

Caswell County ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

CHAIRMAN:
JAMES C. GARDNER

COMMISSIONERS:
JOEL L. KEITH
Wake Forest

KEVIN M. GREEN
Greensboro

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Your Name
Director
Permit Division
(this is editable)

May 28, 2013

Caswell County ABC Board
Mr. Tony Mitchell Chairman
PO Box 338
Yanceyville NC 27379

Dear Chairman Mitchell,

We are pleased to submit this performance audit report on the Caswell County 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 the steps being taken to increase operating efficiencies at your ABC store.

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

Respectfully,

Michael C. Herring
Administrator

CC. North Carolina Association of ABC Boards

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EXECUTIVE SUMMARY

By state law, the ABC Commission shall ensure that all local ABC Boards comply with established performance standards by conducting regular performance audit 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 Caswell County ABC Board submitted a response to the performance audit recommendations and has begun to take steps toward becoming more profitable through analyzing and reducing current costs while continuing to meet the demands of customers. Policies and procedures have been adopted and implemented to maintain compliance with statutes and Commission rules and to maintain stronger segregation of duties.

BACKGROUND INFORMATION

The 1937 Act authorized Caswell County to hold an election by referendum on October 3, 1953. The vote passed 1,390 to 1,163. The first date of sales occurred on December 3, 1953. A county-wide mixed beverage election was held on May 4, 2010 and passed 1,273 to 768.

Upon election of an ABC store, the county was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members are Tony Mitchell, board chairman, I. Graham Dailey and Rascoe Massey, board members.

The Caswell County ABC Board operates four retail stores. The board staffs three full-time employees, including the general manager, and twelve part-time employees. The general manager is responsible for the overall operations of the system including ordering liquors and financial management oversight. The warehouse manager is responsible for receiving truck deliveries and delivering liquor to other locations. Store managers are responsible for the operations of their stores including scheduling staff, inventory management, and customer service. A part-time finance officer is responsible for budget maintenance and bookkeeping services.

FINANCIAL ANALYSIS

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 Commission has set goals for determining an effective rate based on the frequency of deliveries. Below are the turnover rates:

- 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 Caswell County ABC Board receives deliveries twice a month: the inventory turnover rate is 4.2. Caswell County's inventory turnover, compared to other similar size boards, is not out of line.

Recommendations:

- To increase inventory turns, consider the following:
 - Cross-merchandising or moving stock between store to increase visibility and to encourage more impulse shopping,
 - Utilizing end caps and shelf space as much as possible to highlight slow moving and new products;
 - Analyzing sales data and history reports to plan orders and to take advantage of Special Purchase Allowance offers whenever possible;
- Contact other boards whose inventory turnover rate exceeds the target for other ideas that may be implemented.

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 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 Caswell County ABC Board operates four retail stores with mixed beverage sales: the operating cost ratio is 0.86. Mixed beverage sales make up 2.4% of gross sales. In fiscal year 2012, sales increased 5.21% over fiscal year 2011 and expenses increased 2.87% over the same time period. To meet the cost ratio goal and remain at current operating expense of \$381,293, revenues must be increased to approximately \$2,350,000, a 27% increase. To meet the cost ratio goal and remain at current revenue of \$1,844,011, expenses must be reduced to approximately \$295,000, a 23% decrease.

Recommendations:

- Because salaries and benefits are the biggest expense and account for the majority of the increase, consider whether it is beneficial to decrease full-time status employees to part-time employees through attrition in order to reduce the health benefit costs.
- 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.

Profit Percentage to Sales

The profit percentage to sales is calculated by dividing the total income before distributions by the total liquor sales (Total Income before Distribution/Total Liquor Sales). The Commission has set goals based on the following breakdown:

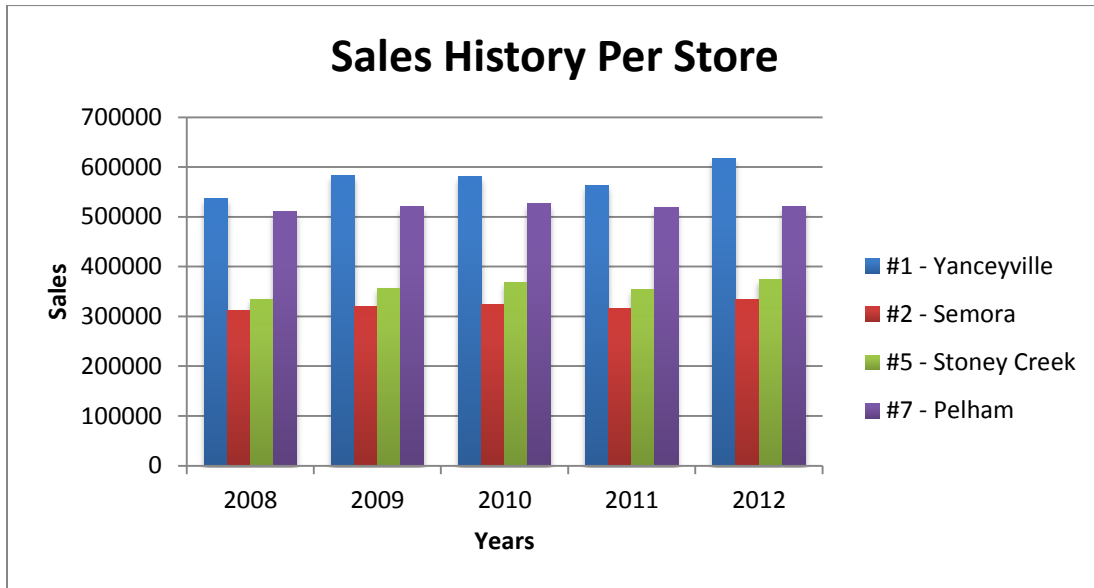
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Caswell County ABC Board had gross sales of \$1,844,011; income from operations was \$52,334, a 2.84% profit percentage to sales.

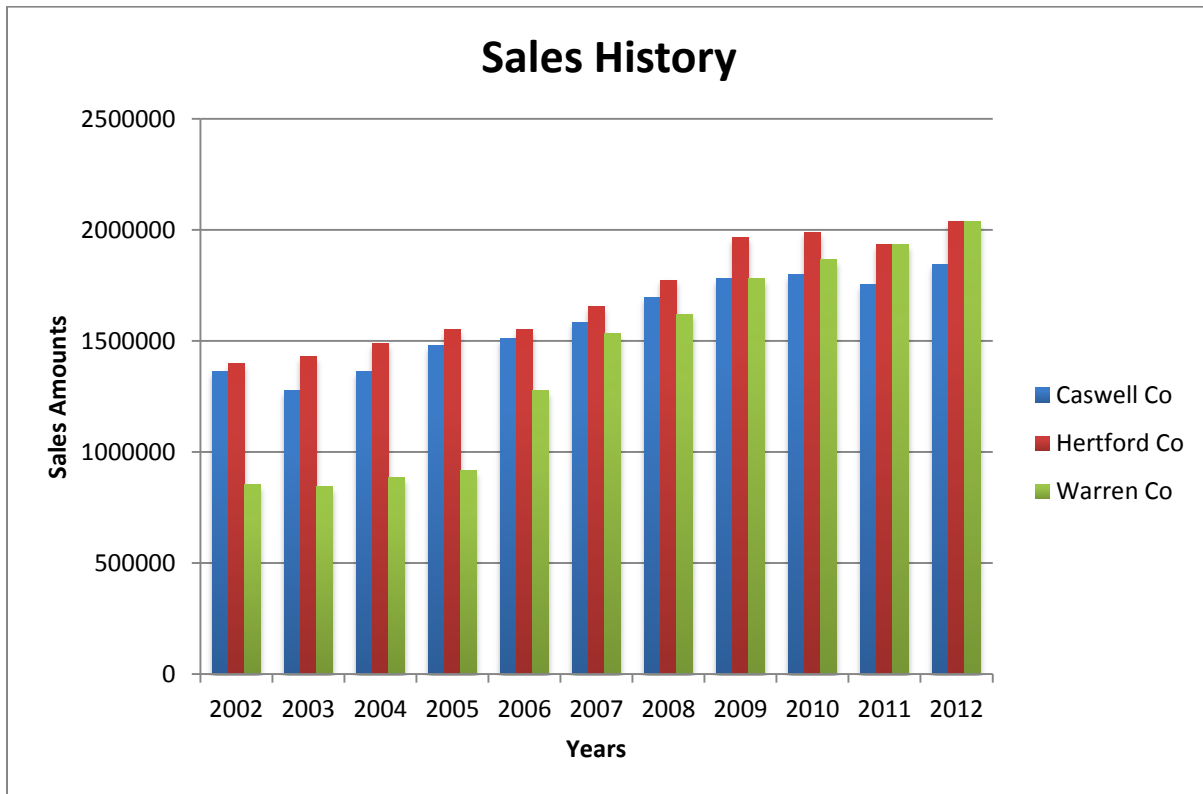
Factors affecting sales and profitability:

- US Census Bureau reports an estimated population of 23, 719 in 2010;
- Sales increased 5.21% over the previous year;
- Surrounding counties and towns with ABC stores include Reidsville, Eden, and Madison, Alamance-Municipal, Person County, and Orange County;
- Growth and development in surrounding, more heavily populated areas contribute to the shift in shopping patterns away from rural areas which affect sales and profitability.

Below is a sales history analysis per store.



Below is a sales history analysis of similar size boards compared with Caswell County ABC Board. This chart analyzes the sales trends for the past ten years.



Recommendations:

- To increase profitability, consider testing different marketing strategies such as cross-merchandising, transferring slow-moving products between stores, etc;
- Seek suggestions from other boards on how to boost sales;
- Closely monitor monthly overhead and business expenses.

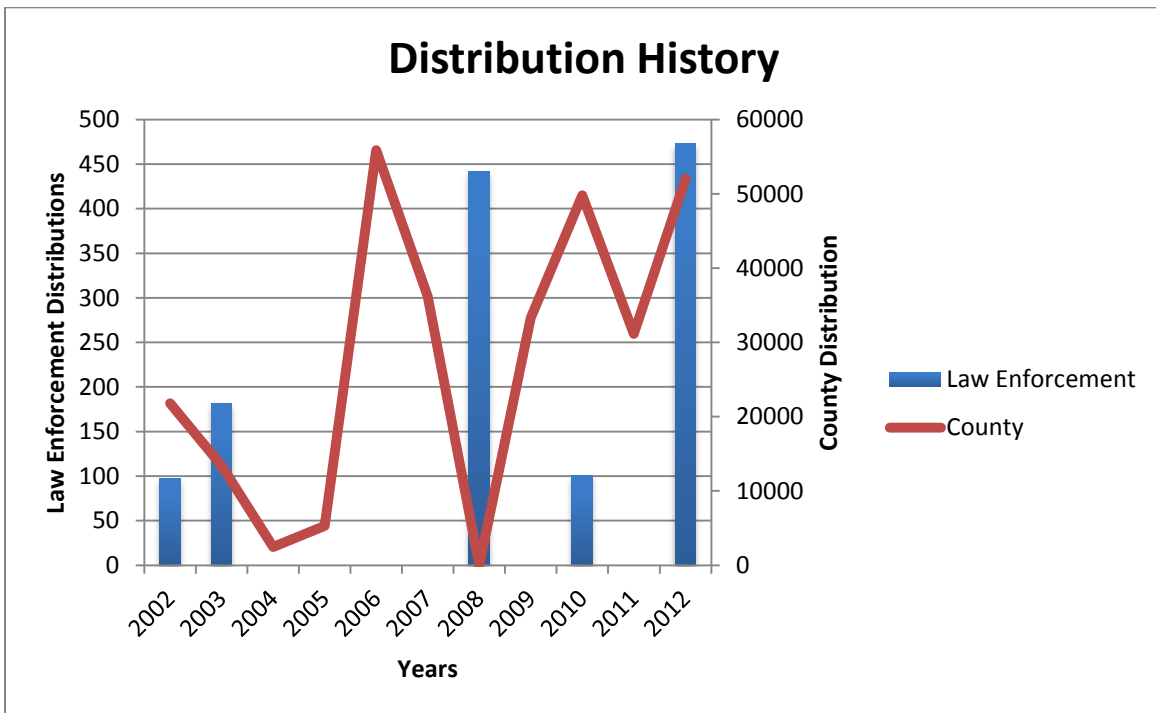
Distributions

G.S. 18B-805 (c) (3) requires the board to distribute quarterly to law enforcement. The remaining profits are to be distributed as follows:

- 30% to Caswell County General Fund
- 70% to Caswell County Board of Education

In FY2012, Caswell County made the minimum distributions to the county totaling \$57,625, plus additional distribution of \$52,034. A total of \$418,740 in Excise and other taxes were paid to the NC Department of Revenue and \$473 to law enforcement.

Below is a chart analyzing the high-low trend of distributions to law enforcement and to the county.



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

In FY2012, Caswell County ABC Board had a working capital of \$343,642 which is equivalent to three months gross sales and is within the limits of NCAC 02R .0902.

OPERATIONAL FINDINGS, OBSERVATIONS, AND RECOMMENDATIONS

On January 15, 2013, ABC Board Auditor, Moniqua S. McLean, visited the Caswell County ABC office and interviewed Michael Reagan, general manager. The following are the findings, observations, and recommendations related to the performance audit.

Store Appearance and Customer Service Observations

The Caswell County ABC Board operates four retail locations with shelf space ranging from 300 to 500 linear feet with approximately 500 to 800 product codes in each store.

- Although dated, each store was clean and well-lit. Bottles were fronted and dusted. Counter areas were free of clutter and supplies were easily accessible. No televisions were evident, however, radios were present.
- Due to the position and size of the stores, parking areas were compact and, in some locations, potholes were visible (Yanceyville). However, parking areas were well-lit and free of trash.
- All stores displayed the required Fetal Alcohol Syndrome poster. Other signage was worn and faded.
- Security systems were available and fully functional.
- The state price book was available at each location.
- Sales clerks' interaction with customers was attentive, courteous, and eager to meet the needs of customers.

Recommendations:

- Improve parking areas by defining parking spaces and eliminating potholes.
- Replace worn signage with new so that customers are able to read clearly what is prohibited.
- Consider renovating stores to have a more modern look.

Personnel and Training

- All board members, general manager, and finance officer have attended the initial mandatory ethics class. Two members have since been reappointed and have completed the online ethics training.
- Other training is provided as new information becomes available to current staff.
- The board does not maintain personnel files other than what is currently on the computer. Management retains payroll tax withholding documentation on the computer. Backup procedures occur every pay period.
- Although an employee handbook has been submitted to the Commission, some procedures and policies have not been updated to reflect current practices.

Recommendations:

- Provide additional training to employees to keep abreast on current interests in the alcohol industry and laws.
- Create personnel files on all employees. Every employee should have a personnel file that includes authorization for hiring, salary history, hours authorized to work, federal and state withholding forms, health insurance, and retirement information, when applicable, and support for any other payroll deduction.
- Update the employee handbook and submit a copy to the Commission. Once updated, forward a copy to each employee. Have all employees sign an acknowledgement of receipt to be filed in their personnel file.

ABC Board Policies

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - State Travel Policy
 - FY2013 Budget (Proposed and Adopted)
 - FY2012 Annual Audit
- Other policies not adopted include:
 - Law Enforcement Contract
 - Price Discrepancy Policy
 - Mixed Beverage Policy
 - Credit Card Usage Policy

Recommendations:

- 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 C (1) for statute.*
- Have a written price discrepancy policy. Having written procedures will allow future employees to be knowledgeable about current practices. *Refer to Appendix C (2) for rule.*
- In the event of new mixed beverage permit holders, have a written mixed beverage policy to distribute. Incorporate flexible ordering and pickup hours.
- Adopt a written credit card usage policy. Include a maximum limit allowed on purchases before a board member is notified for approval. A board member is to be notified of all purchases over the limit. Once adopted, submit a copy to the Commission. Document procedures for the usage of the credit card including:
 - Who has authority to use the card,
 - What types of items the card may be used for,
 - Personal usage is prohibited,
 - A detailed itemized receipt for every transaction is required,
 - When purchasing supplies, a purchase order must accompany each receipt.

Internal Control Procedures

- Physical inventory counts are performed monthly at all locations by all scheduled staff. Once completed, the store manager forwards the inventory counts to the general manager. The general manager compares to the master inventory system. If discrepancies have occurred, the general manager will forward to the store manager for a recount for verification. When verification is complete, only the general manager will adjust the system to match with the actual store count. Warehouse inventory control is handled by the warehouse manager. The general manager performs physical counts on the warehouse more frequently.
- Cash drawers are often counted by all employees. Because there is only one register at each location, employees may work from the same drawer. Although understood, there are no written procedures/policies explaining how to handle cash drawer overages and shortages.
- Bank deposits are made once a week by the warehouse manager while delivering shipments to each location. The warehouse manager is also the store manager for the main store. Deposits are verified monthly by the finance officer while completing the bank reconciliations.

Recommendations:

- To strengthen internal controls on inventory:
 - Separate the responsibilities of the warehouse manager/store manager;
 - Limit access to warehouse and stock rooms to only authorized personnel. Other individuals are to be accompanied by a board member or an employee;
 - Perform frequent spot checks in all locations in order to maintain a distinct audit trail of additions and deletions of inventory.
- Implement procedures for handling cash drawer overages and shortages. Incorporate these procedures into the updated employee manual for current and future employees.
- NCAC 2R .0905 requires boards to make daily deposits unless a waiver has been granted by the Commission. *Refer to Appendix C (3) for rule.*
- Have the finance officer/general manager verify deposits made daily using deposit slips, daily sales reports. Have the bank contact a board member for unusual items.

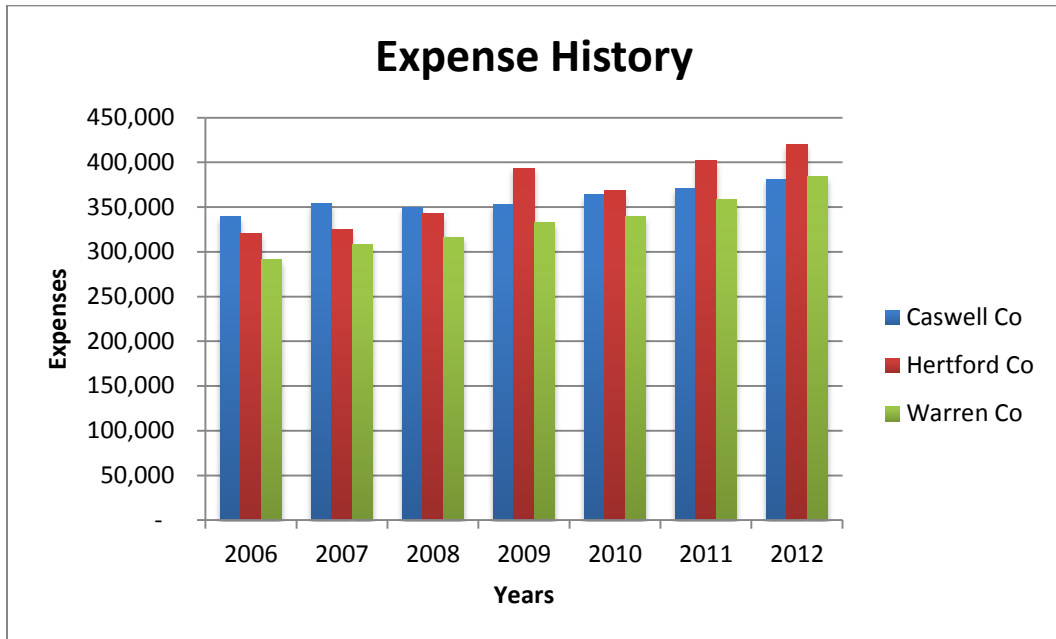
Administrative Compliance Findings and Observations

- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting. However, the conflict of interest statement was not reference in the board minutes.
- Board member appointment dates and compensation amounts are current on the Commission internal 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).
- Nepotism – G.S. 18B-700 (k) prohibits the hiring of immediate family members.
- All board members, general manager, and finance officer are bonded in the amount of \$50,000 as required by G.S. 18B-700 (i).
- Orders for liquor and other common orders do not bear the pre-audit certificate as required by G.S. 18B-702 (m).
- A recent review of paid liquor invoices revealed that payments were more than 30 days past due because of extra shipments.
- All checks bear the approved certificate. However, only the finance officer’s signature is on all checks. The general manager initials each check.
- Out of approximately 800 product codes in each location, approximately 105 product codes were sampled and all reflected the correct price set by the Commission.

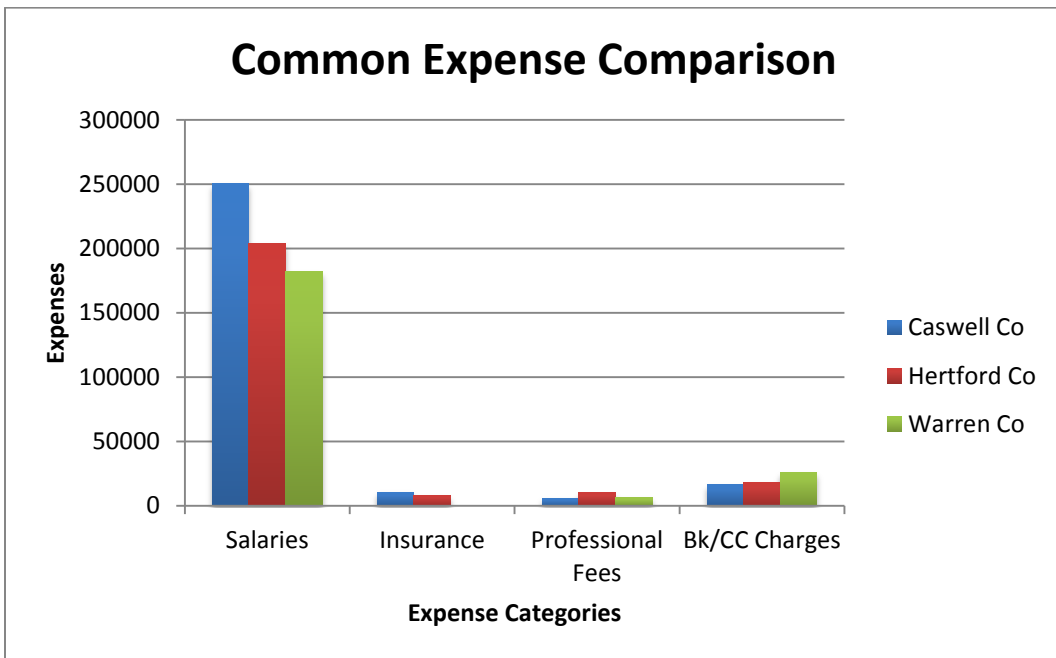
Recommendations:

- In an effort to eliminate conflicts, have the board chairman read the conflict of interest statement to all board members at the start of each meeting. Reference the conflict of interest statement was read in the board minutes. *Refer to Appendix C (4) for rule.*
- 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 C (5) for statute.*
- Pay all liquor bills within thirty days of receipt of liquor. It is the Commission’s policy to stop liquor shipments when liquor invoices become delinquent. *Refer to Appendix C (6) for rule.*
- Have the finance officer and another designated person sign all checks. All checks must have two signatures. *Refer to Appendix C (7) for statute.*

APPENDIX A



The expense history data indicates that Caswell County ABC Board's total expenses have increased 12.44% overall since FY2006 following sales increase of 22.14% over the same time period. Caswell County ABC's overall expenses are relatively lower than other similar size boards.



Excluding salaries, Caswell County ABC's common expenses were not out of line with other similar size boards. Note: No insurance or bonding expense was recorded for Warren County.

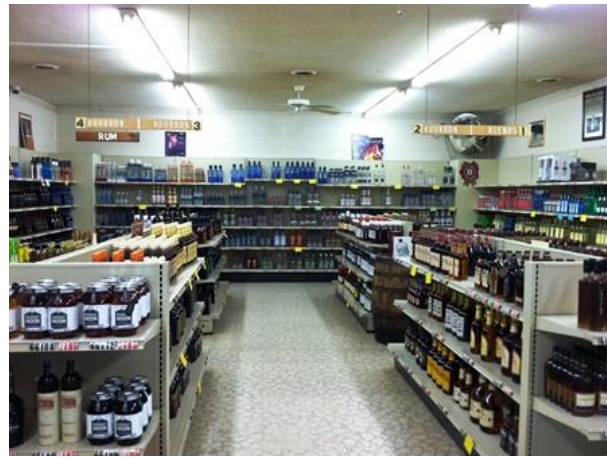
APPENDIX B



Exterior view of Yanceville location.



Counter view at Stoney Creek.



Interior view of Pelham store.

APPENDIX C

- (1) 18B-203 (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. Enforcement agreements may be made with more than one agency at the same time."
- (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) NCAC 02R.0905 (a) states, "Each officer whose duty it is to collect or receive moneys of the local board shall deposit into an official depository the collections and receipts daily. If the local board gives its approval, deposits shall be required only when the moneys on hand are equal to or are greater than two hundred fifty dollars (\$250.00), but in any event a deposit shall be made on the last business day of the month. All deposits shall be made in an official depository. Deposits in an official depository shall be reported to the finance officer by means of a duplicate deposit ticket."
- (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) 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)

- (6) NCAC 02R.1407 (c) states, "Local boards shall remit full payment of the distiller's invoice within thirty days of delivery of the liquor."
- (7) 18B-702(p) states, "Except as otherwise provided by law, all checks or drafts on an official depository shall be signed by the finance officer or a properly designated deputy finance officer. The chairman of the local board or general manager of the local board shall countersign these checks or drafts."

CASWELL COUNTY ABC BOARD

1. CASWELL COUNTY ABC BOARD ADOPTED NEW POLICIES CONCERNING THE DAILEY DEPOSITS. THE GENERAL MANAGER IS COLLECTING DEPOSITS TWICE A WEEK AND DEPOSITING THEM IN THE BANK.
2. THE CASWELL COUNTY ABC BOARD ADOPTED THE FOLLOWING NEW POLICES:
 - TRAVEL POLICY
 - CREDIT CARD POLICY
 - MIXED BEVERAGE POLICY
 - PRICE DISCREPENCY POLICY
 - THEFT POLICY
 - OVER/SHORT POLICY
3. THE CASWELL COUNTY ABC BOARD ENTERED INTO AN ALE CONTRACT WITH THE SHERIFF'S DEPARTMENT ON MARCH 21ST, 2013.
4. THE GENERAL MANAGER AND FINANCIAL OFFICER UPDATED W4 FORMS AND 19 FORMS FOR EACH EMPLOYEE.
5. DISTILLER INVOICES ARE NOW BEING PAID AT THE END OF EACH MONTH SO THEY ARE PAID WITHIN THE 30 DAY PERIOD.
6. THE CONFLICT OF INTEREST STATEMENT IS READ BEFORE EACH MEETING AND IS NOTED ON THE BOARD MEETING MINUTES.
7. THE DATES AND TIMES OF EACH BOARD MEETINGS ARE POSTED AT EACH STORE.
8. LB&B ORDERS BEAR THE PRE-AUDIT CERTIFICATE STAMP AND FINANCIAL OFFICER'S SIGNATURE. EACH CHECK IS SIGNED BY BOTH THE GENERAL MANAGER AND THE FINANCE OFFICER.

CASWELL COUNTY ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>ABC Board Policies Adopt the following policies:</p> <ul style="list-style-type: none"> • Employee Handbook • Law Enforcement Contract • Travel Policy • Credit Card Policy • Mixed Beverage Policy • **Price Discrepancy Policy • Cash Overage/Shortage Policy 	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>**Note: Required by rule</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input checked="" type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The board has adopted all policies mentioned.</p>
<p>Administrative Compliance Affix the pre-audit certificate on all liquor orders and common orders.</p> <p>Pay liquor bills within thirty days of receipt.</p> <p>Have two signatures on all checks including the finance officer.</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input checked="" type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management has implemented procedures to incorporate recommendations.</p>