

Whiteville 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

COMMISSIONERS:
JOEL L. KEITH
Wake Forest

KEVIN M. GREEN
Greensboro

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Your Name
Director
Permit Division
(this is editable)

July 22, 2013

Whiteville ABC Board
Mr. Gary Bass, Chairman
122 S Powell Blvd.
Whiteville, NC 28472

Dear Chairman Bass,

We are pleased to submit this performance audit report on the Whiteville 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 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 the steps being taken to reduce operating expenses at your ABC store.

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

Respectfully,

Michael C. Herring
Administrator

CC. North Carolina Association of ABC Boards

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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 performance audit 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 2012;
- Visited the store;
- Interviewed key ABC board personnel.

The Whiteville ABC Board submitted a response to the performance audit recommendations. The board continues to put strategies in place to increase profits while maintaining and reducing expenses. Policies and procedures have been adopted and implemented to maintain compliance with statutes and Commission rules and to maintain stronger segregation of duties.

BACKGROUND INFORMATION

Chapter 540 of the 1967 Session Laws authorized the town of Whiteville to hold an election upon a petition of at least thirty percent of registered voters. The referendum was held on October 24, 1967 and passed 608 to 261. The first retail sale occurred on December 19, 1967. A mixed beverage election occurred on June 5, 2001 and passed 433 to 212.

Upon election of an ABC store, the Town of Whiteville was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members are Gary Bass, board chairman, Bob Deans and Oscar Edwards, board members.

The Whiteville ABC Board operates one retail store. The board staffs two full-time and three part-time employees. The general manager is responsible for overseeing and managing daily operations of the store including supervising personnel and budget maintenance. The board has hired from within a finance officer who is responsible for specific accounts payable functions, budget maintenance, and providing customer service. Store clerks are responsible for daily sales, 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 Whiteville ABC Board receives deliveries monthly; the inventory turnover rate is 6.0.

Recommendations:

- Continue with the following strategies already in place;
 - Analyzing sales and history reports to determine the bestselling products needed and to avoid overstock;
 - Watching customer shopping patterns and using the information to optimize product placement

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 with MXB – cost ratio 0.67 or less
- Boards with 3 or more stores without MXB – cost ratio 0.94 or less
- Boards with 2 stores (with and without MXB) – cost ratio 0.83 or less
- Single store boards with MXB – cost ratio 0.77 or less
- Single store boards without MXB – cost ratio 0.93 or less

The Whiteville ABC Board operates one retail store with mixed beverage sales; the operating cost ratio is 0.70. Mixed beverage sales make up 7.2% of total gross sales. In fiscal year 2012, sales increased 4.4% while expenses decreased 12.91% over the same time period.

No Recommendations.

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 FY2012, Whiteville ABC had a working capital of \$233,589, which is equivalent to less than four 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:

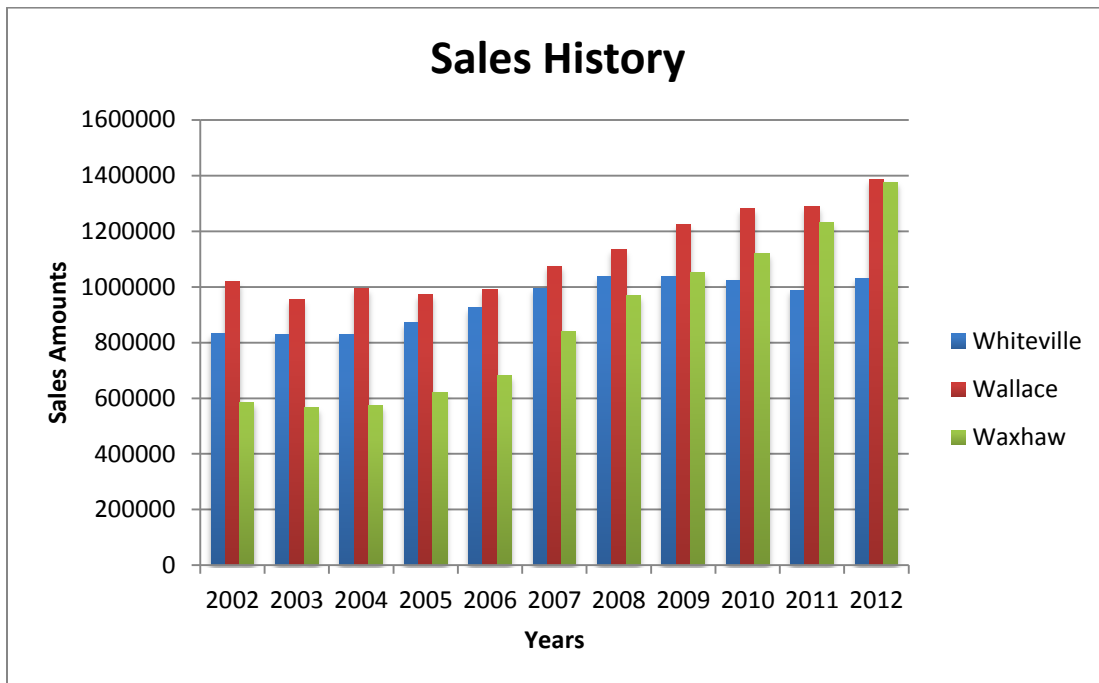
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Whiteville ABC Board had gross sales of \$1,031,600; income from operations was \$64,080, a 6.21% profit percentage to sales.

Factors affecting sales and profitability:

- US Census Bureau reports an estimated population of 5,360 in 2011;
- Surrounding towns with ABC stores include Town of Brunswick, Tabor City, Lake Waccamaw, and West Columbus;
- Sales increased 4.4% over the previous fiscal year;

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



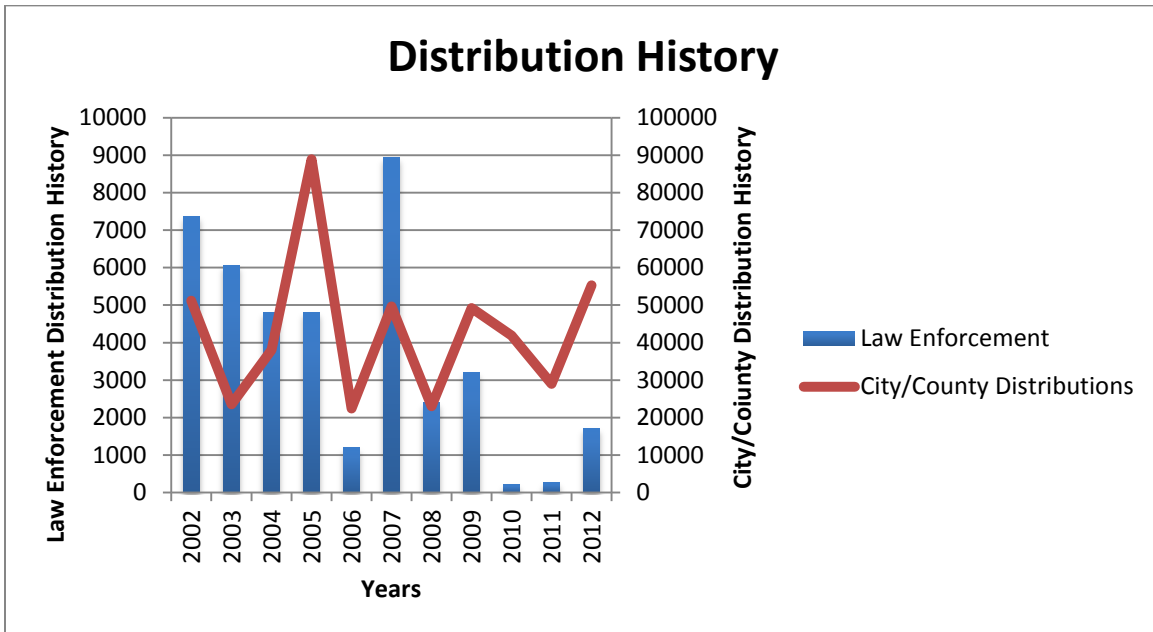
Distributions

G.S. 18B-805 (c) (2) requires the board to distribute quarterly to law enforcement. Alcohol education distributions are not required by the board's enabling act. The remaining profits are to be distributed as follows:

- 50% to Whiteville General Fund
- 45% to Columbus County General Fund
- 5% to Whiteville General Fun for the fire department

In FY2012, Whiteville ABC made the minimum distributions to the town totaling \$30,494, plus additional distribution of \$55,289. A total of \$236,543 in Excise and other taxes were paid to the NC Department of Revenue and \$1,719 to law enforcement.

Below is a distribution chart analyzing the high-low trend of the Whiteville ABC Board.



OPERATIONAL FINDINGS, OBSERVATIONS, AND RECOMMENDATIONS

On April 15, 2013, ABC Board Auditor, Moniqua S. McLean, visited the Whiteville ABC store and interviewed Amanda Richardson, general manager, and Gary Bass, board chairman. The following are the findings, observations, and recommendations related to the performance audit.

Store Appearance and Customer Service Observations

The Whiteville ABC Board operates one retail store with shelf space of approximately 1,000 linear feet and carries approximately 700 product codes.

- The store was clean and well-lit. Bottles were fronted and dusted. Counter areas were free of clutter and supplies were easily accessible.
- Exterior signage and landscaping around the store was clean and free of trash.
- The Fetal Alcohol Syndrome poster is displayed.
- Security systems are in place and functional.
- The state price book is available along with the monthly sales lists.
- Sales clerks' interaction with customers was attentive courteous and eager to meet the needs of customers. When not assisting customers, clerks were busy stocking shelves.

No Recommendations.

Personnel and Training

- All board members, general manager, and finance officer have attended the initial mandatory ethics class. A board member has since been reappointed and has completed the online ethics training.
- Training is provided as new information becomes available to current staff.
- Cross training opportunities have been extended to key employees in the event the general manager was suddenly unavailable.
- An employee handbook was submitted to the Commission in 1999. The board has since amended and updated current policies and procedures.

Recommendations:

- When appropriate provide additional training that will include alcohol education, customer service, and product knowledge. The Commission's website has a list of approved alcohol seller/server classes.

ABC Board Policies

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract
 - Travel Policy (City of Whiteville)
 - FY2012 Annual Audit
 - FY2013 Budget (Proposed and Adopted)
 - Mixed Beverage Policy
 - Price Discrepancy Policy

No Recommendations.

Internal Control Procedures

- Physical inventory counts are performed quarterly by general manager and assistant general manager. Frequent spot checks are performed throughout the month by all scheduled clerks. If discrepancies occur, both managers investigate and recount for accuracy and verification. Once completed, both managers adjust the system to match with the actual store count. Unsalable items are adjusted immediately.
- Cash drawers are counted by clerks. All clerks are responsible for their own cash drawer. A cash shortage and overage policy is included in the employee manual. Bank deposits are made daily. The general manager receives deposit verification and matches with the corresponding daily register reports. Bank reconciliations are completed at the end of the month.
- Payroll time sheets are verified and signed by the general manager. Payroll software calculates tax and other withholdings. The software is backed up every two weeks.
- All board members view financial statements, budget to actual reports, payroll activity reports, and other every monthly meeting.

No Recommendations.

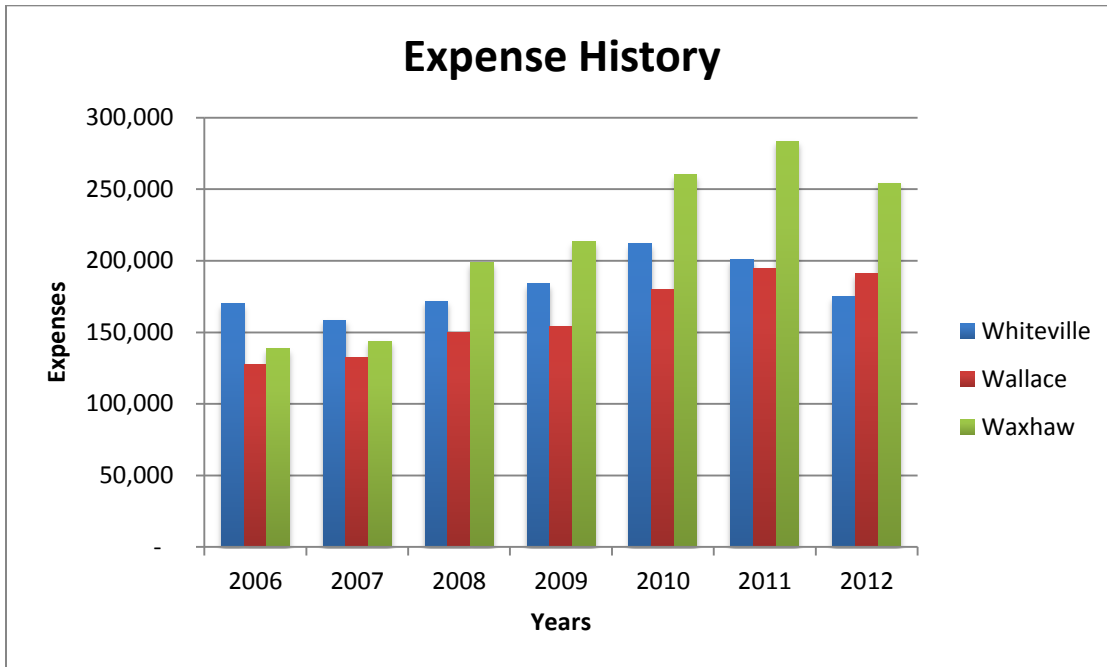
Administrative Compliance Findings and Observations

- 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, general manager, and finance officer is bonded for \$50,000 as required by G.S. 18B-700 (i).
- A review of travel reimbursements revealed that expense forms follow the travel policy adopted with documentation.
- Orders for liquor and other common orders do not bear the pre-audit certificate as required by G.S.18B-702 (m).
- All checks bear the approved certificate and are signed by the finance officer and a board member.
- Out of approximately 370 product codes, approximately fifty product codes were sampled and one product code did not reflect the correct price.

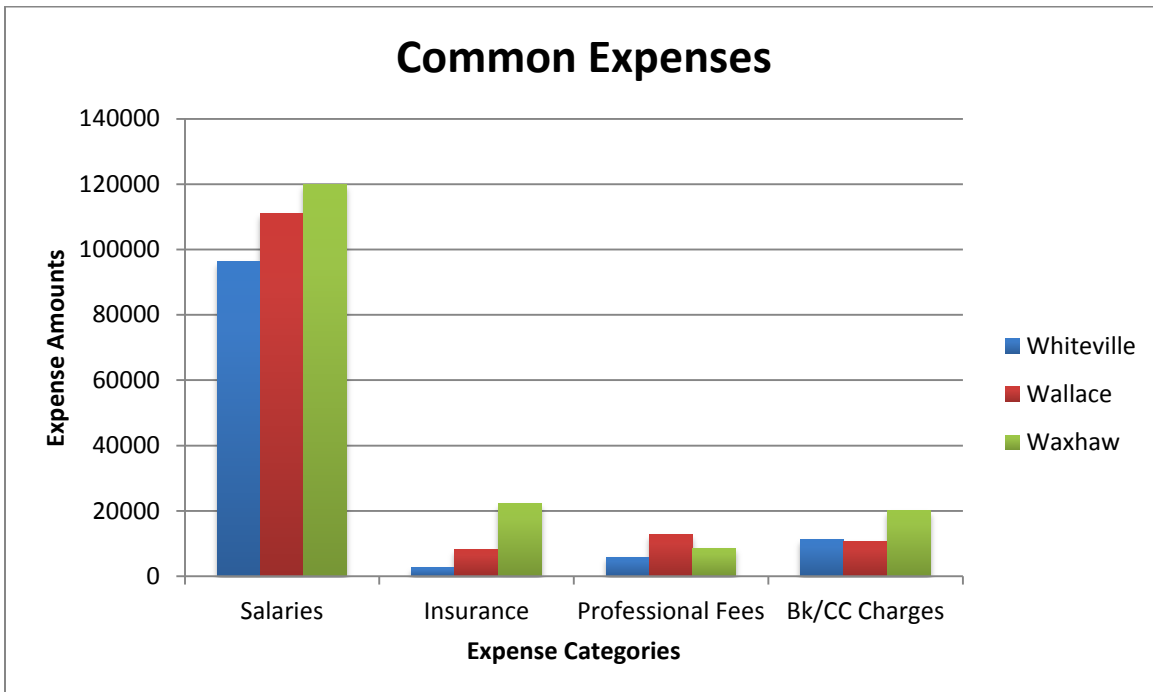
Recommendations:

- 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 (1) for statute.*
- Audit shelf price tags on a rotating schedule to ensure accuracy.

APPENDIX A



The expense history data indicates that Whiteville ABC's total expenses have decreased 12.91% since FY2011. Compared to other similar size boards, Whiteville ABC's expenses are lower.



Common expense analysis indicates that Whiteville ABC's expenses are lower compared with other similar size boards.

APPENDIX B



Exterior view.



Counter view.



Interior view.

APPENDIX C

(1) 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.”

(Signature of finance officer)

Whiteville ABC Board

MEMO

To: Moniqua McLean, ABC Board Auditor
ABC Commission of North Carolina

From: Amanda Richardson, General Manager
Whiteville ABC Board

Date: June 11, 2013

Subject: Whiteville ABC Board Responses to Commission Performance
Audit Review

The Whiteville ABC Board has reviewed the draft report of the performance audit performed by the ABC Commission of North Carolina. Following are our responses to the findings in the audit:

Inventory Turnover

- The board is continuing to analyze sales and history reports in order to determine best selling products needed and avoiding unnecessary overstock.

Personnel Training

- All employees of the board have completed the seller/sever course hosted by Eleanor Johnston of the North Carolina ABC Commission and the board is examining other ways to educate and train its employees in customer service and product knowledge.

Compliance

- Price tags are being audited on a frequent rotating schedule to ensure pricing accuracy.
- Pre audit certificate with finance officer signature is now being placed and all LB&B acknowledgements and all purchase orders in order to be in compliance of G.S.18B-702(m).

WHITEVILLE ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Administrative Compliance:</p> <p>Affix the pre-audit certificate on all liquor and common orders before transaction occurs.</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input 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>Management has implemented procedures to pre-audit all transactions before occurred.</p>