

# Waxhaw ABC Board

## Performance Audit Report



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



# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

CHAIRMAN:  
JAMES C. GARDNER

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COMMISSIONERS:  
JOEL L. KEITH  
Wake Forest

KEVIN M. GREEN  
Greensboro

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ADMINISTRATOR:  
MICHAEL C. HERRING

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LOCATION:  
400 East Tryon Road  
Raleigh NC 27610

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**Your Name**  
Director  
Permit Division  
(this is editable)

September 10, 2013

Waxhaw ABC Board  
Mr. John Hunt, Chairman  
PO Box 86  
Waxhaw, NC 28173

Dear Chairman Hunt,

We are pleased to submit this performance audit report on the Waxhaw 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 efforts your Board has made to comply with the new performance standards along with the steps taken to reduce operating expenses at your ABC store last 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 performance audit 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 Waxhaw ABC Board has responded to the performance audit recommendations and continues to improve profitability through analyzing expenses and reducing costs while meeting the needs of customers. Policies and procedures are implemented to ensure compliance with ABC statutes and rules.

## **BACKGROUND INFORMATION**

Chapter 57 of the 1977 Session Laws authorized the Town of Waxhaw to hold an election for an ABC store. The referendum was held on May 14, 1977 and passed 195 to 150. The first retail sale occurred on November 16, 1977. A mixed beverage election was held on August 17, 1993 and did not pass. A second mixed beverage election was held on November 3, 2009 and passed 1,274 to 326. The first mixed beverage sale occurred on December 31, 2009.

Upon election of an ABC store, the Town of Waxhaw was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. The 2010 ABC Reform Legislation allowed boards to expand board members from three to five members. Current board members are John Hunt, board chairman, Jack Lemons, Richard G. Miller II, Robert L. Taylor III, and Tim Goetchius, board members.

The Waxhaw ABC Board operates one retail store. The board staffs four full-time employees. The general manager is responsible for the daily operations of the store including supervising personnel, retail operations, inventory management, and administrative functions. The board has hired an employee within the system to serve as finance officer. The finance officer is responsible for all financial operations. Clerks' primary duties include various retail functions such as selling products, customer service, inventory management, and store upkeep.

## **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 Waxhaw ABC Board receives deliveries twice a month: the inventory turnover rate is 7.0.

#### *Recommendations:*

- Continue with the following strategies already in place:
  - Analyzing sales and history reports to determine the bestselling products needed and to avoid overstock;
  - Watching customer shopping patterns and using the information to optimize product placement.

### **Operating Cost Ratio**

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 (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 Waxhaw ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.75. Mixed beverage sales make up 10% of total gross sales. In fiscal year 2012, sales increased 11.8% while operating expenses decreased 10.3% over the same time period. Rental expense makes up 16% of total operating expenses excluding depreciation.

*No Recommendations.*

## Profit Percentage to Sales

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

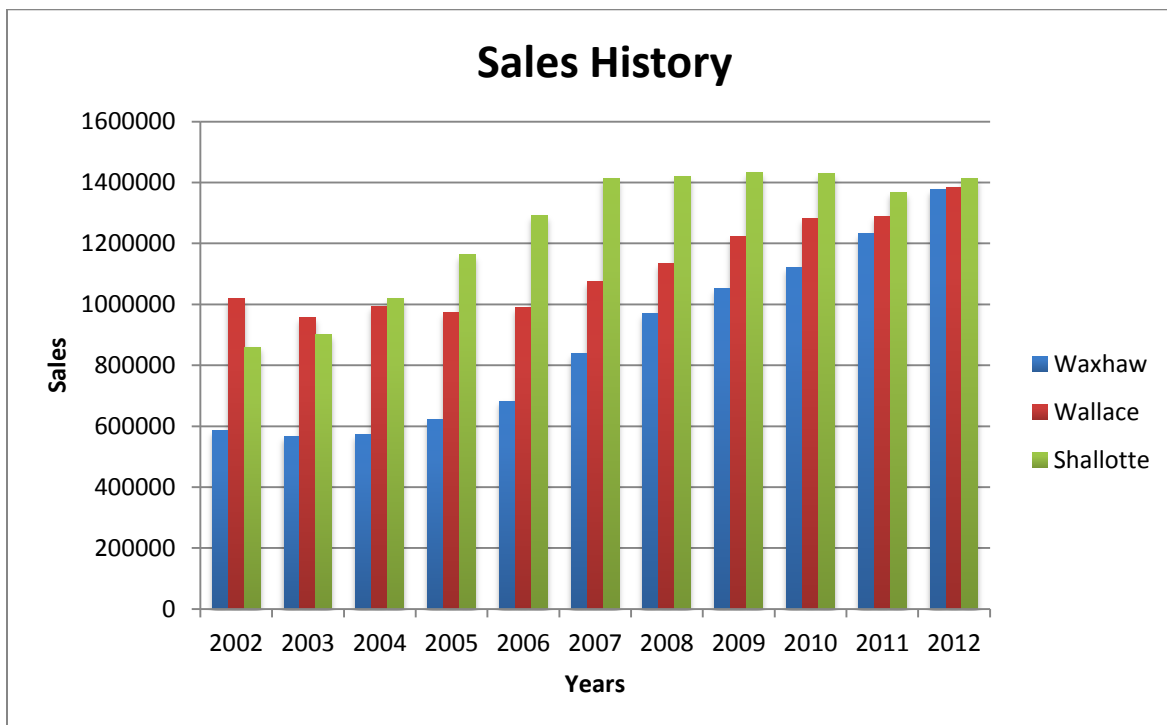
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Waxhaw ABC Board had gross sales of 1,376,485; income from operations was \$75,470, a 5.48% profit percentage to sales.

Factors affecting sales and profitability:

- US Census Bureau reports an estimated total population of 10,067 in 2011;
- Individuals below poverty levels 8.9% to the state's 16.1%;
- Sales increased 11.8% over the previous year;
- Change in population growth patterns from heavily populated areas to less populated;
- Surrounding towns/counties with ABC stores include Wingate (opened June 2012), Indian Trail (opened November 2010), Monroe, and Mecklenburg County.

Below is a sales history analysis of similar size boards compared with Waxhaw ABC Board. This chart analyzes the sales trend for the past ten years.



*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

Waxhaw ABC had a working capital of \$221,775 which is equivalent to less than three months gross sales and is within the limits of NCAC 02R .0902.

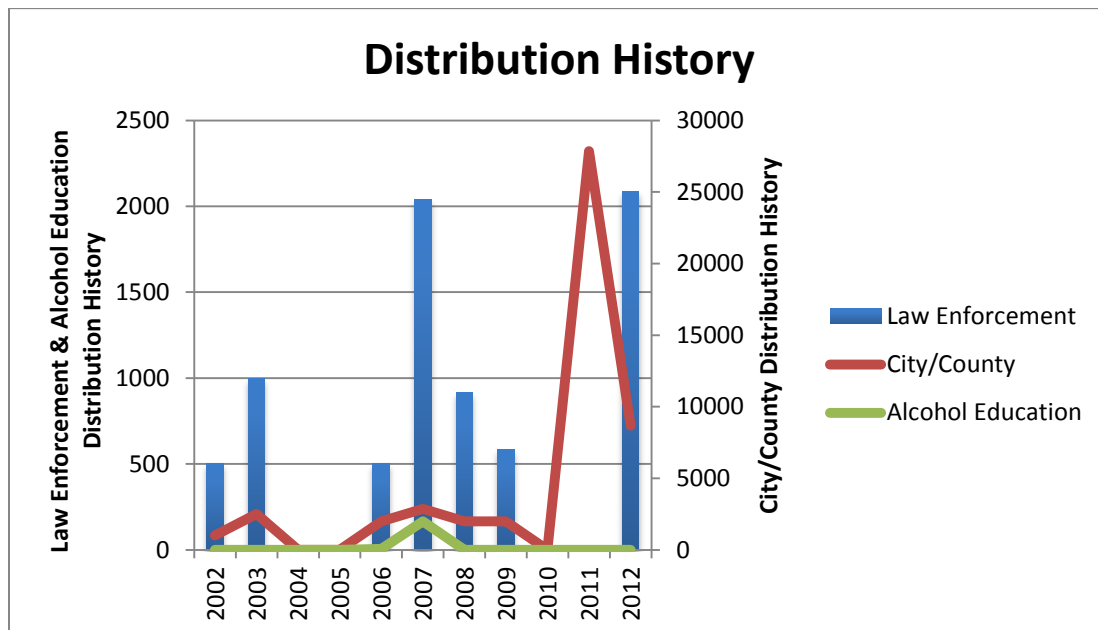
## Distributions

G.S. 18b-805 (c) (2) and (c) (3) requires the board to distribute at least five (5%) of profits to law enforcement and at least seven percent (7%) for alcohol education. The remaining profits are to be distributed as follows:

- 25% to Union County General Fund
- 75% to Town of Waxhaw General Fund

The Waxhaw ABC Board did not make the required minimum distributions totaling \$34,740 to Town of Waxhaw. However, the Town of Waxhaw agreed to allow the ABC Board to waive distributions to retain funds for land acquisition for a new store location. \$318,886 in Excise and other taxes were paid to the NC Department of Revenue and to the town. Other distributions totaled \$10,771: \$2,086 to law enforcement and \$8,685 to the city/county.

Below is a distribution chart analyzing the high-low trend of the Waxhaw ABC Board.





## **OPERATIONAL FINDINGS, OBSERVATIONS, AND RECOMMENDATIONS**

On February 28, 2013, ABC Board Auditor, Moniqua S. McLean, visited the Waxhaw ABC Board and interviewed John Nabors, general manager, and Cheryl Wilson, finance officer. The following are the operational findings, observations and recommendations related to the performance audit.

### **Store Appearance and Customer Service**

The Waxhaw ABC Board operates one retail store with approximately 850 feet of shelf space and carries approximately 915 product codes.

- The store was clean, well-lit, and well-dusted. Counter areas were free of clutter having supplies easily accessible. No televisions were evident.
- The Fetal Alcohol Syndrome poster was displayed.
- Security systems are in place and fully functional.
- A consistent and easily understood shelf management system was in place conforming to the latest industry and marketing strategies while catering to customer interests. The shelf management plan shows highest priced products on the higher shelves with the lowest priced products on the bottom shelves.
- The state price book along with monthly sales lists is available.
- Sales clerks' interaction with customers was attentive, courteous, and eager to meet the needs of the customers.

*No Recommendations.*

### **Personnel and Training**

- All board members, general manager, and finance officer have attended the initial mandatory ethics class. Two board members have since been reappointed and are planning to take the online ethics training.
- Training is often provided as new information becomes available to current staff. On occasion, management attends training classes of nearby boards on common topics.
- Cross training opportunities have been extended to key employees in the event the general manager was suddenly unavailable.
- Personnel files were viewed and contained the applicable tax information for state and federal withholdings as well as I-9 information.
- An updated employee handbook was submitted to the Commission and an acknowledgement of receipt of handbook is found in each employee's personnel file.

*No Recommendations.*

## **ABC Board Policies**

- Policies adopted and submitted to the Commission include:
  - Code of Ethics
  - Law Enforcement Contract
  - Travel Policy (Town of Waxhaw-Approval Included)
  - FY2012 Annual Audit
  - Employee Handbook
  - FY2013 Budget (Proposed and Adopted)
  - Mixed Beverage Policy
- Policies not adopted include:
  - Price Discrepancy Policy

### *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 (1) for rule.*

## **Internal Control Procedures and Observations**

- Physical inventory counts are performed monthly by whoever is scheduled to work according to section. Spot checks are performed throughout the month. If discrepancies occur, the general manager and finance officer will investigate and recount. Once completed, either the general manager or finance officer will adjust the system to match with the actual store count. Unsalable items are adjusted immediately.
- Cash drawers are counted daily. All clerks' are responsible for their own cash drawer. Although understood, there are no written procedures/policies explaining how to handle cash drawer overages and shortages.
- Bank deposits are made regularly as required by the ABC Commission rule. Bank notification is received and matched with corresponding daily register reports. Bank reconciliations are completed monthly by the finance officer.

### *Recommendations:*

- Implement procedures for handling cash drawer overages and shortages. Incorporate these procedures into the updated employee manual for current and future employees.

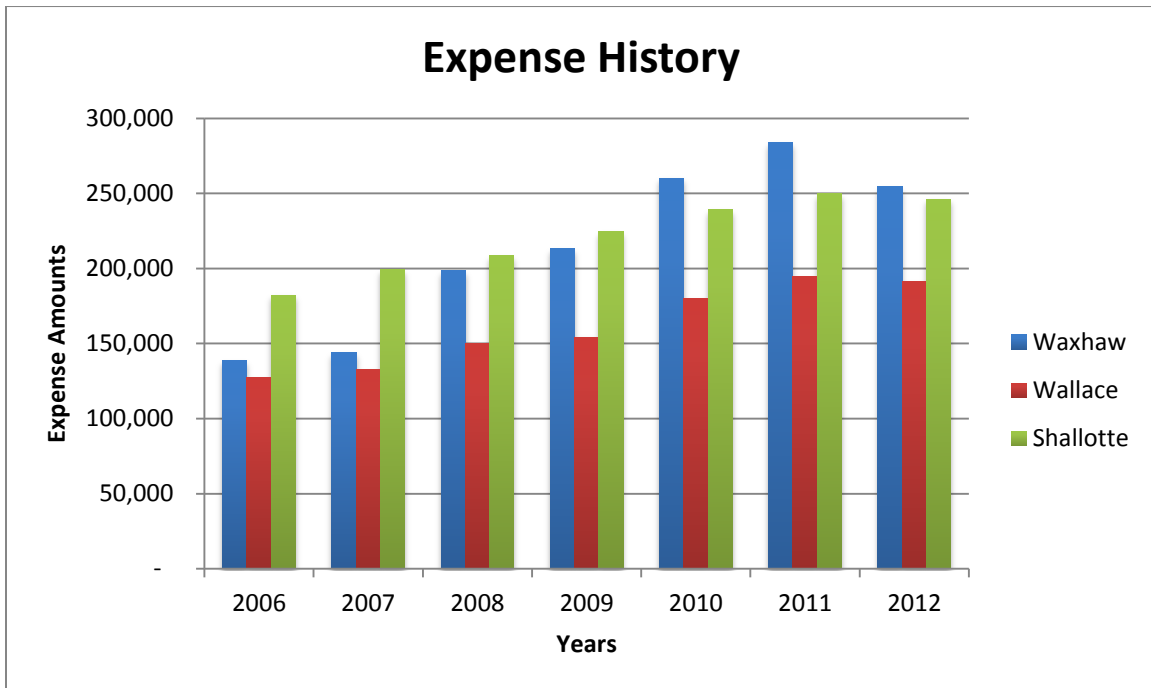
## **Administrative Compliance Findings and Observations**

- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting. However, the conflict of interest statement was not referenced in the board minutes.
- Board member appointment dates were not current on the Commission website.
- 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).
- All board members, general manager, and finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- Initial liquor orders do not bear the pre-audit certificate as required by G.S. 18B-702 (m). However, each individual invoice has the certification and the finance officer’s signature. Purchase orders are also signed by the finance officer and bear the pre-audit certification.
- An audit of liquor invoices revealed that some payments are more than 30 days past due.
- Out of approximately 915 product codes, approximately 87 product codes were sampled and all were correct.

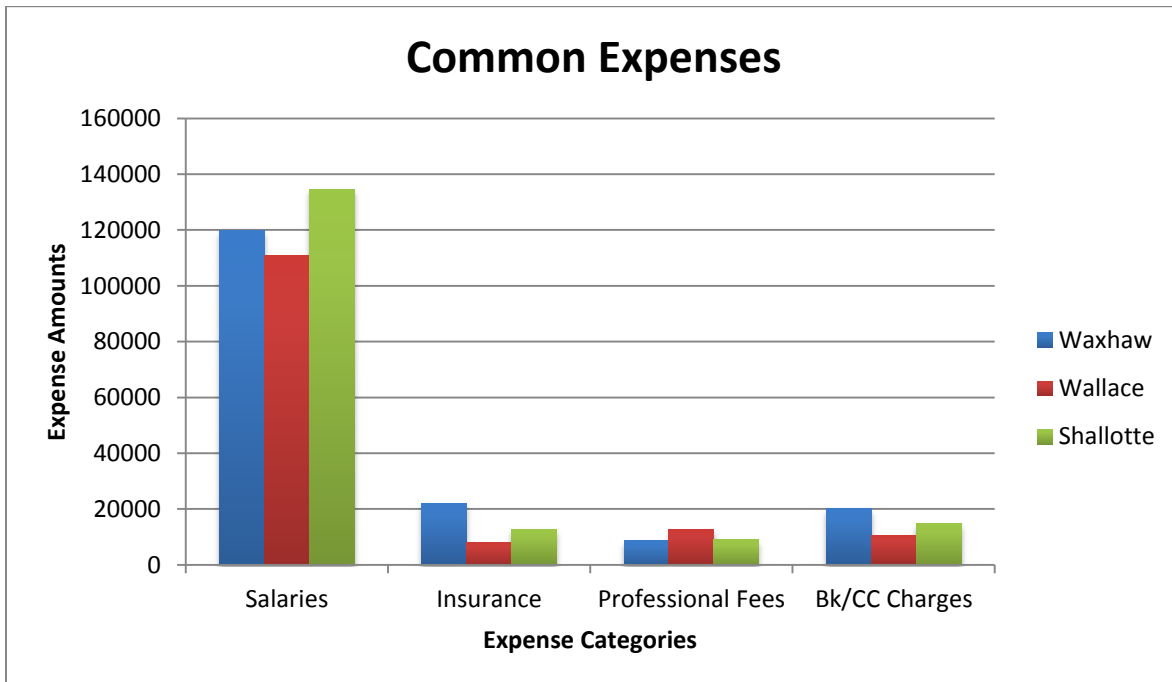
### *Recommendations:*

- In an effort to eliminate conflicts, have the board chairman read the conflict of interest statement to all board members at the start of each meeting. Reference the conflict of interest statement was read in the board minutes. *Refer to Appendix C (2) for rule.*
- 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. *Refer to Appendix C (3) for statute.*

## APPENDIX A



*The expense history data indicates that Waxhaw ABC Board's total expenses have decreased 10.3% over last fiscal year while sales are continuing to increase.*



*Waxhaw ABC's common expenses are within the range of other similar size boards. Bank and credit card charges increased due to the increase of sales. Note: Waxhaw's insurance expense includes group health insurance.*

## APPENDIX B



*Counter area.*



*Interior 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) *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:"*
- (3) *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)*



08-12-2013

To: Moniqua Mclean  
ABC Board Auditor

From: John Hunt  
Chair, Waxhaw ABC Board

Re: Response to Performance Audit Review on February 28, 2013

On behalf of the Waxhaw ABC Board I would like to thank Ms. Mclean and the North Carolina ABC Commission. The recommendations received will help the Board in reviewing the policies and business practices of the store and make necessary adjustments to insure optimum performance. The Board has been very pleased with the performance of the General Manager, Finance Officer and store employees in providing responsible and controlled sales of spiritous liquors.

The Waxhaw ABC Board has developed the following Performance Action Plan for the implementation of the recommendations received from the Performance Audit Report.

The Waxhaw ABC Board continuously strives to promote the responsible and controlled sale of spiritous liquors in Waxhaw.

Sincerely,

A handwritten signature in black ink, appearing to read 'John Hunt', written over the printed name.

John Hunt  
Chair, Waxhaw ABC Board

[jtmedic@earthlink.net](mailto:jtmedic@earthlink.net)

980-722-0253

# Waxhaw ABC Board Performance Action Plan

## Financial Analysis

The General Manager will continue to utilize effective strategies that are already in place regarding inventory turnover. He will analyze sales history and monitor customer shopping patterns to provide optimal product placement and meet customer needs.

## Operational Findings

The General Manager will prepare a draft policy regarding price discrepancies. This policy will be reviewed and adopted by the Waxhaw ABC Board. The policy will be in compliance with NCAC 02R.1706 (b). The policy will be reviewed with current employees and added to the Waxhaw ABC Employee Manual when adopted.

The Finance Officer in conjunction with the General Manager will prepare a draft policy regarding cash drawer handling procedures, to include overages and shortages. This policy will be reviewed and adopted by the Waxhaw ABC Board. The policy will be reviewed with current employees and added to the Waxhaw ABC Employee Manual when adopted.

The Chair of the Waxhaw ABC Board will read the conflict of interest statement at the start of each meeting in compliance with OP 4.19.4. This statement and Board member affirmations will be documented in the minutes.

To promote efficiency and be in compliance with NCGS 18B-702, the Finance Officer will place the pre-audit certificate stamp on the order to LB & B. Authorization will take place prior to the transaction occurring. Each individual invoice will be stamped and verified with date and check number information.



## WAXHAW ALCOHOL BEVERAGE CONTROL BOARD

### Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Internal Control Procedures/ABC Board Policies:</b></p> <p>To ensure stronger internal controls, adopt the following policies:</p> <ul style="list-style-type: none"> <li>• **Price Discrepancy Policy</li> <li>• Cash Overage/Shortage Policy</li> </ul>	<p style="text-align: center;"> <input type="checkbox"/> <b>Yes</b>  <input checked="" type="checkbox"/> <b>No</b> </p> <p>Note: Required by Rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p> <input checked="" type="checkbox"/> Fully Implemented  <input type="checkbox"/> Partially implemented ___% complete. (Explain below.)  <input type="checkbox"/> Not implemented (Explain below.)                 </p> <p>All policies have been adopted/updated and copies have been submitted to the Commission.</p>