

Elkin ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA



ABC

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NORTH CAROLINA

Alcoholic Beverage Control

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June 21, 2012

Elkin ABC Board
Mr. Dan Park, Chairman
150 Brandywine Circle
Elkin, NC 28621

Dear Chairman Park,

We are pleased to submit this performance audit report on the Elkin 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 and 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.

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 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 2011;
- Visited the store;
- Interviewed key ABC board personnel.

The Elkin ABC Board has responded to the performance audit recommendations and has begun to take steps toward increasing profits while analyzing and reducing current costs. The board is in the process of adopting new policies and procedures that are in compliance with statutes and Commission rules. Internal controls have been established to maintain proper segregation of duties and checks and balances.

BACKGROUND INFORMATION

Elkin is located in Surry County within a twenty mile radius of the Virginia border. Surrounding towns with ABC stores include Dobson, Mt. Airy, and Pilot Mountain. The US Census Bureau reports a population of 4,001 in 2010.

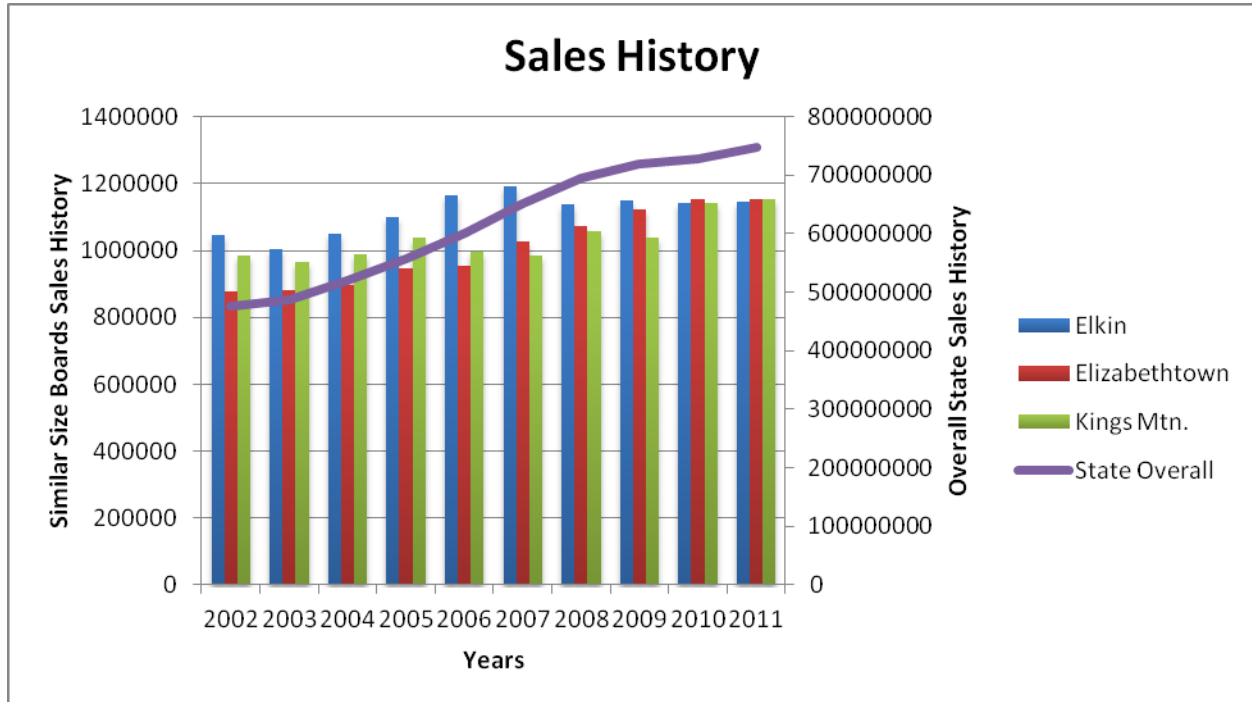
G.S. 18B-601 (c) authorized the town of Elkin to hold an election for an ABC store. The referendum was held on April 20, 1982. The vote passed 681 to 638 and a stores was opened on September 22, 1982. A mixed beverage election was on June 12, 2007 and passed 597 to 517.

Upon election of an ABC store, Elkin was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members are Daniel Park, board chairman, Robin Turner and Denise Carter, board members.

The Elkin ABC Board operates one retail store and staffs three full-time employees, including the general manager. The board has contracted with an external CPA firm to provide monthly bookkeeping duties. Duties of the general manager consist of administrative, personnel, inventory management, and all other operations as needed. All clerks are responsible for daily stocking, floor upkeep, and retail functions including selling products.

Profitability

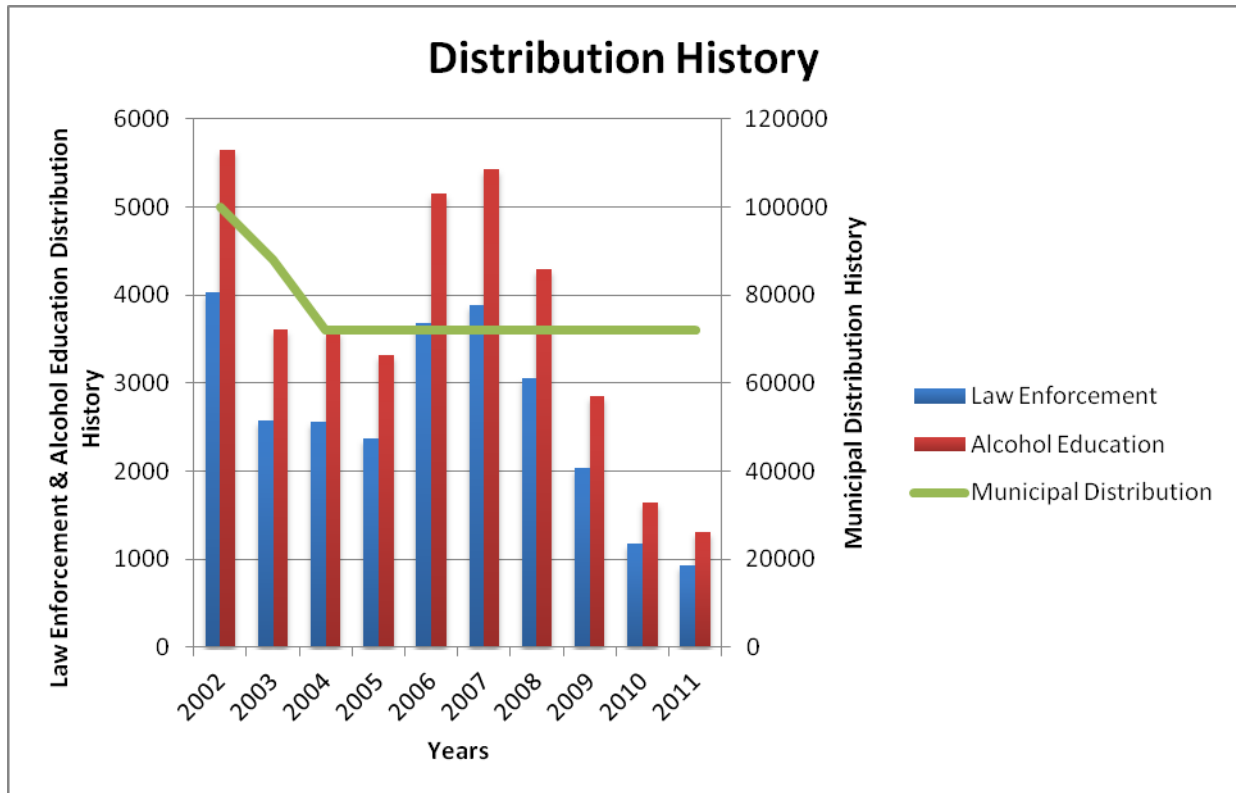
For fiscal year 2011, the board showed a profit; gross sales were \$1,146,890, income from operations was \$47,951, resulting in a profit percentage to sales of 4.18%. Over the past four years, Elkin ABC sales have remained steady whereas other similar size boards' sales have increased following the state's 56% increase. Current year sales are level with last year. *See chart below.*



Distributions

G.S. 18B-805 (c) (2) and (c) (3) requires the board to expend quarterly at least five percent of profits for law enforcement and at least seven percent of profits for alcohol education. The remaining profits are to be distributed to the Elkin General Fund.

In 2011, the Elkin ABC Board made distributions totaling \$74,248; \$937 to law enforcement, \$1,311 to alcohol education, and \$72,000 to the Elkin General Fund. Over the past few years, distributions to law enforcement and alcohol education have dropped while distributions to the town have remained steady. *See chart below.*



FINDINGS AND RECOMMENDATIONS

On February 29, 2012, ABC Commission Board Auditor, Moniqua S. McLean, visited the Elkin ABC store and interviewed Eddie Wilmoth, general manager. The following are the findings and recommendations relating to the performance audit.

Inventory Turnover

The inventory turnover rate is calculated by dividing the cost of liquor by the average inventory in the system (Cost of Liquor/Average Inventory). The Commission has set goals for determining an effective rate based on the frequency of deliveries. Below are the turnover rates based on the delivery schedule:

- Once a week deliveries target at 6 times or more per year
- Twice a month deliveries target at 5 times or more per year
- Monthly deliveries target at 4.5 times or more per year

The Elkin ABC Board has a bi-weekly delivery schedule. The inventory turnover rate for the Elkin ABC Board is 7.5 and exceeds the target set by the Commission.

Recommendations:

- Continue to maximize inventory turnover using the following methods:
 - Analyzing sales data to plan orders;
 - Identifying dead stock by moving to a visible location until sold through and/or requesting price reductions from the Commission;
 - Taking advantage of SPA's as much as possible; and
 - Splitting cases with other boards to bring in variety.

Operating Cost

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:

- 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 Elkin ABC Board has an operating cost ratio of .79 and does not meet the target goal set by the Commission. To meet the goal of .77 and remain at current expense levels of \$218,109, revenues must be increased from \$1,142,000 to \$1,200,000. To meet the goal and remain at current revenue levels of \$1,142,000, expenses must be reduced from \$218,000 to \$205,000. *Refer to charts in Appendix A for analyses of expense history and common expenses of similar size boards.*

Recommendations:

- Request bids annually from various vendors to get the best rates possible on audit, utilities, maintenance contracts, and credit card processing fees.
- Monitor budget frequently to ensure that expenses do not exceed budgeted amounts.
- Because salaries are the largest segment of operating expenses, analyze personnel hours to assess efficient personnel usage.
- Analyze store hours vs. sales to determine the optimum hours of operation.

Store Appearance

The Elkin ABC store has approximately 1,044 linear feet of shelf space and currently carries approximately 900 product codes. *See Appendix B for photos.*

- The store appeared dusty, including bottles, countertops, and fixtures. Bottles were not fronted, giving the appearance of having not enough product available. On the day of the audit, management indicated a delivery truck was expected.
- Shelf management was consistent, following practices of having highest priced products on the top shelf and lower priced on the bottom shelf.
- The required Fetal Alcohol Syndrome poster was displayed.
- The price book and monthly sales list were available to customers.

Recommendations:

- Dust all areas throughout the store, including bottles, countertops, and displays on a regular basis. Add this practice to daily employee duties.
- Front bottles more often. Including this duty as a daily routine would not only give a neat appearance but it would also make the store appear to be full and is a good tool for controlling and monitoring shoplifting.

Profit percentage to sales

The profit percentage to sales is calculated by dividing the total profit before distributions by the total liquor sales (Total Profit before Distribution/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 between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In FY2011, the Elkin ABC Board had a profit percentage to sales of 4.18% and is slightly below the target rate set by the Commission.

Recommendations:

- Increase sales using the strategies recommended under inventory turnover.
- Analyze and reduce operating expenses to increase profits. *Refer to recommendations under operating costs.*

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

Under the new guidelines, the Elkin ABC Board had a working capital of \$217,373 for FY2011. The working capital retained is within the limits set by the Commission.

Policies and Procedures

- Deposits are made nightly by whomever is working.
- All employees maintain their own cash drawer. The cash drawers are counted daily at the beginning of each shift. Any shortages or overages are absorbed by the board. Although this is understood, there is no written policy.
- The general manager creates a schedule for all employee and maintains vacation and sick hours for full-time employees.
- Policies and/or contracts not adopted include:
 - Travel policy
 - Mixed beverage policy
 - Law enforcement contract
 - Overage/shortage policy
 - Price discrepancy policy
- As far as the general manager knows, the board does not have a personnel manual. However, the town's employee manual dated 1997 has been submitted to the Commission.
- Physical inventory counts are performed monthly by all scheduled staff with frequent spot checks. Unsaleable items are taken out of inventory whenever they are signed off by the sales representative. When discrepancies arise, the general manager will check behind to investigate the occurrences.

Recommendations:

- Adopt a travel policy that conforms to either the Town's or the State's policy. *Refer to Appendix C (1) for statute.*
- Adopt a written mixed beverage policy. The Commission prefers an open mixed beverage policy that reflects good customer service and allows customers to order and pickup Monday through Saturday.
- Adopt a law enforcement contract and submit to the Commission. All local boards are required to have an agreement, even if the agreement results in no enforcement activity without pay. *Refer to Appendix C (2) for statute.*
- Adopt a written cash shortage and overage policy. It is good business practice to have written procedures in place, not just verbal, for the benefit of future employees. Once adopted, submit a copy to the Commission and include in the board's personnel manual.
- Adopt a written price discrepancy policy in the event a shelf tag does not agree with the cash register. The Commission will provide a sample policy upon request. *Refer to Appendix C (3) for rule.*
- Create/update the employee manual to include information pertaining to board specific functions. Once updated, have each employee sign an acknowledgement of receipt stating that they have read the manual and submit a copy to the Commission. *Refer to Appendix C (4) for rule.*

Personnel and Training Compliance

- All board members, the finance officer, and the general manager have attended the mandatory ethics class.
- Employee training is conducted when the need arises and whenever new information is available.
- Employees have attended RASP training within the last year.
- No one has been cross trained in the event the general manager were unable to continue in his duties.
- There were no employee personnel files to view.

Recommendations:

- Extend training opportunities to include key topics of customer service, administrative functions, price changes, etc. Contact other boards that have a training module to incorporate into professional development for employees.
- Create a checklist for use in training new and existing employees on daily activities.
- Cross train employees on key functions that include ordering liquor, closing out the end of the month, paying bills, and filing taxes in the event the general manager were suddenly unavailable.

- Create personnel files for each employee to include current tax withholding information, application, resume (if applicable), and board-approved salary.

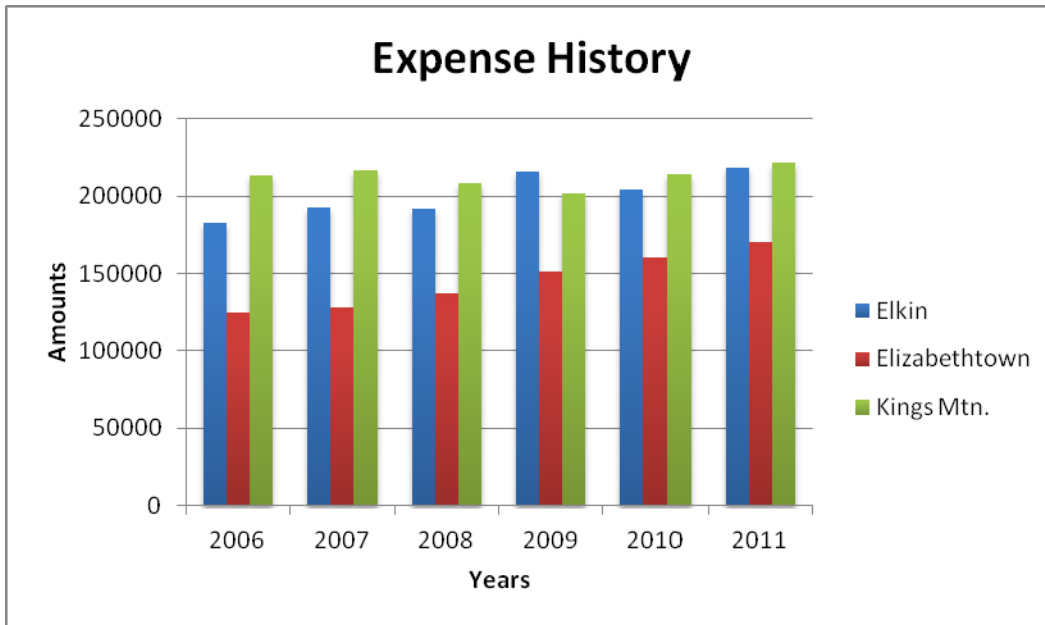
Administrative Compliance

- Board meeting minutes were viewed and did not reference the conflict of interest statement.
- Board meeting minutes are kept with the board secretary and not available for immediate public viewing when needed.
- Public notification of board meetings is posted in accordance with G.S. 143-318.12.
- Board member information on the Commission website does not reflect current board members' latest appointment dates.
- The appointing authority has approved a compensation amount for the board chairman that is over the statutory limit. A copy of the approval has been submitted to the Commission.
- Nepotism – The board is in compliance with G.S. 18B-700(k).
- Law enforcement activity reports have not been submitted for months September and December 2011 and January 2012.
- Orders to LB&B, as well as other purchases, do not bear the pre-audit certificate as required by G.S. 18B-702 (m).
- Purchase orders are not used when ordering store and office supplies. When a purchase is needed, the general manager buys and is reimbursed after-the-fact.
- Out of approximately 900 product codes in the store, approximately 55 codes were sampled and four shelf tags were found that did not reflect the price set by the Commission. 57-780 Christian Brothers Honey Liquor .75L showed November 2010 prices; 43-011 Tanqueray 1.75L and 65-298 Patron Anejo .375L showed November 2011; 48-461 Cruzan Estate Light .75L showed February 2010.
- The general manager combines invoices for both deliveries during the month to create one check. This causes some invoices to be more than 30 days past due.
- All checks bear the approved certificate per G.S. 18B-702 (q).
- The board has not appointed a finance officer.

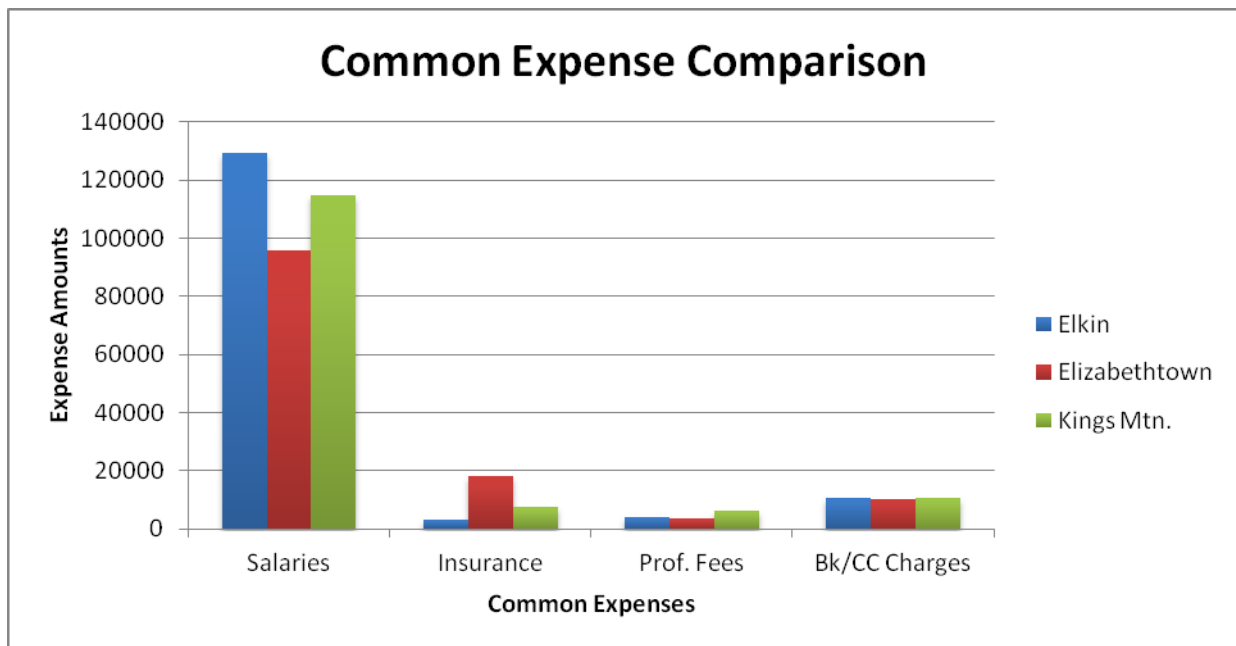
Recommendations:

- In an effort to avoid possible conflicts of interest, it is recommended that at the beginning of each board meeting the Chairman ask fellow board members if there are any potential conflicts of interest. *Refer to Appendix C (5).*
- Board meeting minutes are to be kept permanently in a binder and available in the store.
- Update the Commission website to include current board members' latest appointment dates.
- Submit all law enforcement activity reports for the missing months. (If no activity is indicated, note that fact and submit the form.) *Refer to Appendix C (6) for statute.*
- Orders to LB&B must have the pre-audit certificate stamped and be signed by the finance officer before the orders are placed.
- Use purchase orders for all store and office supplies. Purchase orders are required to have the pre-audit certificate signed by the finance officer. *Refer to Appendix C (7) for statute.*
- North Carolina statutes require uniform pricing in all ABC stores. Immediately audit all shelf tags in the store and the cash register system for correct pricing.
- Pay all liquor invoices within 30 days of receipt of shipment. To continue paying for two shipments with one check, you must pay the second shipment early rather than the first shipment late. *Refer to Appendix C (8) for statute.*
- Appoint a finance officer other than the general manager or request an exemption from the Commission to continue as is. *Refer to Appendix C (9) for statute.*

APPENDIX A

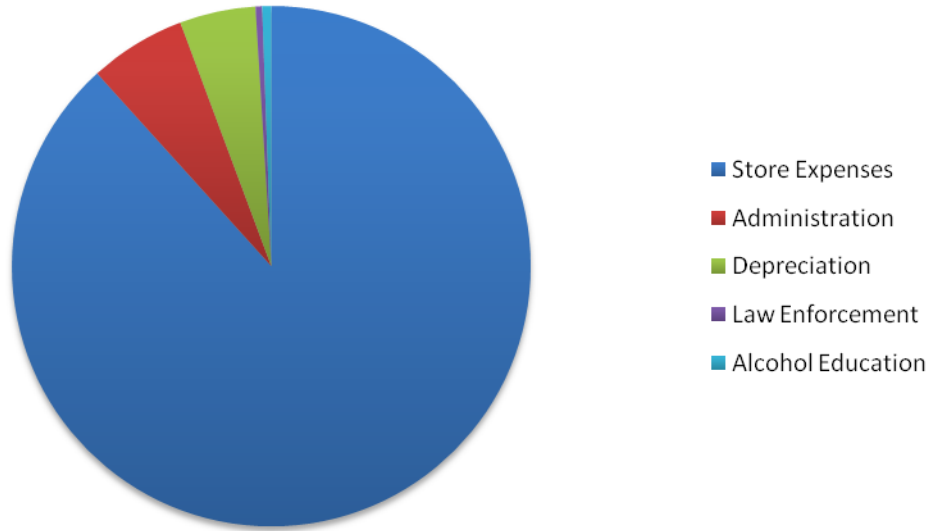


The expense history comparison determines that Elkin ABC's expenses are not out of line compared to other similar size boards.



Common expense comparison reveals that other than salaries, Elkin ABC's common expenses are lower than other similar size boards.

Expense / Distribution Breakdown



This chart analyzes the breakdown of expenses and distributions of the Elkin ABC Board.

APPENDIX B



Counter view of store.



Bottles not fronted giving appearance of not enough product available.



Incorrect price of 43-011



Incorrect price of 65-298



Incorrect price of 48-461

APPENDIX C

(1) 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]."

NCAC02R.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.

(2) 18B-203(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. Enforcement agreements may be made with more than one agency at the same time."

(3) NCAC 02R.1706 (b) states "If a local board has a price discrepancy between the price on the shelf or bottle and the cash register, and the price on the shelf or bottle is lower, the local board shall sell the item at the shelf or bottle price and correct the shelf or bottle price to match the Commission's published uniform price."

(4) NCAC 02R .1009 states "(a) Each local board shall establish policies and rules governing each of the following:

(1) Initial employment of employees, including qualifications and requirements for new employees

(2) Compensation and benefits;

(3) Hours and days of work, holidays, vacation, sick leave and other matters pertaining to the conditions of employment;

(4) Promotion, transfer, demotion and suspension of employees;

(5) Separation or termination of employees;

(6) Granting of salary increases;

(7) Employee grievance procedures; and

(8) Any other programs or procedures as may be necessary to promote efficiency and to provide for a fair and reasonable system of personnel administration.

(b) A local board is encouraged to model its personnel policies and procedures after those adopted by the county or municipality in which it operates."

NCAC 02R .1102 states "(a) A copy of all rules or amendments thereto that may be adopted by a local board to govern the operation of ABC stores or the enforcement of the ABC laws shall be submitted.

(5) OP 4.19.4 states, "In an effort to avoid possible conflicts of interest it is recommended at the beginning of each meeting the Chairman ask fellow board members if there are any potential conflicts of interest. This can be done by reading the following ethics reminder:"

In accordance with GS 18B-201, it is the duty of every Board member to avoid both conflicts of interest and appearances of conflicts. Does any member have any known conflict of interest or appearance of conflict with respect to any matters coming before the Board today?

(6) 18B-501(f1) states, "To ensure accountability to the appointing authority and the Commission, every local board's ABC officers and those law enforcement agencies subject to an enforcement agreement entered into shall report to the local board, by the fifth business day of each month, on a form developed by the Commission, the following:

- (a) The number of arrests made for ABC law, Controlled Substance Act, or other violations, by category, at ABC permitted outlets,
- (b) The number of arrests made for ABC law, Controlled Substance Act, or other violations, by category, at other locations,
- (c) The number of agencies assisted with ABC law or controlled substance related matters,
- (d) The number of alcohol education and responsible server programs presented,

The local board shall submit a copy of the enforcement report to the appointing authority and the Commission not later than five business days after receipt of the enforcement report by the local board.

(7) 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)

(8) NCAC 02R .1407 (c) states, "Local boards shall remit full payment of the distiller's invoice within 30 days of delivery of the liquor."

(9) GS 18B-702 (j) states "...the local board shall designate (i) a part-time or full-time employee of the board other than the general manager or (ii) the finance officer of the appointing authority with consent of the appointing authority to be the finance officer for the local board."

TOWN OF ELKIN ABC BOARD

150 BRANDYWINE CIRCLE
ELKIN, NC 28621

Moniqua McLean

ABC Board Auditor
4307 Mail Service Center
Raleigh, NC 27699

Dear Ms. McClean:

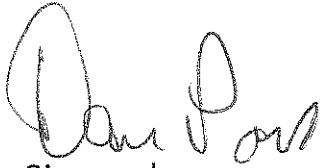
This letter is in response to the Elkin ABC BOARD Performance audit Report. The audit report contained performance findings and recommendations from your visit.

In an effort to improve inventory turnover, we are ordering at a minimum. We are adding new products only when we have sales figures from the distillery reps.

All shelves have been dusted and all bottles faced. A travel policy, mb policy, overage shortage policy, and price discrepancy policy will be forwarded upon completion.

Board minutes will reflect the conflict of interest statement, board minutes are being kept at the store. All shelf tags reflect the correct pricing.

We will begin to cross train personal on store procedures and key functions to maintain daily and monthly operations.

A handwritten signature in black ink, appearing to read "Dan Park". The signature is written in a cursive style with a large initial "D".

Sincerely,

Dan Park, Board Chairman

RECEIVED

JUN 07 2012

NC ABC COMMISSION

ELKIN ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Policies and Procedures: Adopt the following policies:</p> <ul style="list-style-type: none"> • Travel policy • **Mixed Beverage policy • Law enforcement contract • **Overage/shortage policy • **Price discrepancy policy • **Employee Personnel Manual 	<p style="text-align: center;"><input checked="" type="checkbox"/> Yes</p> <p style="text-align: center;"><input type="checkbox"/> No</p> <p>**Note: Required by Rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>Management is in the process of adopting the required policies. Sample policies have been forwarded to the board upon request. Once adopted, management will submit to the Commission.</p>
<p>Administrative Compliance: Include in the board meeting minutes the conflict of interest statement.</p> <p>**Update the Commission website to reflect current board members' latest appointment dates and general manager salary information.</p> <p>Affix the pre-audit certificate on all orders.</p> <p>Audit shelf tags more often for correct pricing.</p> <p>Appoint a finance officer.</p>	<p style="text-align: center;"><input checked="" type="checkbox"/> Yes</p> <p style="text-align: center;"><input type="checkbox"/> No</p> <p>**Note: Required by Rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input checked="" type="checkbox"/> Partially implemented 25% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>As stated in the response, the board is including the conflict of interest statement in all minutes. Management has incorporated procedures for checking shelf prices with the registers and affixing the pre-audit certificate on all purchases. The board is in the process of appointing a finance officer.</p>