

# Alamance-Municipal 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



# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

### COMMISSIONERS:

A. D. "ZANDER" GUY, JR.  
Surf City

DANIEL L. BRIGGS  
Lexington

ADMINISTRATOR:  
MICHAEL C. HERRING

LOCATION:  
400 East Tryon Road  
Raleigh NC 27610

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

PHONE: (919) 779-0700  
FAX: (919) 662-3583  
<http://abc.nc.gov/>

December 7, 2012

Alamance Municipal ABC Board  
Mr. Larry Brooks, Chairman  
603 W Harden Street  
Graham, NC 27253

Dear Chairman Brooks,

We are pleased to submit this performance audit report on the Alamance Municipal 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 ongoing commitment to providing excellent service in a responsible manner to the citizens of Alamance County.

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

Respectfully,

A handwritten signature in black ink, appearing to read "Michael C. Herring".

Michael C. Herring  
Administrator

Cc: North Carolina Association of ABC Boards

## **TABLE OF CONTENTS**

Findings and Recommendations.....	11
Alamance-Municipal ABC Board Response.....	18
Recommendation Follow up.....	19

## **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 2012;
- Visited all store locations;
- Interviewed key ABC board personnel.

The Alamance-Municipal ABC Board responded to the performance audit recommendations and is continuing to implement steps toward becoming more profitable while reducing expenses. Policies and procedures have been established to maintain compliance with statutes and to ensure efficient operations. Since the initial audit fieldwork, the board chairman has resigned. A new board member has not been appointed.

## **BACKGROUND INFORMATION**

Chapter 500 of the 1961 Session Law authorized the cities of Burlington and Graham to hold an election. The referendum was held on August 15, 1961 and passed with 3,039 to 2,619. The first retail sale was on November 8, 1961. Upon election, the act authorized the municipalities to create a board consisting of a chairman and four members. In 2004, the City of Mebane, which sits on the line of Alamance and Orange counties, entered into a merger agreement with the Alamance-Municipal board, creating a sixth seat. The cities of Burlington, Graham, Mebane, and the town of Swepsonville have entered into an Interlocal Agreement for Merged ABC Systems. The Town of Swepsonville does not have an ABC store. The board currently operates five retail stores including one mixed beverage only location.

Mixed beverage elections were held for the following:

- Alamance County, February 9, 1979 and did not pass;
- Burlington, November 3, 1987 and passed 5,816 to 4,869;
- Haw River, November 7, 1997 and passed 206 to 189;
- Mebane – Alamance County, May 5, 1998 and passed 458 to 379;
- Mebane – Orange County, May 5, 1998 and did not pass;
- Swepsonville, May 2, 2000 and passed 97 to 69;
- Graham, May 6, 2008 and passed 1,762 to 1,190.

Additional elections for ABC stores within the county were held for the following:

- Haw River, November 7, 1997 and did not pass;
- Mebane – Alamance County, May 5, 1998 and passed 448 to 379;
- Mebane – Orange County, May 5, 1998 and did not pass.

The board is currently made up of six members: Haywood Simpson, board chairman, Chip Foushee, Frank Longest, Larry Brooks, Robert Sykes, and Wade Montgomery, Jr, board members. Since the initial audit, Haywood Simpson has resigned.

The Alamance-Municipal ABC Board staffs thirty-three employees, consisting of twenty-eight full-time and five part-time employees. The administrative office staff includes the general manager, finance officer, receptionist, and warehouse staff. The general manager is responsible for the overall operations of the stores. The finance officer is responsible for all financial activities for the system. Each store consists of a store manager who is responsible for daily store upkeep, personnel, and customer service duties. All clerks' duties involve various retail functions including selling products and stock maintenance.

## **FINANCIAL ANALYSIS**

### **Inventory Turnover**

The inventory turnover rate is calculated by dividing the cost of liquor by the average inventory in the system (Cost of Liquor/Average Inventory). The Commission has set goals for determining an effective rate based on the frequency of deliveries. Below are the turnover rates based upon the delivery schedule:

- Once a week deliveries target at 6 times or more per year
- Twice a month deliveries target at 5 times or more per year
- Monthly deliveries target at 4.5 times or more per year

The Alamance-Municipal ABC Board receives deliveries weekly: the inventory rate is 5.5 and therefore does not meet the goal set by the Commission.

#### *Recommendations:*

- Explore alternative marketing strategies for eliminating slow-moving products by increasing transfers between stores that may have a greater demand and creating more displays within stores to encourage impulse shopping.
- Encourage sales staff to acquire more product knowledge to assist with sales.
- Analyze sales history reports carefully to avoid overstocking.

### **Operating Cost**

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 with MXB – cost ratio 0.67 or less
- Boards with 3 or more stores without MXB – cost ratio 0.94 or less
- Boards with 2 stores (with and without MXB) – cost ratio 0.83 or less
- Single store boards with MXB – cost ratio 0.77 or less
- Single store boards without MXB – cost ratio 0.93 or less

The Alamance-Municipal ABC Board operates five stores and has an operating cost ratio of 0.76; it does not meet the goal set by the Commission. The board owns all locations which indicate that overhead expenses are lower. However, overall operating expenses have increased by 7% over the previous fiscal year and by 20% since fiscal year 2010. A 35.5% change over the past seven years results in a 52.1% increase in expenses for the same time period. Increases in salary and credit card expenses have contributed to the significant increase of overall expenses. Common expenses for Alamance-Municipal ABC Board are higher compared to similar size boards. To meet the cost ratio goal and remain at current expense levels of \$1,833,938, revenues must be increased to approximately \$11,300,000, a fifteen percent increase over FY2011 sales. To meet the goal and remain at current revenue levels of \$9,820,691, expense levels must be reduced to approximately \$1,610,000, a twelve percent decrease from FY2011 expenses. *Refer to charts in Appendix A for analyses of expense history and common expenses of similar size boards.*

*Recommendations:*

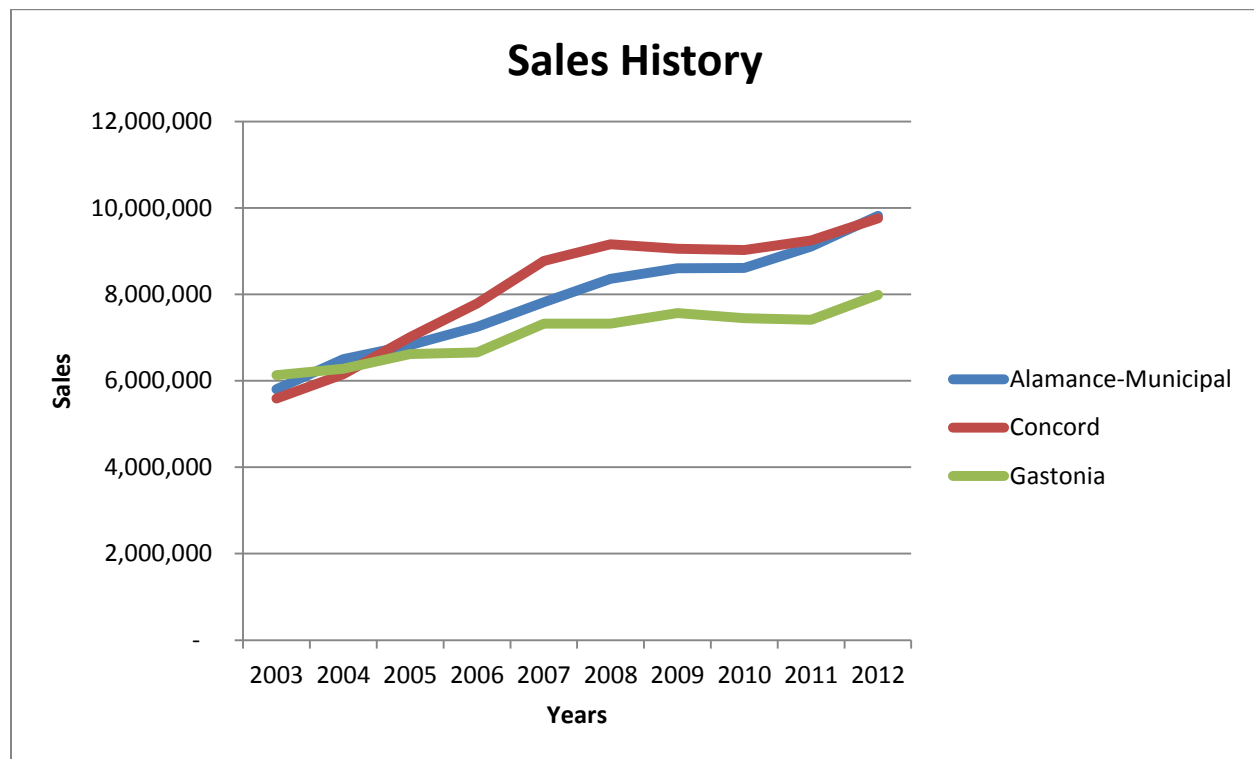
- Monitor budget frequently and more closely to ensure that actual expenses do not exceed budgeted amounts. Provide year-to-date reports to board members detailing how much has been spent.
- Request bids annually from various vendors to get the best rates possible on financial audits, specific utilities, maintenance contracts, and credit card processing fees.
- Because salaries are the largest segment of operating expenses, continue to analyze personnel hours to assess efficient personnel usage by determining when the slowest hours occur and consider adjusting the number of personnel needed for those time periods.

**Profit percentage to sales**

The profit percentage to sales is calculated by dividing the total profit before distributions by the total liquor sales (Total Income before Distribution/Gross 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 2012, the Alamance-Municipal ABC Board had gross sales of \$9,820,691; income from operations was \$484,545, a 4.93% profit percentage to sales and has not met the goal. Below is a sales history analysis of similar size boards. The analysis shows a steady increase since 2010 and follows the state’s increase.



Factors affecting sales and profitability:

- US Census Bureau reports a population of 50,201 in Burlington, 14,153 in Graham, 11,393 in Mebane, and 1,154 in Swepsonville in 2010;
- Overall population has increased by approximately 1.4% in the same areas from April 2010 to July 2011;
- Individuals below poverty levels is 21.3% in Burlington, 15.1% in Graham, 17.9% in Mebane;
- 9.9% unemployment rate for Alamance County in July 2012
- New store opened in 2010, Store #3.

ANALYSIS OF RETAIL OPERATIONS

Year Ended June 30,2012

Store No.	<u>Gross Sales</u>	<u>Net Profit (Loss)</u>
1	\$ 1,387,345	\$ 41,350
2	1,727,919	129,578
3	998,056	(19,897)
4	3,124,354	329,562
5	1,539,818	307,475
6	<u>1,043,199</u>	<u>(36,037)</u>
	\$ 9,820,691	\$ 752,031

*Taken from Financial Audit Report FY2012*

As referenced in the above chart, two of the six stores did not show a profit for FY2012 and have not shown a profit in the past six years.

*Recommendations:*

- Improve sales strategies by developing new marketing techniques for the overall system. Refer to recommendations addressed under inventory turnover.
- Analyze expenses by store to increase profits by monitoring budget closely and reducing costs where needed.



## Working Capital

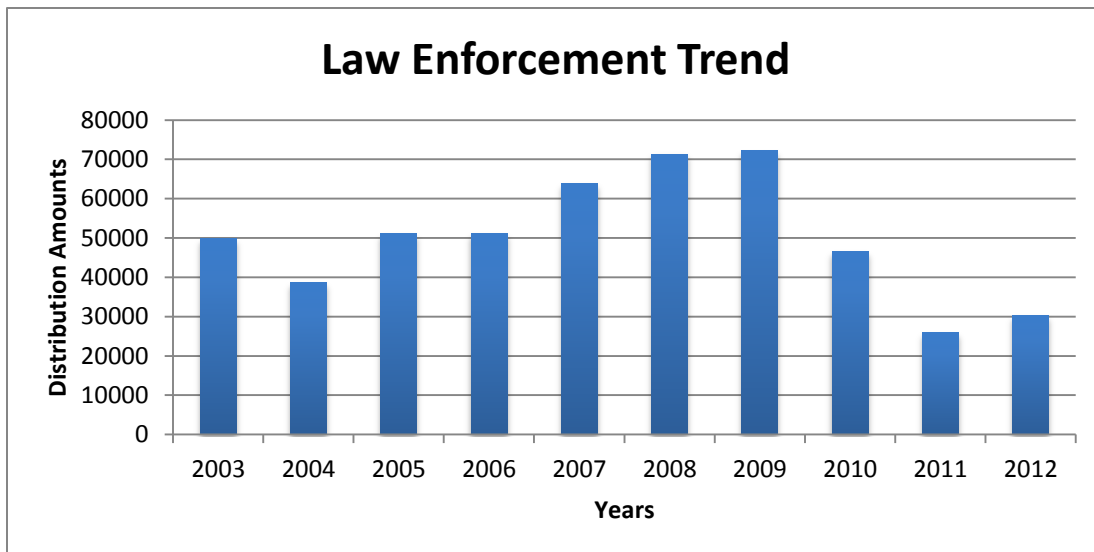
Working capital is total cash, investments, and inventory less all unsecured liabilities. Gross sales means gross receipts from the sale of alcoholic beverages less distributions as defined in G.S. 18B-805 (b), (2), (3), and (4). The Commission has set efficiency goals based on the following breakdown:

- 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

Based upon the new limits, the Alamance-Municipal ABC Board had a working capital of \$1,358,868 in FY2012. The working capital retained is within the maximum allowed.

## Distributions

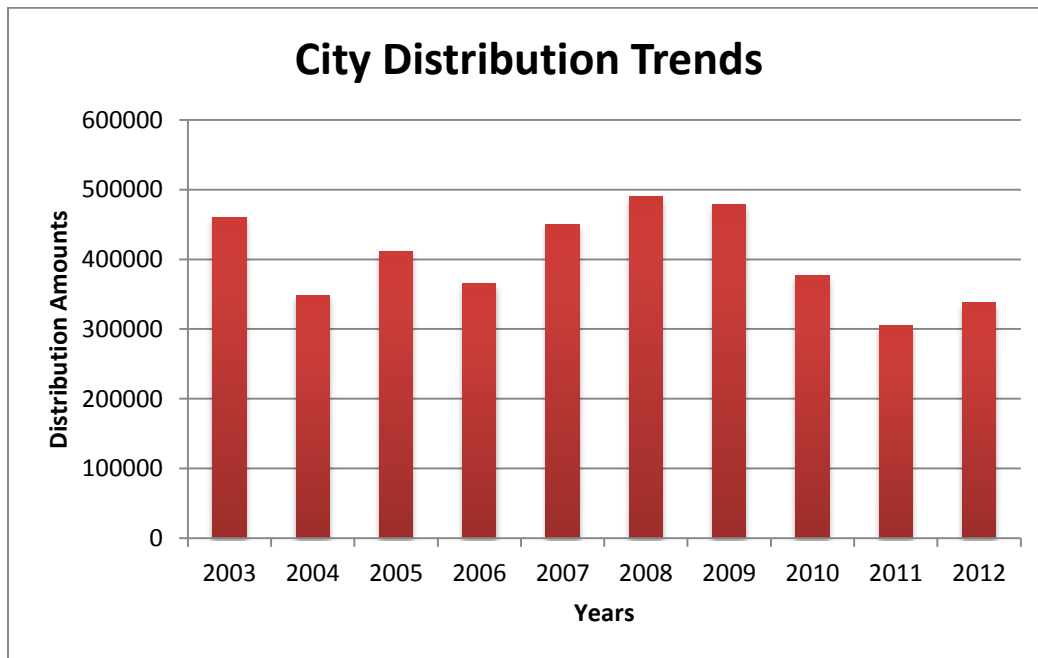
G.S. 18B-805 (c) (2) and (3) requires the board to distribute quarterly at least five percent of profits for law enforcement and at least seven percent to alcohol education. The local enabling act requires the board to distribute not more than fifteen percent for law enforcement and education purposes. In fiscal year 2012, the Alamance-Municipal distributed \$30,260 to law enforcement. Below is an analysis of the law enforcement distribution trends for the past ten years. The chart indicates that the law enforcement distributions peaked in 2009 but tapered off. The board increased law enforcement distributions by 16.4% between 2011 and 2012.



The remaining profits are to be distributed to the following:

- 80% to the General Funds of each municipality based upon population;
- 20% to the administrative units within Alamance County.

In fiscal year 2012, Alamance-Municipal distributed \$337,815 to municipalities. Below is an analysis of the municipal distribution trend for the past ten years. The chart indicates that municipality distributions peaked in 2009 and then began to trail off. The board increased distributions by 10.7% between 2011 and 2012.



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

On July 11, 2012, ABC Commission Board Auditor, Moniqua S. McLean visited the Alamance-Municipal ABC board office complex and interviewed Steven Small, general manager, Phyllis Allen, finance officer, and Haywood Simpson, board chairman. The following are the findings, observations, and recommendations relating to the performance audit.

### **Store Appearance and Customer Service Observations**

The Alamance-Municipal has five stores ranging from approximately 928 to 1328 linear feet of shelf space and carries an average of 800 product codes in each store.

- Each store displayed the required Fetal Alcohol Syndrome poster. Although in some stores worn signage was displayed.
- All stores were clean and well-maintained. Bottles were dusted and fronted. However, some stores had empty shelves and displays.
- A consistent and easily understood shelf management system was present in all locations, conforming to the latest industry and marketing strategies.
- Upon entering each store, employees greeted customers in a professional manner and were attentive to customer needs exhibiting good customer service.

#### *Recommendations:*

- Replace all worn signage and continue to create displays where possible to encourage more impulse shopping and to have more visibility for featured products.
- Refill or remove empty displays.
- Fill shelf space and utilize end caps to fill with highlighted new, on sale and/or discontinued products.

### **Personnel and Training**

- All board members, general manager, and finance officer have attended the mandatory ethics class.
- Training is provided as new information becomes available to current staff. Other training opportunities, such as the RASP class, have not been provided.
- Cross training opportunities have been extended within the administrative office to key employees in the event the general manager was suddenly unavailable.

#### *Recommendations:*

- Provide annual training including alcohol education, customer service, and product knowledge. Contact the Commission and other boards that have a training module(s) to incorporate into a professional development program for employees.

## **Policy and Procedure Observations**

- Policies adopted include:
  - Code of Ethics
  - Law Enforcement contract
  - Mixed Beverage Policy
- Although employees understand how to handle pricing differences between the shelf and the register, a written policy was not adopted. Subsequently, a written price discrepancy policy has been adopted and submitted to the Commission.
- The board has a business debit card for office supplies. The general manager is the only authorized user. Oftentimes, the finance officer is able to use the debit card. The finance officer reconciles the credit card statements. At the time of the audit, a debit card usage policy was not adopted but has since been adopted.
- At the time of the initial audit, a travel policy was not adopted. The board has adopted the State's travel policy and is in compliance with G.S. 18B-700(g2).
- The board has updated the personnel manual and copies were submitted to the Commission and are available at each store.
- All employees maintain their own cash drawer. Cash drawers are counted at the beginning of each shift. Deposits are made daily before each shift by authorized persons.
- Physical inventory counts are performed monthly by each store manager and scheduled clerks. Once completed, the counts are forwarded to the general manager to investigate discrepancies and to make adjustments in the main system. Unsalable items are adjusted from inventory on a monthly basis.

*No Recommendations.*

## **Administrative Compliance Findings and Observations**

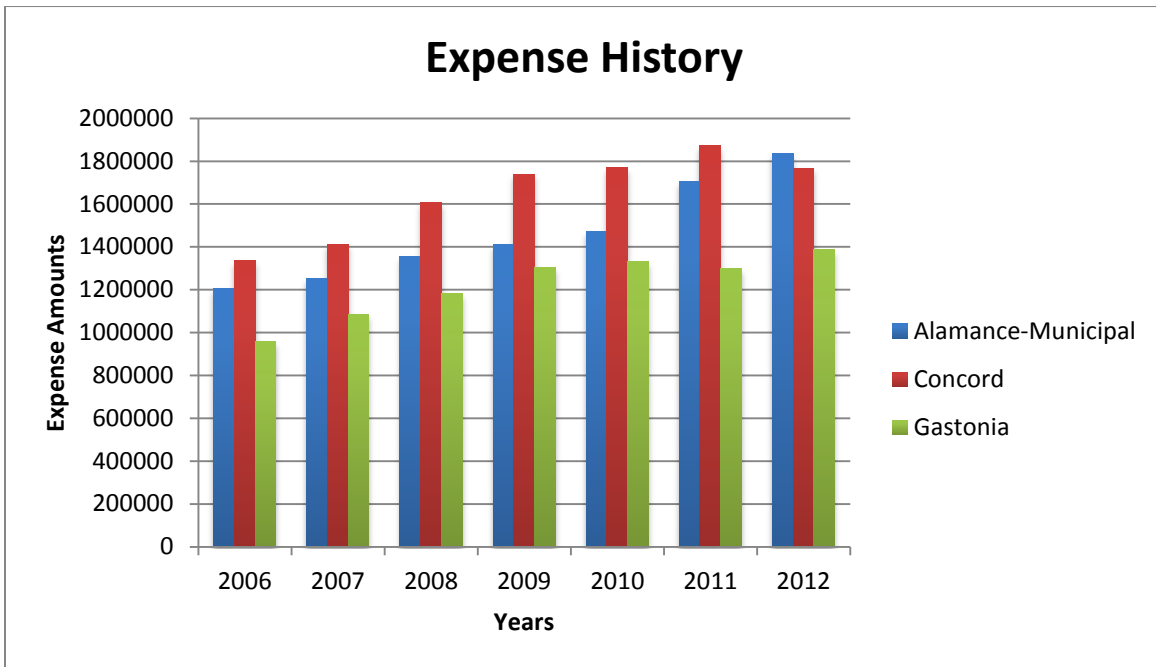
- Board meeting minutes were viewed, followed the order of proceedings for conducting a business meeting, and referenced the conflict of interest statement.
- Board member information and general manager information on the Commission internal website reflected current appointment dates and compensation information.
- The board chairman receives a different level of compensation. An approval from the appointing authority has not been submitted to the Commission. Remaining board members receive compensation in accordance with G.S. 18B-700 (g1).
- Nepotism – The board is in compliance with G.S. 18B-700(k).
- Law enforcement activity reports have been submitted to the Commission as required by G.S. 18B-501(f1).

- Although initial orders do not bear the pre-audit certificate, each individual vendor invoice has the pre-audit certificate and is signed by the finance officer. The finance officer places an “Approved” stamp with signature on any invoice and then it is approved by the general manager and the board chairman including the date and check number.
- All checks bear the approved certificate and are signed by the general manager and the board chairman. To keep segregation of duties effective, the finance officer does not sign the checks because of the recordkeeping and custody function.
- Each board member is bonded in the amount of \$10,000 and each employee is bonded in the amount of \$25,000.
- Actual operating expenses for the budget year 2012 exceeded the adopted budgetary amounts.
- It is practiced that whenever an individual breaks a bottle, management will claim on an unsalable merchandise form.
- Out of an average of 800 product codes in each store, approximately sixty-five were sampled and two did not reflect the correct price set by the Commission. 61-970, Southern Comfort 1.75L (E. Harden Street location) showed May 2006 prices. 32-483, Jack Daniel’s .375L (Mebane store location), showed a different price. See Appendix B for photos.

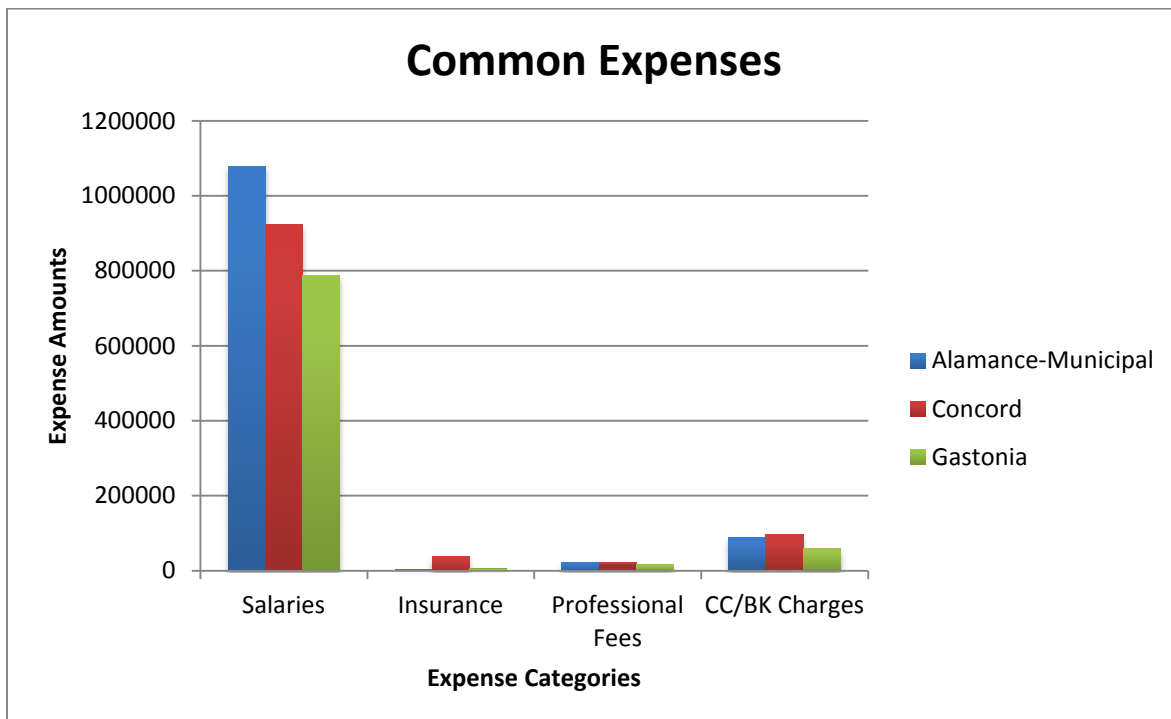
*Recommendations:*

- Ask the appointing authority for a written authorization setting a different compensation amount for the chairman. *Refer to Appendix C (1) for statute.*
- To save time, eliminate stamping and signing each invoice; place the pre-audit certificate on the order to LB&B. Authorization should occur before the transaction takes place.
- Update bond insurance policy to reflect the general manager, all board members, and finance officer bonded for \$50,000. *Refer to Appendix C (2) for statute.*
- Put controls in place to more closely monitor expenses so as not to exceed budgetary amounts. Make budget amendments prior to spending any money that exceeds what has been budgeted.
- If an employee breaks a bottle, the board is responsible for absorbing the cost of the breakage; the cost should not be passed to the supplier. Immediately remove all breakage from inventory.
- Audit all shelf tags in the stores and the cash register for correct pricing. To ensure accurate pricing in the future, incorporate a shelf tag audit (by section) into the weekly inventory count.

## APPENDIX A



The expense history data indicates that Alamance-Municipal ABC Boards overall expenses have increased 52.1% over the past seven years and remains the highest of overall expenses compared to other boards.



Excluding salaries, other common expenses are in line with other similar size boards. **Note:** Concord ABC's insurance fees includes group insurance.

## APPENDIX B



Empty shelving



Incorrect price for 61-970 (E. Harden Street location)



Conflicting product codes



Incorrect price for 32-483 (Mebane location)



## APPENDIX C

- (1) G.S. 18B states, " A local board member shall receive compensation in an amount not to exceed one hundred fifty dollars (\$150.00) per board meeting unless a different level of monetary compensation is approved by the appointing authority. If a different level is approved by the appoint authority, the appointing authority shall notify the Commission of the approved level of compensation in writing."*
- (2) 18B-700 (i) states, "Each local board member and the employees designated as the general manager and finance officer of the local board shall be bonded in an amount not less than fifty thousand dollars secured by a corporate surety, for the faithful performance of his duties."*

*Alamance Municipal ABC Board**603 West Harden Street**Graham, NC 27253**(336) 226-6882**Larry Brooks, Chairman**Steve Small, Supervisor*

November 19, 2012

North Carolina ABC Commission,

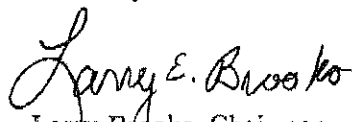
The Alamance ABC Board would like to respond to the performance audit report initiated by the North Carolina ABC Commission. We feel that the audit was conducted in a thorough manner and was fair in its assessment. The auditor was very helpful in the process and very informative in her evaluation.

The Alamance ABC Board, over the last 50 years, has tried to provide the citizens with the best ABC system it could. We feel that our stores are some of the best in North Carolina. We have provided clean, well-stocked stores and knowledgeable employees to offer a good shopping experience.

The future of the Alamance ABC system looks bright with the hope of sales increases, while trying to keep expenses low without compromising safety and efficiency of our operation.

We conclude by saying that with cooperation between the NC ABC Commission and ourselves we can continue to provide the citizens of Alamance County with an ABC system that is profitable to the community while making sure the products we sell are sold responsibly.

Sincerely,



Larry Brooks, Chairman

RECEIVED

NOV 26 2012

NC ABC COMMISSION

## ALAMANACE-MUNICIPAL ALCOHOL BEVERAGE CONTROL BOARD

### Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Administrative Compliance, Findings and Observations:</b></p> <p>Ask the appointing authority for a written authorization setting a different compensation amount.</p> <p>Update bonding insurance policy.</p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input checked="" type="checkbox"/> <b>No</b></p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input checked="" type="checkbox"/> Partially implemented 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The board has updated the bonding insurance policy to comply with the statute. The board is currently working on the compensation amounts with the appointing authorities.</p>