

Lake Lure 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

November 17, 2015

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Moniqua S. McLean
ABC Board Auditor

Lake Lure ABC Board
Mr. Anthony Brodfuhrer, Chairman
2654 Memorial Hwy
Lake Lure, NC 28746

Dear Chairman Brodfuhrer,

We are pleased to submit this performance audit report on the Lake Lure 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

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 353 of the 1979 Session authorized the town of Lake Lure to hold an election for an ABC store. The referendum was held on August 1, 1979 and passed 169 to 99. The first retail sale occurred on November 10, 1980. A mixed beverage election occurred on June 4, 1985 and passed 220 to 75.

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 staggered year terms. Current board members are Aland Griswold, board chairman, Linda Samarotto, and William Keller, board members. Since the audit fieldwork, a new board member, Anthony Brodfuhrer, has been appointed to replace the chairman.

The Lake Lure ABC Board operates one retail store. The board staffs three part-time employees, including the general manager. The general manager is responsible for the oversight of all daily operations pertaining to the store, inventory management, human resources, and implementation of other administrative decisions for the board. The board has hired an external bookkeeper to serve as the finance officer and provide financial assistance and perform payroll functions as required by 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 October 20, 2014, ABC Board Auditor, Moniqua S. McLean, visited the Lake Lure ABC store and interviewed Woody Price, general manager, and Alan Griswold, board chairman. 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 (loss) from operations by the total liquor sales (Total Income (Loss) 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 Lake Lure ABC board had gross sales of \$730,574; income (loss) from operations was (\$15,874), a -2.17% profit percentage to sales.

Factors affecting sales and profitability:

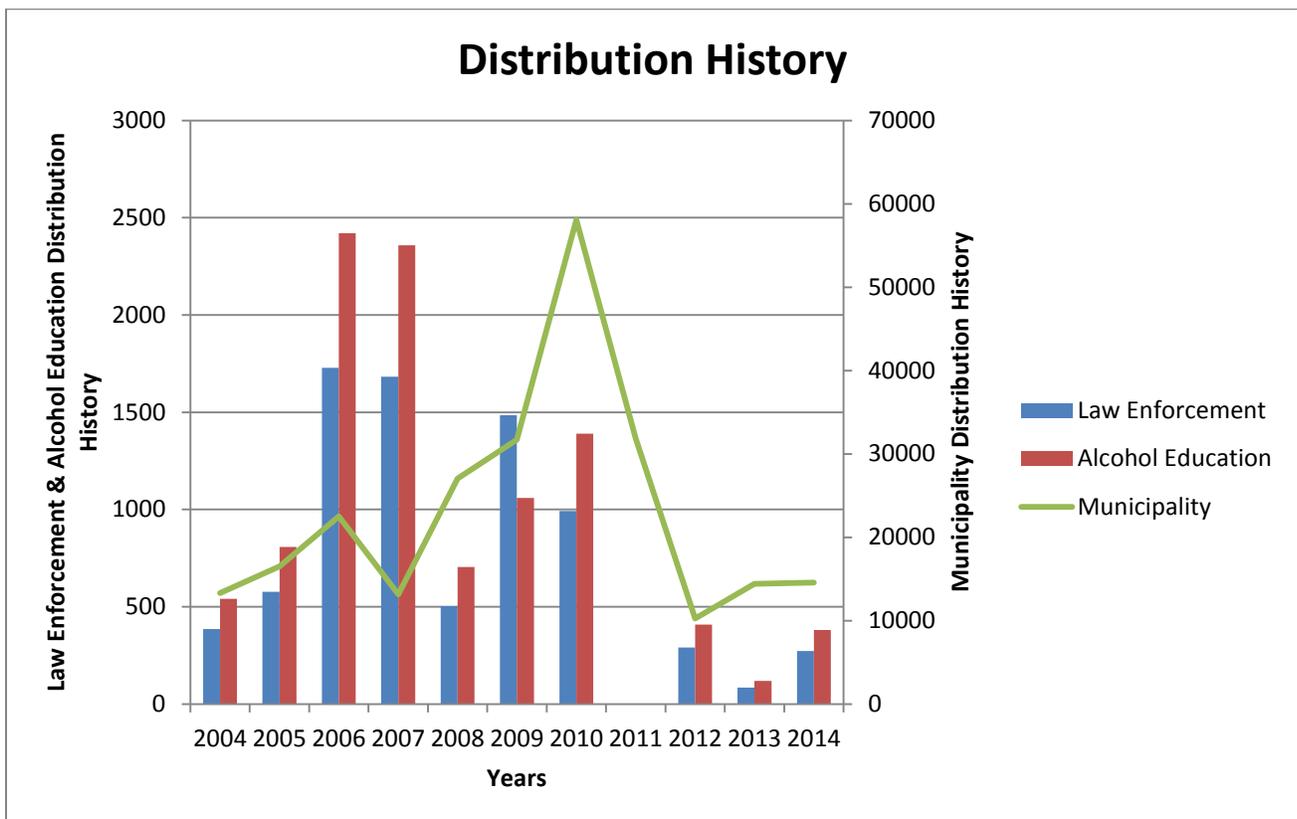
- Cost of sales at fifty-nine (59%) reflected more than the state's average of fifty-four percent (54%);
- Surrounding towns within a fifteen mile radius with ABC stores include Rutherfordton, Forest City, Marion, and Columbus.

DISTRIBUTIONS

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 rate to the town. In FY2014, Lake Lure ABC did not make the required minimum distribution to the town totaling \$20,268, but distributed \$14,556. The board pays additional distribution (\$6,030) to the town for renting the store's location. \$172,827 in excise and other taxes were paid to the NC Department of Revenue and the Department of Health and Human Services.

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 to the Lake Lure General Fund of which not less than seven percent (7%) goes toward alcohol education.

Below is a law enforcement, alcohol education, and municipality distribution chart analyzing the high-low trend of the Lake Lure ABC Board for the past ten years.



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 Lake Lure ABC Board had a working capital of \$147,957, which is less than the maximum allowed of four months gross sales (\$185,916) and is within the limits of NCAC 02R .0902.

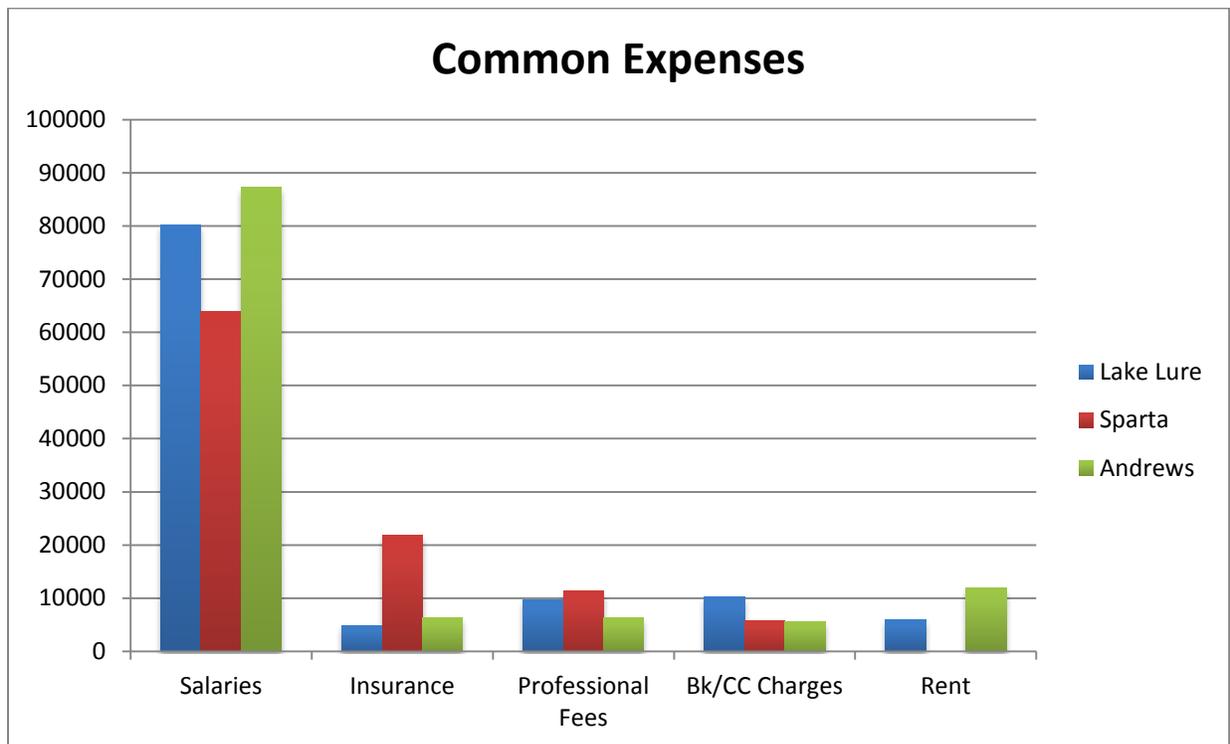
OPERATING COST RATIO

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 – 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 Lake Lure ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 1.07. Mixed beverage sales make up 22.2% of total gross sales. In fiscal year 2014, sales increased 7.5% over fiscal year 2013 as expenses increased 1.1% over the same time period. To meet the goal and remain at current revenue levels of \$730,574, expenses must be reduced to \$121,500, a 25% decrease. To meet the goal and remain at current expense levels of \$152,229, revenues must be increased to \$942,500, a 29% increase. Calculations of the cost of liquor show that percentage is above the state's average which contributes to the cost ratio.

A common expense analysis shows that Lake Lure ABC Board's expenses are in line with other boards. Note: Bank/credit card charges are slightly higher as sales have increased.



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 Lake Lure ABC Board receives deliveries two times a month: the inventory turnover rate is 4.2. 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 Lake Lure ABC Board operates one retail store with approximately 1,000 linear feet of shelf space and carries approximately 900 product codes.

- The store appeared clean and trash free. Counter areas were neat and well-organized.
- The store displayed neat and visible signage. The Fetal Alcohol Syndrome poster is displayed in an area visible to the public.
- Landscaping around the store is maintained and free of trash.
- A basic shelf management plan is in use that exhibits a strategy following the premium products at eye level, ultra-premium products on the top shelves, and value products on bottle shelves. Product placement is consistent with sizes arranged from largest on the right and smallest on the left. Bottles are fronted and dusted giving a neat and clean appearance. Horizontal brand blocking is used for similar products. Each product is displayed within its designated category. End caps display new or bestselling items.
- The state price book is available should customers ask for specific product. Sales clerks often refer to the price book for verification of product pricing. Monthly sales information is shared with mixed beverage and retail customers on a consistent basis.
- Sales clerk's interaction with customers is attentive, courteous, and show eagerness to meet the needs of the customers.

NO RECOMMENDATIONS

PERSONNEL AND TRAINING

- All board members, general manager, and finance officer have completed the ethics training as required by G.S. 18B-706.
- Cross training opportunities are being extended on key administrative duties to key employees in the event the general manager was suddenly unavailable.
- Training is provided continuously to new and existing staff on areas applicable to job performance.
- Personnel files are available and include human resource documentation and other personnel information as required.

RECOMMENDATIONS

1. Consider additional training opportunities through the Commission and other ABC boards on specific areas such as customer service, best retail and marketing practices, etc.

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Employee Handbook
 - Mixed Beverage Policy
 - FY14 Annual Audit
 - FY15 Budget (Proposed and Adopted)

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

RECOMMENDATIONS

1. Have an agreed upon 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 A (1) for statute.*
2. Request approval annually from the town to adopt the town's travel policy or adopt the state's travel policy. *Refer to Appendix A (2) for statute.*
3. Adopt the above policies that incorporate customer friendly practices and current personnel practices. Once adopted, submit a copy to the Commission and communicate to all employees should the need arise. *Refer to Appendix A (3) for rule.*

INTERNAL CONTROL PROCEDURES

- Time sheets are not used for all clerks. Current procedures include the manager setting the schedules for all clerks, verifying employees work hours and forwarding information to the finance officer for processing.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. Management has incorporated procedures to handle cash drawer overages/shortages.
- Bank deposits are made two to three times per week. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed by the external accountant and forwarded to the general manager.
- Physical inventory counts are performed twice a year by all staff with spot checks occurring twice a month. If discrepancies occur, the general manager will recount and investigate for accuracy and verification. Once the recount is completed, the general manager will adjust the inventory system to match with the actual store counts. Unsalable products are deducted from inventory immediately. Documentation of physical count sheets or adjustments is not available.
- Out of approximately 1,000 product codes, approximately 100 product codes were sampled to ensure accurate pricing and six were incorrect.

RECOMMENDATIONS

1. Have employees fill out time sheets for hours worked. Once completed, have general manager verify hours worked by signature before forwarding to the finance officer for processing. Time sheets are to be retained according to the Records Retention Manual.
2. Daily deposits are required for every ABC store. In the event circumstances prohibit this practice, ask for a waiver from the Commission to allow a different deposit schedule. *Refer to Appendix A (4) for rule.*
3. Keep all documentation of inventory management according to the Records Retention Manual.
4. 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

- 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. However, the board meeting minutes did not indicate that a conflict of interest statement was read asking board members if potential conflicts existed with items on the meeting agenda.
- The board approved bonuses for employees. However, the approval vote or the amounts was not indicated in the board minutes.
- Board member appointment dates and compensation is not 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 is in compliance with G.S. 18B-700 (k); there are no immediate family members employed related to board members or the general manager.
- In reviewing the budget to actual expenses as reference in the financial audit, expenses were over spent.
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- Liquor orders and miscellaneous purchases are not pre-audited by the finance officer. The board is usually invoiced by vendors for purchases.
- Checks do not bear the approved certificate as required by G.S. 18B-702 (q) indicating that the items have been approved by the finance officer for payment. Two signatures are located on all paid checks; that of the finance officer and general manager. In the event the finance officer or general manager is unavailable, all board members are authorized to sign checks.

RECOMMENDATIONS

1. Have the board chairman read the conflict of interest statement to all board members at the beginning of each meeting. Reference the conflict of interest statement was read in the board minutes. *Refer to Appendix A (5).*
2. When the board discusses and approves any employee salary adjustments, indicate the vote and the amounts of the adjustments in board meeting minutes.
3. Update the Commission website to reflect current information on board members and the general manager.
4. All ABC Boards must adhere to a balanced budget. Make amendments when sales are not meeting budget and when expenses are over budget. Amendments must be approved by the board at the next regular meeting and entered in the minutes. Once completed, forward copies of the amendments to the appointing authority and the Commission. *Refer to Appendix A (6) for statute.*
5. Place the pre-audit certificate with the finance officer's signature on the order to LB&B. When ordering supplies, have a purchase order, order confirmation, or vendor invoice for authorization from the finance officer before the transaction takes place. *Refer to Appendix A (7) for statute.*
6. Place the approved certificate on all checks, excluding payroll checks as referenced in G.S. 18B-702 (q). *Refer to Appendix A (8) for statute.*

AUDITOR'S SUMMARY

ABC Board Auditor, Moniqua S. McLean, presented the performance audit recommendations to the Lake Lure ABC Board on January 20, 2015. The board has since responded to the performance audit recommendations and has outlined strategies that will continue to 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. To view what has been implemented, refer to Appendix B.

Due to concerns of excessive spending of costs of liquor, the final audit report was delayed to ascertain that appropriate procedures were implemented. To monitor this process, financial reports have been submitted on a routine basis to ensure accountability and improvement. In reviewing the financial reports, the excessive spending concerns have been addressed and management has implemented procedures that would provide control and eliminate duplicate recording.

TOWN OF LAKE LURE ABC BOARD

2654 MEMORIAL HWY.

P.O. BOX 26

LAKE LURE, NC 28746

OFFICE: (828) 625-2306

FAX: (828) 625-0902

March 17, 2015

Attn: Moniqua

The Lake Lure ABC Board and I would like to thank you for conducting a performance audit of our store. We found the audit to be helpful and we will comply with your recommendations.

The following actions have been taken to correct the various items of concern:

Inventory and Turnover

We are moving slow sellers around the sales room and will begin to utilize the end caps. We are trying to eliminate slow moving items each month.

All inventory documents are being kept according to the retention manual.

Personnel and Training:

We will take advantage of training opportunities through the Commission on all new employees. The Board adopted the State's travel policy at the November, 2014 meeting, and signed a new Law Enforcement Contract in November, 2014. A price discrepancy policy will be adopted at our March, 2015 meeting. Copies to the Commission.

Time Sheets are being filled out by each employee, signed and delivered to the General Manager who checks for accuracy and also signs them. They go to the finance officer who writes the checks.

The Pre Audit Certificate & Finance Officers Signatures are now being placed on orders to LB&B. The approved certificate is now on all checks, excluding payroll checks. We will have a new bank in Lake Lure by the time you receive this acknowledgement and all new checks will have the approved certificate referenced in G.S. 18B-702.

We currently have a waiver from the Commission to make our deposits twice per week.

Conflict of Interest Statement is read before each Board Meeting.

Board's approval of pay increases and bonuses are documented in the Minutes.

The Commission's website is up to date.

The Board will adhere, as always, to a balanced budget.

Thank you

Woodrow Price, General Manager

APPENDIX A

- (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-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."*
- (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.0905 (a) states, "Each officer whose duty it is to collect or receive moneys of the local board shall deposit into an official depository the collections and receipts daily. If the local board gives its approval, deposits shall be required only when the moneys on hand are equal to or are greater than two hundred fifty dollars (\$250.00), but in any event a deposit shall be made on the last business day of the month. All deposits shall be made in an official depository. Deposits in an official depository shall be reported to the finance officer by means of a duplicate deposit ticket."*
- (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 G.S. 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? If so, please identify the conflict or appearance of conflict and refrain from any undue participation in the particular matter involved.'*
- (6) *G.S. 18B-702(h) states, "...the local board may amend the budget at any time after adopting, in any manner, so long as the budget, as amended... Any such transfers shall be reported to the local board at its next regular meeting and shall be entered in the minutes. Amendments to the adopted budget shall also be provided to the appointing authority and the Commission.*
- (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) 18B-702(q) states "...each check or draft on an official depository shall bear on its face a certificate signed by the finance officer or a deputy finance officer approved for this purpose by the local board. The certificate shall take substantially the following form:

"This disbursement has been approved in the manner required by G.S. 18B-702."

(Signature of finance officer)

APPENDIX B

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>ABC Board Policies:</p> <p>Adopt the following policies and forward to the Commission:</p> <ul style="list-style-type: none"> • Travel Policy • **Price Discrepancy Policy • Law Enforcement Contract 	<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>Management has implemented procedures and adopted all policies mentioned. Copies have been submitted to the Commission.</p>
<p>Internal Controls:</p> <p>Ask for a waiver from the Commission allowing the board to make deposits two times a week.</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>Management has requested a waiver allowing for a different depositing schedule and the Commission has approved.</p>

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Administrative Compliance:</p> <ol style="list-style-type: none"> 1. Improve board minutes by including voting results for salary adjustments. 2. Update the Commission website to reflect current data. 3. Continuously monitor budget to ensure accountability. 4. Affix the pre-audit certificate on all orders before the transaction occurs. 5. Affix the approved certificate on all checks, excluding payroll. 	<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>Management has implemented procedures and adopted all policies mentioned.</p>