

Bunn ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

COMMISSIONERS:

A. D. "ZANDER" GUY, JR.
Surf City

DANIEL L. BRIGGS
Lexington

ADMINISTRATOR:
MICHAEL C. HERRING

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December 2, 2011

The Honorable Marsha Strawbridge, Mayor
Town of Bunn
PO Box 398
Bunn, NC 27508

Dear Mayor Strawbridge,

We are pleased to submit this performance audit report of the Bunn 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.

This report consists of an executive summary, background information and operational findings and recommendations. The Chairman of the Bunn ABC Board reviewed a draft copy of this report and his written comments are included.

We would like to thank the ABC Board and their staff for the assistance and cooperation provided to us during the audit and we hope you and your Town Council Members will find the report informative.

Respectfully,

Michael C. Herring
Administrator

Cc: Judy Jeffreys, Town Clerk
Bunn ABC Board

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 Bunn ABC Board responded to the performance audit recommendations and has begun to take steps toward becoming more profitable through analyzing current costs. The 2011 financial audit showed a loss primarily due to a significant increase in salaries without a corresponding increase in sales/profits. While it is clear the board's priority is to reduce expenses, internal controls are not being enforced. A follow up visit will be scheduled within six months to determine if other recommendations are being addressed.

BACKGROUND INFORMATION

Located in the southeastern part of Franklin County, the town of Bunn is surrounded by rich farmland. The rural town, with an approximate population of 415, was founded in 1913.

Chapter 395 of the 1963 Session Law authorized the town of Bunn to hold an election for an ABC store upon receipt of a petition signed by fifteen percent of the registered voters. The referendum was held on November 2, 1963. The election passed. The first date of retail sales was on December 18, 1963. The town council of Bunn appointed three individuals to serve on the local ABC board with terms of three years, two years, and one year. The board maintains three members.

While Franklin County as a whole has never voted to open an ABC store, four municipalities have voted for and passed ABC store referendums. Those towns, in addition to Bunn, are Franklinton, Louisburg and Youngsville.

The Bunn ABC board operates one retail location. The store staffs a manager, finance officer, and clerk. The full-time manager is responsible for overseeing and managing daily operations of the store. The finance officer/full-time clerk is responsible for performing retail functions as well as financial duties outlined in 18B-702. The clerk duties and responsibilities include daily stocking, upkeep of the store, and assisting with inventory and selling products.

Profitability

For fiscal year 2011, the board showed a loss; gross sales were \$614,599, income from operations totaled -\$12,006 resulting in a profit percentage to sales of -1.95%. Although current sales have risen from last year, Bunn ABC is still down from previous year's sales. Thus, current year sales have indicated that Bunn ABC is in line with sales of similar boards. *Refer to Chart 1.*

In comparing sales with similar size boards over the past ten years, the Bunn ABC store has decreased in sales while the trend for similar boards has shown a slight increase following the state's 56% increase. *Refer to Chart 2.*

Factors affecting sales and profitability:

- Overall population has increased 19% over the past ten years
- Adult working population has increased 14% over the past ten years
- 10% unemployment rate in Franklin County in August and September 2011

Distributions

G.S. 18B-805 (c) (2) (3) requires that the Board expend quarterly at least 5% of profits for law enforcement and at least 7% of the same profits for alcohol education and rehabilitation purposes (alcohol education requirements follow local enabling act). The enabling act also requires the Board to expend quarterly the remaining gross receipts to the Town of Bunn General Fund.

In 2011, Bunn did not make distributions to law enforcement or to the appointing authority. Over the past ten years, distributions have dropped. *Refer to Chart 4.*

FINDINGS AND RECOMMENDATIONS

On June 29, 2011, ABC Commission Board Auditor, Moniqua S. McLean, visited the Bunn ABC store and interviewed Mary Ann Masterman, general manager. The following are the findings and recommendations relating to the performance audit.

1. 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 a delivery schedule:

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

The Bunn ABC store has a bi-weekly delivery schedule. The inventory turnover rate for the Bunn ABC store is 4.7 and does not meet the targeted rate set by the Commission.

Recommendations:

- Explore different strategies for eliminating slow moving products by:
 - Identifying unsold inventory for transfers to another board which has demand,
 - Requesting permission from the Commission for a price reductions for discontinued products,
 - Marketing strategies for impulse shopping,
 - Moving stock within the store to increase visibility.
- Take advantage of SPA's whenever possible and look ahead at quarterly price increases/decreases when placing orders.
- Borrow selling/ordering techniques from other boards that exceed target rate.
- Continue using recipe cards, displays, and other marketing techniques to increase sales.

2. 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 Bunn ABC Board has an operating cost of 1.07 and does not meet the targeted rate set by the Commission. *See Chart 5 and 6.*

Recommendations:

- Monitor budget monthly to ensure that expenses do not exceed budgeted amounts.
- Because salaries and benefits are the largest segment of operating expenses, analyze personnel hours to assess efficient personnel usage.
- Request bids annually from various vendors to get the best rates possible on audit and credit card processing fees, and insurance and bonding rates.
- To avoid penalties and interest, pay taxes on time. Should a payment be made late, contact the Department of Revenue to request a one-time waiver.
- Limit conference attendance to one board representative to minimize travel expenses.

3. Profit percentage to sales

The profit percentage to sales is calculated by dividing the total profit before distributions by the total liquor 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 Bunn ABC board has a profit percentage of -1.95% and does not meet the targeted rate set by the Commission.

Recommendations:

- Analyze and reduce operating expenses to increase profits. Refer to recommendations under operating cost.
- Increase sales using the strategies recommended under inventory turnover and store appearance.
- Take advantage of every selling day possible; do not close the store except when required to by law. Keep store open on all other holidays (Martin Luther King Jr. Birthday, Good Friday/Monday, Memorial Day, Veteran's Day) and advertise in advance the fact that you will be open by a sign on the door. (The News & Observer prints store openings/closings around each major holiday. Notify them if you will be open on a day when other stores will likely be closed.)

4. 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:

- 4 months for boards with gross sales less than \$1.5M
- 3 months for boards with gross sales less than \$50M and greater than or equal to \$1.5M
- 2 months for boards with gross sales equal to or greater than \$50M

For FY2011, the Bunn ABC Board had a working capital of \$83,153 and met the goal set by the Commission.

5. Store Appearance

The Bunn ABC store has approximately 1,000 linear feet of shelf space. The store has approximately 718 SKU's out of the 1650 SKU's currently available. *Refer to Appendix A for photos.*

- The exterior area of the store had potholes and no defined parking area for customers.
- Overall, the store was clean and free from clutter in the counter area; however, bottles were dusty.
- The shelf management system is not consistent. Products are shelved in NC code number order; some products are displayed left-to-right with the largest size on the left and others are right-to-left with largest size on the right.
- Shelves were empty giving the appearance that there were not enough products available for sale.
- Because of greater demand for bestselling product, products were displayed in greater quantities on shelves.

Recommendations:

- Develop an effective and efficient shelf-management system that better utilizes the spacing areas. Shelf management needs to be consistent and easily understood. *Refer to Appendix B (1) for proposed rule.*
- Improve parking area by defining parking spaces and eliminating potholes.
- Dust bottles throughout the store on a regular basis.

6. Administrative Compliance

- Board meeting minutes going back to formation of the board were not available to view.
- Current board meeting minutes were viewed and do not follow the order of proceedings for conducting business meetings nor do they reference the conflict of interest statement.
- Board meetings are not held regularly.
- Only two board members have been appointed. Both board members have attended the mandatory ethics training.

- Board information on the Commission website does not reflect the board members' latest appointment date. Board members' compensation meets the current statutory requirements.
- The travel policy on file does not meet current statutory requirements. However, expense reimbursements for the current fiscal year do conform to the current policy.
- Board does not have price discrepancy policy on file.

Recommendations:

- Board meeting minutes are to be kept permanently in a binder and available in the store. Local boards shall retain all records pursuant to the records retention schedule. A records retention schedule is available on the Commission website and a condensed version may be found in the Operations Manual.
- ABC boards are required to keep full and accurate minutes of all official meetings, including any closed sessions held. Minutes may be in the form of sound or video. Minutes shall reflect that the meeting has been called to order, a record of attendees, the minutes of the last meeting have been approved, any votes taken and how members voted, policies adopted, and any other business presented in sufficient detail so that anyone reading the minutes could understand what transpired.
- Hold regularly scheduled ABC Board meetings. Board meetings should be conducted monthly. All board meetings are open to the general public. Post a sign stating when, where, and the time the meeting will take place at the store or with the town hall.
- 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. *Refer to Appendix B (2) for statement reference.*
- Ask appointing authority to appoint a third board member and provide a copy of the oath of office. *Refer to Appendix B (3) for statute.*
- Update board information on the Commission website to reflect current appointment dates.
- Adopt a travel policy that meets requirements of 18B-700(g2) and file a copy with the Commission (2R.0909(c)). *Refer to Appendix B (4) for statute.*
- 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 (5) for rule.*

7. Personal/Training Compliance

- Training is conducted when need arises and whenever new information is available.
- Cross-training is conducted in the event key management has left employment.

- Current board members, general manager, and finance officer have attended the mandatory ethics class.

Recommendations:

- Attend annual training, such as the Responsible Alcohol Seller Program, offered by the Commission and other approved venues. Create a checklist for use in training new and existing employees and have each employee sign once training is complete.
- Continue cross training employees on store maintenance but also include ordering liquor and month end closing in the event the general manager was suddenly unavailable.
- Provide training opportunities detailing bookkeeping techniques and computer support.

8. Internal Controls

- Purchase orders are not used for store and office supplies affixing the pre-audit certificate on the purchase order. A sample purchase order was provided by the Commission auditor.
- Orders to LB&B do not have the pre-audit certificate signed by the finance officer. However, the pre-audit certificate is placed on utility bills and liquor bills.
- Physical inventories are completed two times a year.
- When an employee accidentally breaks a bottle, the board does not absorb the cost but instead writes up vendor claim.
- A deputy finance officer has not been appointed to fill in if the finance officer or general manager is absent.

Recommendations:

- Use purchase orders for ordering all store and office supplies. Purchase orders are required to have the pre-audit certificate signed by the finance officer. *Refer to Appendix B (6).*
- Affix pre-audit stamp to liquor order, not invoices. Approval should take place before the liability is incurred, not after.
- To ensure stronger internal controls, take physical inventory monthly. Schedule board members to spot check inventory on a regular basis. Have board members review all monthly inventory adjustments.
- If an employee breaks a bottle, the board is responsible for absorbing the cost of the breakage. When a bottle is broken on the truck or while in transition to the store, complete the Destruction of Unsalable Merchandise Form. Immediately remove all breakage from inventory.
- Appoint a deputy officer to aid in the duties of the finance officer when he/she is absent. *Refer to Appendix B (7) for statute.*

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Chart 1

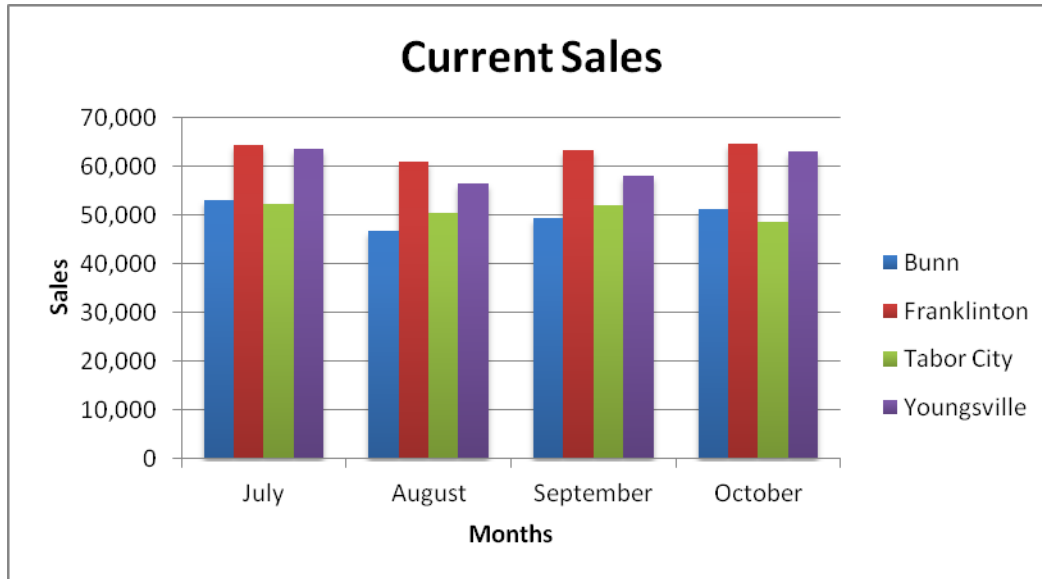


Chart 1 shows current year sales comparison of similar size boards.

Chart 2

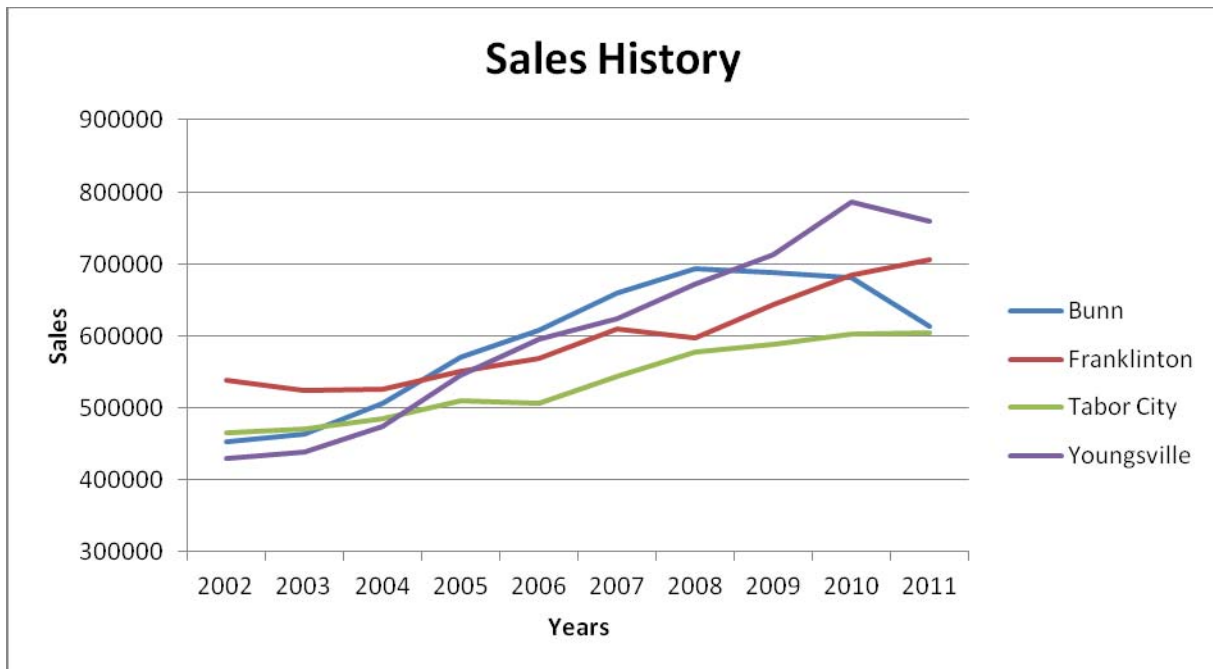


Chart 2 reflects the historical sales growth comparison of similar size boards over the past ten years.

Chart 3

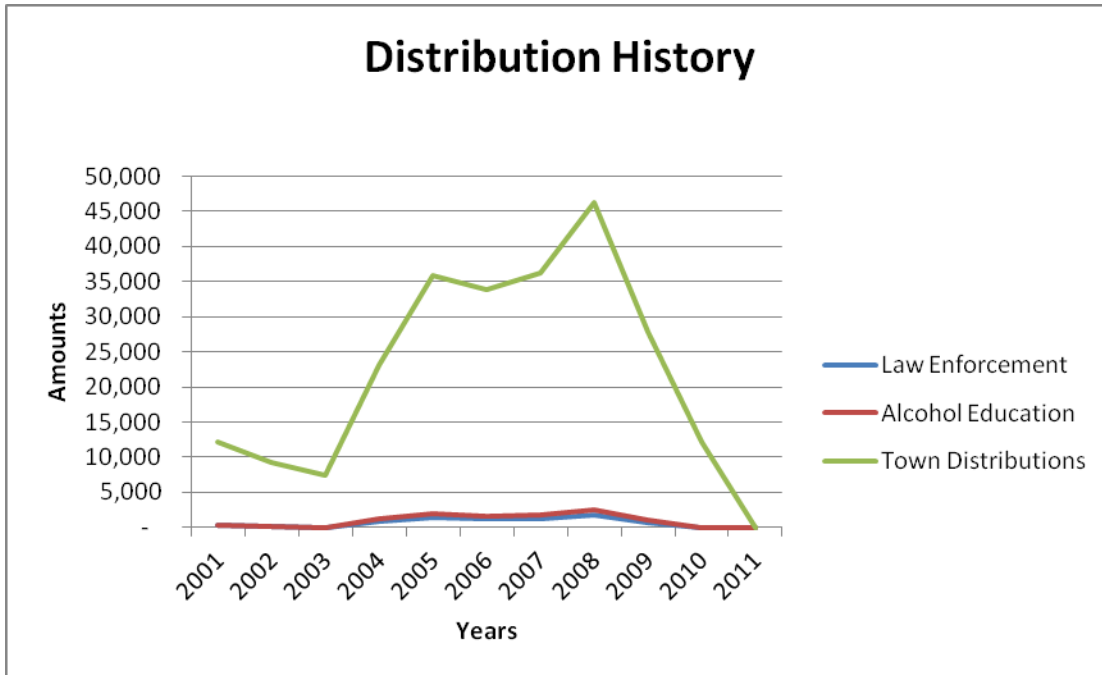


Chart 3 shows the downward trend of profit distributions to the appointing authority, law enforcement, and alcohol education.

Chart 4

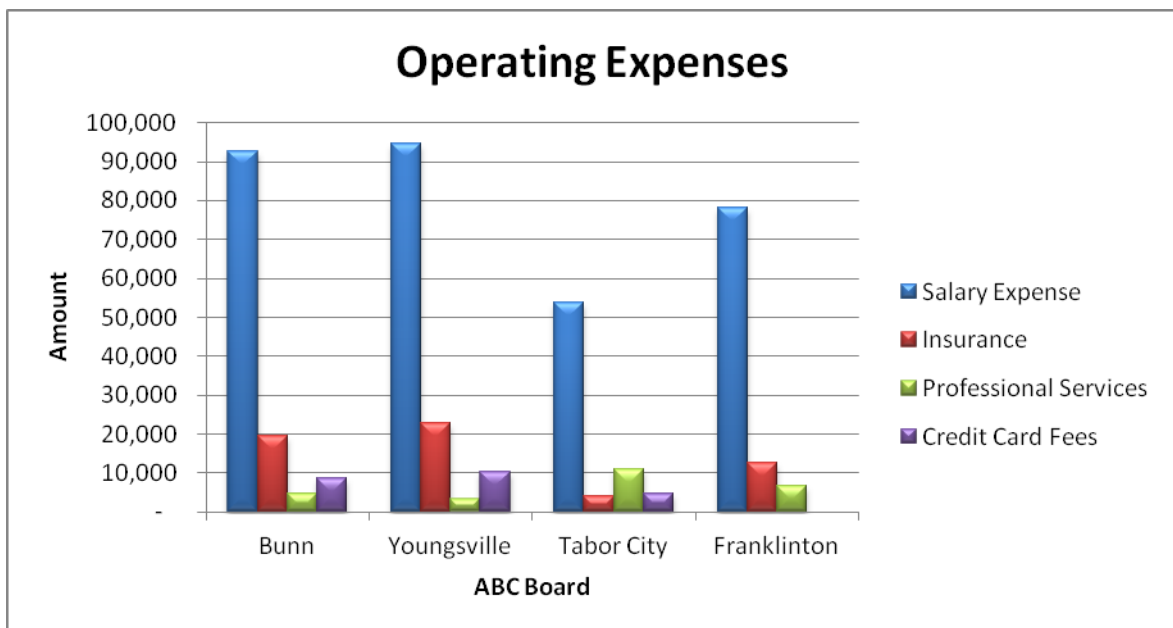


Chart 4 reflects common expense comparisons of similar size boards.

Chart 5

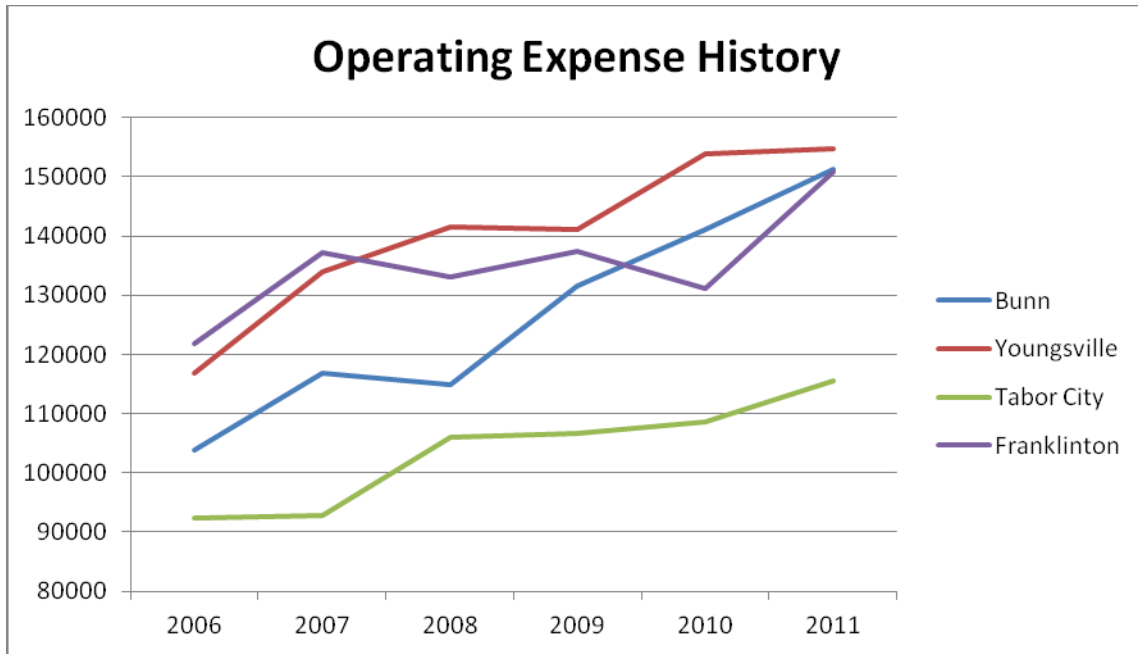


Chart 5 reflects the historical trend of operating expenses for similar size boards.

APPENDIX A



Illustration of parking lot.



Illustration of shelf management system.

APPENDIX B

(1) NCAC 02R.1711(a) states "Each local board shall establish and maintain a shelf management plan that properly allocates space per brand and category to maximize profits. At a minimum, the plan shall:

- a. Set the premium price items on the upper shelves at eye level and set the low profit items on the bottom shelves;
- b. Require block categories in vertical sets per their category;
- c. Require that bottle sizes increase left to right of the same item;
- d. Require that brand billboard be created by stacking all sizes together;
- e. Require that shelf space per item be set equal to market share; and
- f. Require that low profit slow moving items be discontinued.

(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:"

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?

(3) Chapter 395 of 1963 Session Law states, "If the operation of a town liquor control store is authorized under the provisions of this Act, the Mayor and Board of Commissioners of the Town of Bunn shall immediately create a town board of alcoholic control to be composed of a chairman and two other members...serve for a period of three years. Their successors or any vacancy occurring in the board shall be named or filled by the mayor and the governing body of the town.

(4) 18B-700(g2) states " ...the local board adopts a travel policy that conforms to the travel policy of the appointing authority and such policy is approved by the appointing authority [or adopts the state policy]."

NCAC 02R.0909 (c) Rules to be filed with Commission. Each local board shall file a certified copy of its travel policies and procedures, and any amendments thereto, with the Commission within 10 days of the adoption, or amendment, of the policies by the local board.

(5) 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."

(6) 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)

(7) 18B-702(p) "...all checks or drafts on an official depository shall be signed by the finance officer or a properly designated deputy finance officer."

Response to Audit
From
The Bunn ABC Board

Thank you to the NC State ABC Commission for conducting the audit in 2011. This will prove helpful in several areas:

1. Inventory Control. In this time of economic recession it will be beneficial to limit purchasing to coincide with reduced sales. Steps to reduce inventory have already been put in place.
2. Shelf Management. While stocking shelves and keeping sale items in good order seems like ordinary practice, we have gained valuable knowledge in certain ways to manage items and brands in an effort to increase sales.
3. Reducing Expenses. Aside from reducing purchases and inventory, the board is evaluating the current health insurance policy. Also, the decision has been made to have quarterly instead of monthly accounting reports which will significantly reduce the book-keeping expense.

Again, thank you for helping to point out the areas that will help the Bunn ABC Store be once again a financial success.

Submitted by Richard Henn, Bunn ABC Board Chairman

BUNN ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Store Appearance - Develop an efficient shelf-management system. Improve parking area by eliminating potholes.</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 checked="" type="checkbox"/> Partially implemented 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management has begun implementing a shelf management system. The updated plan has eliminated empty spaces making a fuller display of product available. A Commission representative has visited to give feedback on what has been implemented.</p> <p>The parking area has improved defined handicapped accessible spaces and clearly defined areas. <i>Refer to Pictures below.</i></p>
<p>Administrative Compliance – Hold monthly meetings. Reference, in the board meeting minutes, whether the conflict of interest statement has been read.</p> <p>Adopt a price discrepancy policy. **</p> <p>Update board information on the Commission website.</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 type="checkbox"/> Fully Implemented</p> <p><input checked="" type="checkbox"/> Partially implemented 60% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The board has changed the meeting schedule to incorporate monthly meetings. Notices of meeting dates and times are posted at the store location. The conflicts of interest statement has not been read or stated in the minutes.</p> <p>Although the board states a price discrepancy policy has been adopted, it has not been submitted to the Commission.</p> <p>Board member information is currently being updated.</p>

BUNN ALCOHOL BEVERAGE CONTROL BOARD
Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Administrative Compliance (continued) – Ask the appointing authority to appoint a third board member. Once appointed, have the board member attend the mandatory ethics class.</p> <p>Adopt a travel policy.</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 75% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The appointing authority has appointed the third board member. Board member has not attended the mandatory ethics class.</p> <p>The State’s travel policy was adopted and verified in the board meeting minutes.</p>
<p>Training – Provide training opportunities detailing bookkeeping, store maintenance, and customer service to employees.</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" 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>Commission representatives have provided training on budgetary information and shelf management.</p>

BUNN ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Internal Controls – Use purchase orders for ordering store and office supplies.</p> <p>Stamp the liquor order with the pre-audit certificate before the liability has incurred.</p> <p>Appoint a deputy 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 checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>A sample, provided by the Commission auditor, is being used for ordering store and office supplies.</p> <p>The liquor order is currently being stamped with the pre-audit certificate.</p> <p>A deputy finance officer has not been appointed.</p>
<p>Internal Controls (continued) – Perform physical inventory monthly.</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>The board elected to continue with the current practices of inventory control.</p>

BUNN FOLLOW-UP

Picture 1



New shelf management plan.

Picture 2



Current parking area.



Alcoholic Beverage Control

CHAIRMAN:
A.D. "ZANDER" GUY, JR.

COMMISSIONER:
DANIEL L. BRIGGS
Lexington

ADMINISTRATOR:
MICHAEL C. HERRING

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Moniqua S McLean
ABC Board Auditor
919-779-0700
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June 29, 2012

The Honorable Marsha Strawbridge, Mayor
Town of Bunn
PO Box 398
Bunn, NC 27508

Dear Mayor Strawbridge,

The ABC Commission has completed the follow up to the performance audit which occurred on June 29, 2011. The purpose of the follow up visit was to determine which recommendations have been addressed and are now in compliance with the ABC laws outlined in the original performance audit report.

Since the initial performance audit, management has changed and while striving to remain in compliance with the statutes, is currently initiating new procedures. During the follow up visit, recommendations were confirmed by interviewing board personnel and analyzing documentation.

Additional recommendations are as follows:

- Whenever possible, board meetings should be held on the same day and at the same time every month. Implement a set schedule for monthly board meetings and post the schedule with the town and in the store;
- Provide annual training including alcohol education, customer service, and product knowledge. Contact Laurie Lee at the Commission for help with this.

This concludes the performance audit conducted on June 29, 2011.

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

Respectfully,

Moniqua S. McLean
ABC Board Auditor

Cc: Judy Jeffreys, Town Clerk
Bunn ABC Board