

Asheville ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
400 East Tryon Road, Raleigh, NC 27610
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ABC
COMMISSION
NORTH CAROLINA

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Alcoholic Beverage Control

November 12, 2014

CHAIRMAN:
JAMES C. GARDNER

Asheville ABC Board
Mr. James E. Ellis, Chairman
1 Cherry Street North
Asheville, NC 28801

COMMISSIONERS:
JOEL L. KEITH
Wake Forest

KEVIN M. GREEN
Greensboro

ADMINISTRATOR:
MICHAEL C. HERRING

Dear Chairman Ellis,

We are pleased to submit this performance audit report on the Asheville 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.

LOCATION:
400 East Tryon Road
Raleigh NC 27610

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.

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We would like to thank you, the ABC Board and your staff for the assistance and cooperation provided to us during the audit. We appreciate the efforts your Board has made to comply with the new performance standards along with the customer friendly and efficient manner in which your system is operated. Additionally, your ongoing commitment to providing alcohol education and prevention grants is commendable.

Moniqua S. McLean
ABC Board Auditor

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

Respectfully,

Michael C. Herring
Administrator

CC. North Carolina Association of ABC Boards

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 2014;
- Visited all stores;
- Interviewed key ABC board personnel.

BACKGROUND INFORMATION

Chapter 1083 of the 1947 Session Law authorized the City of Asheville to hold an election for an ABC store upon a petition of at least fifteen percent (15%) of the register voters. The referendum was held on November 14, 1947 and passed 8,839 to 6,139. The first retail sale occurred on December 15, 1947. A mixed beverage election was held on February 16, 1979 and passed 7,765 to 6,091. The first mixed beverage sale occurred on February 28, 1979.

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 staggered three year terms. House Bill 1543 of the 2003 Session increased the membership from three to five board members. Current board members include James Ellis, board chairman, Edward Hay, John Menkes, Robin Cape, Wilfred Lack, board members.

The Asheville ABC Board operates nine retail stores and one mixed beverage only outlet. The administrative office staffs five full-time employees and one part-time general manager. The general manager is responsible for oversight of the entire Asheville ABC system which includes policy implementation and decision making, overseeing all operations of the system including forecasting and planning. The operations manager assists the general manager in implementing policies within the stores, supervision of store and warehouse personnel, and overseeing sales data to ensure liquor availability for each store. The finance officer is responsible for all financial operations of the board including payroll, budget maintenance, monthly reporting, and inventory management. The accountant assists the finance officer with other financial related duties while maintaining store and inventory reports. The purchasing agent/accounts payable clerk is responsible for overseeing store purchases and monitoring the stores' annual budget. The administrative assistant handles day-to-day office responsibilities which include but are not limited to attending monthly board meetings, compiling board meeting minutes, and maintaining personnel files. Each store has a store manager and an assistant store manager who are responsible for supervising employees, general store upkeep, customer service, and stock maintenance. All clerks are tasked with meeting customer needs, store upkeep, and stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On July 29, 2014, ABC Board Auditor, Moniqua S. McLean, visited the Asheville ABC administrative offices and stores and interviewed Mark Coombs, general manager, and Jason Thacker, operations 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 2014, the Asheville ABC Board had gross sales of \$25,699,513; income from operations was \$2,427,035, a 9.44% profit percentage to sales.

Factors affecting profitability:

- Estimated population is 87,236 in 2013, a 4.6% increase from 2010,
- Surrounding towns within the county with ABC stores include Woodfin, Weaverville, and Black Mountain.

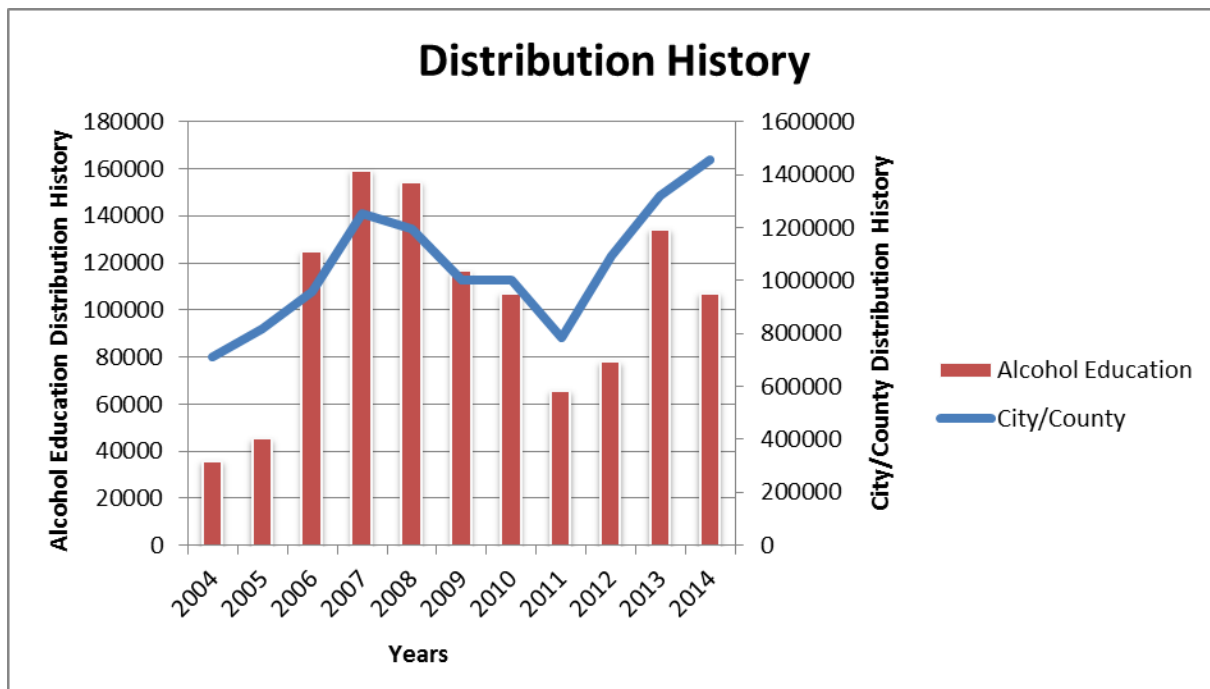
DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, mixed beverage, and bottle tax. G.S. 18B-805 (c) (1) requires the board to make a minimum quarterly distribution of the 3 ½% markup rate to the appointing authority. In FY2014, the Asheville ABC board made the required minimum distribution to the city totaling \$702,498, plus additional distribution of \$755,362. \$6,251,203 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, the City of Asheville, and Buncombe County.

G.S. 18B-805 (c) (2) and (3) requires the board to distribute at least five percent (5%) of profits to law enforcement and at least seven percent (7%) toward alcohol education. The remaining profits are to be distributed as follows:

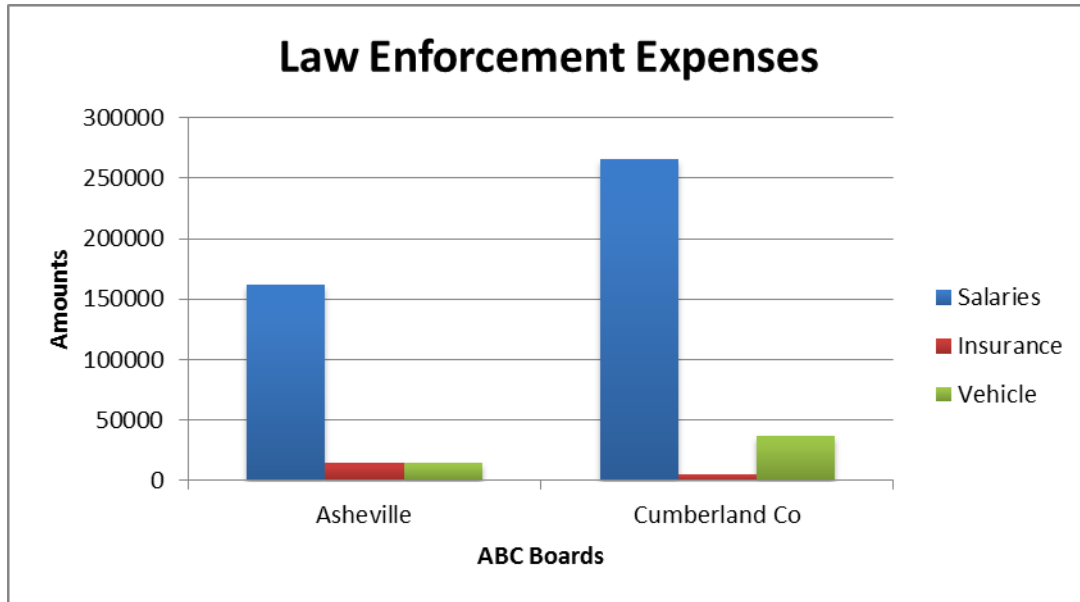
- Seventy-five percent (75%) to the City of Asheville General Fund
- Twenty-five percent (25%) to the Buncombe County General fund

Below is a distribution analysis of the past ten years analyzing the high-low trend of the Asheville ABC Board.



LAW ENFORCEMENT

The Asheville ABC Board staffs three full-time law enforcement officers to aid in alcohol law enforcement. In FY2014, the Asheville ABC Board law enforcement operating expenses totaled \$290,568. Below is an analysis of common law enforcement expenses of similar boards.



ALCOHOL EDUCATION

Alcohol education distribution totaled \$107,308. The Asheville ABC Board has funded a grant program that selects recipients through careful analysis of expenses and addresses substance abuse education, prevention, and rehabilitation. The grant application process requires recipients to submit annual applications and expense reports. FY2014 grant recipients include:

- First at Blue Ridge, Inc., \$21,988
- Homeward Bound – A Hope, \$17,013
- Next Step Recover, \$21,513
- NAMI Western Carolina, \$7,500
- Homeward Bound – Women at Risk, \$19,515
- Our Voice, Inc., \$1,998
- Prom Promise Campaign, \$3,392
- Underage Drinking Prevention Campaign, \$14,389

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 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 FY2014, the Asheville ABC Board had a working capital of \$2,850,845, which is less than the maximum allowed to retain of two months gross sales (\$4,842,882) and is within the limits of NCAC 02R .0902.

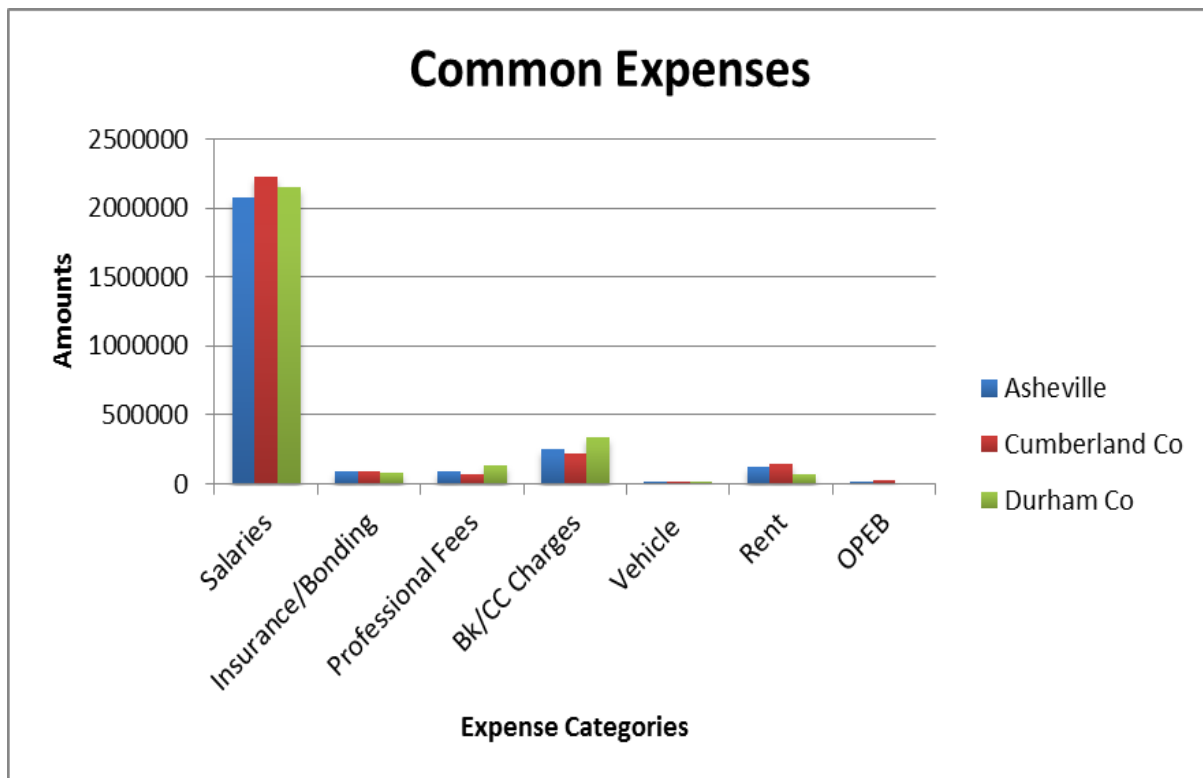
OPERATING COST RATIO

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):

- Single store boards with MXB sales that are equal to or greater than 25% of gross sales – cost ratio 0.75
- Single store boards with MXB sales less than 25% of gross sales – cost ratio 0.85
- Single store boards without MXB sales – cost ratio 0.85
- Boards with 2 stores with and without MXB sales – cost ratio 0.74
- Boards with 3 or more stores with and without MXB sales – cost ratio 0.64

The Asheville ABC Board operates nine retail stores and one mixed beverage outlet: the operating cost ratio is 0.57. Mixed beverage sales make up 34% of total gross sales. In fiscal year 2014, sales increased 8.5% over fiscal year 2013 as expenses increased 5.1% over the same time period.

A common expense analysis shows that Asheville ABC Board expenses compared with other similar size boards are not out of line. The board leases two store locations. Rental expenses for both locations total \$80,254. Significant overhead savings has been generated by owning other store locations.



NO RECOMMENDATIONS

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 Asheville ABC Board receives deliveries weekly. Each store receives deliveries from the board warehouse at scheduled intervals during the month. The inventory turnover rate is 7.68. The average inventory turnover rate for similar boards with the same delivery schedule is 6.4.

NO RECOMMENDATIONS

STORE APPEARANCE AND CUSTOMER SERVICE

The Asheville ABC Board operates nine retail stores with a mixed beverage outlet location. Average shelf space for all retail stores is 1,138 linear feet and carries a wide variety of product at each location.

- All stores appeared clean and free of trash. Counter areas were neat and well-organized.
- Stores displayed clean and neat signage. The required Fetal Alcohol Syndrome poster is displayed and visible to the public.
- Landscaping around the stores is well-maintained with no evidence of trash.
- A shelf management plan is utilized/in use that exhibits a strategy following the premium products at eye level and lowest price products on the bottom shelves. Product placement is consistent with sizes going from largest on the right and smallest to the left. Each product is displayed within its designated category. Cross merchandising is utilized in all areas to encourage impulse shopping.
- The state price book is available in all locations should customers ask for a specific product. Sales clerks often refer to the price book for verification of products and pricing. Monthly sales information is shared with mixed beverage and retail customers on a consistent basis. The information is also available on the ABC board's website.
- Sales clerk's interaction with customers is attentive, courteous, and all are eager to meet the needs of the customers.

NO RECOMMENDATIONS

PERSONNEL AND TRAINING

- All board members, the general manager, and the finance officer have completed the ethics training required by statute.
- Cross training opportunities on key administrative duties are being extended to key employees in the event the general manager was suddenly unavailable.
- Training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities on a continual basis. Management often attends the NC Association of ABC Boards General Manager conferences for additional training opportunities on these specific areas. Law enforcement officers train clerks on proper I.D. checks and other areas.
- Personnel files are available and include the required human resource documentation and other personnel information as needed.

NO RECOMMENDATIONS

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Travel Policy (City of Asheville Approval Submitted)
 - FY2014 Annual Audit
 - FY2015 Budget (Proposed and Adopted)
 - Employee Manual
 - Mixed Beverage Policy
 - Price Discrepancy Policy
 - Vehicle Usage Policy
 - Credit Card Policy

NO RECOMMENDATIONS

INTERNAL CONTROL PROCEDURES

- Each store manager schedules the employees for work shift hours. Time sheets are used for all clerks. During payroll, the employees fill out the time sheets and the store managers sign off for hours worked. Time sheets are forwarded to the administrative office for review and processing.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures to handle cash drawer overages/shortages.
- Bank deposits are made regularly as required by the ABC Commission rule. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed by the general manager/finance officer.
- Physical inventory counts are completed monthly at all stores by whoever is scheduled to work, usually the store manager and assistant manager. Once the initial count is completed, counts are forwarded to the administrative office to check for variances. Once variances are checks, an additional count is conducted to ensure accuracy. The administrative office personnel will adjust the main inventory management system for the exact inventory held in each store. Breakage adjustments are included in this process.
- The board owns eight vehicles including law enforcement vehicles to aid in transportation of liquor and visiting stores. A vehicle usage policy has been adopted and upheld by all staff. Vehicle usage is being reported as a fringe benefit and follows the appropriate payroll deductions as outlined by the Internal Revenue Service.
- Out of an average of 1,000 product codes per store, approximately 500 product codes were sampled to ensure accurate pricing and two were found to be 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 AND OBSERVATIONS

- 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.
- Board member appointment dates and general manager compensation is 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 related to board members or the general manager.
- All board members, the general manager, and the finance officer are bonded for \$50,000.
- Orders for liquor and other miscellaneous orders bear the pre-audit certificate as required by G.S. 18B-702 (m).
- All checks bear the approved certificate indicating that the item has been approved by the finance officer or an authorized person 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 is unavailable, the board chairman is authorized to sign checks.

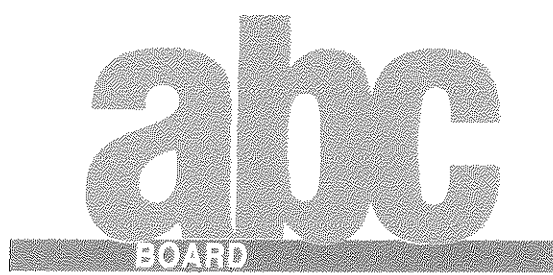
NO RECOMMENDATIONS

AUDITOR'S SUMMARY

ABC Board Auditor, Moniqua S. McLean, presented the performance audit recommendations on September 30, 2014. The board has since responded to the performance audit recommendations and continues to implement strategies to maintain profitability while maintaining and reducing current costs and meeting budget appropriations. The board's current plans are to relocate an existing store. 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.

Asheville Board of Alcoholic Control

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Asheville, NC 28814
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www.ashevilleabcboard.com



October 15, 2014

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

Dear Moniqua:

On behalf of the entire Asheville ABC Board, I thank you for your performance audit report to us on September 30th. It is our opinion that thorough reviews, audits and improvement recommendations keep our organization both progressive and healthy.

We sincerely support the present control system in North Carolina. The board remains focused on a balanced dichotomous role in our community regarding distilled liquor sales via clean, modern stores and a dedicated staff, and responsible consumption through education, enforcement and grant funding efforts.

The Asheville ABC Board and its staff appreciate the time and effort you took to inspect, report and share your findings with us.

Cordially,

A handwritten signature in black ink, appearing to read 'Jim', written over the printed name of James E. Ellis.

James E. Ellis
Chairman, Asheville ABC Board

RECEIVED

OCT 17 2014

NC ABC COMMISSION

Board of Directors: James Ellis, Chair | Robin Cape | Edward Hay | Wilfred E. Lack | John Menkes

General Manager: Mark Combs

APPENDIX A

Illustration 1



Mixed Beverage outlet

Illustration 2



Tunnel Rd location

Illustration 3



Sweeten Creek Rd. location

Illustration 4



Long Shoals Rd location

Illustration 5



Louisiana Avenue location

Illustration 6



Candler location

Illustration 7



Leicester Hwy location

Illustration 8



Merrimon Avenue location

Illustration 9



Charlotte Street location

Illustration 10



Hendersonville Road location

Illustration 11



Example of shelf management system