

Weaverville 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

COMMISSIONERS:
JOEL L. KEITH
Wake Forest

KEVIN M. GREEN
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Moniqua S. McLean
ABC Board Auditor

January 14, 2014

Weaverville ABC Board
Mr. Ronald Sussex, Chairman
7 Northridge Commons Pkwy
Weaverville, NC 28787

Dear Chairman Sussex,

We are pleased to submit this performance audit report on the Weaverville 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 being taken to pay down the long term debt at your ABC store.

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 2013;
- Visited the store;
- Interviewed key ABC board personnel.

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

BACKGROUND INFORMATION

G.S. 18B-601 (c) authorized the town of Weaverville to hold an election for an ABC store. The referendum was held on April 24, 2007 and passed 338 to 279. A mixed beverage election was held on the same date and did not pass. The first retail sale occurred on October 21, 2009. A second mixed beverage election was held on May 4, 2010 and passed 565 to 269.

Upon election of an ABC store, the town was authorized to create an ABC board consisting of a chairman and two board members to serve for three year terms. Current board members include Ronald Sussex, board chairman, Roney Hilliard and Robert Chason, board members.

The Weaverville ABC Board operates one retail store. The board staffs four full-time and five part-time employees. The general manager is responsible for overseeing and managing daily operations of the store including supervising personnel, inventory control, and providing customer service. The board has hired an external bookkeeper/accountant to serve as the finance officer and perform duties as required by the ABC statutes and rules. Store employees are primarily responsible for providing friendly customer service, store upkeep, and stock maintenance.

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 Weaverville ABC Board receives deliveries weekly: the inventory turnover rate is 10.6. This rate compares favorably to the benchmark of 6.0 for boards with similar delivery schedules.

No Recommendations.

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):

- Single store boards with MXB sales that are equal to or greater than 25% of gross sales – cost ratio 0.75
- Single store boards with MXB sales less than 25% of gross sales – cost ratio 0.85
- Single store boards without MXB sales – cost ratio 0.85
- Boards with 2 stores with and without MXB sales – cost ratio 0.74
- Boards with 3 or more stores with and without MXB sales – cost ratio 0.64

The Weaverville ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.59. Mixed beverage sales make up 4.4% of total gross sales. In fiscal year 2013, sales increased 4.6% over fiscal year 2012 while expenses increased 1.5% over the same time period.

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 FY2013, Weaverville ABC had a working capital of \$64,533, which is less than the minimum working capital requirement. (The Board has long-term debt totaling approximately \$1.4 million.)

Recommendations:

- Watch expenses carefully to avoid overspending and to build up working capital.

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:

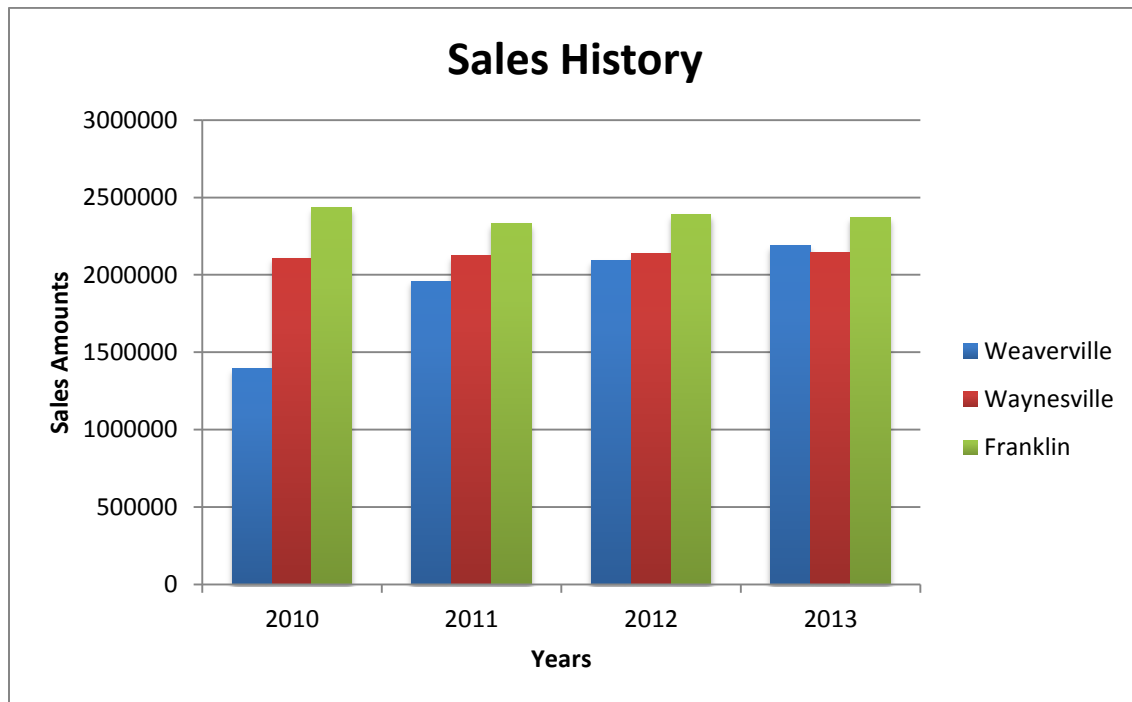
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2013, the Weaverville ABC Board had gross sales of \$2,189,148; income from operations was \$146,611, a 6.70% profit percentage to sales.

Factors affecting sales and profitability:

- Sales increased 4.5% over the previous fiscal year;
- Surrounding towns with ABC stores include Woodfin, Asheville, and Burnsville;
- Population for Buncombe County is estimated as 245,228 in July 2012.

Below is a sales history analysis of similar size boards compared with Weaverville ABC Board. This chart analyzes the sales trends since the opening of the store in October 2009.



Distributions

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

In FY2013, Weaverville ABC did not make the mandatory distribution of \$63,042 to the town. An agreement has not been submitted to retain these profits. However, \$496,595 in Excise and other taxes were paid to the NC Department of Revenue and the Town of Weaverville. The Weaverville ABC Board distributed \$672 of profits for law enforcement and \$941 for alcohol education.

Recommendations:

- To remain in compliance with the statute, ask the appointing authority for approval to withhold the mandatory distribution for specific period of time.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On August 21, 2013, ABC Board Auditor, Moniqua S. McLean, visited the Weaverville ABC store and interviewed Edmund "Ed" Doughty, general manager, and Nola Kaufman, finance officer. The following are the operational observations, findings, and recommendations related to the performance audit.

Store Appearance and Customer Service

The Weaverville ABC Board operates one retail store with approximately 1,250 linear feet of shelf space and carrying approximately 1,300 product codes.

- The store was clean, well-dusted, and maintained. Bottles were fronted and dusted. Counter areas were free of clutter and supplies were easily accessible.
- Exterior signage and landscaping around the store was clean and free of trash. Interior signage was neat and visible. The Fetal Alcohol Syndrome poster was displayed.
- Security systems are in place and functional.
- A consistent shelf management plan that exhibits a strategy per category following the highest price product on the top shelves and lowest price product on the bottom shelves. Product displays are available throughout the store spotlighting bestselling or newest items. Other displays, such as a mural and a water exhibit are found in the store. *See pictures on page 13.*
- The state price book is available should customers ask for specific product. Sales clerks' often refer to the price book for verification of product and pricing.
- Sales clerk's interaction with customers is attentive, courteous, and all are eager to meet the needs of the customers.

No Recommendations.

Personnel and Training

- All board members, general manager, and finance officer have completed the initial ethics training. One board member has been reappointed and is scheduled to complete the ethics webinar in the fall.
- Training is provided continuously to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities.
- Cross training opportunities have been extended to key employees in the event the general manager or finance officer is suddenly unavailable. In the event the finance officer is unavailable, an external accountant will assist with the financial reporting process.

No Recommendations.

ABC Board Policies

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract
 - Travel Policy (State Travel Policy)
 - FY2013 Annual Audit
 - Employee Handbook
 - FY2014 Budget (Proposed and Adopted)
 - Mixed Beverage Policy
 - Price Discrepancy Policy

No Recommendations.

Internal Control Procedures

- Physical inventory counts are performed annually by all scheduled employees. Spot checks are conducted frequently throughout the month. If discrepancies occur, the general manager will investigate and recount for accuracy and verification. Once completed, either the general manager, assistant general manager, or the finance officer will adjust the inventory system to match with the actual store counts. Unsalable items are adjusted immediately.
- Cash drawers are counted by all clerks. Management has implemented procedures when cash drawer is over or short.
- 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.
- Payroll time sheets are verified by the finance officer. The finance officer uses payroll software to calculate tax and other withholdings. Software backup is conducted often.

No Recommendations.

Administrative Compliance Findings and Observations

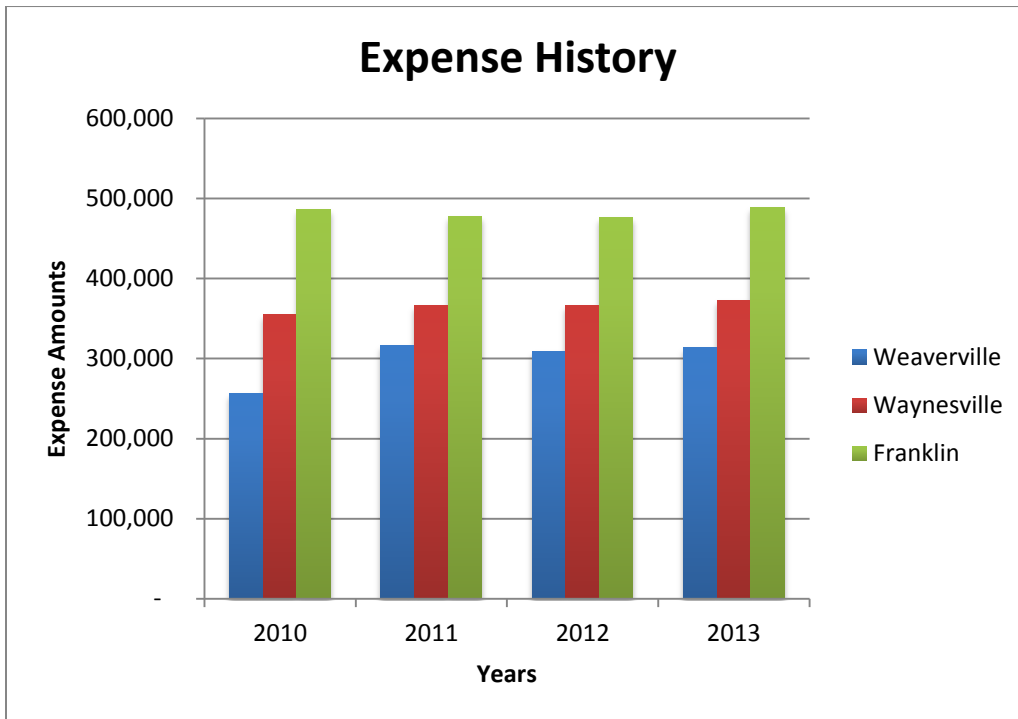
- Board meeting minutes were viewed and revealed that salary adjustments were not approved. A conflict of interest statement has been read.
- Board member and general manager information, appointment dates and compensation amounts, are not current on the Commission website.
- Board member and general 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, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- A review of travel reimbursements revealed that expenses follow the travel policy adopted with documentation attached.
- Orders for liquor and other miscellaneous orders bear the pre-audit certificate as required by G.S. 18B-702 (m).
- All checks bear the approved certificate and are signed by the finance officer and a board member. In the event the finance officer is unavailable, other board members or the general manager is authorized to sign checks.
- Out of approximately 1,300, approximately 145 product codes were sampled, and three were incorrect.

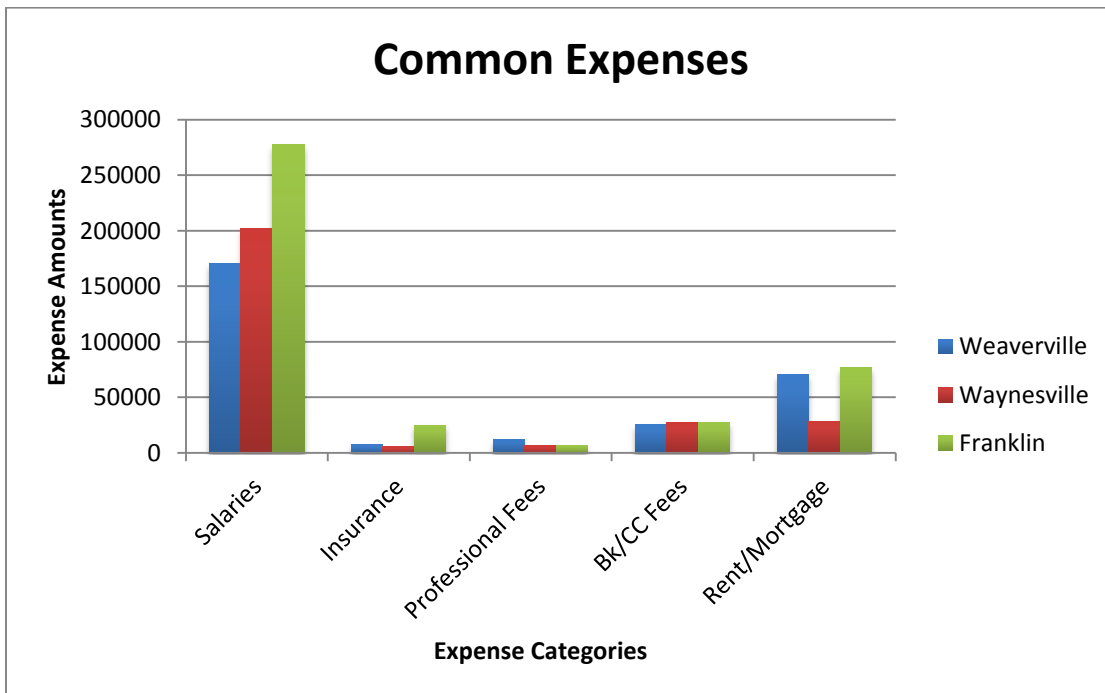
Recommendations:

- Include any salary changes and voting procedures in the board meeting minutes. Refer to sample board meeting minutes in the Appendix of the Operations Manual.
- Update the Commission website to reflect current information on board members and general manager.
- Audit shelf tags more frequently. Incorporate such practices within spot check time periods.

APPENDIX A



The expense history data indicates that Weaverville ABC's total expenses have increased 1.45% since fiscal year 2012. Compared with other similar size boards, Weaverville ABC's expenses are not out of line.



Common expense analysis indicates that Weaverville ABC's expenses are relatively lower compared with other similar size boards.

APPENDIX B



Interior view of the store



Counter view of the store



Shelf view.



WEAVERVILLE N.C.
W.A.B.C. BOARD

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12/31/2013

Ms. Moniqua McLean, ABC Board Auditor
North Carolina ABC Commission
4307 Mail Service Center
Raleigh, NC 27699-4307

Dear Ms. McLean,

The Weaverville ABC Board would like to thank you for your professional manner in conducting the performance audit on our Board in August and attending our meeting on December 4, 2013 to present your report. The Board will use your recommendations to continue to improve our ABC system.

We very much appreciated your kind comments on the beautiful appearance of the store.

Sincerely,

Ron Sussex
Chairman