

West Jefferson 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

December 16, 2015

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Moniqua S. McLean
ABC Board Auditor

West Jefferson ABC Board
Mr. Haskell McGuire, Chairman
P.O. Box 732
West Jefferson, NC 28694

Dear Chairman McGuire,

We are pleased to submit this performance audit report on the West Jefferson 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

G.S. 18B-601 authorized the Town of West Jefferson to hold an election for an ABC store. The referendum was held on March 6, 2007 and passed 232 to 160. A mixed beverage election occurred on the same date and passed 231 to 159. The first sale occurred on November 1, 2007.

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 for three staggered year terms. Current board members are Haskell McGuire, chairman, Jak Reeves and Russell Killen, board members.

The West Jefferson ABC Board operates one retail store. The board staffs two full-time and five part-time employees. The general manager is primarily responsible for the overall oversight of the daily operations of the store including personnel, inventory control, accounts payable, and other administrative functions. The board has hired a finance officer within the organization to handle all financial aspects of the board. All store employees are responsible for providing friendly customer service, general upkeep, and stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On May 12, 2015, ABC Board Auditor, Moniqua S. McLean, visited the West Jefferson ABC store and interviewed Tony Lyall, general manager, and Joe Slade, finance officer. 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 West Jefferson ABC Board had gross sales of \$1,480,696; income from operations was \$134,671, a 9.10% profit percentage to sales.

Factors affecting sales and profitability:

- Population of West Jefferson is approximately 1,299 in 2010;
- Surrounding towns with ABC stores include Boone, Sparta, and Wilkesboro;
- Borders with Virginia and Tennessee are within a ten mile radius.

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 to the town. In FY2014, West Jefferson ABC did not make the minimum distribution of \$42,998. However, distributions to the town totaled \$42,000. \$337,081 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) 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. The remaining profits are to be distributed to the West Jefferson General Fund.

In FY2014, the West Jefferson ABC Board distributed to the town \$4,013 for law enforcement and \$5,619 for alcohol education. The board has funded multiple programs for alcohol education and rehabilitation purposes.

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 West Jefferson ABC Board had a working capital of \$306,863, which is less than the maximum allowed of four months gross sales (\$381,320) and is within the limits of NCAC 02R .0902.

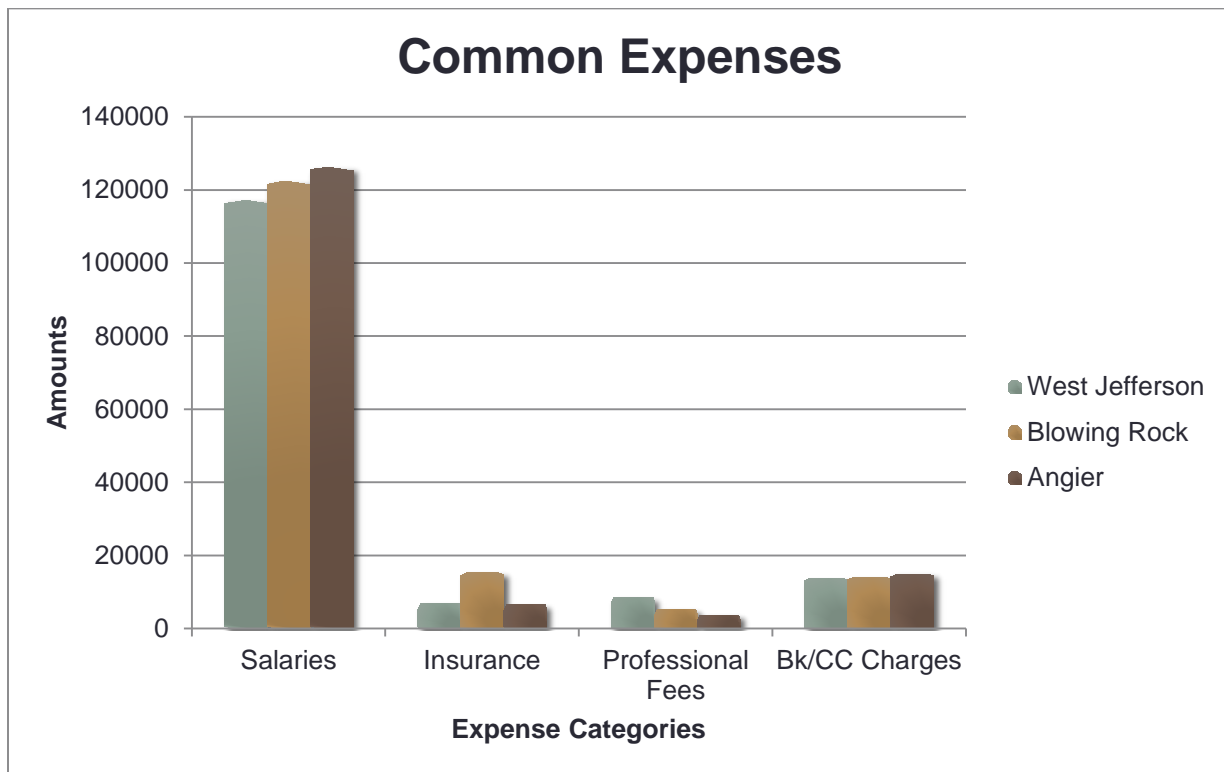
OPERATING COST RATIO

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 West Jefferson ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.58. Mixed beverage sales make up 5.7% of total gross sales. Compared with the state's increase in sales of 4.81% in fiscal year 2014, sales increased 5.3% over fiscal year 2013 while expenses increased 3.4% over the same time period. The board acquired a bank loan to fund the recent renovations of the current location. At the end of fiscal year 2014, the board has \$202,609 outstanding on the bank loan.

A common expense analysis shows that West Jefferson ABC Board's expenses, excluding professional fees, are comparable with other similar size boards. The board has significant savings as a result of owning the store and reducing overhead expenses.



STORE APPEARANCE

The West Jefferson ABC Board operates one retail store with approximately 1,100 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.
- Each product is displayed within its designated category. Bottles are fronted and dusted.
- A shelf management plan is utilized that exhibits a strategy following the ultra-premium products on 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 at all locations. Cross merchandising is utilized to encourage impulse shopping.

CUSTOMER SERVICE

- 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

PERSONNEL AND TRAINING

- All board members, the general manager, and the finance officer have completed the initial ethics training required by the statute. Board members have since been reappointed and have not yet completed the ethics training.
- Cross training has been extended on key administrative duties to employees in the event the general manager was suddenly unavailable.
- Training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities. The board hosts the Responsible Alcohol Sellers Program, offered by the Commission, to train mixed beverage permit holders and board staff on applicable laws.
- Personnel files are available and include human resource documentation and other personnel information as required.

RECOMMENDATIONS

1. Have all reappointed board members complete the ethics requirement within 12 months of reappointment. *Refer to Appendix B (1) for statute.*

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
 - Price Discrepancy Policy
 - Shelf Management Policy
 - Employee Handbook

NO RECOMMENDATIONS

INTERNAL CONTROL OBSERVATIONS

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 practices and appropriate. Below are internal control findings that were observed during the audit fieldwork.

- The general manager schedules employees for work shift hours. All employees use time sheets to record hours worked. At the end of the payroll week, the general manager will verify all time sheets and calculate hours worked by each employee. An accounting program processes all payroll activities.
- 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.
- 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 finance officer.
- Physical inventory counts are conducted quarterly with frequent spot checks and are performed by all personnel. If discrepancies occur, the general manager and finance officer 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.
- Unsalable merchandise is adjusted from inventory as soon as the forms are completed. Breakage forms are not submitted as required by the Commission rule.
- Out of approximately 900 product codes, approximately 100 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 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 is in compliance with G.S. 18B-700 (k); there are no immediate family members who are 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).
- Liquor orders and miscellaneous purchases are pre-audited by the finance officer/general manager. 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 for payment. Two signatures are located on all paid checks; that of the finance officer and a board member. In the event the finance officer is unavailable, all board members are authorized to sign checks.

NO RECOMMENDATIONS

AUDITOR'S SUMMARY

The performance audit recommendations were presented to the board on July 8, 2015. The board has not responded but is in agreement with all recommendations as presented. The board continues to implement strategies to improve profitability. Policies and procedures have been implemented to ensure compliance with statutes and Commission rules and to ensure efficient operations while maintaining checks and balances.

APPENDIX A

(1) G.S. 18B-706 (b) states, "Each member of a local board shall receive a minimum of two hours of ethics education within 12 months after initial appointment to the office and again within 12 months after each subsequent appointment to the office."

APPENDIX B

| RECOMMENDATION | REQUIRED BY STATUTE | IMPLEMENTATION STATUS |
|---|---|--|
| <p>Personnel and Training:</p> <ul style="list-style-type: none"> Have all board members completed the ethics required within 12 months of reappointment. | <p> <input checked="" type="checkbox"/> Yes <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 <input type="checkbox"/> Partially implemented 25% complete. (Explain below.) <input type="checkbox"/> Not implemented (Explain below.) </p> <p>All board members have completed the ethics requirement. Copies of the ethics verification is on file with the Commission.</p> |