

# Hendersonville ABC Board

## Performance Audit Report



Alcoholic Beverage Control Commission  
400 East Tryon Road, Raleigh, NC 27610  
p: 919-779-0700 | f: 919-661-5927 | <http://abc.nc.gov>



**ABC**  
COMMISSION  
NORTH CAROLINA

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# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

CHAIRMAN:  
JAMES C. GARDNER

COMMISSIONERS:  
JOEL L. KEITH  
Wake Forest

KEVIN M. GREEN  
Greensboro

ADMINISTRATOR:  
ROBERT A. HAMILTON

LOCATION:  
400 East Tryon Road  
Raleigh NC 27610

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

PHONE: (919) 779-0700  
FAX: (919) 661-5927  
<http://abc.nc.gov/>

**Moniqua S McLean**  
ABC Board Auditor  
919-779-8365

September 10, 2015

Hendersonville ABC Board  
Mr. Charles L. Byrd, Chairman  
205 S Church St  
Hendersonville, NC 28792

Dear Chairman Byrd,

We are pleased to submit this performance audit report on the Hendersonville 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 increase 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**

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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 all stores;
- Interviewed key ABC board personnel.

## **BACKGROUND INFORMATION**

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S.L. 1955-954 authorized the City of Hendersonville to hold an election for an ABC store upon a petition signed by at least fifteen percent (15%) of registered voters. The referendum was held in August 1960 and passed. The first retail sale occurred on November 19, 1960. A mixed beverage election occurred on August 26, 1980 and passed 1,016 to 810.

Upon election of an ABC store, the city 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 Charles Byrd, board chairman, Marci Kane and Will Penny, Jr., board members.

The Hendersonville ABC Board operates three retail stores with mixed beverage. The board staffs eleven full-time and fifteen part-time employees. The general manager is responsible for the overall oversight of the ABC system including, but not limited to human resource organization, inventory management, policy implementation, and other administrative decisions for the board. The board has hired within the organization a finance officer who is responsible for all bookkeeping duties for the board. An administrative assistant processes payroll and assists the finance officer with financial duties. A store manager at each location is responsible for the daily store operations, store upkeep, and human resource management. Store employees' primary duties are to provide friendly customer service, general store upkeep, and stock maintenance.

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

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On May 6, 2015, ABC Board Auditor, Moniqua S. McLean, visited the Hendersonville ABC office complex and interviewed Powers English, general manager, and Cheryl McCraw, finance officer. Below is a financial analysis followed by operational observations, findings, and recommendations related to the performance audit.

### **FINANCIAL ANALYSIS**

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#### **PROFIT PERCENTAGE TO SALES**

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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 Hendersonville ABC Board had gross sales of \$5,477,665; income from operations was \$289,782, a 5.29% profit percentage to sales.

Factors affecting sales and profitability:

- Estimated population is 13,466 in 2013, a 2.8% increase over 2010;
- Surrounding towns with ABC store within Henderson County include Fletcher and Laurel Park;
- Surrounding cities with ABC stores within a ten mile radius include Asheville;
- Henderson County voted in ABC stores in 2012 but after commissioning a market analysis determined that no additional stores in the county were needed at the time.

## **DISTRIBUTIONS**

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G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, mixed beverage and bottle taxes. G.S. 18B-805 (c) requires the board to make a minimum quarterly distribution of the 3 ½% markup to the city and county. In FY2014, the Hendersonville ABC Board made the minimum distribution of \$154,812, plus additional distribution of \$10,188 divided between the city and county. \$1,274,613 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, the city, and the county.

G.S. 18B-805 (c) (2) and (3) requires the board to distribute at least five percent (5%) of profits to law enforcement and at least seven percent (7%) toward alcohol education/rehabilitation purposes. S.L. 1999-177 authorized the board to distribute the remaining profits as follows:

- Fifty percent (50%) to the City of Hendersonville General Fund;
- Twenty-five percent (25%) to the Henderson County General Fund;
- Twenty-four percent (24%) to the Henderson County Public Schools;
- One percent (1%) to the City of Hendersonville Library.

In FY 2014, the Hendersonville ABC Board distributed \$40,000 to law enforcement. A law enforcement contract has been adopted and submitted to the Commission. Alcohol education distributions total \$16,744. The board has funded programs for alcohol education and rehabilitation purposes such as Project Graduation and Balfour.

## **WORKING CAPITAL**

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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 Hendersonville ABC Board had a working capital of \$694,595, which is less than the maximum allowed to retain of three months gross sales (\$1,044,444) and is within the limits of NCAC 02R.0902.

## **OPERATING COST RATIO**

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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):

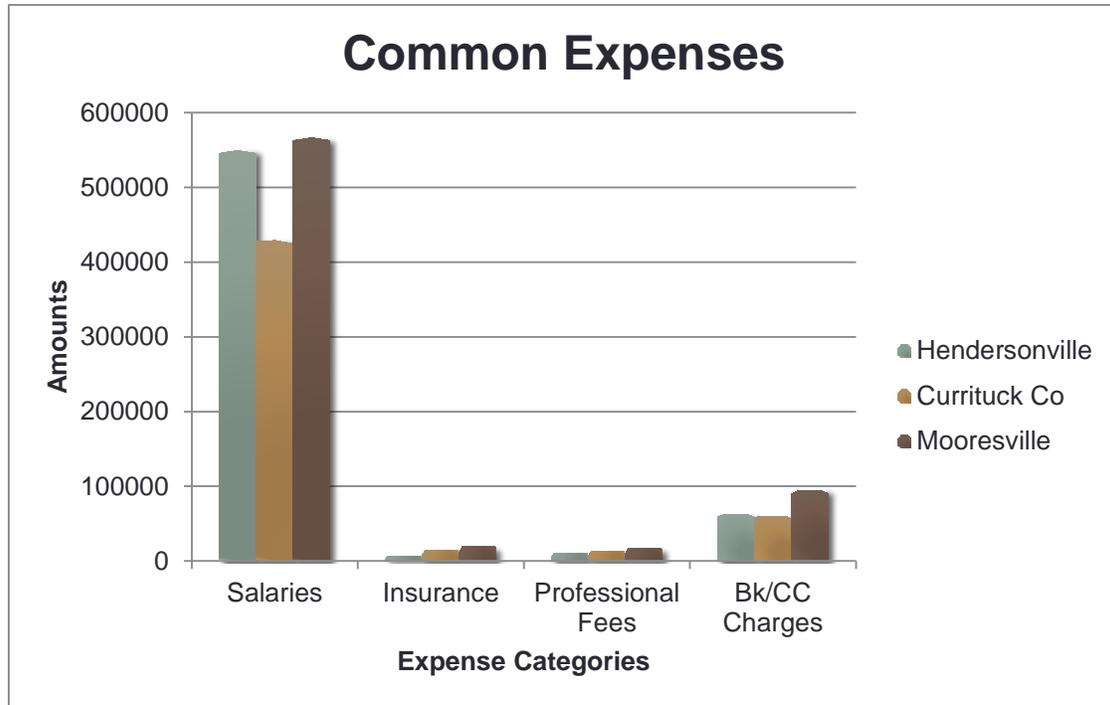
- Boards with 3 or more stores – cost ratio 0.63 or less
- Board with 1 or 2 stores with MXB – cost ratio .73 or less
- Boards with 1 or 2 stores without MXB – cost ratio .85 or less

The Hendersonville ABC Board operates three retail stores with mixed beverage sales: the operating cost ratio is 0.73. Mixed beverage sales make up 13.3% of total gross sales. Compared with the state's increase in sales of 4.81% in fiscal year 2014, the Hendersonville ABC Board's sales increased 6.71% over fiscal year 2013 as expenses increased 9.44% over the same time period. To meet the cost ratio goal and remain at current operating expenses of \$993,206, revenues must be increased to approximately \$6,300,000, a 15% increase. To meet the cost ratio goal and remain at current revenues of \$5,477,665, expenses must be reduced to \$855,000, a 14% decrease.

The board acquired a bank loan for \$194,000 used for the construction of the third location. At the end of fiscal year 2014, the board had an outstanding balance of \$171,017.

As an additional benefit to employees, the board provides Other Post-Employment Benefits. Each year the benefit increases in the amount funded. In FY2014, the board's obligated amount was \$9,038.

Below is a common expense analysis showing the Hendersonville ABC Board's expenses compared with other similar size boards. Note: Staffing for the following boards are: Currituck County – 7 full-time, 2 part-time, and 4 full-time seasonal employees; Mooresville – 4 full-time and 27 part-time employees.



## RECOMMENDATIONS

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1. Consider eliminating the Other Post-Employment Benefits to future employees as the costs are continuously increasing each year. Contact your accountant and the city/county to determine alternative programs that are not as expensive in the long-run.

## **STORE APPEARANCE**

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The Hendersonville ABC Board operates three retail stores with an average 945 linear feet of shelf space and carries approximately 1,000 product codes between stores.

- The stores appeared clean and free of trash. Counter areas were neat and well-organized.
- The stores displayed neat and well-visible signage. The Fetal Alcohol Syndrome posters are displayed in all locations and are visible to the public.
- Landscaping around the stores is well-maintained with no evidence of trash.
- Each location displays product within its designated category. Cross merchandising is utilized to encourage impulse shopping. Bottles are not always fronted but are dusted.
- A shelf management plan is utilized that exhibits a strategy following the ultra-premium products on the top shelves, premium products at eye level, and value products on the lower shelves. Product placement is consistent with sizes going from largest on the right and smallest to the left. Vertical brand blocking is shown for similar products. A shelf management policy details the product placement and strategizes the enhancement of sales.

## **CUSTOMER SERVICE**

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- The state price book is available should customers ask for specific product. Sales clerks often refer to the price book for verification of product and pricing. Monthly sales information is shared with mixed beverage and retail customers on a consistent basis.
- Sales clerk's interaction with retail and mixed beverage customers is attentive, courteous, and all are eager to meet the needs of the customers.

## **NO RECOMMENDATIONS**

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## **PERSONNEL AND TRAINING**

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- All board members, the general manager, and the finance officer have completed the initial ethics training required by the statute. A board member has since been reappointed and has completed the required ethics training.
- Cross training has been extended on key administrative duties to employees in the event the general manager was suddenly unavailable. In the event the finance officer is unavailable, management has implemented back up procedures to ensure that financial operations continue.
- Training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities. Management often attends conferences held by the NC Association of ABC Boards as well as webinars hosted by the Commission.
- Personnel files are available and include human resource documentation and other personnel information as required by the NC Department of Labor.

## **NO RECOMMENDATIONS**

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## **ABC BOARD POLICIES**

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- Policies adopted and submitted to the Commission include:
  - Code of Ethics
  - Law Enforcement Contract
  - FY2014 Annual Audit
  - FY2015 (Proposed and Adopted)
  - Employee Handbook (Updated 2014)
  - Mixed Beverage Policy
  - Price Discrepancy Policy
  - Shelf Management Policy

## **NO RECOMMENDATIONS**

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## **INTERNAL CONTROL OBSERVATIONS**

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Internal control is the process by which the board provides assurance that operations are effective and efficient, reliable, and in compliance with applicable rules, laws and regulations. Internal control is strongest when activities are segregated creating a system of checks and balances, and adopting policies and procedures that follow current and appropriate practices. Below are internal control findings that were observed during the audit fieldwork.

- Each store's manager will schedule and notify employees for work shift hours. All employees use time cards to record hours worked. General practice is two people are always on a shift. In the event an employee fails to clock in/out, the store manager and the general manager are notified and corrects the discrepancy. At the end of the payroll week, the administrative assistant will calculate and process payroll through the accounting/payroll system. Management has implemented a procedure to discourage employees from clocking in no more than fifteen minutes prior to or after the work schedule.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures in handling cash drawer overages/shortages. A cash drawer policy has been adopted.
- Bank deposits are made regularly by the ABC Commission rule. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed by the general manager.
- Each store performs a physical inventory count monthly, including the warehouse, by all employees. Daily spot checks are conducted. Once the initial count is completed, the counts are forwarded to the administrative office for verification and calculation by the general manager, finance officer, and administrative assistant. If discrepancies occur, the store's managers will recount and the process is repeated. Once completed, the general manager will adjust the inventory system to match with the actual store counts.
- Unsalable merchandise is adjusted from inventory monthly by the finance officer. Breakage forms are submitted as required by the Commission rule.
- A credit card is issued to the board with the general manager as the authorized user. A credit card policy has been adopted and implemented. A sample of credit card expenses was viewed to ensure compliance with the credit card policy.
- To transport product between stores, the board has acquired a vehicle. The board has adopted a vehicle usage policy. A sample of vehicle expenses and mileage was verified to ensure compliance with the vehicle policy.
- Out of approximately 1,000 product codes between stores, approximately 300 product codes were sampled to ensure accurate pricing and eight were incorrect.

## **RECOMMENDATIONS**

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1. To ensure correct pricing on the store shelves and in the computer system, audit shelf tags on a regular basis by incorporating this practice during or in between the regularly scheduled inventory counts.

## **ADMINISTRATIVE COMPLIANCE FINDINGS AND OBSERVATIONS**

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- 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.
- Date/time/location of board meetings are not posted for public knowledge.
- 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-800 (g) and (g1).
- Law enforcement activity reports have been submitted to the Commission as required by G.S. 18B-501 (f1).
- The board has one employee who is related to the general manager and is beyond the scope of the statute. Therefore, 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).
- In viewing budget to actual expenses as referenced in the financial audit of FY2014, overall expenses were over spent.
- Liquor orders and miscellaneous purchases are pre-audited by the finance officer. The board is usually invoice by vendors for purchases.
- In reviewing a sample of liquor invoices, payments were made within thirty days.
- Checks bear the approved certificate as required by G.S. 18B-702 (q) indicating that the items have been approved by the finance officer payment. Two signatures are located on all paid checks; that of the finance officer and the general manager.

## **RECOMMENDATIONS**

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1. Post signage at the store and Town Hall notifying the public, when, where, and the time meetings are held. *Refer to Appendix A (1) for statute.*
2. Monitor budget more closely, particularly towards the year end, to determine whether amendments are needed. Amendments are needed when expenses are over budget or have not been budgeted for and when sales are not meeting or are exceeding budgeted amounts.

## **AUDITOR'S SUMMARY**

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On July 21, 2015, ABC Board Auditor, Moniqua S. McLean, presented the performance audit findings and recommendations to the board. The board strives to implemented 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.

*Hendersonville ABC Board  
205 South Church Street  
Hendersonville, NC 28790*

*7-24-2015*

*Ms. Moniqua McLean  
ABC Board Auditor  
4307 Mail Service Center  
Raleigh, NC 27699-4307*

*Dear Ms. McLean,*

*The Hendersonville ABC Board thanks you for attending our meeting on July 21, 2015 to present the results of your Audit Performance Report.*

*Our Board continually strives to improve every aspect of our operations. This includes improving the shopping environment for our customers, as well as improving our operating efficiency.*

*Your comments and recommendations have been duly noted and have been fully implemented.*

*We appreciate your time and your assistance in helping our system achieve the ultimate goals we pursue.*

*Thank you,*



*Charles L. Byrd  
Hendersonville ABC Board Chairman*

**RECEIVED**

**JUL 27 2015**

**NC ABC COMMISSION**

## APPENDIX A

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*(1) Operations Manual states "North Carolina General Statute 143-318.12 requires the following from public bodies:*

- a. Must have regular meetings*
- b. Post schedule with the Town Clerk (if the regular schedule changes, notice must be given to the clerk)*
- c. If a meeting is to be held at a time other than the regular time*
  - i. Announce the time and place during a meeting or*
  - ii. Written notice stating the purpose – bulletin board, and notice mailed to the media and interest persons who have requested notice*
  - iii. Notice given at least 48 hours in advance*
  - iv. If an emergency meeting is called because of generally unexpected circumstances that require immediate attention, then notice to the media and interested persons shall be made by telephone or other means."*

## APPENDIX B

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Administrative Compliance Findings and Observations:</b></p> <p>Post meeting notices with City Hall and at all store locations.</p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p> <p><b>**Note:</b> 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>Management has implemented procedures to ensure compliance with the statute.</p>