

Cherryville 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

October 30, 2013

Cherryville ABC Board
Mr. H. L. Beam, Chairman
PO Box 812
Cherryville, NC 28021

Dear Chairman Beam,

We are pleased to submit this performance audit report on the Cherryville 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 General Managers 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. We look forward to working with the new ABC Board in hopes of increasing overall operating efficiencies at the Cherryville 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 Cherryville ABC Board has responded to the performance audit recommendations and is striving to improve profitability through analyzing and reducing current costs while continuing to meet the demands of customers. 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

Chapter 114 of the 1975 Session Law authorized the town of Cherryville to hold an election for an ABC store upon a petition of at least fifteen percent (15%) of registered voters. The referendum was held on November 3, 1981 and passed 1,114 to 827. The first retail sale occurred on September 14, 1982. A mixed beverage election occurred on March 25, 2003 and did not pass. A second mixed beverage election occurred on May 2, 2006 and passed 725 to 695.

Upon election of an ABC store, the town of Cherryville was authorized to create an ABC Board consisting of a chairman and two members. Current board members are H. L. Beam III, board chairman, J. L. Beam III and James R. Beam, board members.

The Cherryville ABC Board operates one retail store. The board staffs seven employees consisting of one full-time general manager and six part-time clerks. The general manager is responsible for the overall operations of the store including providing friendly customer service and maintaining sufficient inventory. The board has hired a finance officer within to handle financial duties as required. Clerks are primarily responsible for providing friendly customer service 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 Cherryville ABC Board receives deliveries twice a month: 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,
 - Utilizing end caps and shelf space as much as possible to highlight slow moving and new items,
 - Analyzing sales data and history reports more closely to plan orders, take advantage of Special Purchase Allowance offers, and reduce overstocking;
 - Selling slow-moving inventory to another board with demand for the products
- Contact other boards whose inventory turnover rate exceeds the target 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 sale (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 Cherryville ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.82. Mixed beverage sales make up 2.3% of total gross sales. In fiscal year 2012, sales increased 3% over fiscal year 2011 and overall expenses increased 1.13% over the same time period. To meet the goal and remain at current expense levels of \$188,270, revenues would need to be increased to approximately \$1,015,000, a 6.3% increase. To meet the cost ratio goal and remain at current revenue of \$954,420, expenses would need to be decreased to approximately \$177,000, a 6% decrease. *A chart analysis of expenses is found in Appendix A.*

Recommendations:

- 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

In FY2012, Cherryville ABC had a working capital of \$244,788 which is equivalent to less than four months gross sales and is within the limits of NCAC 02R .0902.

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:

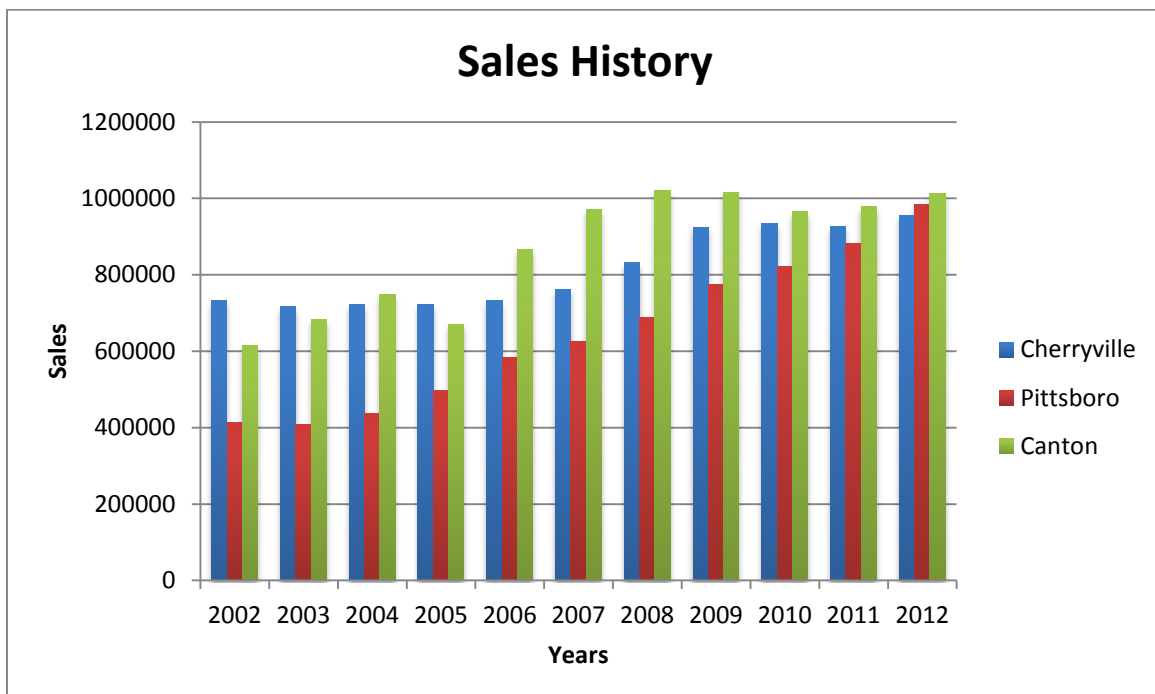
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Cherryville ABC Board had gross sales of \$954,420; income from operations was \$27,895, a 2.92% profit percentage to sales.

Factors affecting sales and profitability:

- Surrounding counties and towns with ABC stores include Lincoln County, Mecklenburg County, Bessemer City, Cramerton, Gastonia, Mount Holly, Lincolnton, Kings Mountain and Shelby.
- US Census Bureau reports an estimated population of 5,785 in 2011.
- Sales increased 3% over fiscal year 2011;
- Growth and development in surrounding, more heavily populated areas has led to a shift in shopping patterns away from small towns

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



Recommendations:

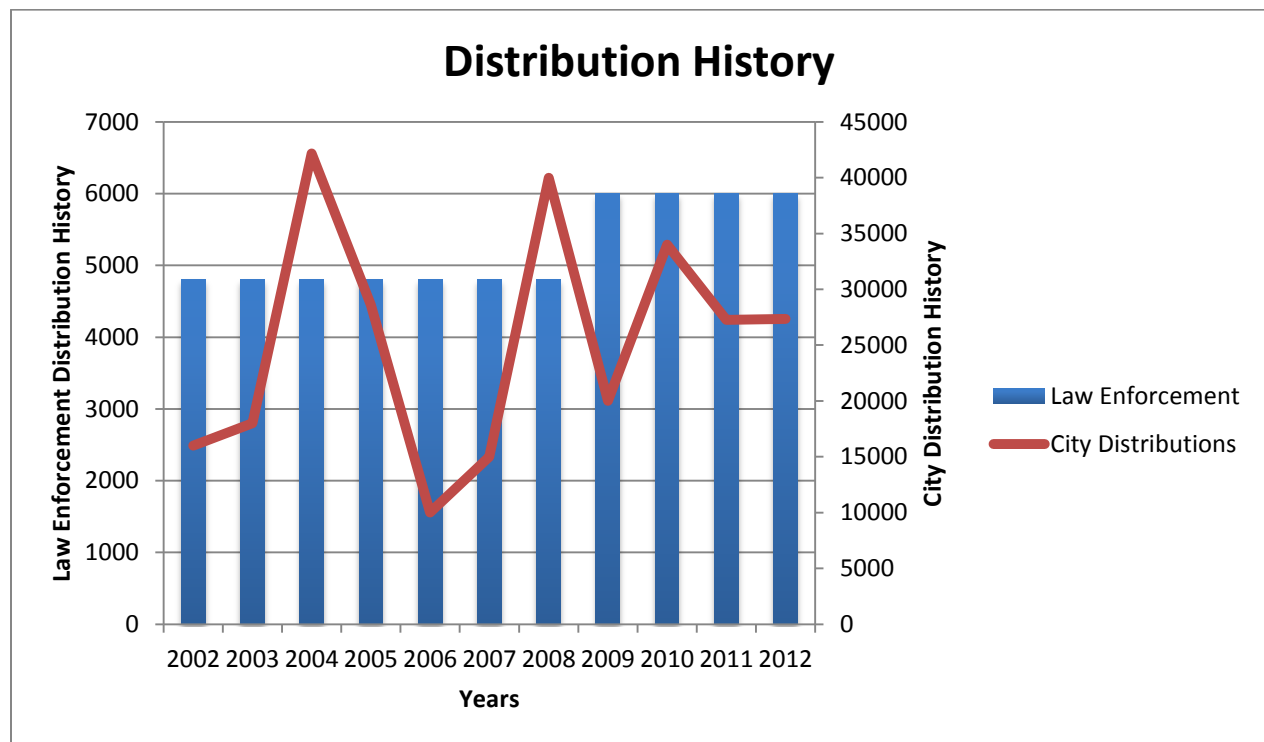
- To increase profitability, consider testing different marketing strategies such as cross-merchandising and modernizing store to increase shelf space and encourage impulse shopping;
- Invite the Association’s Efficiency Committee to visit the store with the possibility of making additional recommendations to improve profitability.

Distributions

G.S. 18B-805 (c)(2) requires the board to distribute at least five percent of profits to law enforcement. Alcohol education distributions are not required by the board’s enabling act. The remaining profits are to be distributed to the Town of Cherryville General Fund.

In FY2012, Cherryville ABC made the minimum distribution to the town totaling \$28,479. \$216,097 in Excise and other taxes were paid to the NC Department of Revenue and \$6,000 was distributed to law enforcement.

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



OPERATIONAL FINDINGS, OBSERVATIONS, AND RECOMMENDATIONS

On April 30, 2013, ABC Board Auditor, Moniqua S. McLean, visited the Cherryville ABC store and interviewed Terry Fisher, general manager. The following are the findings, observations, and recommendations related to the performance audit.

Store Appearance and Customer Service Observations

The Cherryville ABC Board operates one retail store with shelf space of approximately 1,000 linear feet and carries approximately 1,038 product codes.

- The store was clean and well-lit. Bottles were fronted and dusted. Counter areas were free of clutter and supplies were easily accessible.
- Store has recently acquired new carpets and shelving. The interior has been painted for a fresh look.
- Exterior signage and landscaping around the store was clean and free of trash. However, interior signage was plentiful, worn, and dated. The Fetal Alcohol Syndrome poster is displayed.
- Some shelves were empty giving the impression that there was not enough product available.. However, management is currently reorganizing shelves to incorporate a shelf management plan with highest priced products on top shelf and lowest priced products on bottom shelf.
- A television was in the store and the channel was not set to either the weather or news stations.
- Security systems are in place and functional.
- The state price book is available along with the monthly sales lists.
- Sales clerks' interaction with customers was attentive, courteous, and eager to meet the needs of customers.

Recommendations:

- Replace worn signage and eliminate excessive signage.
- As a reminder, when the television is operating, have the channels set to either the news or weather stations so as to not distract customers.

Personnel and Training

- All board members, general manager, and finance officer have attended the initial mandatory ethics class.
- Formal training has not been provided as new information becomes available to current 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. Contact other boards that have a training module(s) in these areas.

ABC Board Policies

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Travel Policy (Town of Cherryville's Approval on File)
 - FY2012 Annual Audit
 - FY2013 Budget (Proposed and Adopted)
 - Mixed Beverage Policy
 - Price Discrepancy Policy

- Policies not adopted and submitted include:
 - Law Enforcement Contract
 - Board Cell Phone Usage Policy
 - Employee Handbook

Recommendations

- Have an agreed upon law enforcement contract and submit to the Commission. All local boards are required to have an agreement, even if the agreement results in no enforcement activity without pay. *Refer to Appendix C (1) for statute.*

- Adopt a written cell phone usage policy that details who is able to use and for what purpose. Once adopted, submit a copy to the Commission.

- Adopt an employee handbook that outlines the duties and responsibilities of each employee, board policies, and benefits offered, if any. Once adopted, submit to the Commission. *Refer Appendix C (2) for rule.*

Internal Control Procedures

- Physical inventory counts are performed quarterly by the finance office and one other clerk. Spot checks are only conducted if there is a pattern of discrepancies. If discrepancies occur, the finance officer and clerk investigate and recount for accuracy and verification. Once completed, the general manager will adjust the system to match with the actual store count. On occasion, the finance officer may perform the adjustments. Unsalable items are adjusted monthly.
- Cash drawers are counted by clerks. All clerks are responsible for their own cash drawer. 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 at the end of the month. Although understood, a cash drawer overage and shortage policy has not been adopted should instances occur.
- The master payroll activity report is verified by the general manager. Payroll software calculates tax and other withholdings. The software is backed up daily.
- Board credit cards are issued to the general manager and all board members. A credit card policy has not been adopted.

Recommendations:

- Adopt a written cash shortage and overage policy. While this is understood, it is good business practice to have written procedures in place for current and future employees. Once adopted, submit a copy to the Commission and include in the employee personnel manual.
- Consider reducing the number of credit cards in circulation. Have one card for board members' that is checked out as needed. To ensure accountability, have board members view the monthly credit card statements.
- Adopt a written credit card usage policy. Include a maximum amount allowed on purchases before a board member is notified for approval. A board member is to be notified of all purchases over the limit. Once adopted, submit a copy to the Commission. Document procedures for the usage include:
 - Who has authority to use the card,
 - What types of items the card may be used for,
 - Personal usage is prohibited;
 - An itemized receipt for every transaction is required,
 - Maximum limit allowed on purchases before approval is needed from the finance officer,
 - Receipts are to be submitted within 15 days of the purchase.

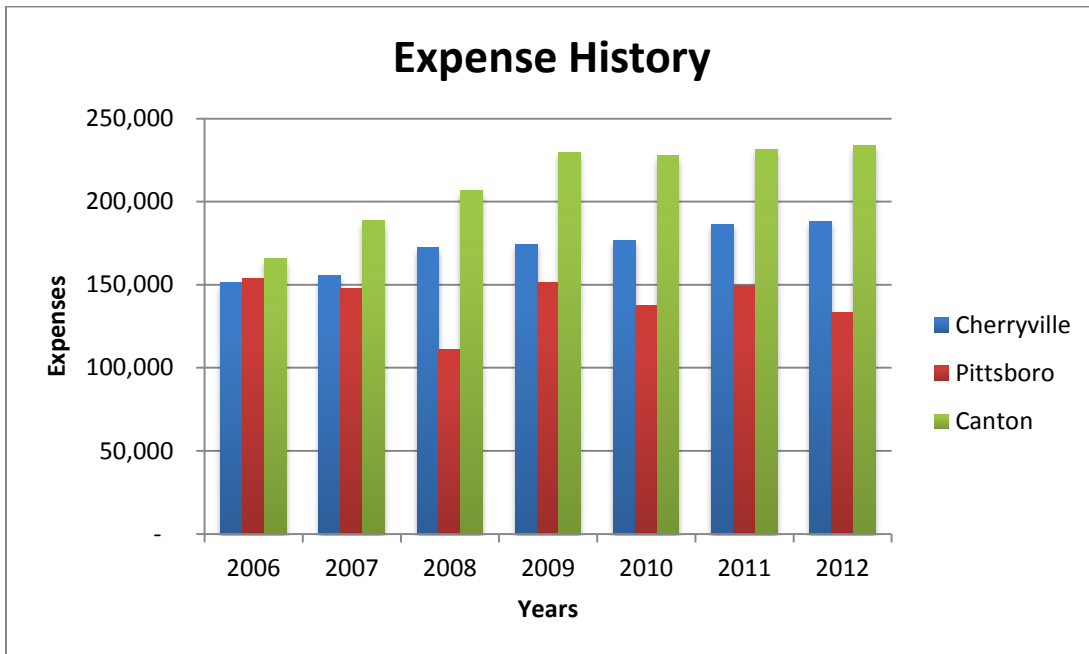
Administrative Compliance Findings and Observations

- 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 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).
- A review of travel reimbursements revealed that expense forms follow the travel policy adopted with documentation attached.
- Orders for liquor and other common orders do not bear the pre-audit certificate as required by G.S. 18B-702 (m).
- Although checks have two signatures, that of the finance officer and general manager, the approved certificate is not shown on all checks as required. In the event the either the finance officer is unavailable, the board chairman is authorized to sign checks.
- Because of the timing of deliveries and consolidation for payment, a sample review of paid liquor invoices revealed that payments were not always paid within thirty days.
- Out of approximately 1,038 product codes, approximately sixty-seven codes were sampled and all reflected the correct price.

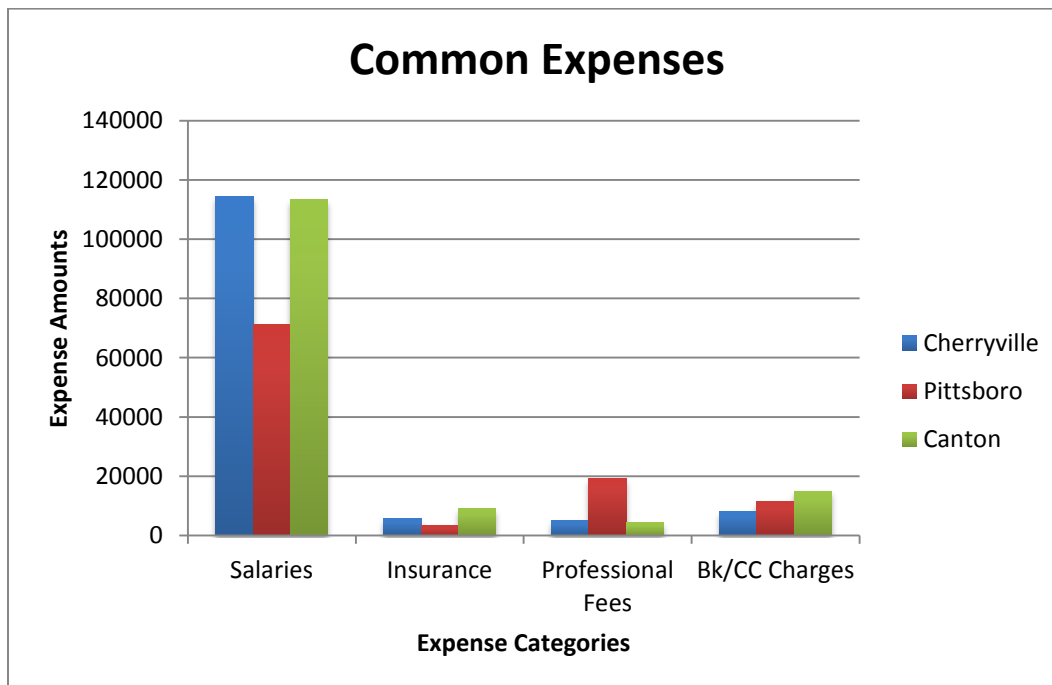
Recommendations:

- 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 (3) for rule.*
- Place the pre-audit certificate with the finance officer's signature on the order to LB&B. When ordering supplies, have a purchase order or order confirmation that will have authorization from the finance officer before the transaction takes place. *Refer to Appendix C (4) for statute.*
- Place the approval certificate on all checks. *Refer to Appendix C (5) for statute.*
- Pay all liquor bills within thirty days of receipt of liquor. It is the Commission's policy to stop liquor shipments when liquor invoices become delinquent. *Refer to Appendix C (6) for rule.*

APPENDIX A



The expense history data indicates that Cherryville ABC's total expenses have increased 1.13% since FY2011. Compared with other similar size boards, Cherryville ABC's expenses are not out of line.



Common expense analysis indicates that Cherryville ABC's expenses are relatively lower compared with other similar size boards. Note: Pittsboro ABC's professional fees are higher to due to additional accounting expenses.

APPENDIX B



Counter view



Interior view



Exterior view

APPENDIX C

- (1) 18B-203 (f) states, "Instead of hiring local ABC officers, a local board may contract to pay its enforcement funds to a sheriff's department, city police department, or other local law enforcement agency for enforcement of the ABC laws within the law enforcement agency's territorial jurisdiction. Enforcement agreements may be made with more than one agency at the same time."
- (2) NCAC 02R.1009 (a) states, "Each local board shall establish policies and rules governing each of the following:
- (1) Initial employment of employees, including qualifications and requirements for new employees;
 - (2) Compensation and benefits;
 - (3) Hours and days of work, holidays, vacation, sick leave and other matters pertaining to the conditions of employment;
 - (4) Promotion, transfer, demotion and suspension of employees;
 - (5) Separation or termination of employees;
 - (6) Granting of salary increases;
 - (7) Employee grievance procedures; and
 - (8) Any other programs or procedures as may be necessary to promote efficiency and to provide for a fair and reasonable system of personnel administration.
- (3) 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 G.S. 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? If so, please identify the conflict or appearance of conflict and refrain from any undue participation in the particular matter involved.'*"
- (4) 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)

(5) 18B-702(q) states "...each check or draft on an official depository shall bear on its face a certificate signed by the finance officer or a deputy finance officer approved for this purpose by the local board. The certificate shall take substantially the following form:

"This disbursement has been approved in the manner required by G.S. 18B-702."

(Signature of finance officer)

(6) NCAC 02R .1407 (c) states, "Local boards shall remit full payment of the distiller's invoice within thirty days of delivery of the liquor."

Cherryville ABC Board
P.O. Box 812
Cherryville, N.C. 28021
704-435-2559

September 30, 2013

Mrs. Moniqua S. McLean, MAFM
N.C. ABC Commission
400 East Tryon Road
Raleigh, N.C. 27610

Mrs. McLean:

The Cherryville ABC Board wishes to convey its thanks for your taking time out of your busy schedule to come address your findings in your performance audit of our Board. We think that overall your findings and assessments were fair and are to be taken under advisement, realizing the purpose was to help us be more efficient and profitable.

We are in the process of lowering our monthly inventory in hopes of improving our inventory turn-over rate. We are currently analyzing our inventory and checking each code to determine how much of that product we realistically need to keep on hand.

We will certainly do a better job of paying our liquor invoices in a timely manner that is compliant with Federal requirements and ABC Commission requirement. We had never had any complaints from any distillers and felt we were being more efficient and saving money by paying for both invoices (we get 2 shipments/month). We will just do it sooner, but will continue to only write one check per liquor vendor per month.

We understand our policy manual is outdated and does in fact need to be re-worked and brought up to date. We ask the Commission's indulgence in this matter as well as a policy for Board credit cards. The present Board has decided to let the incoming Board deal with these two items. We will lose our present Chairman come November 1 when he leaves the Board and a new member and chairman will be appointed. We also agree it is important to have each employee read the manual and sign that they have read it and understand it. The Board has decided to stop funding a cell phone (tracfone) for the manager so a cell phone policy is no longer needed.

The Board has committed itself to updating training for its employees regarding selling alcohol, handling of public funds, and what is expected of each employee. The Board regrets the Commission had to let go its RASP program that went out across the State and presented training sessions. We we hosted one several years ago, we found it very helpful and informative.

There is very little we can do to attract more business. We have improved the appearance of the store by painting, putting in new carpet, adding shelving and a broader selection of products, and improving our outdoor signage.

Unfortunately, Cherryville's economy is very weak and with the recent publicity concerning the embezzlements at City Hall and the corruption of the local police department we don't expect that to change anytime soon.

Mixed beverage is practically a non-factor here and we are apparently going to lose another permittee, as Milano's II has sold out and the new owner is opening a family restaurant and will not serve alcohol. The prospects for getting any kind of decent restaurant that serves mixed beverages to come to Cherryville are slim.

Again, we thank you for your fair assessment of our Board.

Sincerely,

H.L. Beam, Chairman

CHERRYVILLE ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>ABC Board Policies:</p> <p>Adopt the following policies:</p> <ul style="list-style-type: none"> • Law Enforcement Contract • Board Cell Phone Usage Policy • **Employee Handbook • Cash Drawer Overage/Shortage Policy • Credit Card Usage Policy 	<p><input checked="" type="checkbox"/> Yes</p> <p><input 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 type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>The Board is currently working to update and adopt the recommended policies. Once adoption is complete, copies will be forwarded to the Commission.</p>
<p>Administrative Compliance:</p> <ul style="list-style-type: none"> • Affix the pre-audit and approval certificate on the required documents. • Pay liquor bills within thirty days of receipt. 	<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 has implemented procedures that would incorporate these practices.</p>