

Cooleemee 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
Greensboro

ADMINISTRATOR:
MICHAEL C. HERRING

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Your Name
Director
Permit Division
(this is editable)

June 21, 2013

Cooleemee ABC Board
Mr. Brent Cranford, Chairman
PO Box 575
Cooleemee, NC 27014

Dear Chairman Cranford,

We are pleased to submit this performance audit report on the Cooleemee 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 increase operating efficiencies 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 2012;
- Visited the store;
- Interviewed key ABC board personnel.

The Cooleemee ABC Board has responded the performance audit recommendations and continues to make steps toward becoming more profitable while reducing or maintaining current costs. Policies and procedures have been adopted and implemented to maintain compliance with statutes and Commission rules and to maintain stronger segregation of duties.

BACKGROUND INFORMATION

G. S. 18B-601 authorized the Town of Cooleemee to hold an election upon either a written request for an election from the city governing body or a petition signed by at least thirty-five percent of voters. The referendum was held on November 3, 1987 and passed 274 to 232. The first date of sales occurred on June 1, 1988. A mixed beverage election was held on June 18, 2002 and passed 634 to 592.

Upon election of an ABC store, the Town of Cooleemee was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members include William Bowen, board chairman, Brent Cranford and Cathy DeCess, board members.

The Cooleemee ABC Board operates one retail store. The board staffs three full-time employees, including the general manager, and one part-time employee. The general manager's duties consist of overall operations of the store, supervising personnel, inventory management, and customer service. Clerk duties consist primarily of customer service activities, store upkeep, and daily stock maintenance. Although the general manager has assumed duties of the finance officer, the board has hired an external accounting firm to maintain the accounting records.

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 Cooleemee ABC Board has twice a month deliveries: the inventory turnover rate is 4.1.

Recommendations:

- To increase inventory turns, consider the following;
 - Splitting cases with surrounding boards to increase variety as well as to reduce cost,
 - Continue cross-merchandising or moving stock within the store to increase visibility and to encourage more impulse shopping,
 - Analyzing sales data and history reports to plan orders to take advantage of Special Purchase Allowance offers whenever possible;
- Contact other boards with higher inventory turnover rates for other ideas that may be implemented.

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 Cooleemee ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 1.04. In fiscal year 2012, sales increased 3.7% over fiscal year 2011 and expenses increased 31.7% over the same time period. To meet the cost ratio goal and remain at current operating expense of \$190,199, revenues must be increased to approximately \$1,030,000, a 38% increase. To meet the cost ratio goal and remain at current revenue of \$748,564, expenses must be reduced to approximately \$140,000, a 26% decrease. *Refer to charts in Appendix A for analyses of expense trends.*

Recommendations:

- Because salaries and benefits are the biggest expense and account for the majority of the increase, consider whether it is beneficial to decrease full-time status employees to part-time employees through attrition in order to reduce the health benefit costs.
- Monitor budget frequently and more closely to ensure that actual expenses do not exceed budgeted amounts. Provide year-to-date reports to board members detailing how much has been spent.
- Request bids annually from various vendors to get the best rates possible on financial audits, specific utilities, maintenance contracts, and credit card processing fees.

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

Based upon the new limits, the Cooleemee ABC Board had a working capital of \$75,414 and is within the limits set by the Commission.

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:

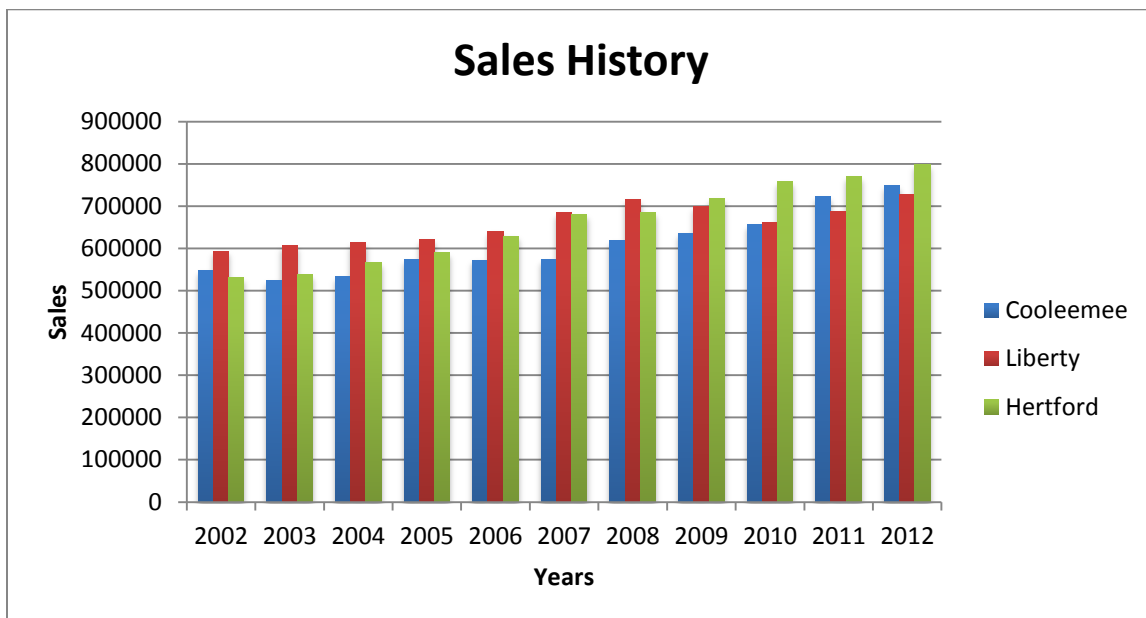
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Cooleemee ABC Board had gross sales of \$748,564, income from operations was -\$11,733, a -2.26% profit percentage to sales.

Factors affecting sales and profitability:

- US Census Bureau reports an estimated population of 960 in 2010;
- Overall population has increased 6.1% over the past ten years;
- Sales increased 3.7% over the previous year;
- Surrounding towns with ABC stores include Salisbury, Statesville, and Winston Salem;
- Growth and development in surrounding, more heavily populated areas led to a shift in shopping patterns away from small towns which affects sales and profitability.

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



Recommendations:

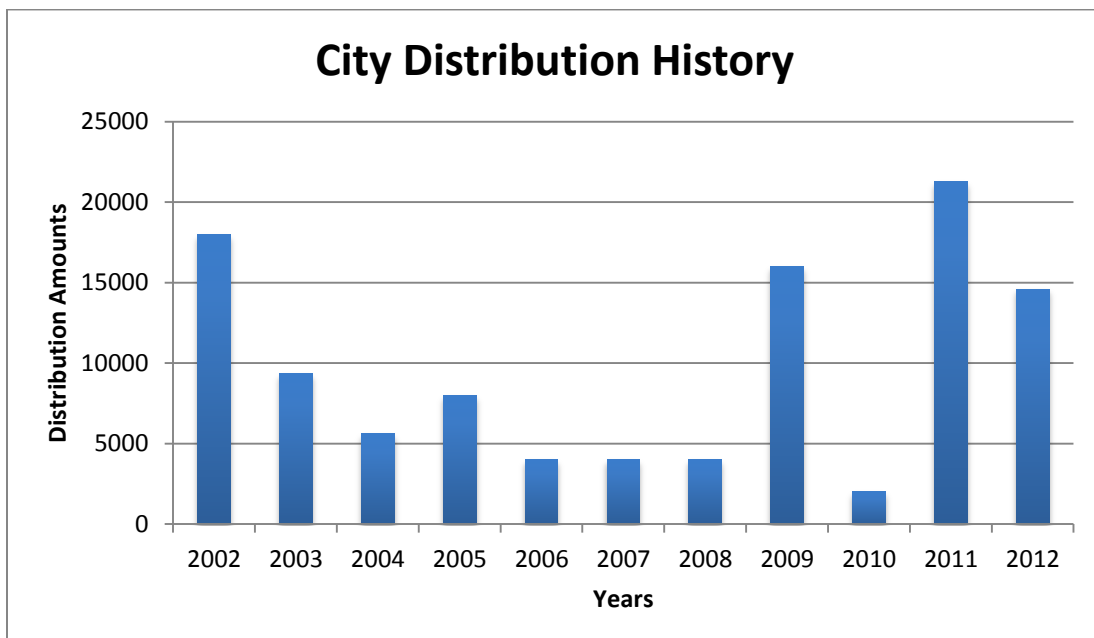
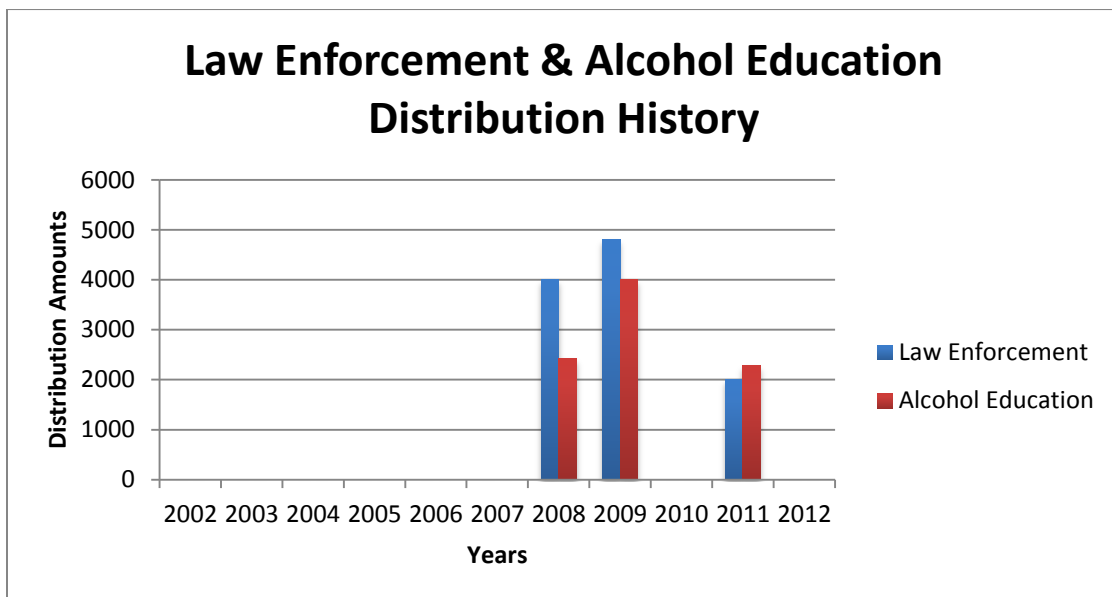
- To increase profitability, consider merging with another system to acquire profits without the burden of common expenses.

Distributions

G.S. 18B-805 (c) (2) and (3) requires the board to distribute quarterly at least five percent of profits for law enforcement and at least seven percent of profits for alcohol education. The remaining profits are to be distributed 100% to the Cooleemee General Fund.

In FY2012, the Cooleemee ABC Board made the minimum distribution to the town totaling \$21,868, plus additional distribution of \$14,600. \$171,561 in Excise and other taxes were paid to the town and NC Department of Revenue. Law enforcement and alcohol education distributions were not made in FY2012.

Below is a chart analyzing the history of law enforcement/alcohol education and city distributions.



OPERATIONAL FINDINGS, OBSERVATIONS, AND RECOMMENDATIONS

On December 20, 2012, ABC Commission Board Auditor, Moniqua S. McLean, visited the Cooleemee ABC store and interviewed Kris Howell, general manager. The following are the findings, observations, and recommendations relating to the performance audit.

Store Appearance and Customer Service Observations

The Cooleemee ABC Board operates one retail store with approximately 900 linear feet of shelf space and carries approximately 920 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 interests. A policy has been submitted to the auditor.
- Upon entering the store, employees greet customers in a professional manner and were attentive to customer needs exhibiting good customer service.
- Recent upgrades allowed the store to change the counter area from the entrance way to the side of the store.

No Recommendations.

Personnel and Training

- All board members and general manager have attended the initial mandatory ethics class.
- Training is provided as new information becomes available to new and current staff. Other training opportunities, such as the RASP class, have not been provided to staff.
- Cross training opportunities have been extended to key employees in the event the general manager was suddenly unavailable.

Recommendations:

- Provide additional training that will include alcohol education, customer service, and product knowledge.

ABC Board Policies

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract
 - State Travel Policy (Verified through Board meeting minutes)
 - Employee Handbook
 - Price Discrepancy Policy
 - Shelf Management Policy
 - FY2013 Budget (Proposed and Adopted)

No Recommendations.

Internal Control Procedures

- Because there is just one register in the store, clerks often use the same cash drawer. Cash drawers are counted by clerks. Each clerk has a personal clerk number for sales transactions. Deposits are made by daily. The general manager receives deposit verification and matches with corresponding daily register reports. The general manager also reconciles the deposits with the bank statements at the end of the month.
- Although a scheduled inventory is not planned, store personnel conduct spot checks frequently. Discrepancies are investigated and adjustments are made by the general manager. Unsalable items are adjusted immediately.
- Personnel files were viewed and included current tax documents, hiring information, and pay schedules.
- Each employee uses a timesheet for hours worked. The general manager verifies each employee's timesheet and forwards to the bookkeeper for payroll. Once payroll is completed, board members verify employees' hours worked and pay rates with the corresponding payroll checks.

Recommendations:

- To ensure stronger controls of inventory, incorporate a plan to conduct inventory counts more frequently. Ask board members to spot check inventory on a regular basis.

Administrative Compliance

- Board meeting minutes were viewed and followed the order of proceedings for conducting a public business meeting. The conflict of interest statement was referenced in the board minutes.
- Board member appointment dates and compensation amounts are current on the Commission internal 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).
- 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.
- Actual operating expenses for the budget year 2012 exceeded the adopted budgetary amounts.
- All board, general manager, and finance officer is bonded for \$50,000 as required by G.S. 18B-700 (i).
- The initial liquor order is not stamped with the pre-audit certificate, however each individual invoice has the certificate stamped and the finance officer's signature.
- Checks bear the approved certificate and are signed by the general manager/finance officer and a board member.
- Out of approximately 920 product codes, approximately thirty codes were sampled and all were correct.

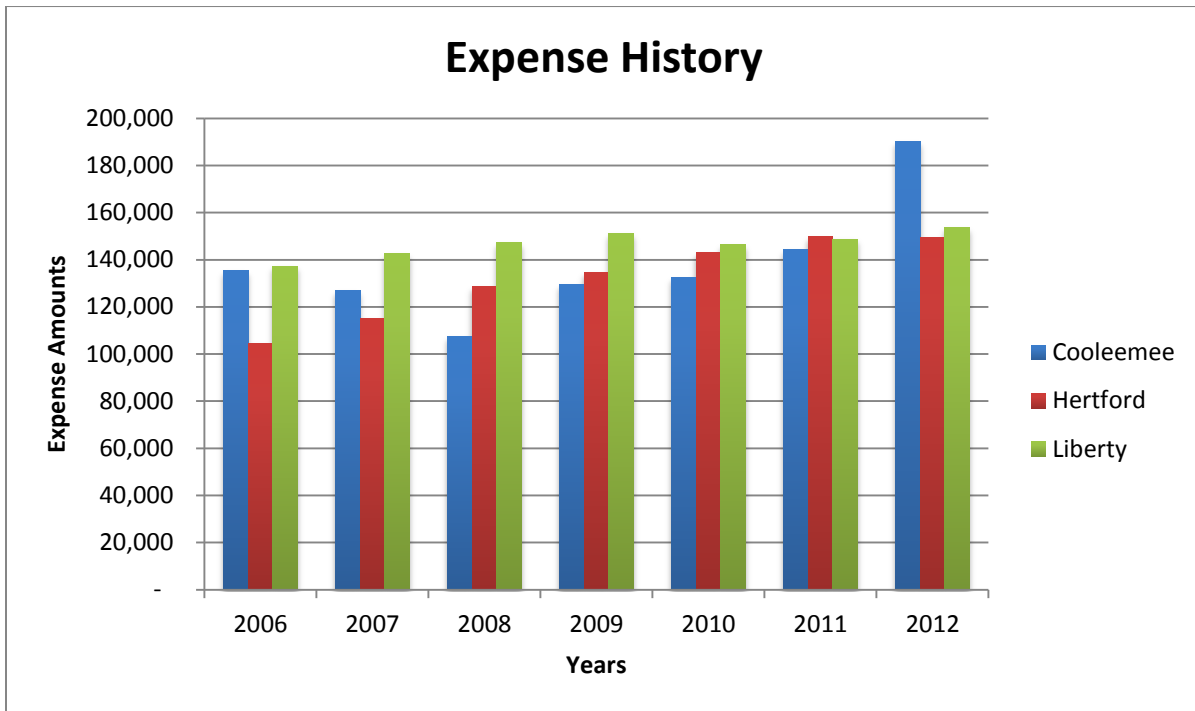
Recommendations:

- Appoint a finance officer other than general manager or ask the Commission for an additional two years' exemption. *Refer to Appendix C (1) for statute.*
- Put controls in place to more closely monitor expenses so as not to exceed budgetary amounts. Make budget amendments prior to spending any money that exceeds what has been budgeted.
- 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.

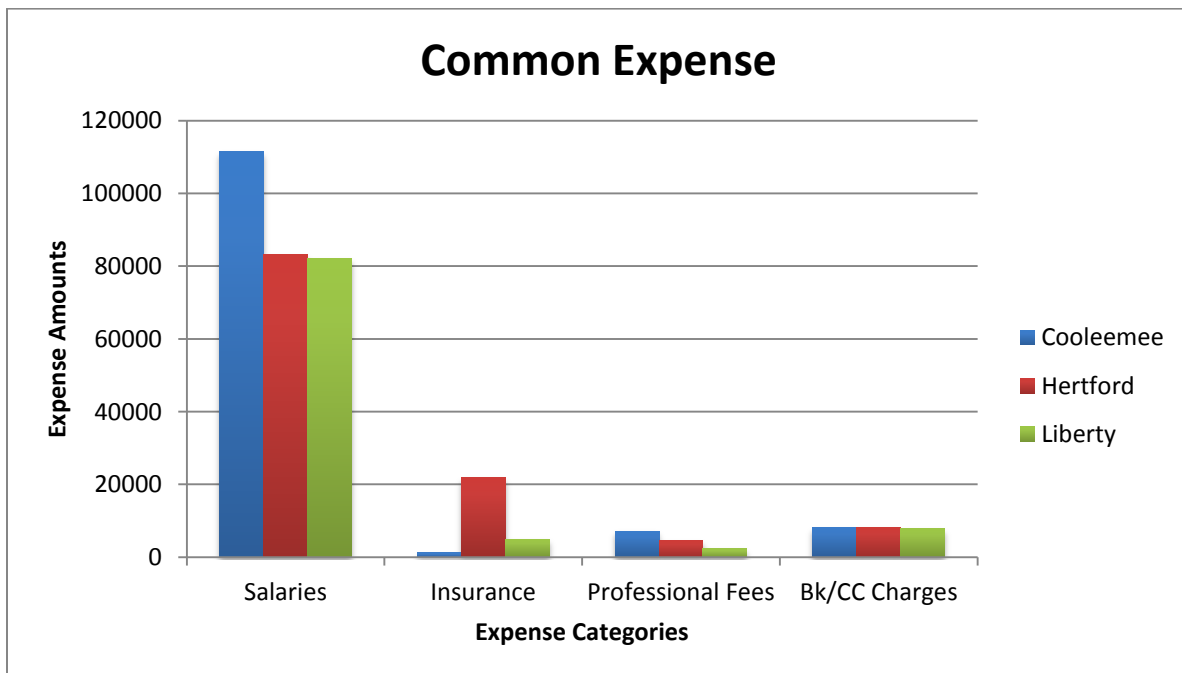
Other

- Cooleemee ABC provides funding and advocates for alcohol educational programs in the County. Although the board is in continuous pursuit of other programs, the board is well known for its involvement during the prom season for local schools.

APPENDIX A



The expense history data indicates that Cooleemee ABC Board's overall expenses are above other similar size boards. In analyzing expense compared to sales, the data shows that as sales have increased 3.7% expenses have increased 31.6% over the FY2011.



Excluding salaries, common expenses for Cooleemee ABC Board are in line with other similar size boards. A high salary expense indicates that more employees are receiving benefits.

APPENDIX B



Exterior view



Counter view.

APPENDIX C

(1) 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."

Cooleemee ABC Board 155
P.O. Box 575
Cooleemee, NC 27014
336-284-4106

March 6, 2013

Moniqua McLean
ABC Board Auditor
400 East Tryon Street
Raleigh, NC 27610

Re: Performance Audit

Dear Mrs. McLean,

We truly appreciate your input and recommendations from our audit. This audit will help us with the areas that need improvements. The Cooleemee ABC Board has reviewed the draft report of the performance audit you conducted on December 20, 2012.

The Following are our responses to the findings in the audit:

Inventory Turnover

- We will follow all recommendations.

Operating Cost

- Cooleemee ABC Board will consider all recommendations and follow if at all possible.

Distributions- Alcohol education

- There were no recommendations for this, but Cooleemee ABC Board would like it noted since 2011 we have a wrecked automobile placed in front of the store, along with two banners saying "Please Don't Drink & Drive...It Takes Precious Lives..."
- Also all staff wears shirts with our stance on drinking and driving. Please see attached

Personal Training

- On March 19, 2013 we will hold our first RASP Class.

Policies and Procedures

- Monthly inventories will be done, as well as spot checks.

Administrative Compliance

- All recommendations will be followed.

We like to invite you to our next board meeting scheduled for March 29, 2013 at 12:00pm at Cooleemee Town Hall.

We appreciate all recommendations from the Commission and the opportunity to work with you.

Sincerely,

Kris Howell

General Manager

COOLEEMEE ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Administrative Compliance:</p> <p>Appoint a finance officer other than the general manager or ask the Commission for an extension.</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>The Board is requesting an extension from the Commission to allow the general manager to serve as the finance officer for one year.</p>