

# Wilkesboro ABC Board

## Performance Audit Report



Alcoholic Beverage Control Commission  
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**ABC**  
COMMISSION  
NORTH CAROLINA



# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

CHAIRMAN:  
JAMES C. GARDNER

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COMMISSIONERS:  
JOEL L. KEITH  
Wake Forest

KEVIN M. GREEN  
Greensboro

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ADMINISTRATOR:  
MICHAEL C. HERRING

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LOCATION:  
400 East Tryon Road  
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**Moniqua S. McLean**  
ABC Board Auditor

February 20, 2014

Wilkesboro ABC Board  
Mr. Bill Bumgarner, Chairman  
4061-B Hwy 421 West  
Wilkesboro, NC 28697

Dear Chairman Bumgarner,

We are pleased to submit this performance audit report on the Wilkesboro 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 along with your finance officer's 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 and the steps being taken to control operating costs since opening a second ABC store in Wilkesboro.

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

Respectfully,

Michael C. Herring  
Administrator

CC. North Carolina Association of ABC Boards

## **TABLE OF CONTENTS**

Financial Analysis.....	6
Operational Findings, Observations, and Recommendations.....	10
Wilkesboro ABC Board Response.....	17
ABC Commission Chairman James C. Gardner Response.....	19
Recommendation Follow up.....	21

## **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 2013;
- Visited both stores;
- Interviewed key ABC board personnel.

The Wilkesboro ABC Board responded to the performance audit recommendations and continues to create strategies and implement policies that would maintain and increase profitability while reducing expenses. Policies and procedures have been implemented to ensure compliance with ABC statutes and Commission rules.

## **BACKGROUND INFORMATION**

Chapter 413 of the 1965 Session Laws authorized the town of Wilkesboro to hold an election for an ABC store upon fifteen percent (15%) of registered voters. The referendum was held on July 20, 1965 and passed 453 to 292. A mixed beverage election was held on August 25, 1987 and passed 296 to 234.

Upon election of an ABC store, the town was authorized to create an ABC board consisting of a chairman and two board members to serve for three year terms. Current board members are Bill Bumgarner, board chairman, Jim Caudill and Sam Stroud, board members.

The Wilkesboro ABC Board operates two retail stores. The second store opened in May 2012. The board staffs six full-time and six part-time employees. The general manager is responsible for overseeing and managing daily operations of the stores including supervising personnel, inventory control, policy implementation, budget maintenance, and providing customer service. The board has appointed the town manager as the finance officer. The finance officer's duties including overseeing and managing the budget as required by the ABC statutes and rules. The board has hired an external accountant whose primary duties consist of providing assistance to the general manager with all financial responsibilities related to bookkeeping and monthly account reconciliations. Store employees are primarily responsible for providing friendly customer service, store upkeep and inventory management.

# **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 Wilkesboro ABC Board receives deliveries twice a month: the inventory turnover rate is 3.0.

### *Recommendations:*

- To increase inventory turns, consider the following:
  - Analyzing sales data and history reports more closely and more frequently to plan orders while taking advantage of Special Purchase Allowance offers,
  - Utilizing end caps to highlight slow moving and new items,
  - Selling slow-moving inventory to other boards with greater demand or asking the Commission for a reduced price,
- Contacting other boards who have a high inventory turnover rate and have recently opened a new store or a second location for ideas that may be implemented.

## **Operating Cost Ratio**

Operating costs are calculated by dividing total operating expenses less depreciation by the gross profit on sale (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 25% of gross sales – cost ratio 0.75 or less
- Single store boards without MXB sales – cost ratio 0.85 or less
- Boards with 2 stores with and without MXB sales – cost ratio 0.74 or less
- Boards with 3 or more stores with and without MXB sales – cost ratio 0.64

The Wilkesboro ABC Board operates two retail stores with mixed beverage sales: the operating cost ratio is 0.94. Mixed beverage sales make up 9% of total gross sales. In May 2012, the board opened a second store on the main highway to increase sales. Although sales have increased 23% over the previous year, expenses have increased as the board acquired more inventory and overhead expenses for opening of the second store. In fiscal year 2013, sales have increased 23% over fiscal year 2012, a 19% increase since the opening of the second store. Expenses in fiscal year 2013 have increased 30% over fiscal year 2012. To meet the cost ratio goal and remain at current operating expense of \$428,289, revenues must be increased to approximately \$2,400,000, a 33% increase. To meet the cost ratio goal and remain at current revenue of \$1,807,504, expenses must be reduced to approximately \$328,000, a 23% decrease.

*Recommendations:*

- Continue to monitor budget frequently and more closely to ensure that actual expenses do not exceed budgeted amounts. Provide monthly reports to board members detailing how much has been spent.
- Request bids annually from various vendors to get the best rates possible on financial audits, specific utilities, maintenance contracts, and credit card processing fees.

**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

In FY2013, Wilkesboro ABC had a working capital of \$263,951, which is equivalent to approximately two months gross sales and is within the limits of NCAC 02R .0902.

## Profit Percentage to Sales

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

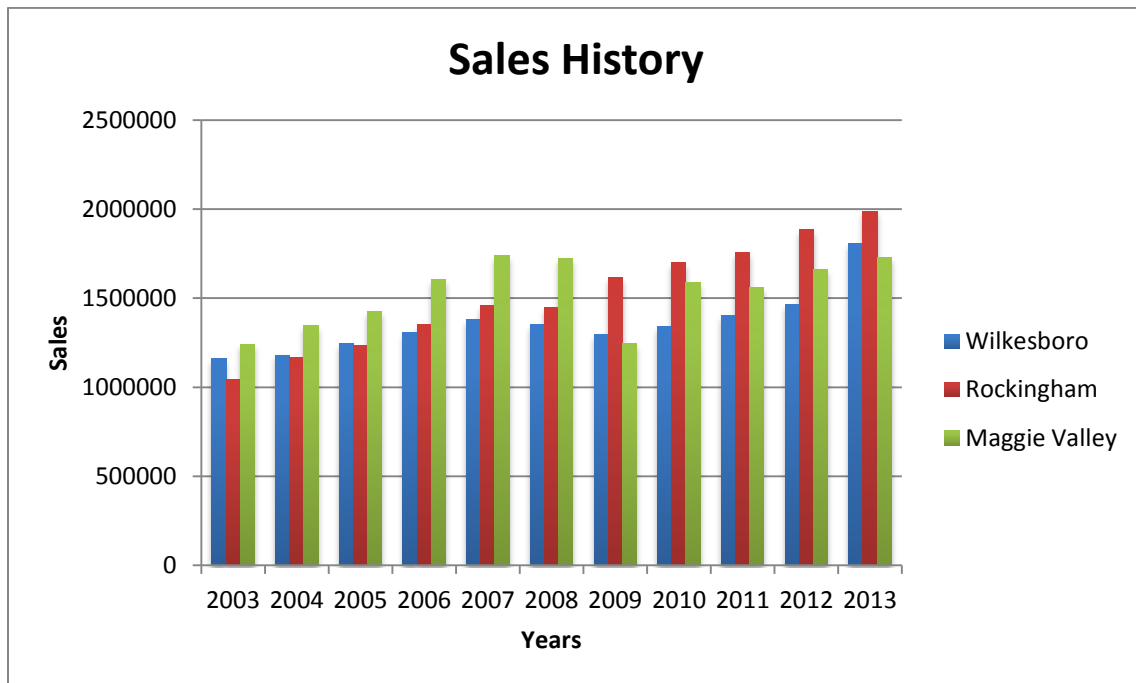
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2013, the Wilkesboro ABC Board had gross sales of \$1,813,721; income before distributions was \$5,862, a 0.32% profit percentage to sales.

Factors affecting sales and profitability:

- Opening of second store on the main highway in May 2012;
- Sales increased 23% over the previous year as a result of the opening of the second store;
- Surrounding towns with ABC stores include North Wilkesboro, Boone, and West Jefferson.

Below is a sales history analysis of similar size boards compared with Wilkesboro ABC Board. This chart analyzes the sales trends for the past ten years.



*Recommendations:*

- To increase profitability, consider testing different marketing strategies such as cross-merchandising, transferring slow-moving products between stores; etc.



## Distributions

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

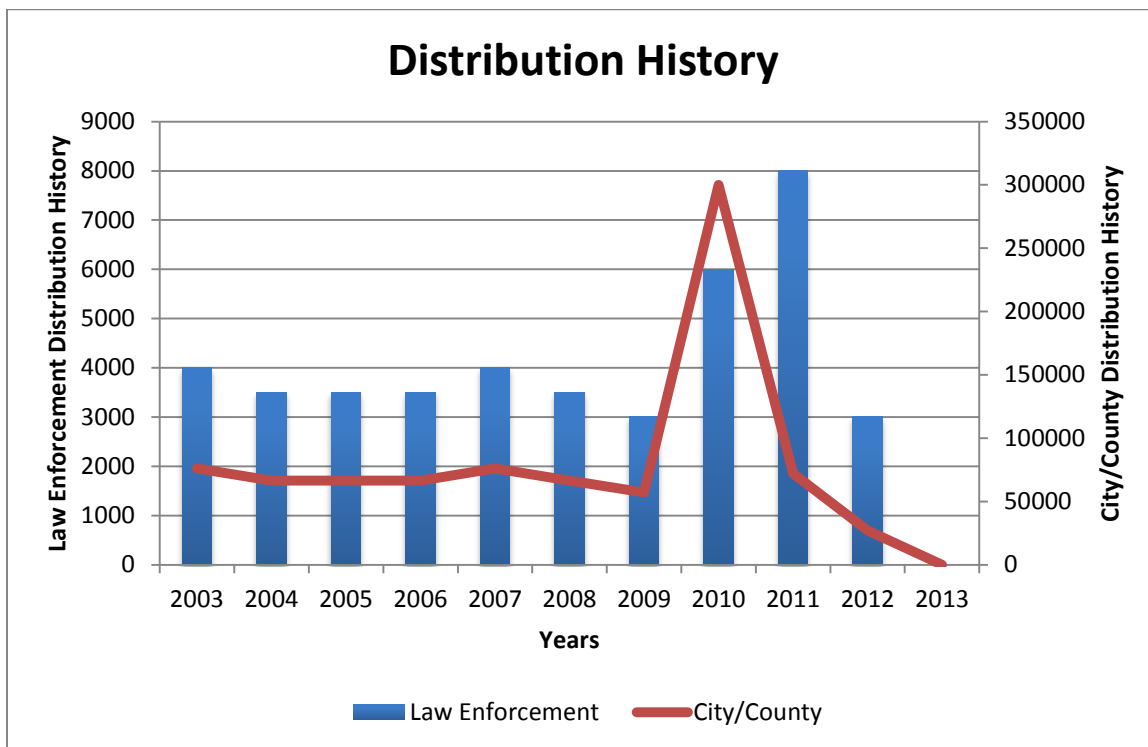
- 10% to Wilkes General Hospital
- 20% to Wilkes County General Fund
- Remaining profits to Wilkesboro General Fund

In FY 2013, Wilkesboro ABC did not meet the required minimum distribution and did not make distributions to law enforcement. \$416,518 in Excise and other taxes were paid to the NC Department of Revenue and the town.

### *Recommendations:*

- To remain in compliance with the statute, ask the appointing authority for an approval to withhold distributions for a specific period of time.

Below is a chart analyzing the high-low trend of distributions to law enforcement and to the town for the past ten years.



## **OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS**

On August 7, 2013, ABC Board Auditor, Moniqua S. McLean, visited the Wilkesboro ABC store and interviewed Al Absher, general manager, and Bob Urness, finance officer. The following are the operational observations, findings, and recommendations related to the performance audit.

### **Store Appearance and Customer Service**

The Wilkesboro ABC Board operates two retail stores ranging from approximately 550 to 1,200 linear feet of shelf space and carrying approximately 1,300 product codes between stores. The second store opened in May 2012.

- Although both stores were clean, well-dusted, and maintained, store #1's lighting is dim. The board is planning to make the necessary improvements to update the lighting in the store.
- The Fetal Alcohol Syndrome poster was displayed in both locations.
- Security systems are in place and functional.
- Both stores display a consistent shelf management plan that exhibits a strategy per category following the highest priced product on the top shelves, most popular item at eye-level, and the lowest priced product on the bottom shelves. Product displays are available throughout the store spotlighting bestselling or newest items. *See pictures on page 14.*
- The state price book is available in both locations should customers ask for specific product. Sales clerks' often refer to the price book for verification of product and pricing.
- 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, general manager, and finance officer have completed the initial ethics training.
- Training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities.
- Cross training opportunities have been extended to key employees in the event the general manager or finance officer is suddenly unavailable.

*No Recommendations.*

## **ABC Board Policies**

- Policies adopted and submitted to the Commission include:
  - Code of Ethics
  - Law Enforcement Contract
  - Travel Policy (Town of Wilkesboro Approval FY2012)
  - FY2012 Annual Audit
  - Employee Handbook
  - FY2014 Budget (Proposed and Adopted)
  - Mixed Beverage Policy
  - Price Discrepancy Policy
  - Shelf Management Policy
  - Credit Card Policy

### *Recommendations:*

- As a reminder, have an annual approval from appointing authority to adopt the town's travel policy. *See Appendix C (1) for statute.*

## **Internal Control Procedures**

- All clerks use a time clock system to maintain scheduled hours. During payroll, the general manager verifies all time clocks to determine accuracy and inputs data into payroll software to calculate tax and other withholdings. If discrepancies occur, the general manager will adjust hours worked in the system. Once the payroll checks are drafted, the finance officer will verify before checks are signed. The master payroll activity report is verified by the general manager. Back up is conducted bi-weekly.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer.
- Bank deposits are made regularly as required by the ABC Commission rule. Bank notification is received and matched with corresponding daily register reports. Bank reconciliations are completed monthly by the general manager and assisted by the finance officer.
- Physical inventory counts are completed quarterly by all persons. Spot checks are conducted frequently. If discrepancies occur, the general manager will investigate and recount for accuracy and verification. Once completed, only the general manager will adjust the system to match with the actual store counts.

### *No Recommendations.*

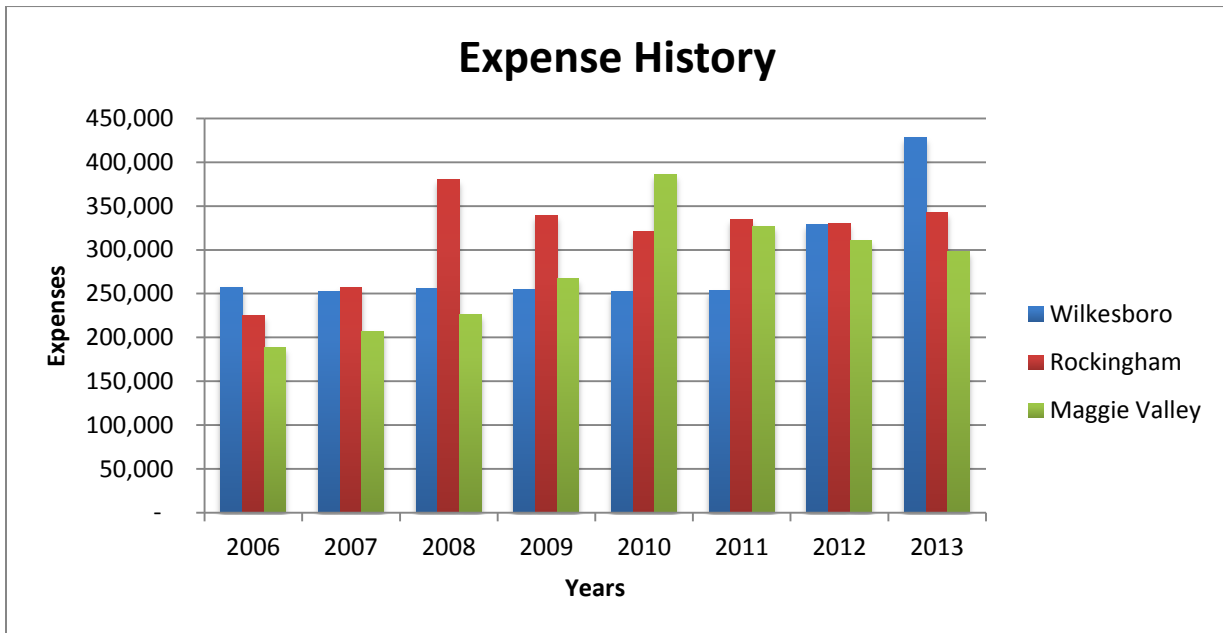
## **Administrative Compliance Findings and Observations**

- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting referencing the conflict of interest statement.
- 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).
- Nepotism – The board is in compliance with G.S. 18B-700 (k).
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- A review of travel reimbursements revealed that expenses follow the travel policy adopted with documentation attached.
- Orders for liquor and other miscellaneous orders do not bear the pre-audit certificate as required by G.S.18B-702 (m). When ordering for supplies, it is board policy that the vendor must invoice the board.
- All checks bear the approved certificate and are signed by the finance officer and general manager. In the event the general manager or finance officer is unavailable, board members are authorized to sign checks.
- Out of approximately 1,300 codes, approximately 173 product codes were sampled, and seven were incorrect.

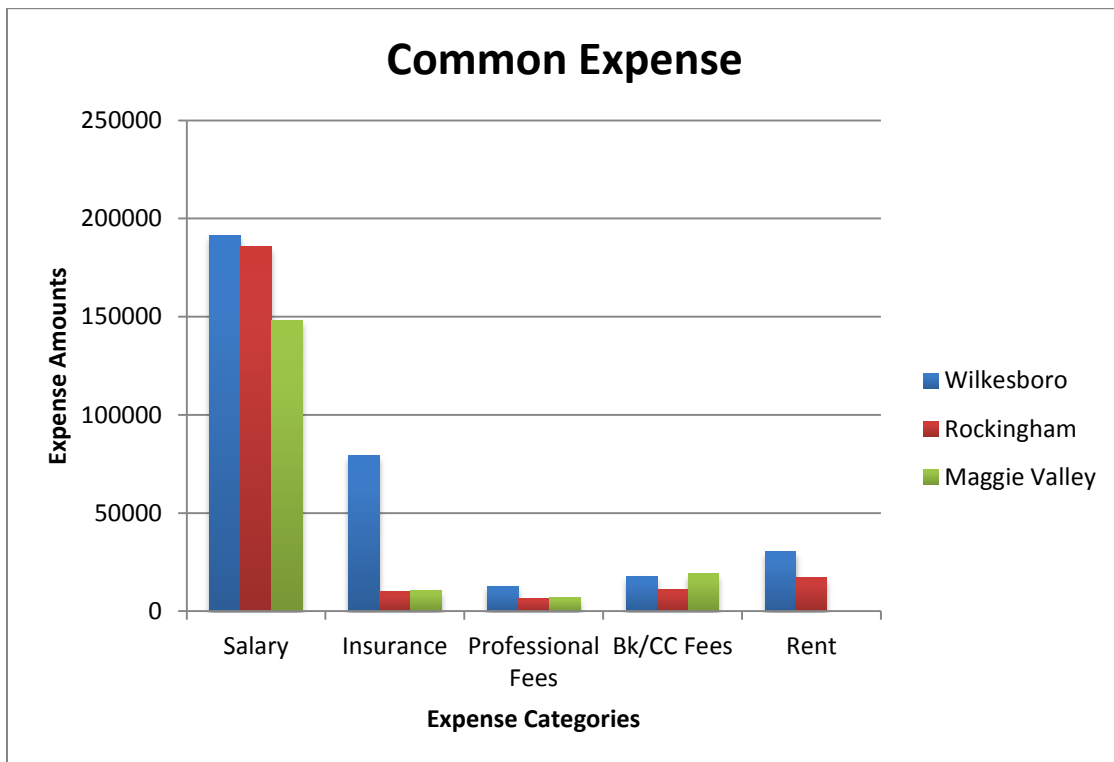
### *Recommendations:*

- Place the pre-audit certificate with the finance officer's signature on the order to LB&B. When ordering supplies, have a purchase order or order confirmation that will have authorization from the finance officer before the transaction takes place. *Refer to Appendix C (2) for statute.*
- Audit shelf tags more frequently. Incorporate such practices within spot check time periods.

## APPENDIX A



*Overall expenses compared with other boards indicate that expenses are not out of line. In FY2013, Wilkesboro opened a second location which contributes to the drastic increase of expenses.*



*Common expense analyses indicate that some of Wilkesboro ABC's expenses are slightly higher than other similar size boards due to the second store. Note: Insurance fees for Wilkesboro may include health/group insurance.*

## APPENDIX B



*Exterior view of the Hwy 421 location.*



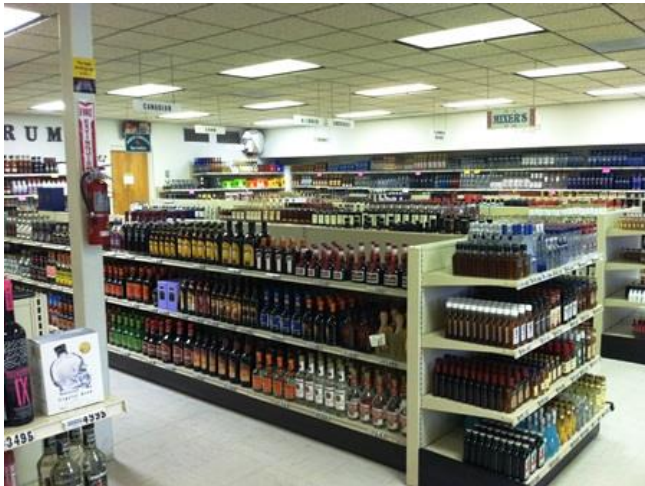
*Counter view of the Hwy 421 location.*



*Interior view of the Hwy 421 location.*



*Exterior view of the Curtis Bridge Road location.*



*Interior view of the Curtis Bridge Road location.*

## APPENDIX C

(1) G.S. 18B-700 (g2) states, "...The local board shall annually provide the appointing authority's written confirmation of such approval to the Commission and a copy of the travel policy authorized by the appointing authority."

(2) 18B-702 (m) states "...the contract, agreement, or purchase order shall include on its face a certificate stating that the instrument has been pre-audited to assure compliance. The certificate, which shall be signed by the finance officer or any deputy finance officer approved, shall take substantially the following form:

*"This instrument has been pre-audited in the manner required by GS 18B-702."*

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*(Signature of finance officer)*





# TOWN OF WILKESBORO

*"Where the Mountains Begin"*

P.O. Box 1056 • 203 West Main Street  
Wilkesboro, North Carolina 28697

[www.wilkesboronc.org](http://www.wilkesboronc.org)

Phone (336) 838-3951 • Fax (336) 838-7616

December 23, 2013

NC ABC Commission  
Attn: Moniqua McLain  
4307 Mail Service Center  
Raleigh, NC 37699-4307

Mrs. McLean and Others It May Concern:

Thank you for your time and presence in our Wilkesboro ABC Stores. It was our pleasure to have you on site and available for our assistance in making our ABC system the best it can be.

After reviewing the recommendations listed in our audit results, our group is even more pleased with the current staff and processes that we currently have in place. We have taken your recommendations to heart and have made the necessary changes. Specifically, we have had our usage of the Town's travel policy approved by the Town Council as well as altering our ordering procedures to better comply with the pre-audit requirements. That being considered, the sense that we came away with from the audit was that our group is performing in a manner that is in compliance with State guidelines.

I would be remiss if I did not take the opportunity to share with you some of the thoughts and perceptions of the Wilkesboro ABC System given the available platform. Our system is being taxed and fee'd out of business. (While I can appreciate that both of these areas do not fall directly under your control, your organization does have some lobbying influence over the tax structure.) Nationalized healthcare requirements will accelerate this issue, but it has been on the horizon for some time. Our system needs more of our funds generated to stay here. It is not a question of fiscal management, as our audit shows. It is not a question of management acumen, as both our audit will show and your auditor can attest to. It is not a question of sales, as our documented growth can attest to.

We believe the system is broken and the pendulum has swung too far in the direction of oversight and control from the State level. Some systems made very poor choices and here we sit in a situation where a good year for us means that we might be able to return 1% of our gross sales back to our appointing authority. That's not right. The Wilkesboro ABC System takes great pride in being a member of this community and serving our purpose in this community. Please allow us to continue to operate. Please allow us to be able to cultivate an educational presence. Please allow us to have the resources we need to function as the system intends.

MIKE INSCORE  
Mayor

KENNETH D. NOLAND  
Town Manager  
[townmanager@wilkesboronc.org](mailto:townmanager@wilkesboronc.org)

JAMES K. BYRD  
Town Clerk

COUNCIL MEMBERS  
JIMMY HAYES  
CLAUDE ANDREW "ANDY" SOOTS  
MICHAEL TESTERMAN

Mayor Pro Tem  
RUSSELL F. FERREE

I believe these to be real concerns that require real discussions:

- The ABC Commission needs more trust. We are being operationally audited every 3 years and financially audited every year. I understand that some systems have acted inappropriately, but it is time to take another look at the constraints we operate under and amount of money that comes out of our systems off the top.
- The ABC Systems need more recognition. We are on pace to generate close to \$1,000,000,000 in revenue, 9 zero's, every year with a majority of those funds heading out of town and back to Raleigh. Our Board and employees feel as though we are never even thanked for our efforts to do things the right way.
- The ABC Systems need more money to stay locally. Our operating costs go up every year. Sales need to increase by at least 4 times our operating increase to meet them. That's a problem. Also, additional local funds allow us to shed light to the good work we do. Making people aware of the local impact we can make will make them appreciate the system as a whole. That is far more effective to fighting the battle of privatization than any lobbyist.

In closing, I would like to offer to be part of the solution. Please take my points to heart. When the time comes to consider some of these issues, I ask for myself or a representative from our system to be at the table. We in Wilkesboro are proud of the job we do and the service we provide to the community. All we ask is an opportunity to be heard and considered.

Thank you for your time and thoughtful reflection to the points introduced above. This document was written by myself, but has been reviewed by many and it is a reflection of our beliefs.

Sincerely,



Robert A. Urness

Finance Officer, Wilkesboro ABC Board  
Finance Director, Town of Wilkesboro

CC:

Mike Inscore, Mayor, Town of Wilkesboro  
Ken Noland, Town Manager, Town of Wilkesboro  
Al Absher, General Manager, Wilkesboro ABC  
Bill Bumgarner, Chairman, Wilkesboro ABC Board  
Jim Caudill, Member, Wilkesboro ABC Board  
Sam Stroud, Member, Wilkesboro ABC Board  
Laurie Lee, High Country ABC  
Mike Myrick, Wayne County ABC  
Laurie Lee, Director of Local Audit and Pricing, NC ABC Commission  
Mike Herring, Chief Administrator, NC ABC Commission  
Jim Gardner, Chairman, NC ABC Commission  
Shirley Randleman, District 30 Senator, NC General Assembly  
Jeffery Elmore, District 94 Representative, NC General Assembly



# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

January 24, 2014

CHAIRMAN:  
JAMES C. GARDNER

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COMMISSIONERS:  
JOEL L. KEITH  
Wake Forest

KEVIN M. GREEN  
Greensboro

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ADMINISTRATOR:  
MICHAEL C. HERRING

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<http://abc.nc.gov/>

Robert A. Urness  
Finance Officer, Wilkesboro ABC Board  
Finance Director, Town of Wilkesboro  
P.O. Box 1056  
Wilkesboro, NC 28697

Mr. Urness:

Thank you for your Dec. 23 letter in response to the findings of the Performance Audit of Wilkesboro ABC Board.

The state ABC Commission has provided resources and oversight of the ABC system in North Carolina for more than 75 years. But it is the local boards, as you note, that sell the spirituous liquor to the public. Our ABC system benefits the state and local governments, and at the same time protects the public health and safety interests of your community and communities across North Carolina.

As you are aware, performance audits and the financial audits of the local ABC boards are required by law. The reform legislation of 2010 that put more oversight of the local boards in place has resulted in uniform budgeting and greater accountability by the local ABC boards. In the short time since the reforms have been enacted, we have seen the numbers of unprofitable boards decline by more than 50 percent. The reforms are working, and the resulting profits are flowing back to the people. There is no reason to consider relaxing the oversight process.

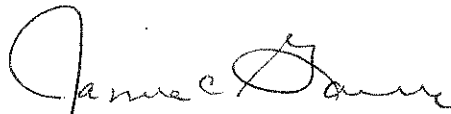
Revenues generated by sales of spirituous liquor are growing. Our state as a whole is growing, and our communities with mixed beverage sales are seeing increased demand from the hospitality industry. The state Commission appreciates the fact that the local boards play a key role in making retail sales happen and at the same time are tasked with preventing sales to intoxicated persons or underage buyers. You do deserve recognition for this, and in fact, the Commission has included a thank you for the work of the local boards in the opening letter to this year's annual report.

Going forward, local boards will play an increasingly important role as a partner in the initiative to reduce the sales of alcohol to our youth. Data shows that currently one young person a week in North Carolina dies as a result of underage consumption. That is not acceptable, and the NC ABC Commission is pleased to be working with so many agencies, including our local boards, to turn this problem around.

I'll also note the performance audits of all of the boards, large and small, have found areas for improvement, some in trimming operational costs and some in boosting potential sales by modernizing facilities, for example. Ultimately how the boards decide to implement these recommendations are a local choice and not for the state to decide. Each bottle of liquor sold in North Carolina includes a 39 percent mark-up of the retail sales price that goes directly to the local boards. As you know, most retailers do not have the benefit of such a substantial set mark-up in place to fund their operational expenses.

In closing, I appreciate your offer to help continue to improve the ABC system, and I'd welcome your support as we look for ways to strengthen our control model, to deliver increased public service through reducing sales to underage persons and to continue to generate revenues for our state and local governments.

Sincerely,



James. C. Gardner  
Chairman

CC:

Mike Inscore, Mayor, Town of Wilkesboro  
Ken Noland, Town Manager, Town of Wilkesboro  
Al Absher, General Manager, Wilkesboro ABC  
Bill Bumgarner, Chairman, Wilkesboro ABC  
Jim Caudill, Member, Wilkesboro ABC Board  
Sam Stroud, Member, Wilkesboro ABC Board  
Laurie Lee, NC ABC Commission  
Sara Brewer, High Country ABC Board  
Mike Myrick, Wayne County ABC Board  
Mike Herring, NC ABC Commission  
Moniqua McLain, NC ABC Commission  
Shirley Randleman, District 30 Senator, NC General Assembly  
Jeffrey Elmore, District 94 Representative, NC General Assembly

## WILKESBORO ALCOHOL BEVERAGE CONTROL BOARD

### Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>ABC Board Policies:</b></p> <p>Have an annual approval from the appointing authority allowing the board to adopt the town's travel policy.</p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></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>The board has obtain the appointing authority's approval allowing the ABC board to adopt the travel policy.</p>
<p><b>Administrative Compliance:</b></p> <p>Affix the pre-audit certificate on orders before the transaction occurs.</p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></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>Management has implemented procedures to comply with the statute.</p>