

Woodfin ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
400 East Tryon Road, Raleigh, NC 27610
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ABC
COMMISSION
NORTH CAROLINA

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ABC
COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

September 4, 2014

CHAIRMAN:
JAMES C. GARDNER

Woodfin ABC Board
Kenneth Razza, Chairman
142 Weaverville Road
Woodfin, NC 28804

COMMISSIONERS:
JOEL L. KEITH
Wake Forest

KEVIN M. GREEN
Greensboro

ADMINISTRATOR:
MICHAEL C. HERRING

Dear Chairman Razza,

We are pleased to submit this performance audit report on the Woodfin 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.

LOCATION:
400 East Tryon Road
Raleigh NC 27610

The report consists of an executive summary, background information, 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.

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We would like to thank you, the ABC Board and your staff for the assistance and cooperation provided to us during the audit. Additionally, it is our responsibility to ensure all ABC Boards comply with the ABC Laws, including the Ethics Requirements outline in General Statute 18B-706. General Statute 18B-704 provides a remedy for non-compliance. It would also be my recommendation that your ABC Board review General Statute 18B-703 as a strategy to increase profits for the Town of Woodfin due to your close proximity to other ABC Boards.

Moniqua S. McLean
ABC Board Auditor

If we can be of assistance in the future, please advise.

Respectfully,

Michael C. Herring
Administrator

CC. North Carolina Association of ABC Boards

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.

BACKGROUND INFORMATION

G.S. 18B-601 (c) authorized the town of Woodfin to hold an election for an ABC store. The referendum was held on May 2, 2006 and passed 286 to 181. A mixed beverage election was held on the same date and passed 288 to 181. The first sale occurred on July 19, 2007.

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. During the initial audit fieldwork, board members included Bud Garland, board chairman, Kenneth Razza and Kristie Quinn, board members. Since the initial fieldwork, new board members have been appointed by the Town of Woodfin.

The Woodfin ABC Board operates one retail store. The board staffs one full-time and four part-time employees. The board has hired the town manager to serve as the general manager of the store. The duties involve policy enforcement, human resources, building operations, and the budget. The store manager is responsible for the daily operations pertaining to inventory control, store upkeep, and store personnel. 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.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On August 22, 2013, ABC Board Auditor, Moniqua S. McLean, visited the Woodfin ABC store and interviewed Jason Young, general manager, Tammy Ballew, store manager, and Brenda Ayers, finance officer. The following are the operational observations, findings, and recommendations related to the performance audit.

FINANCIAL ANALYSIS

PROFIT PERCENTAGE TO SALES

The profit percentage to sales is calculated by dividing the total income from operations by the total liquor sales (Total Income from Operations/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 Woodfin ABC Board had gross sales of \$1,315,098; income before distributions was \$13,895, a 1.05% profit percentage to sales.

Factors affecting sales and profitability:

- Opening of a new ABC store within a five mile radius;
- Sales increased 3.2% over the previous year but have decreased approximately 54% since the opening of the new store;
- Surrounding ABC boards include Weaverville and Asheville.

RECOMMENDATIONS

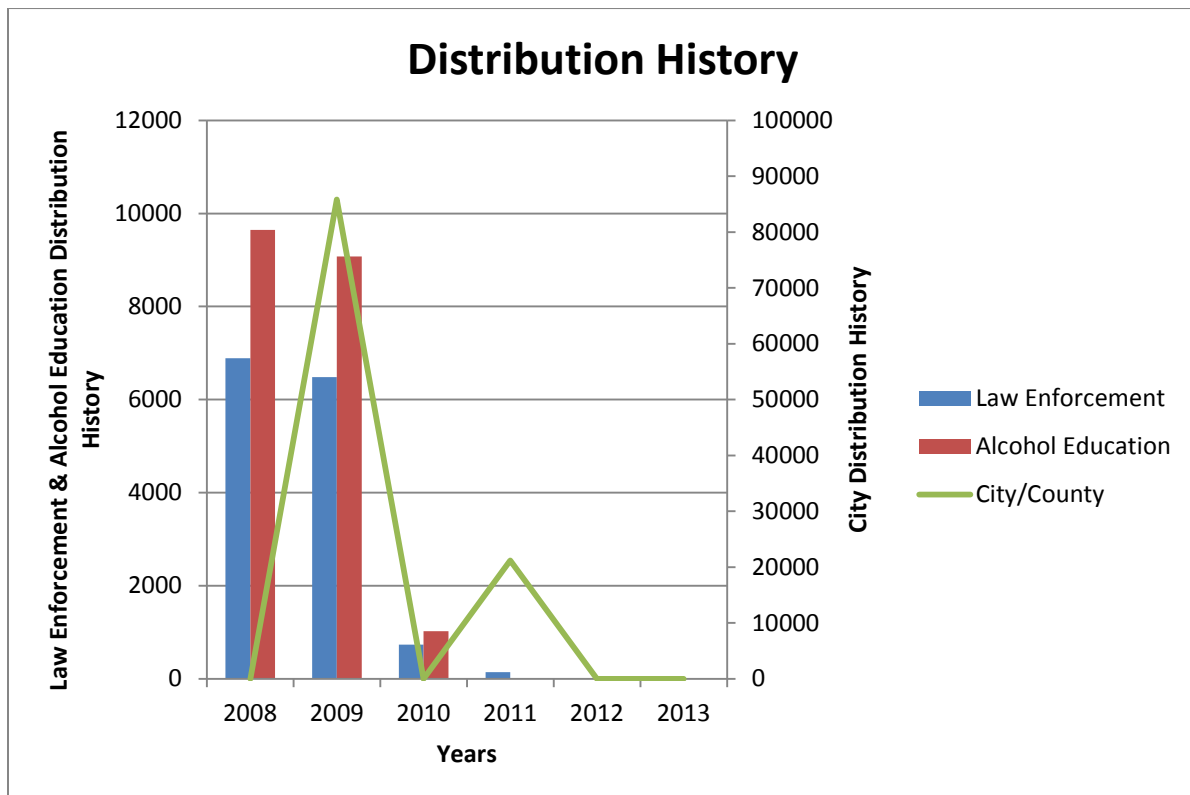
1. To increase profitability, consider testing different marketing strategies such as the recommendations under inventory turnover.
2. Invite the Association's Efficiency Committee to visit the store with the possibility of making additional recommendations to improve profitability.

DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, mixed beverage, and bottle taxes. G.S. 18B-805 (c) (1) requires the board to make a minimum quarterly distribution of the 3 ½% markup rate to the town. In FY2013, the Woodfin ABC Board did not make the required minimum distribution of \$38,262 to the town. The appointing authority has allowed the ABC board to withhold distributions until \$250,000 of working capital has been obtained. However, rental payments are paid to the town totaling \$54,250 per year. \$296,407 in excise and other taxes were paid to the NC Department of Revenue, Department of Health and Human Services, and the Town of Woodfin.

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 Town of Woodfin General Fund. The board has not made law enforcement or alcohol education distributions since 2011.

Below is a chart analyzing the high-low trend of distributions to law enforcement, alcohol education, and to the town.



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, Woodfin ABC had a working capital of \$209,170, which is equivalent to less than four months gross sales and is within the limits of NCAC 02R .0902.

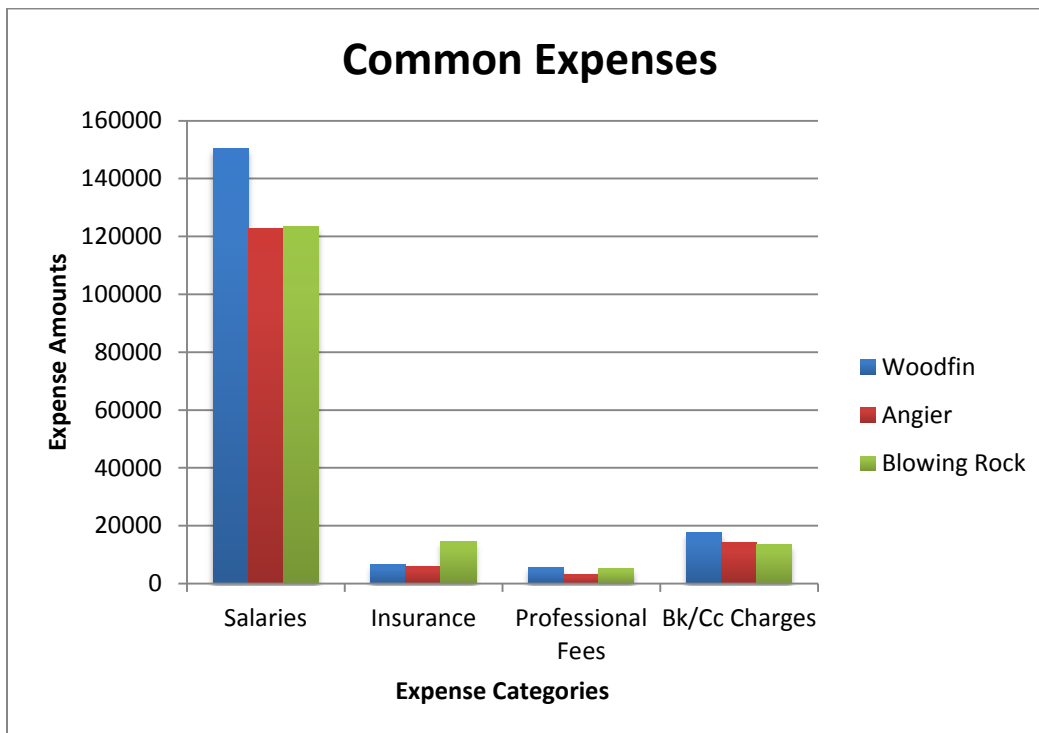
OPERATING COST RATIO

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 Woodfin ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.93. Mixed beverage sales make up 10.2% of total gross sales. The board has rental expense of \$54,250 per year (\$4,521 per month). In fiscal year 2013, sales increased 3.2% over the previous fiscal year and expenses increased 7.1% over the same time period. Salaries have increased 2.8% in fiscal year 2013. To meet the cost ratio goal and remain at current revenue levels of \$1,315,098, expenses must be reduced to \$267,000, a 8.6% decrease. To meet the cost ratio goal and remain at current expenses levels of \$292,179, revenues must be increased to \$1,430,000, a 8.7% increase.

A common expense analysis shows that Woodfin ABC Board expenses are in line with other similar boards, excluding salaries.



RECOMMENDATIONS

1. Continue to monitor budget frequently and more closely to ensure that actual expenses do not exceed budgeted amounts. Provide monthly reports to board members detailing how much has been spent.
2. Request bids annually from various vendors to get the best rates possible on financial audits, specific utilities, maintenance contracts, and credit card processing fees.

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 Woodfin ABC Board receives deliveries weekly: the inventory turnover rate is 4.9. The average inventory turnover rate for similar boards with the same delivery schedule is 6.

RECOMMENDATIONS

1. To improve inventory turnover, consider the following:
 - Analyzing sales data and history reports more closely to plan orders while taking advantage of Special Purchase Allowance offers;
 - Selling slow-moving inventory to other boards with greater demand or asking the Commission for a reduced price;
 - Splitting cases with other boards to increase variety and to minimize costs

STORE APPEARANCE AND CUSTOMER SERVICE

The Woodfin ABC Board operates one retail store with approximately 1,100 linear feet of shelf space and carrying approximately 1,000 product codes.

- The store was neat, 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 priced product on the top shelves and lowest priced product on the bottom shelves. Product displays are available throughout the store spotlighting bestselling or new items. *See pictures on page 11.*
- 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 current board members, general manager, and finance officer have completed the initial ethics training. Since the audit fieldwork, board members have either been newly appointed or reappointed and are scheduled to complete the ethics training as provided by the Commission.
- Training is provided as new information becomes available to current staff. Occasionally, employees may travel to surrounding boards for additional training or product knowledge opportunities.
- Personnel files were available for all employees and contained the applicable tax information and documentation.

RECOMMENDATIONS

1. Have all newly appointed and reappointed board members complete the ethics requirement within 12 months of reappointment. *Refer to Appendix C (1) for statute.*
2. Consider additional training opportunities through the Commission and the ABC Officers Association on specific areas. The Commission offers Responsible Alcohol Sellers Program, RASP, training for ABC boards and mixed beverage permit holders. The NC ABC Officers Association offers ABC Inspection training for local law enforcement officers.

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
 - Shelf Management Plan
 - Special Order Policy
 - Cash Register Shortage Policy

NO RECOMMENDATIONS

INTERNAL CONTROL PROCEDURES

- Payroll time sheets are verified by the store manager and forwarded to the finance officer. The finance officer uses payroll software to calculate tax and other withholdings. Software backup is automatically conducted daily.
- 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.
- Cash drawers are counted by all clerks. Management has implemented procedures when the cash drawer is over or short and has notified all clerks of the current policy.
- Physical inventory counts are performed every other month by all employees. Spot checks are conducted frequently throughout the month. If discrepancies occur, the store manager will investigate and recount for accuracy and verification. Once completed, the store manager will adjust the inventory system to match with the actual store counts. Unsalable items are adjusted immediately.
- Out of approximately 1,000 product codes, approximately 150 product codes were sampled, and one was incorrect.

RECOMMENDATIONS

1. Audit shelf tags more frequently. Incorporate such practices within spot check time periods.

ADMINISTRATIVE COMPLIANCE FINDINGS AND OBSERVATIONS

- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting referencing the conflict of interest statement.
- Board member 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 not been submitted to the Commission for August 2013.
- The board is in compliance with G.S. 18B-700 (k); there are no immediate family members employed related to board members or the general manager.
- All board members, the store manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- Authorization for ordering liquor and other miscellaneous orders are conducted verbally between the finance officer, general manager, and store manager.
- All checks bear the approved certificate and are signed by the finance officer and the general manager. In the event the finance officer or general manager is unavailable, other board members are authorized to sign checks.

RECOMMENDATIONS

1. Update the Commission website to reflect current information on board members and general manager.
2. Complete all law enforcement activity reports for the months specified. *Refer to Appendix C (2) for statute.*
3. To be in compliance with the pre-authorization statute, once verbal authorization has been issued, provide the finance officer with documentation, such as a purchase order or the initial liquor order, for signature placement.

AUDITOR'S SUMMARY

ABC Board Auditor, Moniqua S. McLean, presented to the board the performance audit recommendations on March 5, 2014. A response was submitted on August 29, 2014 to the ABC Commission detailing management and board strategies implemented. The Commission encourages the Woodfin ABC Board to address the areas of improvement noted in the audit in order to fully realize the opportunities for improved performance.



Town of Woodfin Alcoholic Beverage Control Commission

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To: Ms. Moniqua S. McLean
From: Jason Young, General Manager Woodfin ABC
Re: Performance Audit
Date: August 27, 2014

Dear Ms. McLean:

The Board of Commissioners of the Town of Woodfin Alcoholic Beverage Control Commission is in receipt of the Performance Audit Report which you conducted. Please accept this letter as the formal response of the Woodfin ABC Commission in regard to the supplied document.

First the Commission would like to thank you for your time, attention and courtesy in the conduct of this review. It was a pleasure to make your acquaintance and we look forward to working with you again in the future.

In regard to the report generally, the ABC Commission is satisfied with the fairness of the audit and believes it was conducted in an appropriate and constructive manner.

In regard to the specific recommendations the Board responds as follows:

Inventory Turnover

Recommendations:

☑ To improve inventory turnover, consider the following:

- Analyzing sales data and history reports more closely to plan orders while taking advantage of Special Purchase Allowance offers;

The above mentioned practices are and have been followed by the Commission and staff since the beginning of operations, however, it is always good to be reminded of the need to follow such policies.

○ Selling slow-moving inventory to other boards with greater demand or asking the Commission for a reduced price;

The Commission prefers to reduce price rather than sell to other Boards, although it has done so in the past.

○ Splitting cases with other boards to increase variety and to minimize costs

The Commission does not see this approach as practical at the present time as the Woodfin ABC System seeks to offer many brands that other local stores do not have a market for or do not wish to stock.

Operating Cost Ratio

Recommendations:

☑ Continue to monitor budget frequently and more closely to ensure that actual expenses do not exceed budgeted amounts. Provide monthly reports to board members detailing how much has been spent.

The Commission will continue to monitor the budget on a weekly basis. At this time the Commission does not believe more frequent review of the budget will yield additional benefits.

☑ Request bids annually from various vendors to get the best rates possible on financial audits, specific utilities, maintenance contracts, and credit card processing fees.

The Commission will continue to actively review vendor pricing as it has done since the beginning of operations. The Commission has changed credit card processing companies, banks and other vendors repeatedly as more competitive pricing has allowed.

Profit Percentage to Sales

Recommendations:

☑ To increase profitability, consider testing different marketing strategies such as the recommendations under inventory turnover.

The Commission believes that it currently pushes the envelope in terms of marketing strategies and would willingly engage in further enhancements to marketing (e.g. the sale of pre-chilled beverages) were it not for rules established by the NCABC Commission prohibiting such practices. Should the NCABC Commission be interested in hearing ideas for regulatory reform that might assist in boosting the profitability of local systems the Woodfin ABC Commission would be more than happy to provide its input to such an effort.

☒ Invite the Association's Efficiency Committee to visit the store with the possibility of making additional recommendations to improve profitability.

The Woodfin ABC System is not a member of the Association.

Personnel and Training

Recommendations:

☒ Have all newly appointed and reappointed board members complete the ethics requirement within 12 months of reappointment. *Refer to Appendix C (1) for statute.*

The Commission will strive to meet this goal going forward although the Commission believes that the requirement for reappointed members to complete the ethics requirement again is an onerous and unnecessary burden to Commission members who have already successfully completed the ethics course.

Administrative Compliance Findings and Observations

Recommendations:

☒ Update the Commission website to reflect current information on board members and general manager.

The Commission will strive to make sure that the NCABC Commission website reflects accurate data about the Woodfin System.

☒ Complete all law enforcement activity reports for the months specified. *Refer to Appendix C (2) for statute.*

The Commission believes that it is presently compliant with this recommendation.

☒ To be in compliance with the pre-authorization statute, once verbal authorization has been issued, provide the finance officer with documentation, such as a purchase order or the initial liquor order, for signature placement.

The Commission believes that it is presently compliant with this recommendation.

☒ Audit shelf tags more frequently. Incorporate such practices within spot check time periods.

The Commission has implemented this recommendation, however, given the nature of employing several part time employees certain challenges exist in making sure that all tags are accurate at all times as these employees may not be as familiar with current pricing as full time employees.

In Conclusion the Woodfin ABC Commission would like to reiterate its deep appreciation for your assistance in helping us improve operations. The Commission has worked to implement your recommendations where practical and necessary and has every intention of working to improve sales and profitability over time. At the end of the last fiscal year (2013-2014) the Commission was able to provide a distribution to the Town of Woodfin of more than \$13,000 a significant accomplishment given the increased completion from neighboring systems. In light of the improved profitability and the rapid increase in residential and commercial development in close proximity to the Woodfin ABC System's store the Commission believes that it is on track to meet its goals of increasing distributions to the Town of Woodfin.

On another minor note the Commission believes that it would be more constructive to use neighboring systems for comparison such as Weaverville or Black Mountain rather than Angier and Blowing Rock. Given the wide discrepancy between the local economies and the nature of local competition it is unfair -in the opinion of the Commission- to compare sales and expenses with the selected systems.

Thank you again for your assistance.

This correspondence has been submitted on behalf of and with the approval of the Woodfin ABC Commission after due consideration on August 27, 2014.

Inquiries into this matter may be directed to the Woodfin ABC Commission through the General Manager.

Yours truly,

Jason Young
General Manager
Woodfin ABC System

APPENDIX A



Counter view



Interior view



Shelf management view

APPENDIX B

- (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) *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.*

APPENDIX C

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Personnel and Training:</p> <p>Have all newly appointed and/or reappointed board members complete the ethics requirement within twelve months of appointment.</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 type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>Ethics training has not been completed for newly appointed or reappointed board members.</p>
<p>Administrative Compliance:</p> <ul style="list-style-type: none"> • Submit all law enforcement activity reports. • Affix the pre-audit certificate on all orders before the transaction occurs. 	<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 type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>As indicated in the ABC board response, management has implemented procedures to comply with the statute.</p>