Town of Wallace Travel Policy
 - FY2013 Adopted Budget
 - Employee Handbook with Addendums
- A written price discrepancy policy has not been adopted; however employees do understand how to handle pricing differences between the shelf and the register should they occur.

Recommendations:

- Although understood by all employees, have a written price discrepancy policy. Having written procedures will allow future employees to be knowledgeable about current practices. *Refer to Appendix C (2) for rule.*

Internal Control Procedures

- Although there are two registers in the store, employees may work from the same drawer. Management has created procedures in verifying accurate monies within the register. Cash drawers are often counted in the morning by a day shift clerk and verified at night by the night shift clerk. Although understood, there are no written procedures explaining how to handle cash drawer overages and shortages. Deposits are made nightly by general manager and clerks.
- Physical inventory counts are performed on a yearly basis with daily spot checks. The yearly counts are performed by groups of store clerks and auditors from the audit firm. Each group will cross check to verify counts. Discrepancies are checked immediately by the auditing firm and general manager for verification.

No Recommendations.

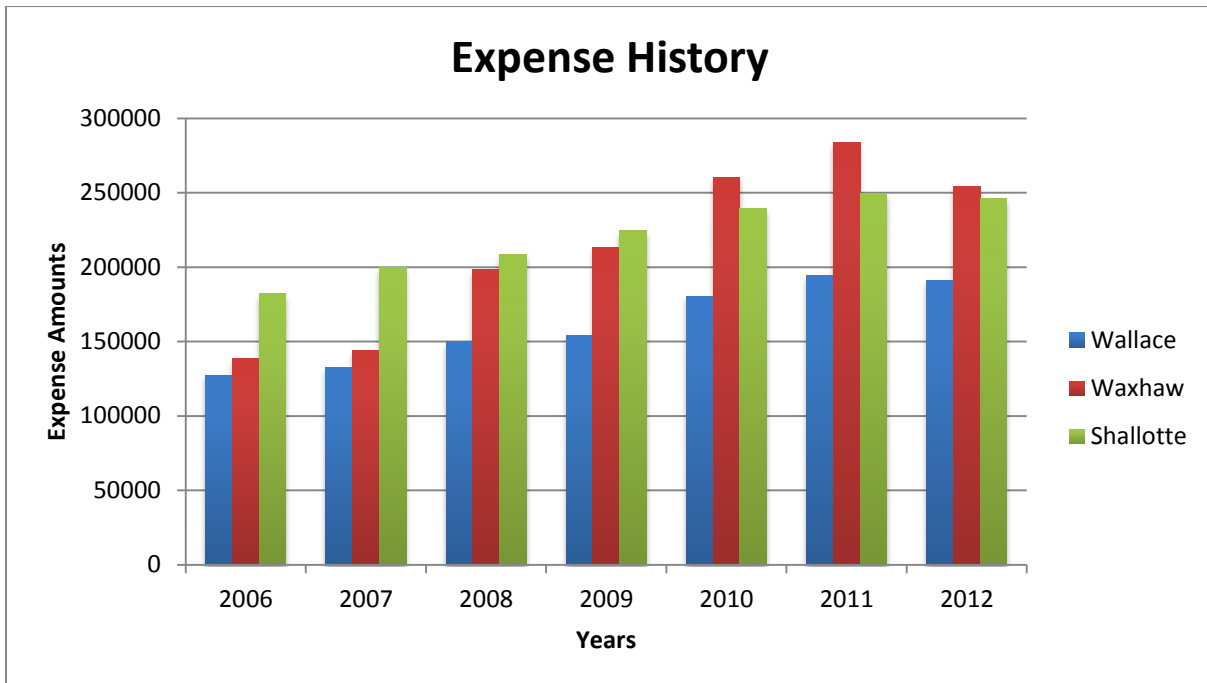
Administrative Compliance Findings and Observations

- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting and referenced the conflict of interest statement.
- Board member compensation information was correct on the Commission internal website, However, the general manager salary information was not current.
- Board member and general manager compensation is in compliance with G.S. 18B-700 (g) and (g1).
- Law enforcement activity reports have been submitted to the Commission as required by G.S. 18B-501(f1).
- Nepotism – The board is in compliance with G.S. 18B-700(k).
- The general manager serves as the finance officer for the board. The board has obtained an approval from the Commission for the general manager to serve as the finance officer for one year. The exemption request expires in 2012.
- The general manager and all board members are bonded in the amount of \$50,000 as required by G.S. 18B-700 (i).
- The initial liquor order is not stamped with the pre-audit certificate including the finance officer's signature.
- Checks bear the approved certificate and signed by the general manager/finance officer and a board member.

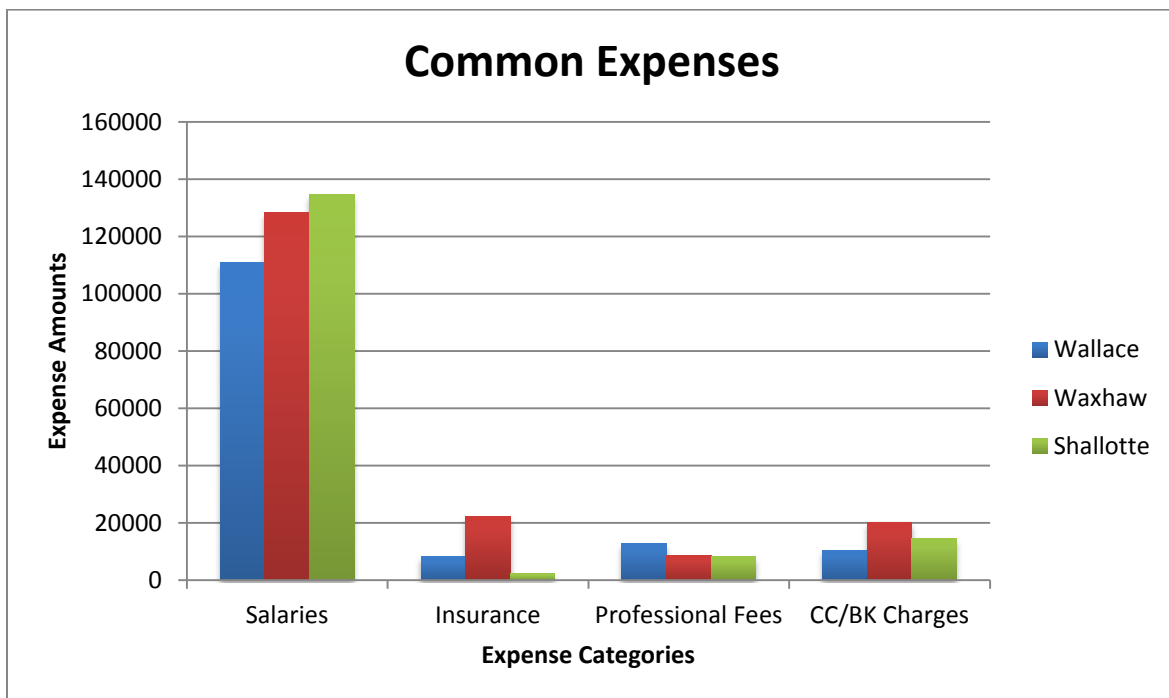
Recommendations:

- Appoint a finance officer other than the general manager or ask the Commission for an addition exemption. *Refer to Appendix C (3) for statute.*
- Place the pre-audit certificate with the finance officer's signature on the order to LB&B. Authorization should occur before the transaction takes place. *Refer to Appendix C (4) for statute.*

APPENDIX A

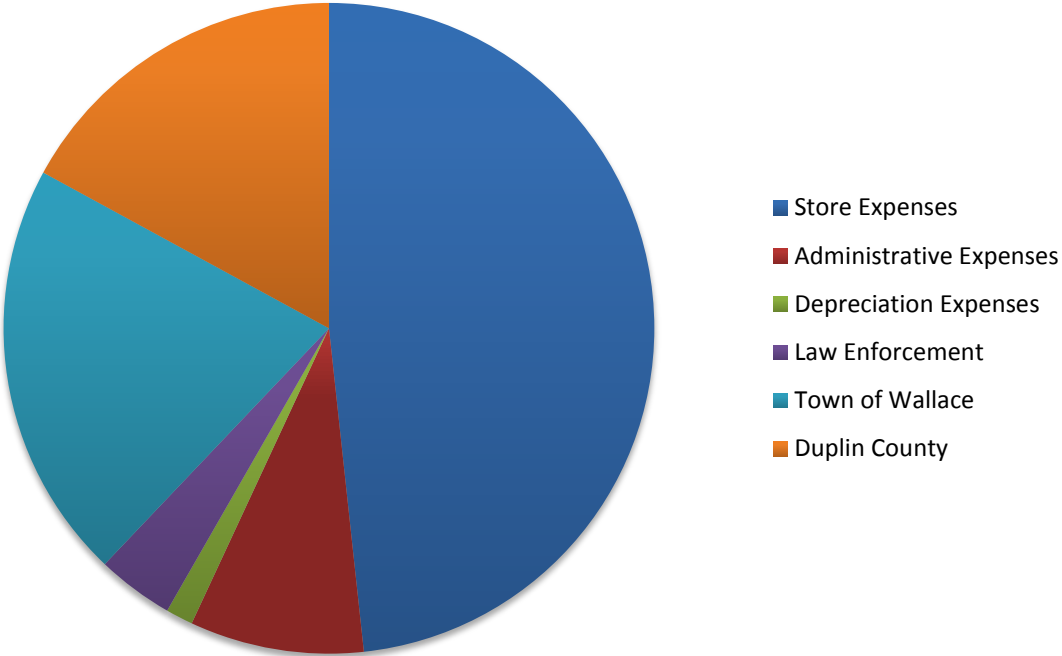


The expense history data indicates that Wallace ABC Board's overall expenses have decreased by 1.73% since the previous year. As sales have increased 40.08% over a seven year period, expenses have increased 49.89% over the same period. Compared to other boards, Wallace ABC's expenses are lower.



Excluding professional fees, common expenses for Wallace ABC are lower than other similar size boards.

Expense and Distribution Allocations



A breakdown of expenses and distribution allocation of the Wallace ABC Board.

APPENDIX B



Exterior view.



Interior view.

APPENDIX C

- (1) *G.S. 18B-706 (b) states, "Each member of a local board shall receive a minimum of two hours of ethics education within 12 months after initial appointment to the office and again within 12 months after each subsequent appointment to the office."*
- (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) *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."*
- (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)

RESPONSE TO PERFORMANCE AUDIT – WALLACE BOARD 105

- **To increase inventory turns:**
 - Since nearest boards each do one-third sales volume as ours, it is not practical to split cases with either.
 - We have opened up some end caps and have created overhead shelving in our center aisle to highlight new items. Slow-moving or de-listed products are featured in two four foot counter areas on opposing aisles to create customer interest and exposure.
 - We consistently utilize SPA's to generate additional sales. We have converted our order process to the min/max feature on our back office computer. It has controlled not only the size of our stock orders, but has reduced back stock. Items outs are much less frequent because of this procedure.
 - No nearby boards are comparable to ours as to selection of product.
- **Contact other boards with greater turnover rate:**
 - We will contact other boards whose turnover and sales volumes is greater than ours.
- **Register reappointed Board Members for outline ethnic training:**
 - All current Board Members have received the online training.
- **Provide additional training:**
 - All employees have received the RHSP training. We look for other opportunities for other employees development training.
- **Provide employee handbook:**
 - Employee are currently reviewing the employee handbook and will place signed acknowledgements into their personnel file.
- **Price discrepancy policy:**
 - All employees have been instructed in the policy of handling price discrepancies. Additionally, the policy statement is posted at all checkout areas for the public to review.

➤ **Finance Officer/Pre-Audit Certificate:**

- The Chief Administrator approved our request for the General Manager to serve as Finance Officer for two additional years on November 5, 2012.
- The pre-audit certificate is now on every purchase document, including LB&B, prior to the completion of all purchases.

Wayne T. Beninger

General Manager/Finance Officer

5-30-13

Date

Wallace ABC Board Chairman

Wallace ABC Board Chairman

5-30-13

Date

WALLACE ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Personnel and Training: Register all reappointed board members for the online ethics training.</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>All reappointed board members have taken the online ethics training.</p>
<p>ABC Board Policies: **Adopt a price discrepancy 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 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 price discrepancy policy and has submitted to the Commission.</p>

WALLACE ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Administrative Compliance: Appoint a finance officer other than the general manager or ask the Commission for an extension.</p> <p>Affix the pre-audit certificate on all orders before purchase.</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>A two year extension was granted from the Commission to allow the general manager to be the finance officer. Management has implemented procedures to incorporate the practice stated.</p>