

Andrews ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
400 East Tryon Road, Raleigh, NC 27610
p: 919-779-0700 | f: 919-661-5927 | <http://abc.nc.gov>



ABC
COMMISSION
NORTH CAROLINA

TABLE OF CONTENTS

ABC Commission Statement.....	3
Objective, Purpose, and Scope.....	4
Performance Standards and Findings.....	5
Andrews ABC Board Response.....	10



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

March 19, 2018

CHAIRMAN:
A. D. "ZANDER" GUY, JR.

COMMISSIONER:
MICHAEL C. HERRING
West Jefferson

ADMINISTRATOR:
ROBERT A. HAMILTON

LOCATION:
400 East Tryon Road
Raleigh NC 27610

MAILING:
4307 Mail Service Center
Raleigh NC 27699-4307

PHONE: (919) 779-0700
<http://abc.nc.gov/>

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

Town of Andrews ABC Board
Ms. Debbie Ambler, Chairperson
PO Box 817
Andrews, NC 28901

Dear Chairperson Ambler,

We are pleased to submit this second performance audit report on the Town of Andrews 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 the existing 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.

Once again we would like to thank you, the ABC Board and your staff for the assistance and cooperation provided to us during this second audit. Additionally, we appreciate the continued efforts by your Board to comply with the performance standards. Thank you for your response and your continued efforts to increase profitability and reduce expenses.

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

Respectfully,

A handwritten signature in black ink, appearing to read "R.A. Hamilton".

Robert A. Hamilton
Administrator

Cc: North Carolina Association of ABC Boards

OBJECTIVE, PURPOSE, AND SCOPE

In addition to regular and special financial audits, G.S. 18B-705 (a) authorizes the N.C. ABC Commission to conduct performance audits of all local ABC boards in the state. Performance audits are examinations of existing operating policies, practices, controls, and activities to determine those areas in which there may be a need for improvement.

The audits are designed to ensure that all local ABC Boards comply with established performance standards pursuant to G.S. 18B-203 (a) (20). The audits' scope addresses compliance with ABC laws and rules, store appearance, operating efficiency, solvency, and customer service.

To achieve the objectives of the audit, auditors:

- Review applicable General Statutes, ABC Commission Rules, and administrative policies
- Review applicable reports and studies of ABC boards with similar size and geography
- Consult with specialists at UNC School of Government
- Verify compliance with Commission and Board policies
- Verify results of previous performance audit recommendations
- Review organizational chart and job descriptions
- Review ABC Board annual independent financial audits
- Visits the store(s)
- Interview key ABC board personnel

The initial round of performance audits for the local ABC Boards concluded in 2016 and provided a comprehensive overview of the operations of the local boards. The follow-up round of performance audits now under way is designed to provide local boards with information that targets specific areas for improvement. Board activities that meet or exceed current performance standards are not included as areas recommended for corrective action and so are not included in the attached summary report and recommendations.

PROFIT PERCENTAGE TO SALES AND OPERATING COST ANALYSIS

In FY2017, the Andrews ABC Board had a profit percentage of -1.4%, a decrease of 24.33% over FY2016. The ABC Commission profit percentage to sales standards for ABC Boards with gross sales less than \$2M is targeted at 5% or higher. Thus, the Andrews ABC Board did not meet the targeted profit percentage. In FY2016, the Andrews ABC Board had a profit percentage to sales 0.06%.

Factors affecting sales and profit percentage include the following:

- Relocated the store in 2012 from within downtown city limits to the interstate
- A tribal casino opened in the same time frame within a mile of the store
- Sales increased approximately thirty percent (30%) since the store relocation in 2012

The operating cost ratio for Andrews ABC was 1.01 in FY2016. The ABC Commission standard operating cost ratio for ABC boards with one or two stores with mixed beverage sales is less than 0.73. Thus, the Andrews ABC Board did not meet the standard. However, the Andrews ABC Board's average daily cost to operate is approximately \$580.

Andrews ABC Board's overall expenses increased 4.4% over FY2016. Below is a chart showing the expenses and the income from operations for the previous two years.

	FY2017	FY2016
Expenses excluding Depreciation	\$177,982	\$170,512
Income (Loss) from Operations	(\$10,054)	\$455

BUDGET ANALYSIS

In reviewing the budget to actual analysis of the FY2017 financial audit, sales revenue did not meet budget projections for the year. The board made budget amendments throughout the year to adjust the sales appropriations and expenditures. Below is a chart showing the final or revised budget to actual and the variances.

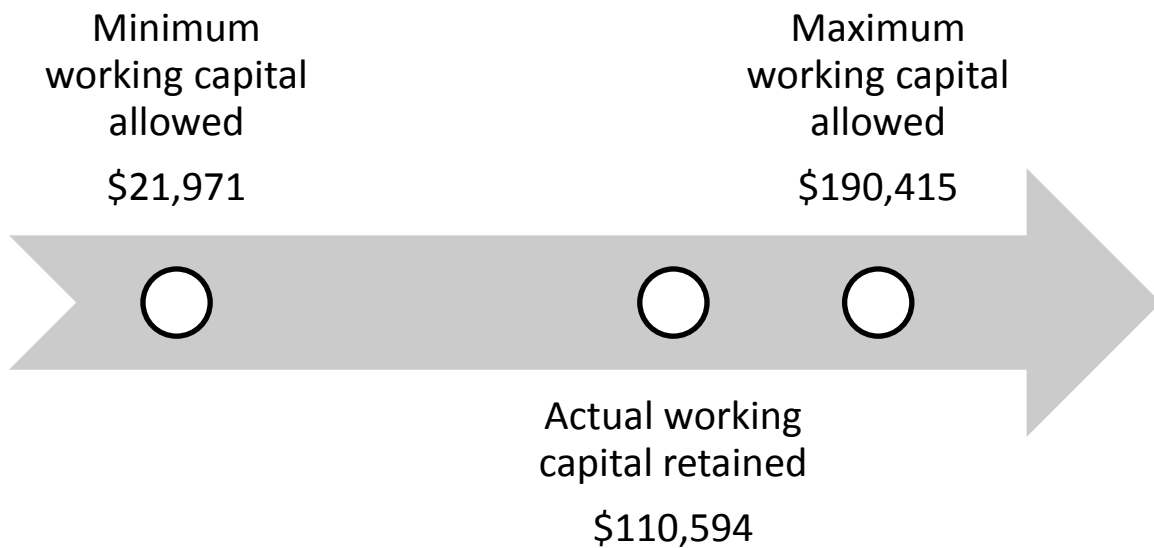
	FY2017 Budget Projections	FY2017 Actual Amounts	Variance (\$)	Variance (%)
Sales	\$743,000	\$740,312	(\$2,688)	-0.4%
Cost of Goods Sold	\$392,100	\$397,811	(\$5,711)	-1.4%
Total Operating Expenses including Capital	\$183,426	\$177,982	\$5,444	3.1%

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.

Based on the existing rules, the Andrews ABC Board is allowed to maintain a minimum working capital of \$21,971 and a maximum working capital of \$190,415. The actual working capital the board has retained is \$110,594.

The NC ABC Commission has set a working capital and efficiency goal for boards with gross sales less than \$1.5M an amount equal to four months of sales revenue. The board's actual working capital has met the standard set by the NC ABC Commission.



DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts all expenses, mixed beverage and bottle taxes. G.S. 18B-805 (c) requires the board to make a minimum quarterly distribution of the 3 ½% markup and .01/.05 cent bottle tax to the municipalities and county. Below is a chart of taxes paid to the NC Department of Revenue, the Town of Tabor City, and Columbus County.

G.S. 18B-805 (c) (2) and (3) requires the board to distribute quarterly at least five percent (5%) of profits to law enforcement and at least seven percent (7%) of profits toward alcohol education.

S.L. 1967-891 requires the board to distribute quarterly the following net profits:

- Seventy percent (70%) to the Town of Andrews General Fund
- Thirty percent (30%) to the Cherokee County General Fund.

Revenues Less Taxes and Cost of Sales FY2017	
Sales	\$740,312
Excise Tax	\$162,560
Mixed Beverage Tax (\$0.01 and (\$0.05)	\$1,176
Rehabilitation Tax	\$2,472
Net Sales	\$574,104
Cost of Liquors	\$397,811
Gross Profit	\$176,293

	FY2017 Required Distributions
Gross Profit (Taken from above chart)	\$176,293
Total Operating Expenses	\$186,347
Income (Loss) from Operations	\$ (10,054)
Income Before Distributions	\$ (10,029)
Law Enforcement (5%)	\$ -
Alcohol Education (7%)	\$ -
3 ½% Minimum Distribution	\$ -

A law enforcement contract has been submitted to the NC ABC Commission. The contract requires the board to distribute at least five percent (5%) in quarterly installments if profits are generated. In addition to the law enforcement requirement, the board is required to expend at least seven percent (7%) towards alcohol education or rehabilitation purposes. The Andrews ABC Board has not distributed towards alcohol education.

FINANCIAL ANALYSIS RECOMMENDATIONS

Recommendation #1: To increase sales, consider effective practices to generate more revenue such as:

- **Utilizing resources that would provide effective practices, i.e., shelf management, customer service, and inventory management**
- **Utilizing effective marketing strategies that will increase sales such as:**
 - **Partnering with distilleries to showcase product as long as it meets the NC ABC Commission's promotion requirements**
 - **Creating recipe cards, displays, and other marketing techniques that would increase sales**
 - **Borrowing common marketing strategies from suppliers and other boards**
- **Contacting neighboring systems to inquire about selling off discontinued or slow-moving products or ask for a price reduction from the NC ABC Commission**
- **Partnering with the appointing authority on effective means to draw more businesses that show an interest in selling mixed beverages.**
- **See additional recommendation under store appearance.**

Recommendation #2: Monitor the budget closely to ensure that actual appropriations or expenditures have not exceeded budgeted projections. All ABC Boards are required to operate within a balanced budget. When actual sales have exceeded the budget and expenses have not met budgeted amounts, the board is required to adopt a budget amendment to satisfy this requirement. G.S. 18B-702(h) states, "Except as otherwise restricted by law, the local board may amend the budget at any time after adoption, in any manner, so long as the budget, as amended, continues to satisfy the requirements of this section...Amendments to the adopted budget shall also be provided to the appointing authority and the Commission."

STORE APPEARANCE

The ABC Board Auditor visited the store to evaluate store appearance. The findings are as follows:

- The initial performance audit in 2012 stated there was not a shelf management system in place, monthly sales items were not available, and the required Fetal Alcohol Syndrome poster was not displayed. Management has since developed the following:
 - A shelf management policy that locates premium products on upper shelves or near the front of the store, specific product facings, bottle arrangements by sizes, etc. The policy has been submitted to the NC ABC Commission.
 - The required Fetal Alcohol Syndrome poster has been displayed within the store. Other signage is minimal and neat.
 - Monthly product sales information is located as signage on the specific product. The store has the NC Liquor Quarterly available for all MXB permit holders and retail customers.
 - A North Carolina product selection is available separately as well as merged within their brand category.
 - New products are available to allow for a diverse selection. Displays were visible throughout the store.
- The exterior signage notifying potential customers of the location of the store is not easily visible to the public.

Recommendation #3: Have exterior signage that clearly marks the designation of an ABC store. The sign shall not be worn or faded as specified in the NCAC 15A .1703.

OPERATIONAL AND ADMINISTRATIVE COMPLIANCE

- While inspecting the store, the ABC Auditor randomly selected approximately forty items to determine if uniform pricing is displayed on the shelves. Of those selected, one was incorrect.

Recommendation #4: Conduct a routine check of shelf prices along with the register to ensure accuracy. All prices must correspond with the register, the store's shelves, the NC Liquor Quarterly, and/or the memorandums from the NC ABC Commission. Refer to the ABC Commission's website to verify product pricing consistently.

- Management has begun cross training key employees in some areas.

Recommendation #5: Continue to offer cross training in key areas of operation to capable and skilled staff so that in the event the general manager is suddenly unavailable store operations can continue without interruption.

- Board appointment dates have been updated with the NC ABC Commission. However, board members who have been reappointed within the last year have not taken the required ethics training.

Recommendation #6: Have all new and reappointed board members to complete the required ethics training. 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. The ethics education shall cover laws and principles that govern conflicts of interest and ethical standards of conduct for local ABC boards."

- In the Andrews ABC Board personnel/employee manual, certain policies did not correlate to currently practice. Specific policies in question are the employee vacation or sick leave benefits.

Recommendation #7: Update the employee manual to reflect current practices as approved by the board. Once updated, forward a copy to the Commission for approval.

**Alcoholic Beverage Control Commission
400 East Tryon Road
Raleigh, NC 27610**

October 28, 2017

**The Town of Andrews ABC Board
PO Box 817
13934 US 19-White's Plaza
Andrews, NC 28901**

The following letter is in response to the Andrews ABC Store Performance Audit conducted in August.

Recommendation #1:

The Andrews ABC Store moves products to different shelves routinely. Premium products are located on upper shelves or near the front of store. The staff strives to always be courteous and helpful to all customers; asking them if they can be helped with finding something or suggesting a new taste. We are looking forward to working with distiller reps to create more displays to help generate more revenue. Currently the store is moving slow-selling or discontinued products to a shelf at the front of the store with a sign "Last call- Get them while you can." We will continue to contact neighboring stores about selling off slow moving products.

Recommendation #2:

We have a new lighted sign located on the 4-lane in front of store that was installed approximately around April 2013; which is clearly visible. (see attachment)

Recommendation #3:

Routine check of shelf prices are conducted the first of each month. We will keep a closer eye to ensure accuracy.

Recommendation #4:

Cross training will continue with staff members on a regular basis.

Recommendation #5:

Reappointed Board member has not taken the required Ethics training; but is scheduled for Nov 2nd before the Dec 1st deadline.

Recommendation #6:

Employee manual has been updated; the following corrections were made:

- 1. Vacation time cap was amended from once capped to twice capped**
- 2. Medical and Dental benefits were deleted from manual**
- 3. Appendix E—Mixed Beverage Policy was amended to include approved checks.**

Copies of the above have been forwarded to the Commission for approval.

We would like to thank you for your visit and all the recommendations.

Sincerely,

Donna Cutshaw-General Manager

Donna Cutshaw

Debbie Ambler-Chairman

D Ambler