

Blowing Rock ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA

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ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

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Moniqua S McLean
ABC Board Auditor
919-779-8365

April 7, 2015

Blowing Rock ABC Board
Mr. Robert Miller, Chairman
PO Box 413
Blowing Rock, NC 28605

Dear Chairman Miller,

We are pleased to submit this performance audit report on the Blowing Rock 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 your efforts to maintain profitability and reduce expenses.

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

Respectfully,

Robert A. Hamilton
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 the store;
- Interviewed key ABC board personnel.

BACKGROUND INFORMATION

Chapter 745 of the 1965 Session Law authorized the Town of Blowing Rock to hold an election for an ABC store based upon a written petition of at least fifteen percent (15%) of registered voters. The referendum was held on August 3, 1965 and passed 331 to 132. The first retail sale occurred on October 1, 1965. A mixed beverage election occurred on March 18, 1986 and passed 335 to 233. The first mixed beverage sale occurred on May 1, 1986.

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 three year staggered terms. Current board members are Robert Miller, board chairman, David Greene and Susie Greene, board members.

The Blowing Rock ABC Board operates one retail store. The board staffs one full-time general manager and five part-time employees. The general manager is responsible for the oversight of all daily operations pertaining to the store, inventory management, human resource organization, and other administrative decisions for the board. Store employees are primarily responsible for providing friendly customer service to all customers, general store upkeep, and stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On August 18, 2014, ABC Board Auditor, Moniqua S. McLean, visited the Blowing Rock ABC store and interviewed Edith Nations, general 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 Blowing Rock ABC Board had gross sales of \$1,421,688; income from operations was \$133,210, a 9.37% profit percentage to sales.

Factors affecting sales and profitability:

- Surrounding towns with ABC stores include Boone and City of Lenoir;
- Population of the Town of Blowing Rock is 1,241 in 2010;
- Mixed beverage sales make up 39% of total sales;
- Road construction in the front of the store occurring since 2012.

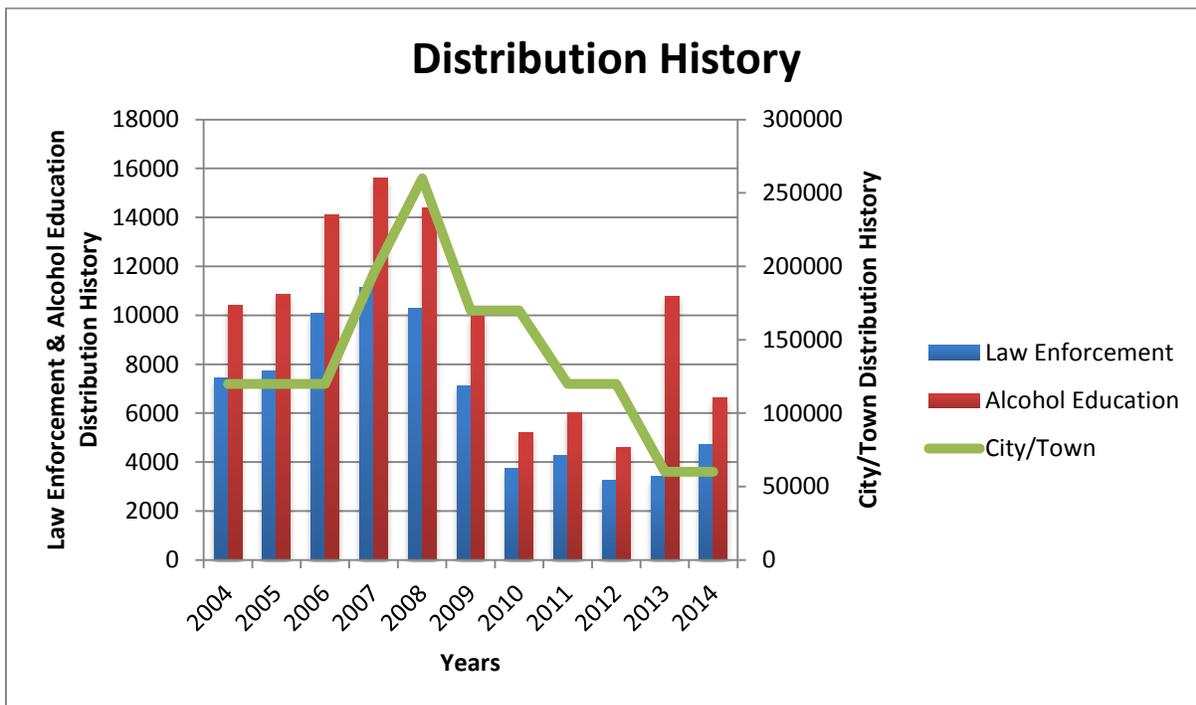
DISTRIBUTIONS

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 3½% markup rate to the appointing authority. In FY2014, Blowing Rock ABC made the required minimum distribution to the town totaling \$38,386, plus additional of \$21,614. \$346,881 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, and the town.

G.S. 18B-805 (c) (2) requires the board to distribute at least five percent (5%) of profits to law enforcement and at least seven percent (7%) to alcohol education/rehabilitation. The remaining profits are to be distributed to the Town of Blowing Rock General Fund.

In FY2014, the Blowing Rock ABC Board distributed to the town \$4,741 for law enforcement. A law enforcement contract has not been established. Alcohol education distributions totaled \$6,638. The board has distributed to several alcohol education and rehabilitation programs. Such programs include: Club 12, D.A.R.E., and the Watauga High School. Annual reports are received from recipients to ensure the funds are used for alcohol related purposes.

Below is a distribution chart analyzing the high-low trend of the Blowing Rock ABC Board for the past ten years.



RECOMMENDATIONS

1. Adopt a law enforcement contract with a local law enforcement agency or contract with the local Alcohol Law Enforcement (ALE) agency. Refer to Appendix B (1) for statute.

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 Blowing Rock ABC Board had a working capital of \$244,500, which is less than the maximum allowed to retain of four months gross sales (\$356,989) and is within the limits of NCAC 02R .0902. The FY2014 financial audit shows the working capital included an accounts receivable and a restricted cash and cash equivalents item. These amounts are not part of the working capital calculation. The board has obtained approval from the town to withhold portions of the distribution for a capital improvement plan. A copy of the approval has not been forwarded to the Commission.

RECOMMENDATIONS

1. Obtain a written approval from the appointing authority allowing the board to set aside a portion of profits to fund specific capital improvements. *Refer to Appendix B (2) for statute.*

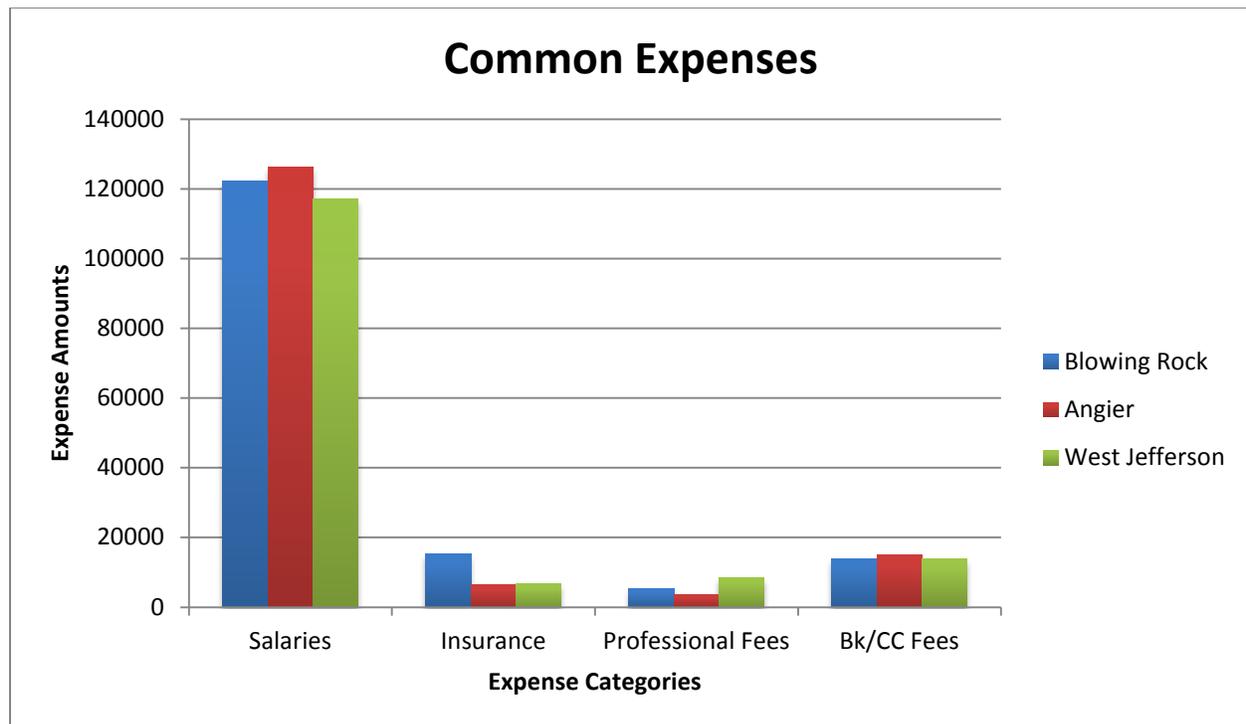
OPERATING COST RATIO

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 Blowing Rock ABC Board operates one retail store with mixed beverage sales; the operating cost ratio is 0.59. Mixed beverage sales make up 39% of total gross sales. In fiscal year 2014, sales increased 5.7% over fiscal year 2013 while expenses decreased 2.9% over the same time period.

A common expense analysis shows that Blowing Rock ABC Board expenses compared to other similar size boards are not out of line. The board contributes to significant savings in overhead expenses as a result of owning the store and staffing just one full-time employee to reduce employee benefits.



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 Blowing Rock ABC Board receives deliveries two times a month: the inventory turnover rate is 3.3. The average inventory turnover rate for similar boards with the same delivery schedule is 5.6.

RECOMMENDATIONS

1. Consider the following to increase inventory turns:
 - Incorporating a shelf management plan that analyzes sales data to targeted shopping patterns;
 - Utilizing end caps and empty shelf space as much as possible to highlight slow moving and new products;
 - Moving stock within the store to increase visibility and to encourage more impulse shopping;
 - Splitting cases with other boards or taking advantage of the Special Purchase Allowance and the Boutique collections to increase variety;
 - Eliminating poor performing items to drive category sales and increase shopper satisfaction;

STORE APPEARANCE AND CUSTOMER SERVICE

The Blowing Rock ABC Board operates one retail store with shelf space of approximately 1,358 linear feet and carries approximately 1,460 product codes.

- The store appeared clean and free of trash. Counter areas were neat and well-organized.
- The store displayed neat and well visible signage. The required Fetal Alcohol Syndrome poster is displayed and visible to the public.
- Landscaping around the store 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. Management is constantly applying new techniques to have an effective shelf management system. See below for recommendations.
- Security systems are in place and functional in all designated areas.
- The state price book is available should customers inquire about specific product. Sales clerks' often refer to the price book for verification of product listing and pricing.
- Sales clerk's interaction with customers is attentive, courteous, and eager to meet the needs of customers.

RECOMMENDATIONS

1. Consider these effective but practical ways to improve shelf management or product placement, such as the following:
 - Cross-merchandising by placing products that mix together on the same shelves. Intermingle North Carolina products within their specific category as well as having a designated area;
 - Reallocating shelf space from declining categories to those showing growth;
 - Optimize the floor space and end caps to incorporate valuable displays;
 - Vertical brand blocking similar products;
 - Allow more space for your more popular brands and re-allocating space when eliminating underperforming brands.

PERSONNEL AND TRAINING

- Current board members have completed the initial ethics training. However, board members have since been reappointed and have not completed training.
- Management has had recent personnel turnover. Cross training opportunities have not yet been extended to key employees.
- Training is provided continuously to new and existing staff on areas applicable to job performance. Management often attends the NC Association of ABC Boards General Manager conferences for additional training opportunities on these specific areas. The board hosts the Responsible Alcohol Sellers Program, offered by the Commission, to train mixed beverage permittees and board staff on applicable laws.
- Personnel files are available and include human resource documentation and other personnel information as required.

RECOMMENDATIONS

1. Have all reappointed board members complete the ethics requirement within 12 months of reappointment. *Refer to Appendix B (3) for statute.*
2. Consider additional training opportunities through the Commission and the ABC Officers Association on specific areas. The NC ABC Officers Association offers ABC Inspection training for local law enforcement officers.

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - FY2014 Annual Audit
 - FY2015 Budget (Proposed and Adopted)
 - Employee Handbook
 - Mixed Beverage Policy
 - Price Discrepancy Policy

- Policies not adopted include:
 - Travel Policy
 - Law Enforcement Contract

RECOMMENDATIONS

1. As a reminder, request approval annually from appointing authority to adopt the town's travel policy. *Refer to Appendix B (3) for statute.*

INTERNAL CONTROL PROCEDURES

- The general manager schedules all employees for work shift hours. Time cards are used by all clerks. During payroll, the general manager will verify time cards and enter all employees hours worked into the accounting/payroll software for processing.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures on handling 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 quarterly by whoever is scheduled to work. Once the initial count is completed, management reviews and investigates variances. Once variances are checked and verified, management will adjust the inventory management system for the exact inventory held in the store. Breakage adjustments are included in this process.
- Out of approximately 1,460 product codes, approximately 80 codes were sampled to ensure accurate pricing and all were correct.

NO RECOMMENDATIONS

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), whereas there is no immediate family members employed related to board members or the general manager.
- The general manager serves as the finance officer. The board has obtained approval from the Commission allowing the general manager to serve in this capacity for no longer than three years.
- All board members and the general manager are bonded for \$50,000 as required by G.S. 18B-700 (i).
- Orders for liquor and other miscellaneous orders do not 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 for payment. Two signatures are located on all paid checks; that of the general manager and the board chairman. In the event that the general manager and/or board chairman is unavailable, other board members are authorized to sign checks.

RECOMMENDATIONS

1. Begin to work on a plan to designate someone other than the general manager as finance officer. The intent is to generate stronger internal controls and checks and balances.
2. 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 B (4) for statute.*

AUDITOR'S SUMMARY

ABC Board Auditor, Moniqua S. McLean, presented the performance audit recommendations on October 16, 2014. The board has since responded to the performance audit recommendations and continues to implement strategies to maintain and improve profitability while maintaining or reducing costs and meeting budget appropriations. 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.



Blowing Rock ABC Board

November 20, 2014

Ms. Moniqua S. McLean

ABC Board Auditor

NC ABC Commission

4307 Mail Service Center

Raleigh, NC 27699-4307

Dear Ms. McLean:

Thank you for attending our meeting on October 16, 2014 and presenting the results of your performance audit of the Blowing Rock ABC Store. As a single unit operation, we strive to be profitable and serve our community. We face a unique challenge with the construction of Highway 321 and its impact on our sales. We will continue to operate an efficient manner as possible during this time.

With regard to your recommendations, the Blowing Rock ABC Store has been working on and has adopted the following:

- a law enforcement contract has been adopted by the Blowing Rock ABC Board. Once adopted by the appointing authorities (the Town of Blowing Rock), it will be forwarded to the Commission.
- written approval has been provided by the appointing authority (the Town of Blowing Rock) which allows the Board to set aside a portion of profit to fund specific capital improvements.
- store employees will pay very close attention to inventory turnover and utilize any and all opportunity to improve this process.
- all Board members have completed the ethics training.
- the Blowing Rock ABC store will seek annual approval to adopt the Town of Blowing Rock's travel policy.
- an employee has been hired and is in training as the Blowing Rock ABC Store Finance Officer.
- a pre-audit stamp with the Finance Officer's signature is being obtained for use on the LB&B order.



Blowing Rock ABC Board

The Board and General Manager appreciate your time and energy in preparing the performance audit. We are pleased with the results and feel confident about our future.

Sincerely,

Robert M. Miller

Chair

APPENDIX A

Illustration 1



Exterior view

Illustration 2



Interior view/Partial shelf management

APPENDIX B

- (1) *G.S. 18B-501 (f) states, "Instead of hiring local ABC officers, a local board may contract to pay its enforcement funds to a sheriff's department, city police department, or other local law-enforcement agency for enforcement of the ABC laws within the law-enforcement agency's territorial jurisdiction."*
- (2) *G.S. 18B-805 (d) states, "...With the approval of the appointing authority for the board, the local board may also set aside a portion of the remaining gross receipts as a fund for specific capital improvements."*
- (3) *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."*
- (4) *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."*
- (5) *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)

APPENDIX C

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Personnel and Training:</p> <p>Have all reappointed board members complete the ethics requirement within 12 months of reappointment.</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>**Note: Required by Commission rule.</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>All board members have completed this requirement.</p>
<p>ABC Board Policies:</p> <p>Adopt the required policies as outlined.</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>**Note: Required by Commission rule</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>All policies have been adopted and submitted to the Commission.</p>