

Walnut Cove 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

CHAIRMAN:
JAMES C. GARDNER

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Wake Forest

KEVIN M. GREEN
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Moniqua S McLean
ABC Board Auditor
919-779-8365

January 6, 2015

Walnut Cove Alcohol Control Board
Mr. Brian Booe, Chairman
PO Box 511
Walnut Cove, NC 27052

Dear Chairman Booe,

We are pleased to submit this performance audit report on the Walnut Cove Alcohol Control 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 832 of the 1969 Session Laws authorized the Town of Walnut Cove to hold an election upon a petition of at least twenty-five percent (25%) of registered voters. The referendum was held on October 21, 1969 and passed 297 to 176. The first retail sale occurred on February 6, 1970. A mixed beverage election was held on November 6, 2007 and did not pass.

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 Brian Booe, board chairman, James Dalton and Keith Morgan, board members.

The Walnut Cove ABC Board operates one retail store. The board staffs one full-time general manager and seven part-time employees. The general manager is primarily responsible for overseeing the daily operations pertaining to the store including personnel management, inventory management, and various administrative functions. All store clerks are responsible for providing customer friendly service, store upkeep, and stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On September 10, 2014, ABC Board Auditor, Moniqua S. McLean, visited the Walnut Cove ABC store and interviewed Marian Tilley, 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 Walnut Cove ABC board had gross sales of \$788,974; income from operations was \$40,435, a 5.13% profit percentage to sales.

Factors affecting sales and profitability:

- Population of the Town of Walnut Cove was 1,425 in 2010;
- Only ABC store in Stokes County
- Surrounding towns within a fifteen mile radius with ABC stores include Kernersville (Triad-Municipal ABC Board), Pilot Mountain, and Madison.

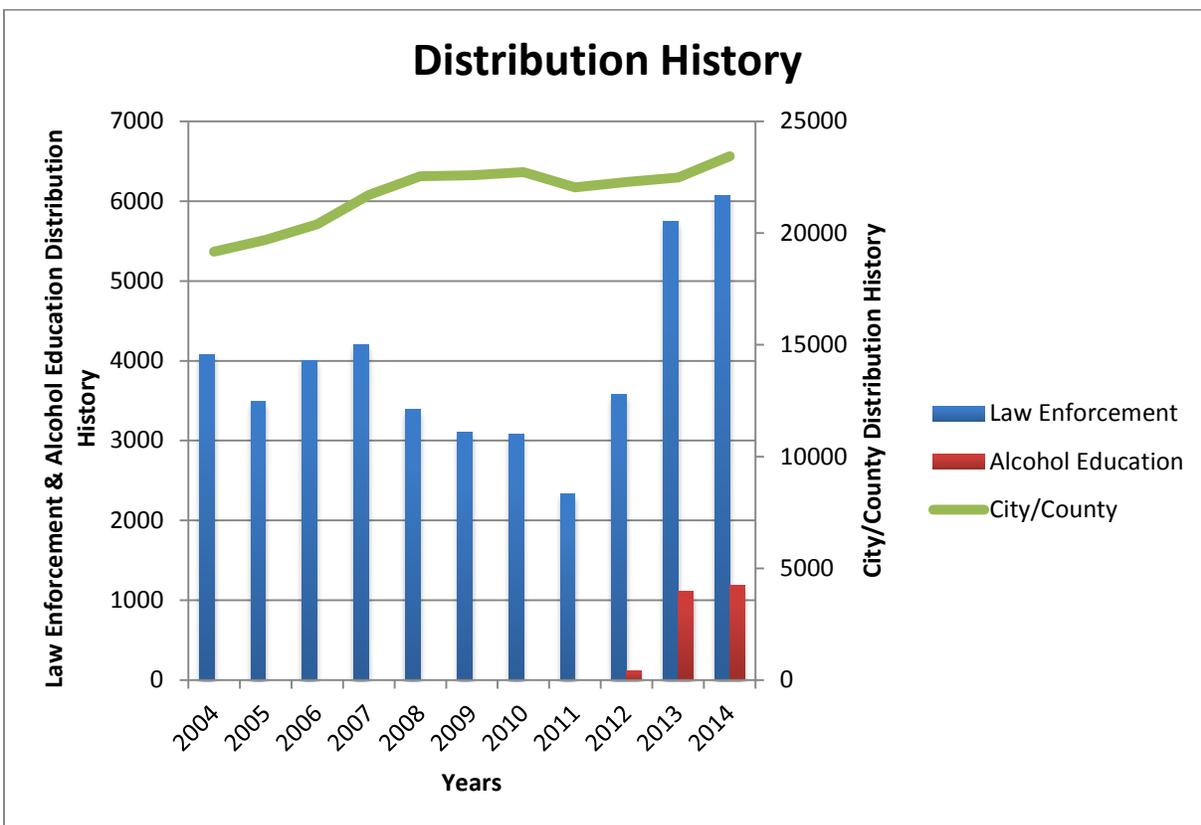
DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, and rehabilitation taxes. G.S. 18B-805(c)(1) requires the board to make a minimum quarterly distribution of the 3 ½% markup rate to the town. In FY2014, Walnut Cove ABC made the required minimum distribution to the town totaling \$23,436. \$177,946 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 as follows:

- Sixty-four percent (64%) to the Town of Walnut Cove
- Twenty percent (20%) to the Stokes County General Fund
- Nine percent (9%) to Walnut Cove Public Library
- Seven percent (7%) to Alcohol Education

Below is a distribution chart analyzing the high-low trend of the Walnut Cove 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 Walnut Cove ABC Board had a working capital of \$132,321, which is less than the maximum allowed of four months gross sales (\$203,680) and is within the limits of NCAC 02R .0902.

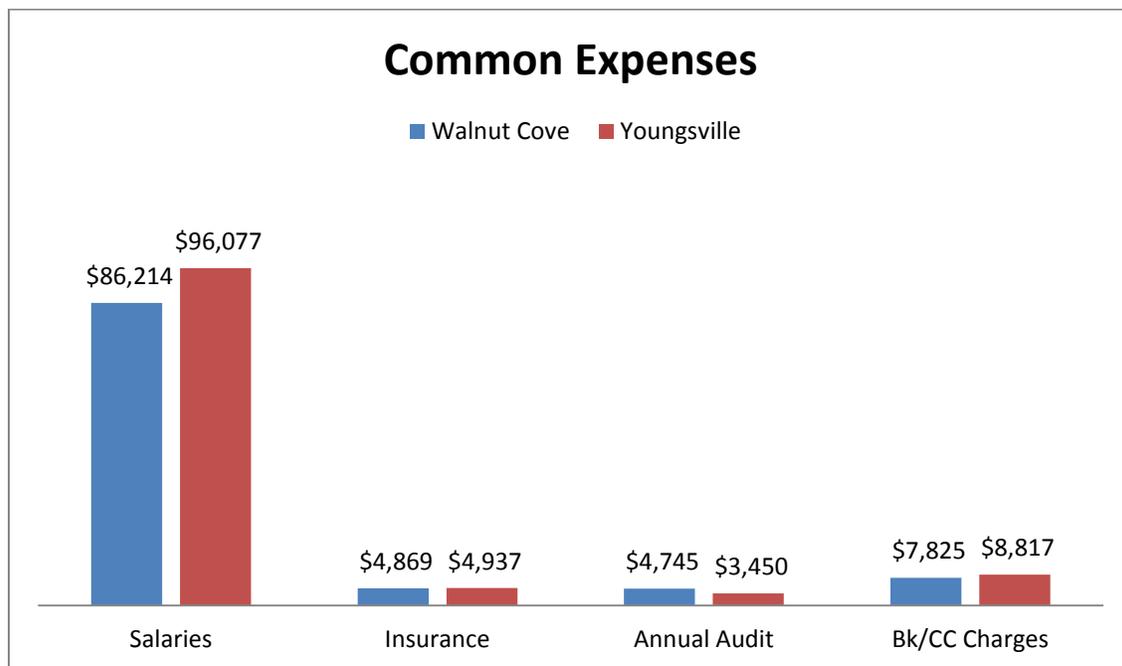
OPERATING COST RATIO

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):

- 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 Walnut Cove ABC Board operates one retail store without mixed beverage sales: the operating cost ratio is 0.76. In fiscal year 2014, sales increased 4.4% over fiscal year 2013 while expenses decreased 0.1% over the same time period.

A common expense analysis shows that Walnut Cove ABC Board expenses compared to another similar size board are not out of line. The board contributes to savings as a result of staffing one full-time employee to reduce employee benefits.



Operating Expenses less Depreciation

ABC Board	2013	2014
Walnut Cove	\$142,252	\$142,048
Youngsville	\$143,121	\$148,363

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 Walnut Cove ABC Board receives deliveries two times a month: the inventory turnover rate is 3.2. 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;
 - Moving stock within the store to increase visibility and to encourage more impulse shopping;
 - Eliminating poor performing items to drive category sales and increase shopper satisfaction
 - Consider relocating store to a building with more floor space to give customers more room to shop and a more modern shopping experience.

STORE APPEARANCE AND CUSTOMER SERVICE

The Walnut Cove ABC Board operates one retail store with shelf space of approximately 860 linear feet and carries approximately 1,000 product codes.

- The store appeared clean. Counter areas displayed supplies easily accessible for clerks and neatly arranged.
- The store displayed neat and well visible signage. The Fetal Alcohol Syndrome poster is displayed in an area visible to the public.
- Bottles were fronted and dusted.
- Area surrounding the store is well-maintained with no evidence of trash.
- Security systems are in place and functional in all designated areas.
- A shelf management system is in use that follows a strategy of premium and popular products at eye level, ultra-premium products on top shelves, and value products on bottom shelves. Product placement is consistent with sizes arranged from largest on the right and smallest on the left and all are shown within its designated category. Even though space is limited, cross merchandising is used throughout the store, specifically with the North Carolina products.
- The state price book is available should customers ask for specific product. Sales clerks often refer to the price book for availability of product and pricing.
- Monthly sales information is shared with retail customers on a consistent basis.
- Sales clerk's interaction with customers is attentive, courteous, and all are eager to meet the needs of the customers.

NO RECOMMENDATIONS

PERSONNEL AND TRAINING

- Current board members have completed the ethics training as required by G.S. 18B-706 (b).
- Cross training opportunities on key administrative duties are being extended 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. Management often attends the NC Association of ABC Board General Manager conferences for additional training opportunities.
- Personnel files are available and include pertinent 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. 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
 - Law Enforcement Contract
 - Travel Policy (State Travel Policy Approved)
 - FY2014 Annual Audit
 - FY2015 Budget (Proposed and Adopted)
 - Employee Manual
 - Price Discrepancy Policy

NO RECOMMENDATIONS

INTERNAL CONTROL PROCEDURES

- Schedules are handwritten on calendar and verified by the general manager. At end of payroll period, adjustments are made in the accounting/payroll software.
- Cash drawers are counted by all clerks. Clerks share drawers during the day. 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 statements are viewed by the board chairman before reconciliations are completed by the general manager.
- Physical inventory counts are performed monthly mostly by the general manager. Occasionally, clerks assist with the counting process. Spot checks are conducted frequently between schedules inventories. If discrepancies occur, the general manager will investigate and recount for accuracy and verification. Once completed, the general manager will adjust the variances and unsalable items with the inventory system to match the actual store counts.
- Out of approximately 1,000 product codes, approximately 70 product 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); there are 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 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 that of the general manager and any board member are located on all paid 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.

AUDITOR'S SUMMARY

ABC Board Auditor, Moniqua S. McLean, presented the performance audit recommendations on December 9, 2014. The board has since responded to the performance audit recommendations and continues to implement strategies to maintain profitability while maintaining and reducing current costs to meet 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.

Walnut Cove Alcohol Control Board

Est. February 1969

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Walnutcoveabc@embarqmail.com

December 21, 2014

Moniqua S McLean, MAFM

ABC Board Auditor

NC ABC Commission

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Mrs. McLean,

On behalf of the board of directors for the Town of Walnut Cove ABC Board, we would like to express our sincere appreciation to you for presenting this audit to the board and mayor and reassuring our board of the quality of service that is provided by our General Manager and employees. We are very pleased with the report and will continue focusing on quality customer service and contributing to the Walnut Cove and surrounding communities through public education on the ABC system. Included in the audit were some items that the board needed to address and we will outline a plan of action listed below.

- **Inventory Turnover**
 - **State Recommendations**
 - Consider the following to increase inventory turns:
 - Incorporating a shelf management plan that analyzes sales data to targeted shopping patterns;
 - Moving stock within the store to increase visibility and to encourage more impulse shopping;

Marian Tilley
Supervisor/General Supervisor

Brian Booe, Chairman
Keith Morgan, Board Member
Jimmy Dalton, Board Member

- *Eliminating poor performing items to drive category sales and increase shopper satisfaction*
 - *Consider relocating store to a building with more floor space to give customers more room to shop and a more modern shopping experience.*
- ***Town of Walnut Cove ABC plan of Action***
 - *We have pursued the option of moving to a bigger location and after learning of the fees associated with just rent, this was not an option for the board at this time. We will be setting up a meeting with another local merchant to discuss the option of building a facility near the Food Lion north of town.*
 - *The General Manager is making contact with other stores and asking about non-selling items that may be beneficial at another location to help move those items out of the store.*
- ***Personnel and Training***
 - ***State Recommendations***
 - *Consider additional training opportunities through the Commission and other ABC boards on specific areas such as customer service, best retail and marketing practices, etc. The NC ABC Officers Association offers ABC inspection training for local law enforcement officers.*
- ***Town of Walnut Cove ABC plan of Action***
 - *All current employees as well as board members complete the RASP each year to ensure compliance with current general statutes. We will pursue information about the law enforcement training for our local Sheriff's office.*
- ***Administrative Compliance Findings and observations:***
 - ***State Recommendations***
 - *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.*
- ***Town of Walnut Cove ABC plan of Action***
 - *Currently the General Manager is training a new employee on daily operations of the store to relieve some of the responsibilities of the general manager. We have sent a letter of extension to the ABC Commission requesting additional time to allow for training of this employee to become finance officer which was granted.*

As stated above, we hope this plan of action will increase our commitment to this audit report to enhance operations of the Town of Walnut Cove ABC Board and its employees. We wish you a very Merry Christmas and a Happy New Year!!!

Sincerely,

*Brian Booe, Chairman
Town of Walnut Cove ABC Board*

Marian Tilley
Supervisor/General Supervisor

Brian Booe, Chairman
Keith Morgan, Board Member
Jimmy Dalton, Board Member

APPENDIX A

Illustration 1



Illustration 2



Partial view of shelf management/product placement

Illustration 3



Exterior view