

Brevard ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA

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ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

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Moniqua S. McLean
ABC Board Auditor
919-779-8365

April 21, 2016

City of Brevard Board of Alcoholic Beverage Control
Mr. Cameron Austin, Chairman
P.O. Box 1016
Brevard, NC 28712

Dear Chairman Austin,

We are pleased to submit this performance audit report on the City of Brevard Board of Alcoholic Beverage Control. 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 your efforts to increase profitability and reduce expenses.

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

Respectfully,

Robert A. Hamilton
Administrator

CC. North Carolina Association of ABC Boards
Mr. Jim Fatland, City Manager

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 board annual audit for the fiscal year 2015;
- Visited both stores;
- Interviewed key ABC board personnel.

BACKGROUND INFORMATION

S.L. 1967-291 authorized the City of Brevard to hold an election for an ABC store upon a petition signed by at least fifteen percent (15%) of registered voters. The referendum was held on July 8, 1967 and passed 958 to 529. A mixed beverage election occurred on May 4, 1993 and passed 1,114 to 789.

Upon election of an ABC store, the city was authorized to create an ABC board consisting of a chairman and two board members to serve for three staggered year terms. The board has since increased to five members. Current board members are Cameron Austin, board chairman, Brian Philips, Dr. William Riecke, Geraldine Dinkins, and Tim Robinson, board members.

The Brevard ABC Board operates two retail stores with mixed beverage sales. The board staffs four full-time and five part-time employees. The general manager is primarily responsible for providing oversight of all daily operations including accounts payable, policy implementation, and human resource management. The board has hired a finance officer from within the organization to perform duties that provide sufficient checks and balances and efficient internal controls related to financial operations. All store employees have a primary responsibility of providing friendly customer service, store upkeep, and regular stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On July 20, 2015, ABC Board Auditor, Moniqua S. McLean, visited the Brevard ABC store and interviewed Mark Balding, general manager. Below is a financial analysis followed by 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 2015, the Brevard ABC board had gross sales of \$3,073,009; income from operations was \$231,107, a 7.5% profit percentage to sales.

Factors affecting sales and profitability:

- Estimated population reported to the US Census Bureau as 7,692 in 2014, a 0.1% increase since 2010;
- Surrounding ABC boards within a 20 mile radius include Laurel Park, Fletcher, Highlands and Cashiers (Jackson County).

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) requires the board to make a minimum quarterly distribution of the 3 ½% markup rate to the town. In FY2015, Brevard ABC made the minimum distribution of \$87,107, plus additional distribution of \$125,595. \$711,631 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, and the town.

G.S.18B-805 (c) (2) requires the board to distribute at least five percent (5%) of profits to law enforcement. S.L. 1981-415 requires the board to distribute no more than 5% for alcohol education or rehabilitation purposes. The remaining profits are to be distributed as follows:

- Twenty-five percent (25%) to the Transylvania County General Fund; and
- Seventy-five percent (75%) to the City of Brevard General Fund.

In FY2015, the Brevard ABC Board distributed \$11,511 to law enforcement. According to the FY2015 financial audit, the board did not distribute toward alcohol education. Previous alcohol education distributions were made to the Save-A-Life program. An annual financial report was not received.

RECOMMENDATIONS

1. Begin distributing towards alcohol education as required by the local enabling act, S.L. 1981-415.
2. Have the alcohol education/rehabilitation programs that receive funding submit annual financial reports detailing how the funds were spent. *Refer to Appendix A (1) for statute.*

WORKING CAPITAL

G.S. 18B-805 (d) allows the board to set aside a portion of the remaining gross receipts, within the limits set by the rules of the Commission, as cash or cash equivalents to operate the ABC system. 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 FY2015, the Brevard ABC Board had working capital of \$204,998, which is less than the maximum allowed to retain of three months gross sales (\$590,345) and is within the limits of NCAC 15A .0902.

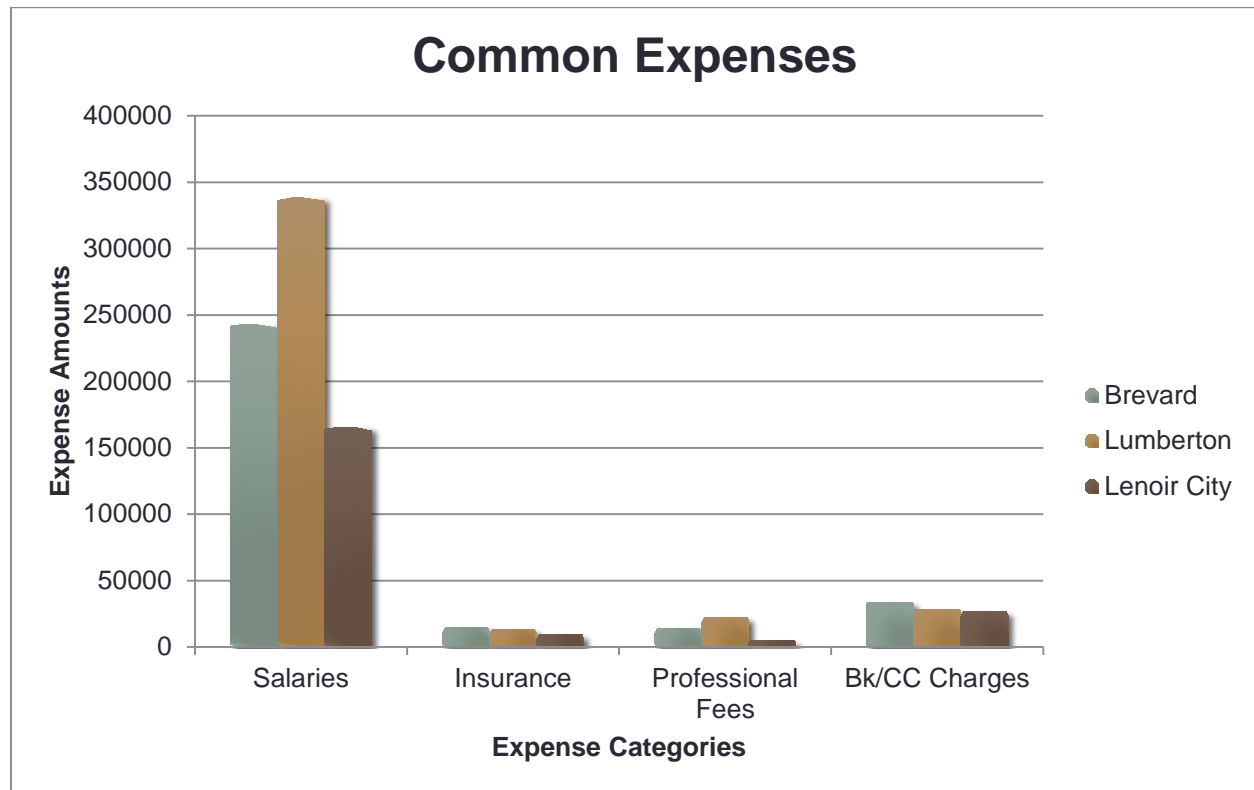
OPERATING COST RATIO

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):

- Boards with 3 or more stores – cost ratio 0.63 or less
- Board with 1 or 2 stores with MXB – cost ratio .73 or less
- Boards with 1 or 2 stores without MXB – cost ratio .85 or less

The Brevard ABC Board operates two retail stores with mixed beverage sales: the operating cost ratio is 0.65. Mixed beverage sales make up 12.3% of total gross sales. Compared with the state's estimated increase in sales of 7.68% in fiscal year 2015, the Brevard ABC Board's sales increased 1.5% over fiscal year 2014. Expenses decreased 8.4% over the same time period.

Below is a common expense analysis showing the Brevard ABC Board's expenses compared with other similar size boards.



Staffing by board: Brevard – 4 full-time and 5 part-time employees, Lumberton - 7 full-time and 8 part-time employees, Lenoir City – 4 full-time and 15 part-time employees.

STORE APPEARANCE

The Brevard ABC Board operates two retail stores with a range of 800 to 1,300 linear feet of shelf space and carries an average 1,000 product codes.

- Both stores appeared clean and free of trash. Counter areas were neat and well-organized with limited signage.
- The stores displayed neat and well-visible signage. The Fetal Alcohol Syndrome poster is located in both stores in an area visible to the public.
- Landscaping around the stores is well-maintained with no appearance of trash.
- Each product is displayed within its designated category. However, cross merchandising is utilized to encourage impulse shopping. Bottles are fronted and dusted throughout both locations.
- A shelf management plan is utilized that exhibits a strategy following the ultra-premium products on the top shelves, premium products at eye level, and value products on the lower shelves. Product placement is consistent with sizes from largest on the right and smallest to the left. The following occurred between the two stores:
 - Brand blocking is evident where possible. However, because of the limited amount of stock, empty shelves are created. Other shelves were empty due to apparent blocking of a security window.
 - Displays are available. However, one store had an empty display rack.

CUSTOMER SERVICE

- The state price book is available at both locations should customers ask for specific product. Sales clerks often refer to the price book for verification of product and pricing. Monthly sales information is shared with mixed beverage and retail customers on a consistent basis.
- Sales clerk's interaction with retail and mixed beverage customers is attentive, courteous, and all are eager to meet the needs of the customers.

RECOMMENDATIONS

1. Consider exploring more efficient ways of handling empty shelves. One common practice is to incorporate a shelf display when there is a limited brand category where possible.
2. Either restock the display cases or remove them from the sales floor.

PERSONNEL AND TRAINING

- All board members have completed the initial ethics training as required. However, three board members have since been reappointed and ethics training has not yet been completed.
- Cross training has been extended on key administrative duties to employees in the event the general manager is unavailable.
- New hire training is provided to new staff on key areas, such as product knowledge, customer service, and clerk responsibilities. Additional training is provided to all staff on the same practices including the Responsible Alcohol Selling Program (RASP training) offered by the NC ABC Commission. The general manager has attended various training courses offered by the NC ABC Commission.
- Personnel files are available and include the required human resource documentation and other personnel information as needed.

RECOMMENDATIONS

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

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract (ALE Brank of NC Department of Public Safety)
 - Travel Policy (State Travel Policy Adopted)
 - FY2015 Annual Audit
 - FY2016 Budget (Proposed and Adopted)
 - Employee Handbook
 - Price Discrepancy Policy
 - Shelf Management Policy
 - Mixed Beverage Policy

NO RECOMMENDATIONS

INTERNAL CONTROL OBSERVATIONS

Internal control is the process by which the board provides assurance that operations are effective and efficient, reliable, and in compliance with applicable rules, laws and regulations. Internal control is strongest when activities are segregated creating a system of checks and balances, and adopting policies and procedures that follow current and appropriate practices. Below are internal control findings that were observed during the audit fieldwork.

- The general manager schedules and notifies employees for work shift hours. Time sheets are used by all employees. Management requires two persons at all times on each shift. Management usually works the day shift hours. In the event an employee fails to attend a shift, the general manager is notified and adjusts the schedule or finds a replacement. At the end of payroll week, the general manager enters data into the payroll accounting program for processing.
- Cash drawers are maintained by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures for handling cash drawer overages/shortages.
- Bank deposits are made regularly according to the ABC Commission rule. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed by the accountant.
- In reviewing a sample of travel reimbursements, procedures were followed according to the travel policy submitted.
- Management has created a physical inventory counting system that rotates monthly. All employees count a section as outlined by the schedule. Spot checks are conducted at all times at both locations. If discrepancies occur, the general manager will investigate and make adjustments as necessary. Unsalable merchandise is adjusted from inventory immediately. Breakage forms are submitted as required by the Commission rule.
- Out of an average of 1,000 product codes per store, approximately 200 product codes were sampled to ensure accurate pricing and eleven were incorrect.

RECOMMENDATIONS

1. To ensure correct pricing on the store shelves and in the computer system, audit shelf tags on a regular basis by incorporating this practice during or in between the regularly scheduled inventory counts.

ADMINISTRATIVE COMPLIANCE FINDINGS

- Board meeting minutes were viewed and followed the order of proceedings, providing sufficient detail that a reasonable person would be able to follow what transpired. Board meeting minutes included a conflict of interest statement asking board members if conflicts existed with items on the meeting agenda.
- Date/time/location of board meetings are posted for public knowledge.
- 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).
- The board is in compliance with G.S. 18B-700 (k): there are no immediate family members employed who are related to board members or the general manager.
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- Liquor and miscellaneous purchases are approved in advance by the finance officer as to verify that there is budgeted money for such purchases and are indicated by placing a pre-audit certificate and signature of the finance officer/deputy finance officer. The board is usually invoiced by vendors for purchases.
- In reviewing a sample of liquor invoices, payments were made within thirty days as required by the NC ABC Commission rule.
- In reviewing the budget to actual expenses as referenced in the financial audit of FY2015, the board did not meet the projected sales budget.
- Checks bear the approved certificate as required by G.S. 18B-702 (q) indicating that the items have been approved by the finance officer for payment. Two signatures are located on all paid checks; that of the finance officer and the general manager. In the event the general manager or finance officer is unavailable, a board member is authorized to sign checks.

RECOMMENDATIONS

1. Monitor budget more closely, particularly towards the year end, to determine whether amendments are needed. Amendments are required when expenses are over budget or have not been budgeted for and when sales are not meeting or are exceeding budgeted amounts.

AUDITOR'S SUMMARY

On November 25, 2015, ABC Board Auditor, Moniqua S. McLean, presented the performance audit findings and recommendations to the board. The board strives to implement strategies to maintain and improve profitability while maintaining or reducing costs and meeting budget appropriations. Policies and procedures have been implemented to ensure compliance with statutes and Commission rules and to ensure efficient operations while maintaining sufficient checks and balances.

City of Brevard
Board of Alcohol Beverage Control

(828) 883-8128
350-A. N. BROAD ST.

P. O. BOX 1016
BREVARD, NC 28712

January 13, 2016

Ms. Moniqua McLean
NC ABC Board Auditor
4307 Mail Service Center
Raleigh, NC 27699-4307

Ms. McLean,

On behalf of the Brevard ABC Board, I want to thank you for attending our November 25, 2015 meeting to present the findings of your audit. We certainly acknowledge the importance of audits like yours to continually enhance customer experience and improve store/staff performance, as well as to meet and exceed standards set by the state

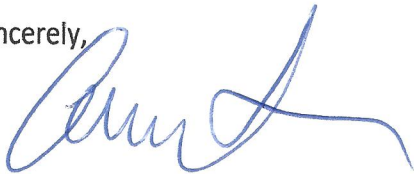
From our review of the audit and notes from your visit, we understand that the following items are of particular interest:

- Distribution for alcohol education: we understand better this requirement, and that our annual reporting should reflect the specific use of funds;
- Empty display shelves: Our GM and staff are working to more creatively handle and manage shelving displays;
- Ethics training for board members: we have board members scheduled for the webinars scheduled for January, 2016;
- Price checking/Shelf tag audit: our GM has implemented a plan to improve accuracy for monthly and quarterly price changes;
- Monitor budget more closely: our GM participated in the recent budget webinar, and we fully expect that we may continue to utilize amendments as necessary – especially given the fluid and dynamic opportunities of the second store.

Additionally, as you recommended, we are continuously monitoring the developments of the Town of Rosman and their potential to open an ABC store.

We appreciate your visit, your time and talent, and your input regarding continuous improvement.

Sincerely,



Cameron Austin, Chair
Brevard ABC Board

APPENDIX A

- 1) *G.S. 18B-805 (h) states, "...Any agency or person receiving funds from the county commissioners or local board under this subsection shall submit an annual report to the board of county commissioners or local board from which funds were received, describing how the funds were spent."*
- 2) *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."*

APPENDIX B

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Personnel and Training</p> <p>Have all reappointed board members complete the ethics requirement within 12 months of reappointment</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>**Note: Required by Commission rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input checked="" type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>All board members have completed the required ethics training.</p>