

Dobson ABC Board

Performance Audit Report

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



Alcoholic Beverage Control

COMMISSIONERS:

August 18, 2011

JONATHAN S. WILLIAMS
Chairman, Raleigh

The Honorable Ricky K. Draughn, Mayor
Town of Dobson
PO Box 351
Dobson, NC 27017-0351

A. D. "ZANDER" GUY, JR.
Surf City

DANIEL L. BRIGGS
Lexington

ADMINISTRATOR:
MICHAEL C. HERRING

Dear Mayor Draughn,

We are pleased to submit this performance audit report of the Dobson 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.

LOCATION:
400 East Tryon Road
Raleigh NC 27610

This report consists of an executive summary, background information and operational findings and recommendations. The Chairman of the Dobson ABC Board reviewed a draft copy of this report and his written comments are included.

MAILING:
4307 Mail Service Center
Raleigh, NC 27699-4307

We would like to thank the ABC Board and their staff for the assistance and cooperation provided to us during the audit and we hope you and your Town Commissioners will find the report informative.

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contactus@abc.nc.gov

Respectfully,

Michael C. Herring
Administrator

CC: Josh Smith, Town Manager

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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 audits 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 financial audit for the fiscal year 2010;
- Visited the store;
- Interviewed key ABC store personnel.

The Dobson ABC Board has responded to the performance audit recommendations and has made efforts toward becoming profitable. Since our visit, a shelf management plan has been implemented and training opportunities have been extended to employees with possible opportunities to partner with surrounding boards to host training classes. Internal controls have been modified to maintain proper segregation of duties and to adhere to statute regulation.

A mixed beverage election was held on August 9, 2011 and passed by majority vote. Depending upon the number of businesses that apply for permits, this may help improve profits.

BACKGROUND INFORMATION

Dobson is located in Surry County in the heart of North Carolina's Yadkin Valley Wine Region. In close proximity to Highways 74 and 77, Dobson serves as the gateway to the Blue Ridge Mountains and the Blue Ridge Parkway. The town was named after William Polk Dobson, the cousin of President James Knox Polk. The current population is 1452.

Chapter 438 of the 1971 Session Laws authorized the Town of Dobson to hold an ABC election upon receipt of a petition signed by fifteen percent of the registered voters. The referendum was held March 29, 1975. The vote for an ABC store passed 260 to 164. The Dobson ABC store was built in 1975 and opened July 1 of the same year. A mixed beverage referendum was August 9, 2011 and passed.

The ABC Board has three board members who oversee the operations. The board is in the process of appointing a new Board Chairman. The store has one full-time and two part-time employees. One part-time employee serves as the general manager, responsible for the daily operations of the store. The other part-time employee serves as a clerk. The full-time employee is appointed as the finance officer and handles the disbursement processes.

Profitability

For fiscal year 2010, the board showed a slight profit; total liquor sales were \$511,836, profit before distributions was \$3,462, which resulted in the profit percentage to sales .67%. Current year sales have dropped since the previous year. In comparing sales with similar boards for the past ten years, Dobson ABC sales have dropped while other similar boards have followed the state's 56% ten year increase. See Appendix A.

Factors affecting sales and profitability:

- Adult working population has decreased 15% over the past ten years
- Population below poverty level has increased 20% over the past ten years
- 10.9% unemployment rate in Surry County

Distributions

S.L. 1971-438 requires the Dobson ABC Board to make the following distributions quarterly:

- 70% to Dobson General Fund
- 20% to Dobson General Fund for law enforcement
- 10% to Dobson General Fund for parks and recreation

In 2010, the Dobson ABC board made distributions totaling \$23,430.99.

- \$16,401.69 to General Fund of the Town
- \$4,686.20 to Town for law enforcement
- \$2,343.10 to Town for parks and recreation

The law enforcement distribution follows 18B-805(c)(2).

FINDINGS AND RECOMMENDATIONS

On April 20, 2011, ABC Commission Auditor, Moniqua S. McLean, visited the Dobson ABC store and interviewed Ralph Holt, general manager, and Jon Bledsoe, assistant manager and finance officer. The following are the findings and recommendations relating to the performance audit:

1. Inventory Turnover

The inventory turnover rate is calculated by dividing the cost of goods sold by the average inventory in the system. The Commission has set goals for determining an effective rate based on the frequency of deliveries. Below are the target turnover rates based on a delivery schedule:

- Daily/weekly deliveries target at 6 times per year
- Bi-weekly deliveries target at 5 times per year
- Monthly deliveries target at 4.5 times per year

The Dobson ABC store has a bi-weekly delivery schedule. The inventory turnover rate for Dobson is 4.9 which is just short of the target rate set by the Commission.

Recommendations:

- Identify unsold inventory for transfer to another board which has demand, or
- Request permission from the Commission for a price reduction to sell it off. Use proceeds for distribution or for more saleable inventory.

2. Operating Costs

Operating costs are calculated by dividing total operating expenses less depreciation by the gross profit on sales. Below are the average cost ratios for boards with and without mixed beverage sales.

- Boards with 3 or more stores with MXB – cost ratio .67 or less
- Boards with 3 or more stores without MXB – cost ratio .94 or less
- Boards with 2 stores – cost ratio .83 or less
- Single store boards with MXB – cost ratio .77 or less
- Single store boards without MXB – cost ratio .93 or less.

The Dobson ABC store has an operating cost ratio at .93 and meets the targeted rate set by the Commission.

3. Profit Percentage to Sales

The profit percentage to sales is calculated by dividing the total profit before distributions by the total liquor sales. The Commission has set efficiency goals based on the following breakdown:

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

The Dobson ABC store has a profit percentage to sales of .67% and does not meet the targeted rate set by the Commission.

Recommendations:

- Economic indicators do not support any significant increase in future sales. Monitor operating expenses carefully to maintain profitability.

4. 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:

- 4 months for boards with gross sales less than \$1.5M
- 3 months for boards with gross sales less than \$50M and greater than or equal to \$1.5M
- 2 months for boards with gross sales equal to or greater than \$50M

The Dobson ABC Board had \$156,302 in working capital as of June 2010. The working capital retained exceeded the maximum working capital allowed. The board has recorded the excess as a liability in 2010. The Dobson ABC board has met the efficiency goal set by the Commission.

Recommendations:

- Consider distributing more of the working capital retained.
- If the board elects to continue retaining the maximum amount of working capital allowed, develop a strategic plan detailing future capital improvements for which these funds are being retained.

5. Store Appearance

The Dobson ABC store is approximately 1,100 linear feet of shelf space and currently carries approximately 870 product codes.

- While the store was clean and well lit, it did not have a comprehensive shelf-management system in place. For example, some products are displayed from left-to-right with largest size on the left and others are right-to-left with largest size on the right.
- Some bottles were not properly fronted so that a customer could easily find the product.
- Many of the shelves were empty giving the appearance that there were not enough products available for sale.
- The Fetal Alcohol Syndrome Warning poster was taken down prior to my arrival because it was worn and faded.

Recommendations:

- Develop an effective and efficient shelf-management system that better utilizes the spacing areas. Shelf management needs to be consistent and easily understandable. The proposed new rule NCAC 02R.1711 (a) states, *“Each local board shall establish and maintain a shelf management plan. The local board shall establish policies within its plan that govern the following concepts:*
 - (1) Set the higher price items on the upper shelves at eye level and set the low price items on the bottom shelves;*
 - (2) Block categories in vertical sets per their category;*
 - (3) Arrange bottle sizes so they increase left to right of the same item;*
 - (4) Create brand billboard by stacking all brand sizes together;*
 - (5) Set shelf space for a product equal to market share for the individual store after the product has been carried for a year;*
 - (6) Set and maintain all bottles at the front of the shelf; and*
 - (7) Discontinue low profit slow moving items.”*

(b) Each local board shall keep a copy of its shelf management plan at each store location and, upon request, provide a copy to a Commission representative.”
- Keep bottles fronted so that customers can easily access the desired product as well as giving the store a more modern look.
- Eliminate or minimize empty shelving by increasing facings to fill in blank spots. Utilize one or more of the end caps for displaying new items, sales items, or discontinued items.
- Post the required Fetal Alcohol Syndrome poster as required by 18B-808. 18B-808(a) states, *“Each ABC store shall display or cause to be displayed warning signs that meet the requirements of this section on the store’s premises to inform the public of the effects of alcohol consumption during pregnancy.”* New posters are available free of charge from the Commission Education and Training Division.

6. Personnel/Training

- Due to the limited staffing, a formal training program has not been established for employees.
- Employee training is conducted whenever the need arises and whenever new information is available.

Recommendations:

- Attend annual training, such as the Responsible Alcohol Seller Program, offered by the Commission. The program teaches the latest tools and techniques for detecting underage and intoxicated patrons and utilizes “Fatal Vision” impairment goggles to add realism to the training. The program is free and lasts approximately 1 hour.
- Create a checklist for use in training new employees and have each employee sign once training is complete.

7. Administrative Compliance Findings

- Board meeting minutes were viewed and followed the order of proceedings for conducting business meetings. Board meeting minutes should reflect that the meeting has been called to order, the minutes of the last meetings were approved or disapproved, the numbers of votes to approve the minutes and/or any policies that are being entered into the business operations, and other business questions or items should be presented before the board.
- The following policies either have not been adopted or have not been filed with the Commission:
 - Code of Ethics
 - Law Enforcement Contract
- The travel policy on file does not meet current statutory requirements but expense disbursements for the current fiscal year do conform to the current policy.
- The personnel manual was last updated in 1999.
- There is no record retention schedule on file; however, documents have been kept since the store was first opened. Older documents are kept in the back storage area in boxes while current records are kept in the office.
- Board information on the Commission website has not been updated. Board member’s compensation meets the current statutory requirements.
- Breakage reports were not sent quarterly, however, the reports were available to send with the auditor.
- The Dobson ABC board currently makes distributions annually.

Recommendations:

- Adopt Code of Ethics and submit copy to ABC Commission. Finalize law enforcement contract and send copy to Commission.
- Adopt travel policy that meets requirements of 18B-700(g2) and file a copy with the Commission (2R.0909(c)). 18B-700(g2) states “...the local board adopts a travel policy that conforms to the travel policy of the appointing authority and such policy is approved by the appointing authority [or adopts the state policy].” NCAC 02R.0909 (c) Rules to be filed with Commission. Each local board shall file a certified copy of its travel policies and procedures, and any amendments thereto, with the Commission within 10 days of the adoption, or amendment, of the policies by the local board.
- Board member salary changes should be updated as they occur.
- Update employee handbook to conform to either appointing authority’s employee manual or Commission approved policy. NCAC 02R.1009(b), states “A local board is encouraged to model its personnel policies and procedures after those adopted by the county or municipality in which it operates. (c) A local board shall not adopt a rule or policy that conflicts with the provisions of Chapter 18B or these Rules.”
- Distributions must be made quarterly unless the board has the approval from the appointing authority a different distribution schedule *GS 18B-805(e)*. Submit a copy of the appointing authority’s approval to the Commission.
- Local boards shall retain records pursuant to the following records retention schedule. A records retention schedule is available on the Commission website.

8. Internal Controls

Checks are hand-written and have just one signature line. Checks are currently signed by both finance officer and general manager.

Recommendations:

- In order to maintain adequate internal controls, have two signatures on all checks. Effective May 1, 2011 one signature must be that of the finance officer or deputy finance officer and the other either the board chairman or the general manager. Having the board chairman co-sign checks and keeping invoices with checks until they have both signatures will strengthen the internal control system.
- Appoint a deputy officer to aid in the duties of the finance officer when he/she is absent. 18B-702(p) “...all checks or drafts on an official depository shall be signed by the finance officer or a properly designated deputy finance officer. The chairman of the local board or general manager of the local board shall countersign these checks and drafts.”

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Appendix A

Chart 1

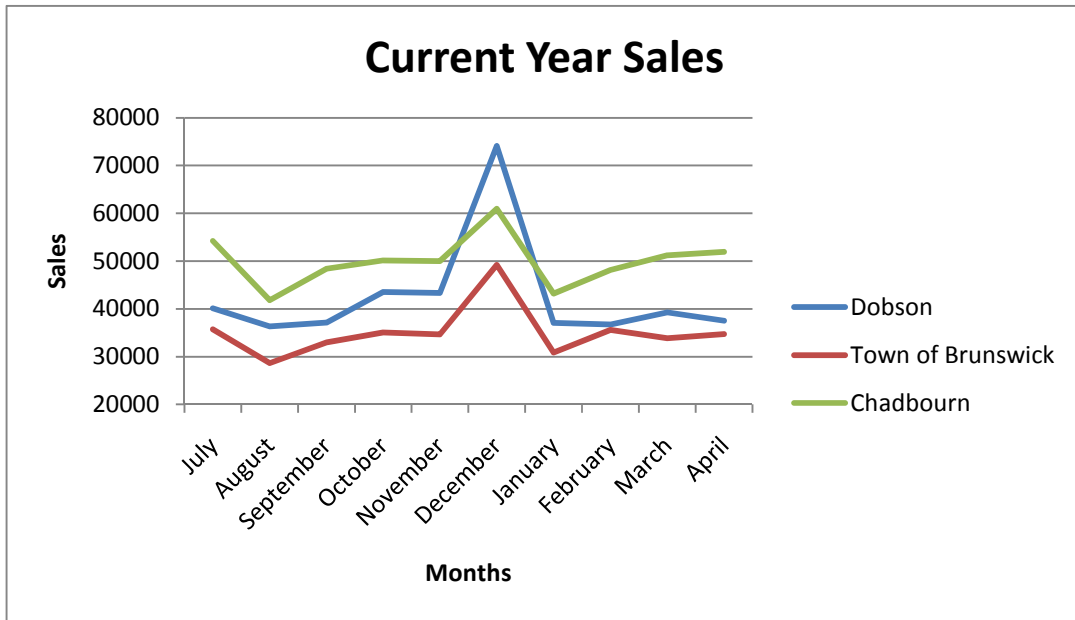


Chart 1 shows current year sales for similar size boards.

Chart 2

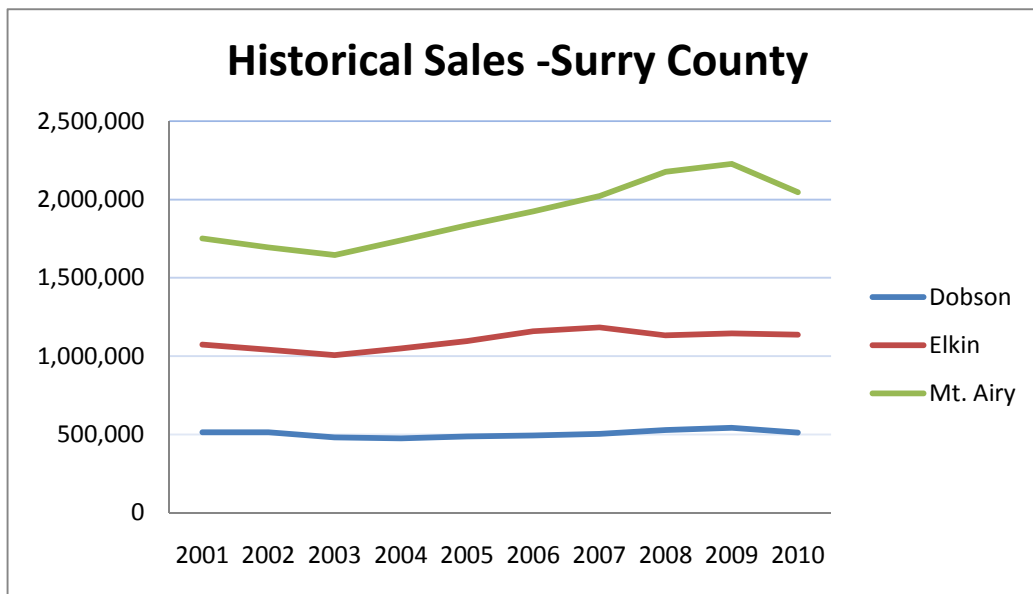


Chart 2 reflects current sales for surrounding boards. Note: Elkin and Mount Airy have mixed beverage sales.

Chart 3

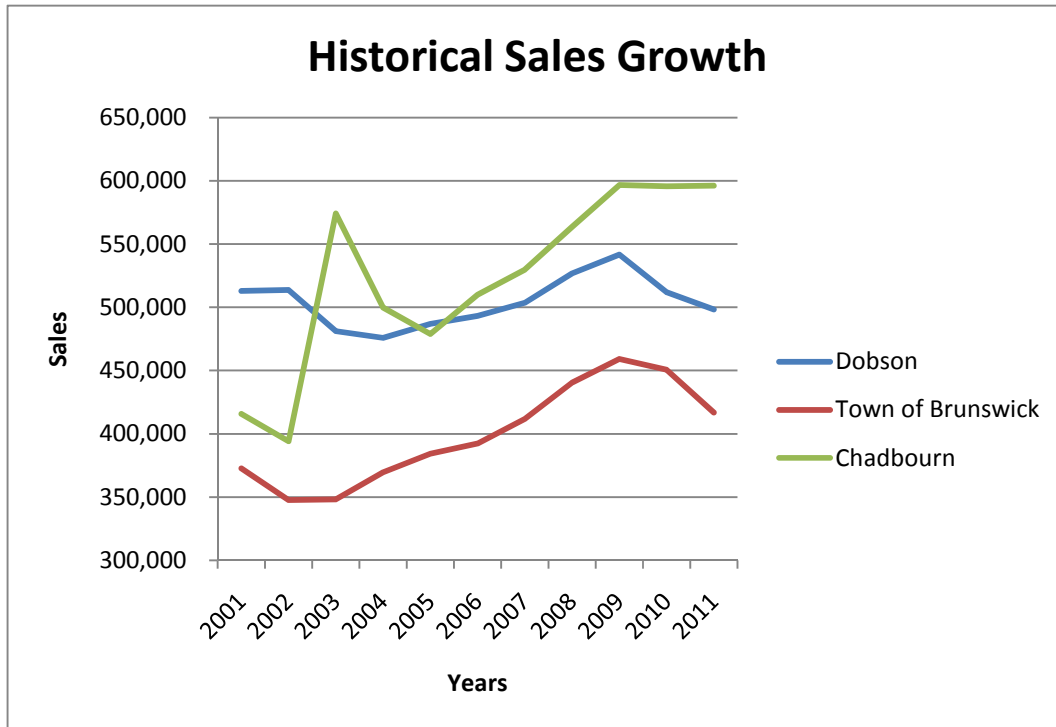


Chart 3 reflects the historical sales growth for similar boards for the past ten years.

Chart 4

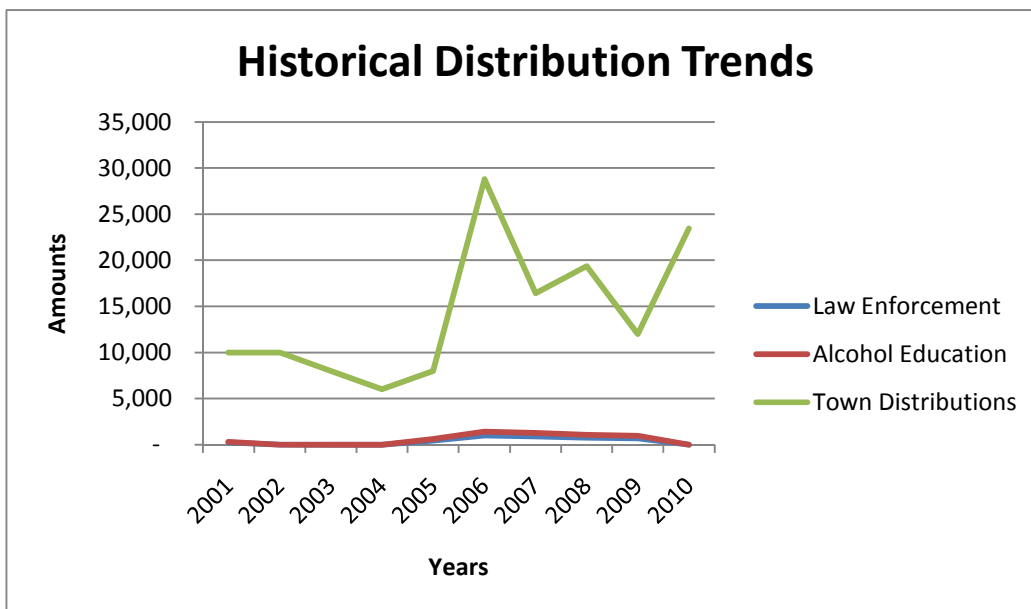


Chart 4 shows the downward trend of profit distributions to law enforcement, and alcohol education but increasing distributions to the appointing authority.

Chart 5

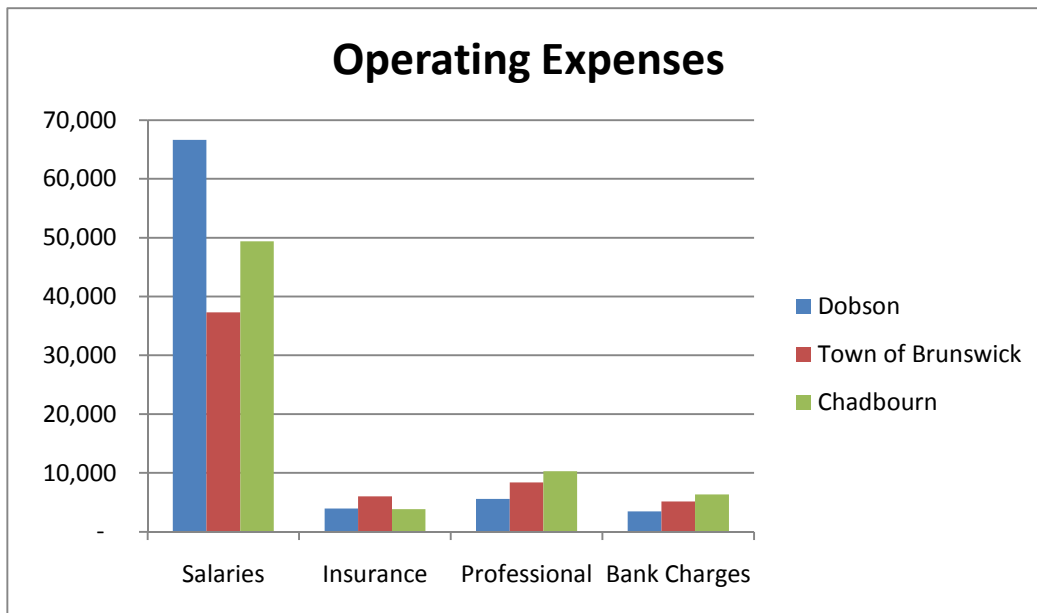


Chart 5 reflects some operating expenses of similar boards.

Chart 6

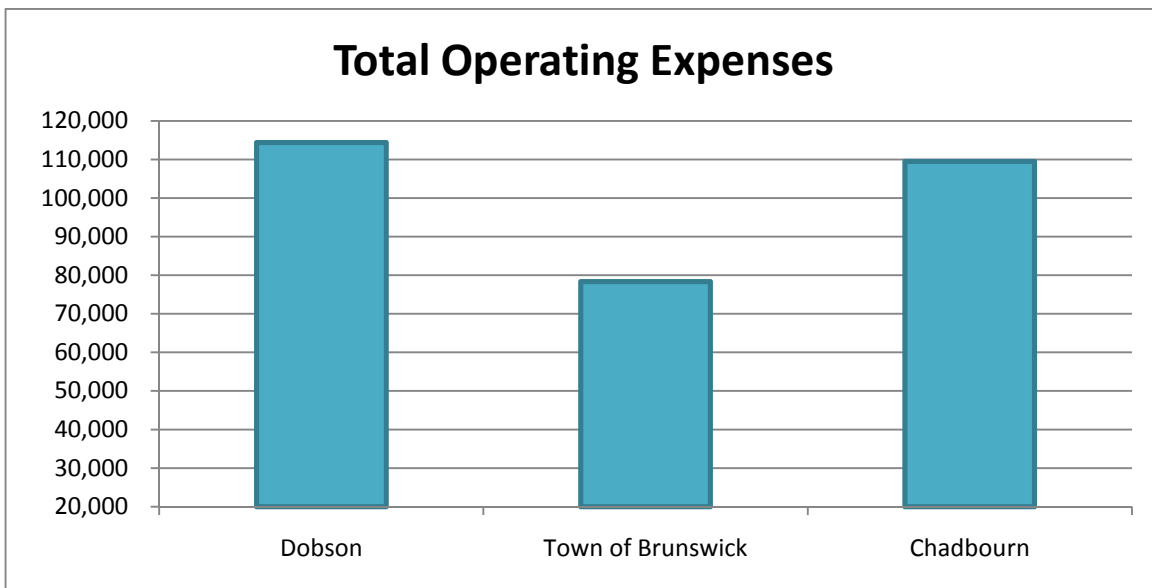


Chart 6 reflects total operating expenses of similar boards.

Chart 7

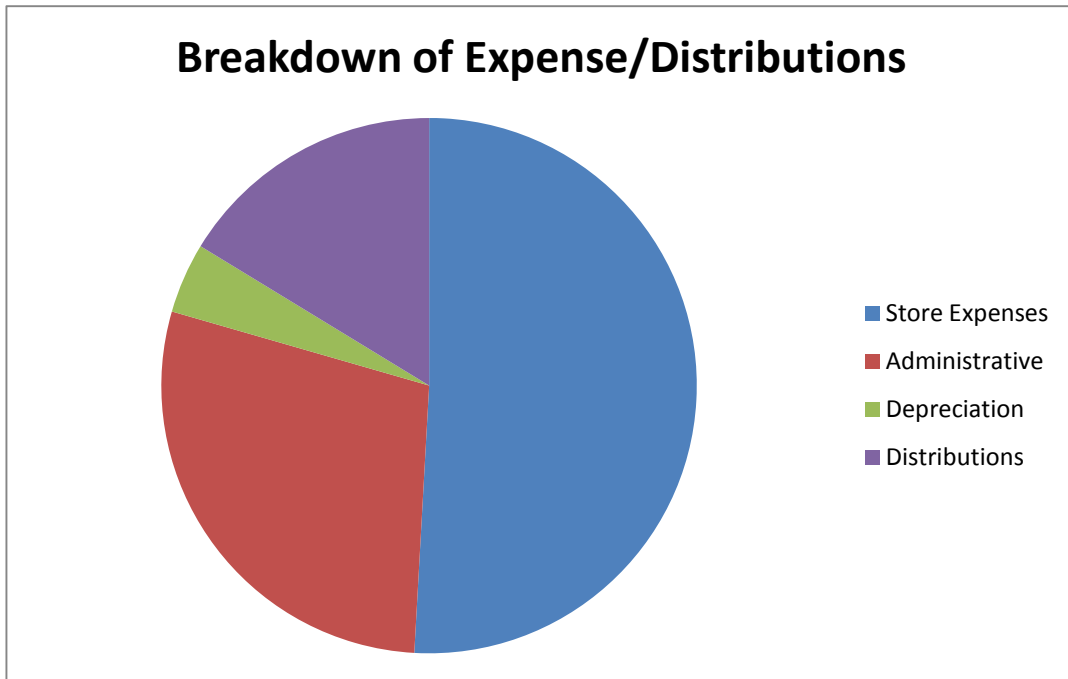


Chart 7 reflects the breakdown of gross profit between expenses and distributions to the appointing authority.

Appendix B



Shelf management on initial visit.

Response to Performance Audit,

Special thanks to Moniqua Mclean, and Lori Lee for coming to our Board on April 20, 2011 to conduct the Performance Audit. We have taken steps that the Audit suggested to improve the appearance including having Guy Potts and Monique Mclean come back to help with shelf Management. We are currently working on getting a personnel manual and proper training program implemented and should have one by year end.

We have adopted a Code of Ethics, Law Enforcement Contract, and Travel Policy to meet State of North Carolina guidelines as the Audit suggested we do by year end. We have sent copies of the contracts and minutes to the North Carolina ABC Commission. We have also updated Board Member information on the ABC Commission Website. We have also gotten Town of Dobson approval on getting once a year distribution instead of quarterly distributions.

We hope we have taken all the appropriate steps to make our store compliant, productive, and meet standards set forth by the State of North Carolina and Town of Dobson.



Board Chairman

DOBSON ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Develop an effective and efficient shelf-management system. A shelf management system should be consistent and easily understood.</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" 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>Two representatives from the Commission assisted with the reorganization of the shelf-management system. Refer to Pictures below.</p>
<p>Have employees attend annual RASP training.</p> <p>Have internal employee training. Once completed, create a checklist for new employees to sign.</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input checked="" type="checkbox"/> Partially implemented 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The board is willing to partner with surrounding boards to organize a combined training class. The board is planning to attend a training class when one is offered.</p>

RECOMMENDATION	REQUIRED LEGISLATIVE CHANGE	IMPLEMENTATION STATUS
<p>Adopt the code of ethics, law enforcement contract, travel policy, and employee handbook. To comply with the 18B-805(e), have the appointing authority approve a different distribution schedule.</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>(Please provide documentation supporting implementation status.) <input checked="" type="checkbox"/> Fully Implemented <input type="checkbox"/> Partially implemented ____% complete. (Explain below.) <input type="checkbox"/> Not implemented (Explain below.)</p> <p>Copies of the adopted policies and approvals have been submitted to the Commission.</p>
<p>In order to maintain adequate internal controls, have two signatures on all checks including the approval certificate. Appoint a deputy finance officer.</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>(Please provide documentation supporting implementation status.) <input checked="" type="checkbox"/> Fully Implemented <input type="checkbox"/> Partially implemented ____% complete. (Explain below.) <input type="checkbox"/> Not implemented (Explain below.)</p> <p>Checks are signed by the finance officer and general manager. A deputy finance officer has also been appointed.</p>

DOBSON ALCOHOL BEVERAGE CONTROL BOARD
Recommendation Follow-Up

