

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

January 23, 2015

Waynesville ABC Board
Mr. Earl Clark, Chairman
52 Dayco Drive
Waynesville, NC 28786

Dear Chairman Clark,

We are pleased to submit this performance audit report on the Waynesville ABC Board. The objective of this audit was to examine existing policies, practices, and controls and to provide recommendations on methods to improve operating efficiency at the ABC Board in accordance with new legislative mandates.

The report consists of an executive summary, background information, operational findings and recommendations along with your response to our recommendations. This report will be posted on the Commission's public web site.

We would like to thank you, the ABC Board and your staff for the assistance and cooperation provided to us during the audit. Additionally, we appreciate the efforts your Board has made to comply with the new performance standards along with your efforts to maintain profitability and reduce expenses.

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

Respectfully,

Robert A. Hamilton
Administrator

CC. North Carolina Association of ABC Boards

EXECUTIVE SUMMARY

By state law, the ABC Commission shall ensure that all local ABC Boards comply with established performance standards by conducting regular audit or performance evaluations. Performance standards shall include, but are not limited to, standards that address enforcement of ABC laws, store appearance, operating efficiency, solvency, and customer service. Performance audits are examinations of existing operating policies, practices, controls, and activities to determine those areas in which there may be a need for improvements. This audit was conducted in accordance with Government Auditing Standards. This report details findings and recommendations with regard to organizational and operational issues.

To achieve the objectives of the audit, ABC Commission staff

- Reviewed applicable General Statutes, ABC Commission Rules, and administrative policies;
- Reviewed applicable reports and studies of ABC boards with similar size and geography;
- Verified compliance with Commission and Board policies;
- Reviewed organizational chart and job descriptions;
- Reviewed ABC store annual audit for the fiscal year 2013;
- Visited the store;
- Interviewed key ABC board personnel.

BACKGROUND INFORMATION

Chapter 609 of the 1967 Session Laws authorized the town of Waynesville to hold an election upon a written petition of at least fifteen percent (15%) of registered voters. The referendum was held on August 8, 1967 and passed 1,111 to 1,053. The first retail sale occurred on October 9, 1967. A mixed beverage election was held on May 6, 2008 and passed 1,788 to 1,391.

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 Earl Clark, board chairman, Jack Swanger and Raymond Ezell, board members.

The Waynesville ABC Board operates one retail store. The board staffs three full-time employees, including the general manager, and four part-time employees. 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. 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 September 29, 2014, ABC Board Auditor, Moniqua S. McLean, visited the Waynesville ABC store and interviewed Joy Rasmus, 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 Waynesville ABC board had gross sales of \$2,125,213; income from operations was \$105,690, a 3.12% profit percentage to sales.

Factors affecting sales and profitability:

- Surrounding towns within a fifteen mile radius with ABC stores include Maggie Valley and Canton.
- Estimated population of Waynesville is approximately 9,739 in 2013, a decrease of 1.3% since 2010.
- Recent relocation occurred in October 2013. Customers are still discovering the new location.

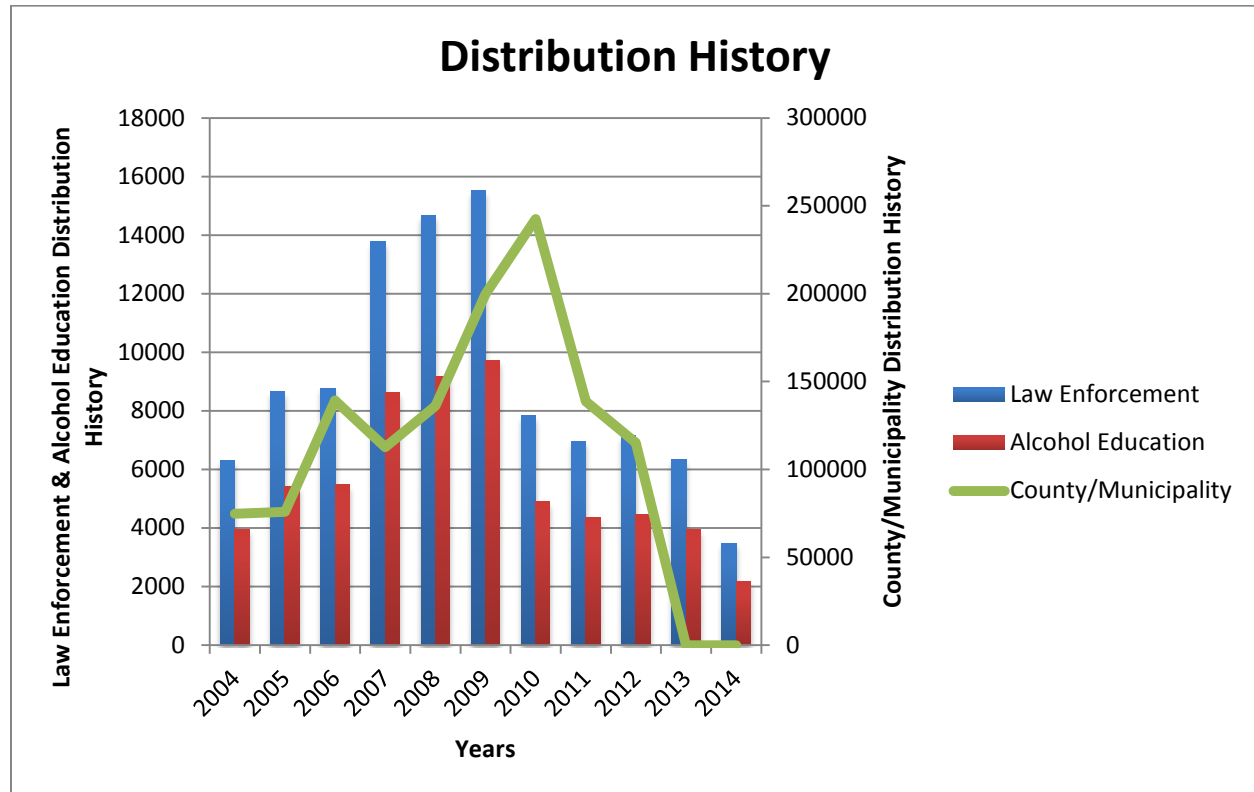
DISTRIBUTIONS

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) (1) requires the board to make a minimum quarterly distribution of the 3 ½% markup rate to the town. In FY2014, Waynesville ABC made the required minimum distribution to the town totaling \$63,208. \$493,625 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, and the town.

G.S. 18B-805 (c) (2) requires the board to distribute at least five percent (5%) of profits to law enforcement. The local enabling act requires the board to distribute at five percent (5%) for alcohol education. The remaining profits are to be distributed as follows:

- Sixty-four percent (64%) to the Waynesville General Fund of which fifteen percent (15%) is for industrial community development, five percent (5%) to the Haywood County Public Library, and five percent (5%) to the Waynesville Recreation Committee,
- Thirty-size percent (36%) to the Haywood County General Fund of which fifty percent (50%) is to the Haywood County Board of Education and fifty percent (50%) is for the public and governmental purposes.

Below are the law enforcement/alcohol education and county/municipality distribution charts analyzing the high-low trends of the Waynesville ABC Board for the past ten years. Distributions began to decrease in 2010 as a result of the second location of the Maggie Valley ABC Board. The ABC board received an approval from the appointing authority to withhold distributions until the mortgage loan is paid.



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 Waynesville ABC Board had a working capital of \$364,415, which is less than the maximum allowed of three months gross sales (\$407,896) and is within the limits of NCAC 02R .0902.

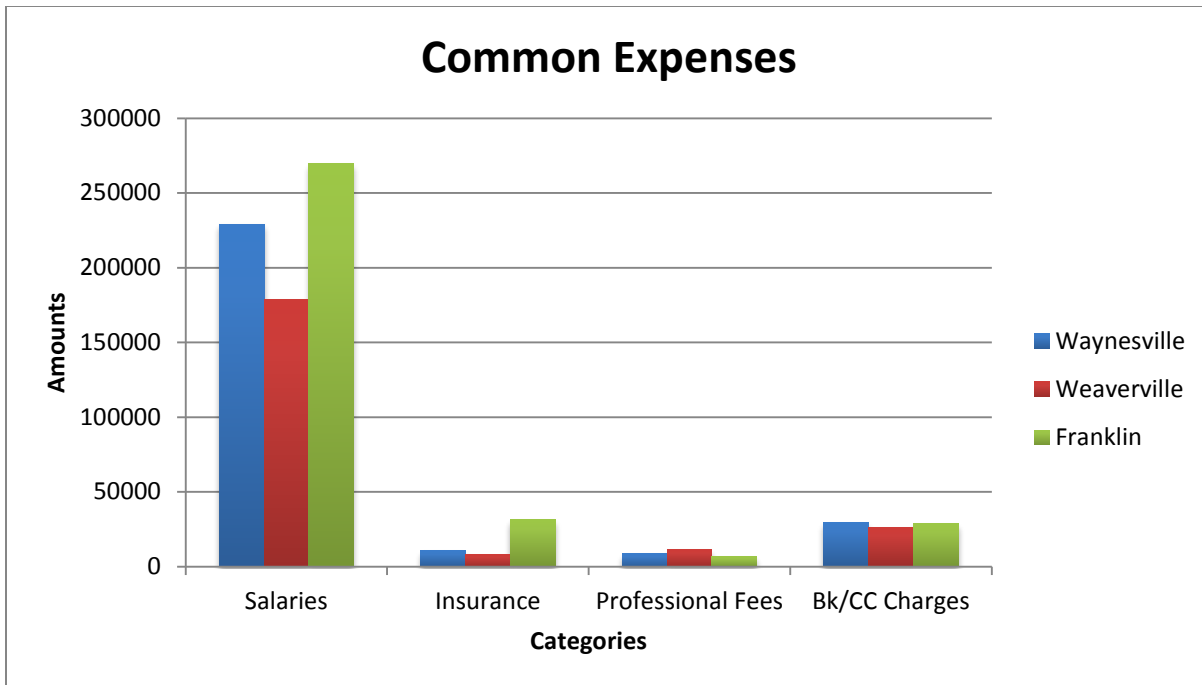
OPERATING COST RATIO

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 Waynesville ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.75. Mixed beverage sales make up 12.6% of total gross sales. In fiscal year 2014, sales decreased 0.85% over fiscal year 2013 while expenses increased 5.55% over the same time period. The board relocated and built a new store. Currently, the board's operating expenses are slightly higher due to the acquiring of a mortgage loan.

A common expense analysis shows that Waynesville ABC Board expenses are in line with other similar size boards. Note: Insurance expense for Franklin includes health insurance.



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 Waynesville ABC Board receives deliveries two times a month: the inventory turnover rate is 6.8. The average inventory turnover rate for similar boards with the same delivery schedule is 5.6.

NO RECOMMENDATIONS

STORE APPEARANCE AND CUSTOMER SERVICE

The Waynesville ABC Board operates one retail store with shelf space of approximately 1,200 linear feet and carries approximately 900 product codes.

- The store appeared clean and free of trash. Counter areas were neat and well-organized.
- The store displayed neat and well visible signage. The Fetal Alcohol Syndrome poster is displayed and visible to the public.
- Landscaping around the store is well-maintained with no evidence of trash.
- Bottles were fronted and dusted.
- A shelf management plan is utilized that does not exhibit the most efficient strategy. The current product placement for the Vodka section has the lowest priced product at the front of the store along the wall, resulting in many premium products on the bottom shelves along the back of the store. End caps display new and bestselling items to increase the impulse shopping experience.
- The state price book is available at the store should customers ask for specific product. Sales clerks often refer to the price book for verification of product and pricing.
- Sales clerk's interaction with customers is attentive, courteous, and all are eager to meet the needs of the customers.

RECOMMENDATIONS

1. To gain a more effective marketing strategy to generate sales, consider these practical ways to improve shelf management or product placement:
 - Reorganize sections to show premium products at eye level, value products at lower levels, and ultra-premium at the higher levels throughout the Vodka wall section.
 - Cross-merchandise by placing products that mix together on the same shelves. Intermingle North Carolina products within their specific category as well as having a designated area;
 - Reallocate shelf space from declining categories to those showing growth;
 - Optimize the floor space and end caps to incorporate valuable displays;
 - Vertical brand blocking similar products;
 - Allow more space for your more popular brands and re-allocating space when eliminating underperforming brands.

PERSONNEL AND TRAINING

- All board members and the general manager have completed the initial ethics training as required by G.S. 18B-706. Board members have since been reappointed and have completed the reappointment training.
- 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
 - Law Enforcement Contract
 - FY2014 Annual Audit
 - FY2015 Budget (Proposed and Adopted)
 - Mixed Beverage Policy
 - Travel Policy (State Approved)

- Policies not adopted include:
 - Price Discrepancy Policy
 - Employee Handbook

RECOMMENDATIONS

1. 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 B (1) for rule.*

INTERNAL CONTROL PROCEDURES

- The general manager schedules all employees for work shift hours. Time cards are used by all clerks. During payroll, the general manager will verify time cards and enter all employees hours worked into the accounting/payroll software for processing.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures on handling cash drawer overages/shortages.
- Bank deposits are made regularly as required by the ABC Commission rule. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed by the general manager/finance officer.
- Physical inventory counts are completed every six months by two people other than the general manager. Spot checks are conducted frequently. If discrepancies occur, the general manager will investigate and recount for accuracy and verification. Once completed, the general manager will adjust the inventory system to match with the actual store counts.
- Out of approximately 900 product codes, approximately 105 product codes were sampled to ensure accurate pricing and all were correct.

RECOMMENDATIONS

1. Consider conducting more frequent physical inventory counts by counting a category per month. Having a more efficient inventory checking system can strengthen internal controls.

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 did not include 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 not 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.
- All board members, the general manager, and the finance officer 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 or an authorized person for payment. Two signatures are located on all paid checks: that of the finance officer and a board member. All board members and the general manager 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 B (2).*
2. Update the Commission website to reflect current information on board members and the general manager. The Commission relies on information provided by boards to create reports.
3. Place the pre-audit certificate with the finance officer's signature on the order to LB&B. When ordering supplies, have a purchase order or order confirmation that will have authorization from the finance officer before the transaction takes place. *Refer to Appendix B (3) for statute.*

AUDITOR'S SUMMARY

ABC Board Auditor, Moniqua S. McLean, presented the performance audit recommendations on November 18, 2014. The board has since responded to the performance audit recommendations and continues to implement strategies to improve profitability while maintaining or reducing costs. 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.

Waynesville ABC Board
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Waynesville, NC 28786
828-452-4444
wayabcstore@gmail.com

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

Dear Moniqua:

On behalf of the Waynesville ABC Board we want to thank you for meeting with us on November 18, 2014 to give the Performance Audit Report you conducted on September 29, 2014.

Our intent is to operate and comply with the established standards set by the NC ABC Commission and the General Statutes. We believe recommendations from your audit report in areas that need improvements, updates to policies, and our existing strengths will assure the Waynesville ABC Board is a healthy and viable board for our customers, appointing authority, and community.

We look forward to hear opinions from a marketing team to generate sales through shelf management and product placement as recommended in the store appearance and customer service section of your report. We will have our price discrepancy policy adopted by the board at their next meeting, and will be in the process of updating our Employee Handbook Policy. As we discussed concerning the physical inventory, the losses did not warrant the employee hours needed for inventory. However, if a problem is ever encountered that would change posthaste. We took immediate action for the Conflict of Interest statement at our meetings and have updated the Commission website with current information, and are taking careful attention that the pre-audit certificate with the finance officer's signature is not missed on any documents mentioned in your report.

You were a pleasure to work with, and we appreciate the time and effort you took in your audit and report for the betterment of our store. Please allow us to call upon your professional skills going forward.

Yours sincerely,



Earl Clark
Chairman
Waynesville ABC Board

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APPENDIX A

Illustration 1



Shelf management/product placement

Illustration 2



Shelf management/product placement

Illustration 3



Interior view

APPENDIX B

(1) 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."

(2) 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.'"

(3) 18B-702 (m) states "...the contract, agreement, or purchase order shall include on its face a certificate stating that the instrument has been pre-audited to assure compliance. The certificate, which shall be signed by the finance officer or any deputy finance officer approved, shall take substantially the following form:

"This instrument has been pre-audited in the manner required by GS 18B-702."

(Signature of finance officer)

APPENDIX C

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>ABC Board Policies:</p> <p>Adopt the following policies and forward to the Commission:</p> <ul style="list-style-type: none"> • **Price Discrepancy Policy • **Employee Handbook 	<p style="text-align: center;"><input type="checkbox"/> Yes</p> <p style="text-align: center;"><input checked="" type="checkbox"/> No</p> <p>**Note: Required by Commission rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p style="text-align: center;"><input type="checkbox"/> Fully Implemented</p> <p style="text-align: center;"><input checked="" type="checkbox"/> Partially implemented 50% complete. (Explain below.)</p> <p style="text-align: center;"><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management has implemented procedures and plans to update all policies mentioned. Copies of policies will be forwarded to the Commission.</p>
<p>Administrative Compliance:</p> <p>Affix the pre-certificate on orders before the transaction occurs.</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 Commission rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p style="text-align: center;"><input checked="" type="checkbox"/> Fully Implemented</p> <p style="text-align: center;"><input type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p style="text-align: center;"><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management has implemented procedures to be in compliance with the ABC statutes.</p>