

Burnsville ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA



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Alcoholic Beverage Control

CHAIRMAN:
JAMES C. GARDNER

COMMISSIONERS:
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Wake Forest

KEVIN M. GREEN
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Your Name
Director
Permit Division
(this is editable)

June 17, 2013

Burnsville ABC Board
Mr. J. Todd Bailey, Chairman
PO Box 1127
Burnsville, NC 28714

Dear Chairman Bailey,

We are pleased to submit this performance audit report on the Burnsville 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. 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 professional manner in which your new ABC store is operated and for the efforts you are making to operate more efficiently.

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 Burnsville ABC Board has not responded to the written audit prepared by the Commission. Therefore, this audit is being submitted without a response from the board. Policies and procedures have been adopted and implemented to maintain compliance with statutes and ABC Commission rules and to maintain stronger segregation of duties.

BACKGROUND INFORMATION

G.S. 18B-601 authorized the Town of Burnsville 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 April 6, 2010 and passed 404 to 367. A mixed beverage election was held on the same date and passed 412 to 362.

Upon election of an ABC store, the Town of Burnsville was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members include J. Todd Bailey, chairman, Joseph Bodford and William Wheeler, board members.

The Burnsville ABC Board operates one retail store. The board staffs two full-time and three part-time employees. The general manager is responsible for the overall operations of the store, budget maintenance, inventory management, and customer service. The finance officer is responsible for accounts payable and disbursements. All clerks' are responsible for routine store upkeep, stock maintenance, and customer service.

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 Burnsville ABC Board receives deliveries twice a month: the inventory turnover rate is 3.9.

Recommendations:

- To increase inventory turns, consider the following:
 - Splitting cases with surrounding boards to increase variety as well as to reduce cost,
 - 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 and to take advantage of Special Purchase Allowance offers whenever possible,
 - Utilizing end caps and shelf space as much as possible to highlight slow moving and new products,
 - Selling slow-moving inventory to another board with demand for the products or requesting price reductions from the Commission to clear out dead stock.

- 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 Burnsville ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.95. In fiscal year 2012, the board operated with a full sales year which contributed to the sales and expense increase. Annual rental expense totaling \$21,600 and long-term debt expense totaling \$290,000 continues to be the driving force of high overhead expenses. To meet the cost ratio goal and remain at current expenses of \$198,238, revenues must be increased to approximately \$1,100,000, a 20% increase over last year's sales. To meet the cost ratio goal and remain at current revenue levels, expenses must be reduced to approximately \$160,000, a 19% decrease over last year's sales. Analysis of the data indicates that Burnsville ABC's expenses have increased by 2.2% since the opening of the store following the trend of other similar size boards. *Refer to charts in Appendix A for analyses of expense trends.*

Recommendations:

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

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

Due to the recent opening of the store and the outstanding line of credit, the Burnsville ABC Board has not yet reached the minimum working capital requirement. The board has obtained approval from the appointing authority to withhold distributions until the line of credit of \$110,000 is paid in full.

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 to the Town of Burnsville General Fund.

In FY2012, the board did not make any distributions. As stated above, the board obtained approval to withhold the minimum distribution until debt is paid in full.

Profit Percentage to Sales

The profit percentage to sales is calculated by dividing the total profit before distributions by the total liquor sales (Total Income before Distribution/Total Liquor Sales). The Commission has set goals based on the following breakdown:

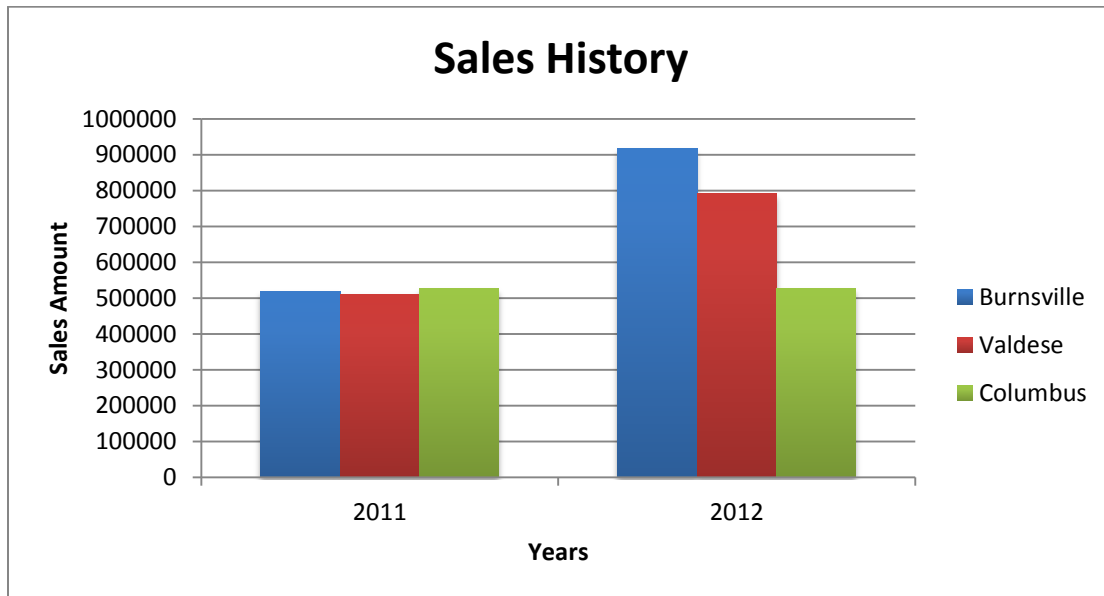
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Burnsville ABC Board had gross sales of \$917,809; income from operations was -\$2,090; a -0.23% profit percentage to sales.

Factors affecting sales and profitability:

- US Census Bureau reports a population of 1,623 in 2010;
- Overall population has increased by approximately 4% since 2000;
- Individuals and families below poverty levels is 23.9% in 2010, decrease of 10.9% since 2000;
- Surrounding towns with ABC stores within a thirty mile radius include Spruce Pine, High Country, Weaverville, Woodfin, and the Tennessee border
- Growth and development in surrounding and heavily populated areas contribute to the different shopping patterns which affect sales and profitability.

Below is a sales history analysis of similar size boards. The chart analyzes the sales trends since the opening of the store.



Recommendations:

- Improve sales strategies by developing new marketing techniques. Refer to recommendations addressed under inventory turnover.
- Analyze expenses more closely to increase profits by monitoring budget closely and reducing costs where possible.

OPERATIONAL FINDINGS, OBSERVATIONS, AND RECOMMENDATIONS

On October 3, 2012, ABC Commission Board Auditor, Moniqua S. McLean, visited the Burnsville ABC store and interviewed Brian Franklin, general manager. The following are the findings, observations, and recommendation relating to the performance audit.

Store Appearance and Customer Service Observations

The Burnsville ABC Board operates one retail store with approximately 1,200 linear feet of shelf space and carries approximately 1,100 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 shelf management policy was submitted to the auditor.
- A price book and monthly sales lists were made available to customers.
- Upon entering the store, employees greeted customers in a professional manner and were attentive to customer needs exhibiting good customer service.

No Recommendations.

Personnel and Training

- All board members, general manager, and finance officer have attended the initial mandatory ethics class.
- Training is provided as new information becomes available to new and current staff. The board hosted a RASP class in 2011 and encourages ongoing product knowledge training for all employees to better assist with customers interests.
- Cross training opportunities have been extended to key employees in the event the general manager was suddenly unavailable.
- Personnel files were viewed and contained the applicable tax information and acknowledgement of handbook letter.

No Recommendations.

Policies and Procedures

- Policies adopted and submitted to the Commission:
 - Code of Ethics
 - State Travel Policy
 - Law Enforcement Contract
 - Employee Handbook
 - Mixed Beverage Policy
 - Price Discrepancy Policy
 - FY2013 Budget (Proposed and Adopted)
 - Shelf Management Policy
 - Credit Card Policy
 - Cash Drawer Overage/Shortage Policy
 - Special Order Policy
 - Nepotism Policy

No Recommendations.

Internal Control Procedures and Observations

- All employees maintain their own cash drawer and have their own clerk number. Cash drawers are counted at the beginning of each shift. Deposits are made nightly by the authorized persons. Deposit reconciliations against register receipts are completed by the finance officer and occasionally general manager.
- Physical inventory counts are performed quarterly by scheduled employees. Once completed, the general manager investigates discrepancies and adjusts in the inventory management system. Frequent spot checks are performed in between inventory schedules. Unsalable items are adjusted from the inventory system immediately.

No Recommendations.

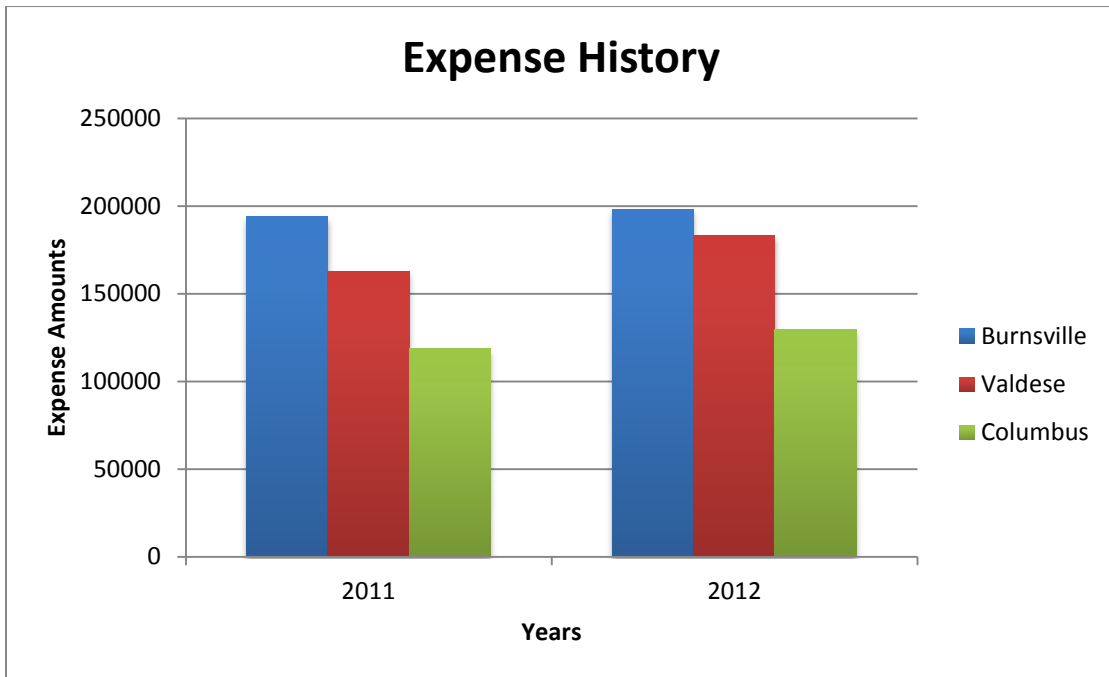
Administrative Compliance Findings, and Observations

- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting. The conflict of interest statement was referenced in the board minutes.
- Board member appointment dates were 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).
- All board members, general manager, and finance officer are bonded in the amount of \$50,000 as required by G.S. 18B-700(i).
- An audit of travel expense reimbursements indicated that the payment of spouse attendance to conferences was not prepaid.
- Liquor orders have the pre-audit certificate and are signed by the finance officer as required by G.S. 18B-702(m).
- All checks bear the approved certificate and are signed by the finance officer as required by G.S. 18B-702(q). Checks are signed by the finance officer and a board member.

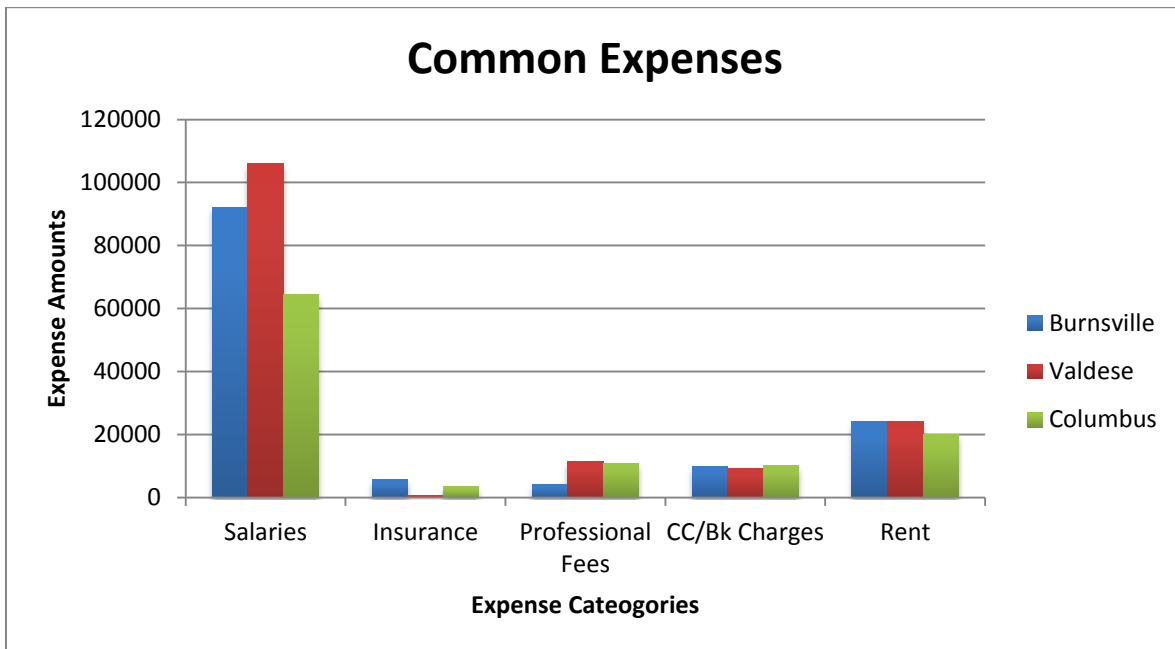
Recommendations:

- Prepayments must be paid for spouse attendance to conferences. State travel policy prohibits the board from paying registration fees and other expenses for a spouse to attend a conference even when reimbursement is expected.
- Supplies are often ordered using the board credit card. The Commission strongly recommends purchases of more than \$50 receive written authorization.

APPENDIX A



The expense history data indicates that Burnsville ABC Board's overall expenses are higher compared to other similar size boards.



In comparing common expenses of other similar size boards, Burnsville ABC's common expenses are not out of line.

APPENDIX B



Counter view.



Interior view.