

Bertie County 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

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Moniqua S McLean
ABC Board Auditor
919-779-8365

December 16, 2014

Bertie County ABC Board
Mr. Miles Davis, Jr., Chairman
PO Box 97
Windsor, NC 27983

Dear Chairman Davis,

We are pleased to submit this performance audit report on the Bertie County ABC Board. The objective of this audit is 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.

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 49 of the 1937 Session Law authorized Bertie County to hold an election for an ABC store. The referendum was held on October 15, 1941 and passed 1,231 to 1,201. The first sale occurred on November 15, 1941. The town of Windsor held a mixed beverage election on March 9, 2010 and passed 197 to 71.

Upon election of an ABC store, the county was authorized to create an ABC board consisting of a chairman and two board members to serve for three year terms. Current board members include Miles Davis, Jr., board chairman, James Pugh and William Freeman, board members.

The Bertie County ABC Board operates one retail store. The board staffs one full-time general manager and four part-time employees. The general manager's responsibilities include overseeing all daily operations of the store consisting of supervising personnel, inventory control, accounts payable, and other administrative functions. The board has hired an external bookkeeper to assist with financial reporting and bank reconciliations. Store clerks are primarily responsible for extending friendly customer service, assist with routine store upkeep, and stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On April 2, 2014 and April 29, 2014, ABC Board Auditor, Moniqua S. McLean, visited the Bertie County ABC store and office and interviewed Clinton Freeman, 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 2013, the Bertie County ABC Board had gross sales of \$664,030; income from operations was \$21,782, a 3.25% profit percentage to sales.

Factors affecting sales and profitability:

- Surrounding counties with ABC stores include Chowan, Hertford, Martin, Edgecombe, and Washington counties;
- Population of Bertie County is approximately 20,344, a 4.5% decrease from 2010;
- Growth and development in surrounding, more heavily populated areas has led to a shift in shopping patterns away from small rural areas;
- ABC Board owns the store.

DISTRIBUTIONS

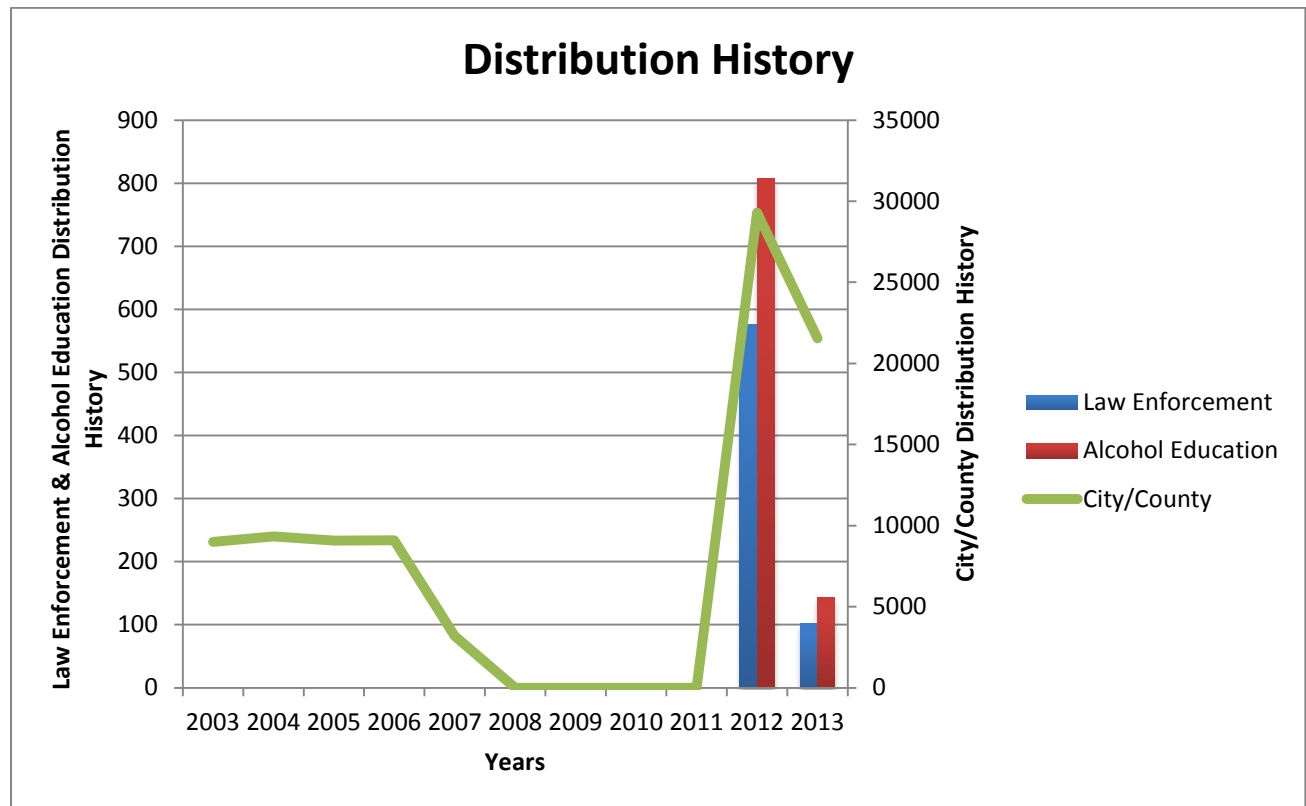
G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, mixed beverage, and bottle tax. G. S. 18B-805 (c) (1) requires the board to make a minimum quarterly distribution of the 3½% markup rate to the county. In FY2013, the Bertie County ABC board made the required minimum distribution to the county totaling \$19,739, plus additional distribution of \$1,798. (The board has obtained approval from the County to pay distributions annually but not from the Town of Windsor.) \$150,478 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, and the county.

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%) for alcohol education. The remaining profits for Bertie County are to be distributed as follows:

- Five percent (5%) made by each store to each appropriate town,
- Remainder to the Bertie County General Fund.

The Bertie County ABC Board has distributed \$102 to local law enforcement and \$143 for alcohol education/rehabilitation purposes.

Below is a distribution chart analyzing the high-low trend of the Bertie County ABC Board in 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 FY2013, the Bertie County ABC Board had a working capital of \$73,632, which is less than four months gross sales (\$171,184) and is within the limits of NCAC 02R .0902. The county has allowed the ABC board to set up a capital improvement fund.

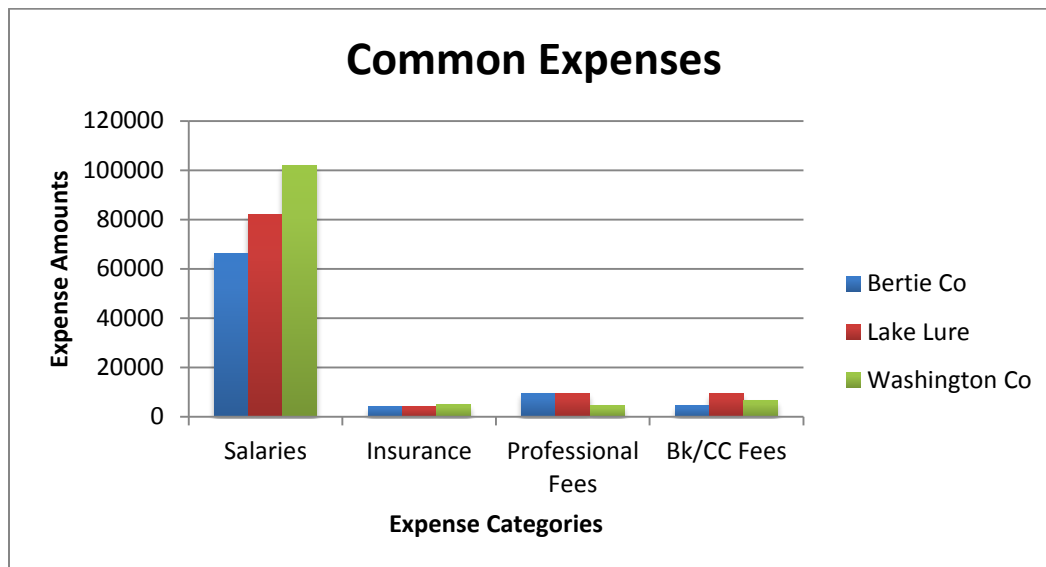
OPERATING COST RATIO

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 Bertie County ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.85. Mixed beverage sales make up 1.7% of total gross sales. In fiscal year 2013, sales increased 2.97% over last fiscal year as expenses increased 3.48% over the same time period. To contribute to significant savings in overhead expenses, the board owns the store. However, the other post-employment benefit expenses (OPEB) are rising each year. The board does not pay these expenses upfront but has to reserve the expenses for employees that meet the requirements.

A common expense analysis shows that Bertie County ABC Board expenses compared with other similar size boards are lower.



RECOMMENDATIONS

1. Consider discontinuing the post-employment benefits to future employees. As noted, these expenses rise year-to-year. Contact your accountant and appointing authority on how to handle expenses.

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 Bertie County ABC Board receives deliveries once a month: the inventory turnover rate is 2.4. The average inventory turnover rate for similar boards with the same delivery schedule is 4.5.

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 will increase variety but minimize bottles on the shelves;
 - Eliminating poor performing items to drive category sales and increase shopper satisfaction;

STORE APPEARANCE AND CUSTOMER SERVICE

The Bertie County ABC Board operates one retail store with shelf space of approximately 800 linear feet and carries approximately 1,000 product codes.

- The store appeared clean and free of trash. Counter areas were clear making supplies easily accessible to staff. However, lighting is low and dim. Water damage is evident in places inside the building.
- Exterior signage on the building is old and faded. Landscaping around the store is clean and free of trash. However the parking lot serves as a pass through for truckers and non-customers.
- Interior signage is plenty, worn, and faded. The required Fetal Alcohol Syndrome poster is displayed and visible to the public.
- There is no cohesive shelf management plan in place utilizing the marketing trends. Current product placement generally follows the highest priced product on the top shelves and lowest priced on the bottom shelves. However, shelves are not utilized to maximize product enhancement. Empty shelves are found throughout the store.
- 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.
- Sales clerk's interaction with customers is attentive, courteous, and all are eager to meet the needs of the customers.

RECOMMENDATIONS

1. Improve the parking area by placing a barrier to eliminate truckers and non-customers passing through the property.
2. Replace worn signage in the exterior and interior areas with updated material.
3. Consider developing a strategy for product placement utilizing the marketing and industry standards. An efficient shelf management plan focuses on the growing market. Consider the following practices:
 - Brand blocking products with higher priced at eye level, premium products on top shelves, and lower priced items on lower shelves;
 - Cross-merchandising 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;
 - Reallocating shelf space from declining categories to those showing growth;
 - Optimize the floor space and end caps to incorporate valuable displays;
 - Allow more space for your more popular brands and re-allocating space when eliminating underperforming brands.

PERSONNEL AND TRAINING

- All board members, the general manager, and the finance officer have completed the initial ethics training.
- Cross training opportunities are being extended to key employees in the event the general manager was suddenly unavailable on key administrative duties.
- Training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities on a continual basis. Management often attends the NC Association of ABC Board General Manager conferences for training opportunities on these specific areas.
- Personnel files are available and displayed human resource documentation and other personnel information as needed.

RECOMMENDATIONS

1. Consider additional training opportunities through the Commission and the ABC Officers Association on specific areas. The Commission offers Responsible Alcohol Sellers Program, RASP, training for ABC boards and mixed beverage permit holders. 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
 - Employee Handbook
 - FY2013 Annual Audit
 - FY2014 Budget (Proposed and Adopted)

- Policies not adopted include:
 - Travel Policy (Bertie County's Travel Policy Approval not submitted)
 - Price Discrepancy
 - Mixed Beverage Policy
 - Law Enforcement Contract

RECOMMENDATIONS

1. As a reminder, request approval annually from appointing authority to adopt the town's travel policy. *Refer to Appendix B (1) for statute.*
2. Adopt the above policies that incorporate customer friendly practices. Once adopted, communicate to all employees should the need arise. *Refer to Appendix B (2) for rule.*
3. 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 B (3) for statute.*

INTERNAL CONTROL PROCEDURES

- The general manager schedules all employees and records hours worked on time sheets. Once verified, time sheets are forwarded to the bookkeeper for payroll activities, such as check printing and calculating wages, tax and other withholdings. Payroll summaries and reports are not monitored by the general manager and the board to ensure that controls are evident and the budget is being met.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. Although understood, written policy has not been adopted detailing the processes for handling shortages and overages.
- Cash handling processes are secured and properly controlled.
- Bank deposits are made regularly as required by the ABC Commission rule. Bank notification is received and matched with corresponding daily register reports. Bank reconciliations are completed monthly by the bookkeeper.
- Physical inventory counts have not been conducted on a routine basis. Management has acquired a new computer system which has impacted inventory and sales recordkeeping.
- Out of approximately 1,000 product codes, approximately 104 product codes were sampled to ensure accurate pricing and three prices were incorrect.
- Travel expense records were viewed. Prepayment for spousal attendance to the ABC Association Summer Conference was not evident. However, reimbursements deducted spousal meals. A clerk attended the General Manager's Conference along with the general manager. The general manager was only reimbursed for the total bill and repaid the clerk from reimbursement.

RECOMMENDATIONS

1. Ask the bookkeeper to include payroll activity and summary reports to the board members in order to keep them aware of payroll activity and to ensure accountability for budget maintenance.
2. Have a written policy in place for cash drawer overages and shortages. Present to clerks so that they will know what is expected.
3. Establish a regularly scheduled inventory count with frequent spot checks in between the next routine schedule.
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.
5. As a reminder, prepay conference fees for spouses and/or non-employees without using ABC board funds. To have a proper audit trail, require all employees and board members fill out a reimbursement form for travel expenses incurred.

ADMINISTRATIVE COMPLIANCE FINDINGS AND OBSERVATIONS

- Board meeting minutes were viewed. When the board went into closed session status, proper procedures were not followed nor were closed session minutes kept. Board meeting minutes did not reference 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).
- The board has obtained approval from the NC ABC Commission allowing the board chairman to serve as the finance officer.
- Law enforcement activity reports have been submitted to the Commission as required by G.S. 18B-501 (f1).
- Nepotism – The board employs a family member who is related to a board member. In referencing G.S. 18B-700 (k), the relationship is not considered a conflict.
- In reviewing the budget to actual expenses as referenced 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).
- Budget presentation does not display appropriate categories that the board acquires. Therefore, the budget is difficult to maintain.
- Although liquor orders do not bear the pre-audit certificate, each individual vendor invoice has the pre-audit certificate and is signed by the finance officer.
- All checks bear the approved certificate and are signed by the finance officer and general manager. In the event the general manager or finance officer is unavailable, 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 B (4).*
2. Procedures for entering into closed session require the board to state for the record in the open session the reason for going into closed session. A motion should then be made and adopted. While in the closed meeting, a board member is designated to take notes of the meeting. Any decision must be made and adopted in the open meeting. *Refer to Appendix B (5) for statute.*
3. 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 B (6) for statute.*
4. Utilize the template provided by the Commission for budget preparation as well as your annual audit to determine applicable expenses.
5. To save time in stamping individual liquor invoices, place the pre-audit certificate on the initial order. The intent of the pre-audit certificate is to ensure that accountability is evident before orders are placed.

AUDITOR'S SUMMARY

ABC Board Auditor, Moniqua S. McLean, presented the performance audit recommendations on July 14, 2014. The board has not responded as to whether the recommendations have been implemented. Therefore, this audit is being submitted without a response from the board. Since the initial audit fieldwork, the board has made store improvements. A follow up visit will be conducted within six months of the final audit submission to determine whether the recommendations have been addressed and implemented.

APPENDIX A

Illustration 1



Exterior signage on building

Illustration 2



Parking area or pass through area

Illustration 3



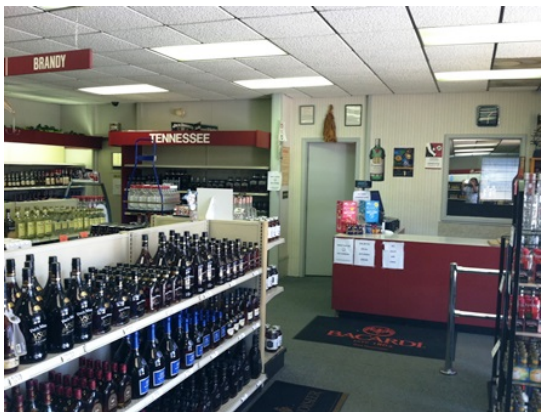
Water damage

Illustration 4



Empty shelving

Illustration 5



Counter area

Illustration 6



Interior view

APPENDIX B

- (1) *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."*
- (2) *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."*
- (3) *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."*
- (4) *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.'* "
- (5) *§143-318.11 Closed Sessions states, "A public body may hold a closed session only upon a motion duly made and adopted at an open meeting. Every motion to close a meeting shall cite one or more of the permissible purposes listed..."*
- (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.*

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"> • Travel Policy • **Price Discrepancy Policy • **Mixed Beverage Policy • Law Enforcement Contract • Cash Overage/Shortage Policy 	<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 type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>It is unknown whether the Board has implemented recommendations as a response was not submitted.</p>
<p>Administrative Compliance: **Have the Chairman read the conflict of interest statement at each meeting to increase transparency.</p> <p>Make amendments when sales are not meeting budget and when expenses are over budget.</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 type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>It is unknown whether the Board has implemented recommendations as a response was not submitted.</p>