

Greene 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

COMMISSIONERS:

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Surf City

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November 26, 2012

Greene County ABC Board
Mr. JC Sutton, Chairman
217 SE Second Street
Snow Hill, NC 28580

Dear Chairman Sutton,

We are pleased to submit this performance audit report on the Greene 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 and operational findings and recommendations along with your Board's 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,

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 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 2011;
- Visited the stores;
- Interviewed key ABC board personnel.

The Greene County ABC Board has submitted a response to the performance audit recommendations and has begun to take steps toward becoming more profitable while reducing costs. After receiving the annual audit for fiscal year 2012, the board closed the year with a small (\$11,722) profit. Although the board was able to distribute a portion of profits to the town, the minimum 3 ½% distribution was not met. Policies and procedures have been adopted and implemented to maintain compliance with statutes and Commission rules. Internal controls have been implemented to ensure stronger segregation of duties.

BACKGROUND INFORMATION

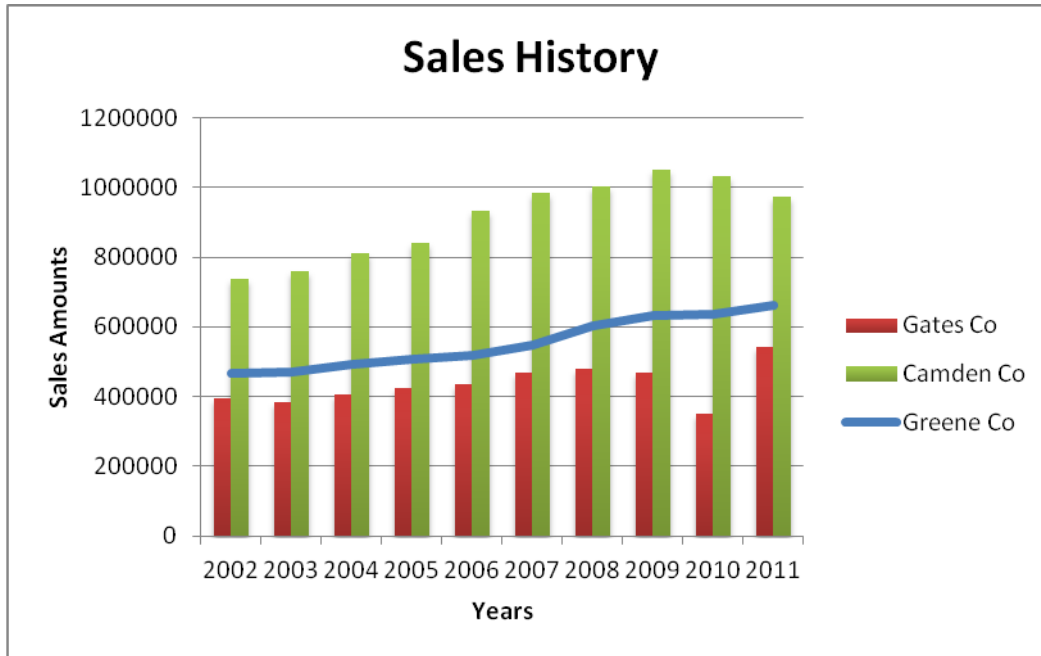
Chapter 493 of the 1935 Pasquotank Act authorized Greene County to hold an election. The referendum was held on July 2, 1935 and passed 876 to 735. The date of the first retail sales was August 1, 1935. Multiple mixed beverage elections were held and did not pass.

Upon election of an ABC store, Greene 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 J.C. Sutton, board chairman, Danny Taylor and Henry Fields, board members.

The Greene County ABC Board operates two retail stores and employs eight employees. The general manager is responsible for the daily operations including supervising personnel, inventory management, and various retail functions. The board has hired an external bookkeeper to maintain financial documents and to serve as the finance officer. The finance officer's duties consist of monthly bank reconciliation, payroll, budget maintenance, and accounts payable. Clerk responsibilities include selling products, daily stocking, and floor upkeep.

Profitability

For fiscal year 2011, the board showed a loss; gross sales were \$661,453, income from operations was -\$1,610, resulting in a profit percentage to sales of -0.24%. Current sales have increased 11.17% over fiscal year 2010. Below is a comparison of Greene County's sales and other similar size boards. Since 2002, Greene County's sales have continued to show a modest annual increase.



Factors affecting sales and profitability:

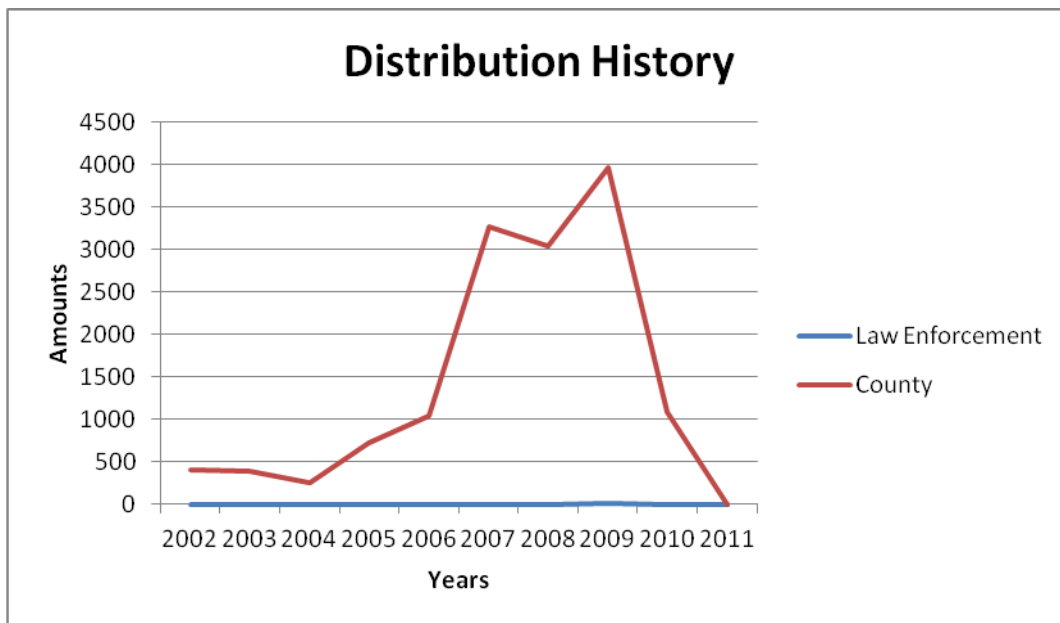
- US Census Bureau reports a population of 21,362 in 2010;
- Overall population has increased 12.6% over the past ten years;
- Individuals below poverty levels have increased 18.4% over the past five years;
- In March 2012, the unemployment rate for Greene County was 10.1%, a 0.1% increase over the previous month;
- The second store location less than two miles apart from the main store.

Distributions

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

- 20% to Snow Hill General Fund
- Remainder to Greene County General Fund

In 2009, Greene County allowed the ABC Board to retain a portion of distributions for capital improvements. Greene County resumed distribution of profits in FY2010 totaling \$1,090. In 2011, the Greene County ABC Board did not make any distributions. However, the minimum distribution was not met. *See chart below.*



FINDINGS AND RECOMMENDATIONS

On April 19, 2012, ABC Commission Board Auditor, Moniqua S. McLean, visited the Greene County ABC stores and interviewed Willie Jones, general manager, and Janette Fulghum, finance officer. The following are the findings and recommendations relating to the performance audit.

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 on 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 Greene County ABC Board receives deliveries twice a month. The inventory turnover rate for the Greene County ABC Board is 3.3 and does not meet the goal set by the Commission.

Recommendations:

- Maximize inventory turnover using the following methods:
 - Analyzing sales data and history reports to plan orders and to take advantage of Special Purchase Allowance offers whenever possible
 - Splitting cases with surrounding boards to increase variety in each location
 - Moving stock within the store and between stores to increase visibility and to encourage more impulse shopping
 - Utilizing shelf space as much as possible to highlight slow moving and new products
 - Selling slow-moving inventory to another board with demand for the products
- Contact boards whose inventory turnover rate exceeds the target for other ideas that may be implemented in your stores.

Operating Cost

Operating cost ratio is 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:

- Boards with 3 or more stores with MXB – cost ratio .67 or less
- Boards with 3 or more stores without MXB – cost ratio .94 or less
- Boards with 2 stores – cost ratio .83 or less
- Single store boards with MXB – cost ratio .77 or less
- Single store boards without MXB – cost ratio .93 or less

The Greene County ABC Board has an operating cost ratio of .99 and is over the target goal set by the Commission. To meet the goal and remain at current expense levels of \$152,911, revenues must be increased by \$113,547 to approximately \$775,000. Or, to meet the goal and remain at

current revenue levels of \$661,423, expenses will need to be reduced by \$24,911 to approximately \$128,000. *Refer to Appendix A for analyses of expense history and common expenses of similar size boards.*

Recommendations:

- Monitor budget more frequently to ensure that actual expenses do not exceed budgeted amounts.
- Request bids annually from various vendors to get the best rates possible on audit fees, 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 gross sales (Total income before distribution/Gross Sales). The Commission has set efficiency 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 2011, the Greene County ABC Board had gross sales of \$661,423, a -0.24% profit percentage to sales.

Recommendations:

- Analyze and reduce operating expenses to increase profits by monitoring budget. Provide year-to-date reports to board members detailing how much has been spent. *Refer to recommendations under operating costs.*
- Consider closing the counter store or merging the two stores to minimize costs of maintaining separate locations.
- If the second location is to remain open, consider converting to a self-service store and increase product selection.
- If profits continue to drop, merge with another board to reduce overhead, such as salaries and other administrative expenses.

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

Under the new guidelines, the Greene County ABC Board had working capital of \$212,569 in FY2011. The working capital retained exceeded the maximum working capital allowed by \$41,823.

Recommendations:

- Consider distributing more of the working capital retained or ask the appointing authority to allow a portion of the profits to be retained for a capital improvement plan.
- If a capital improvement plan has been established, develop a strategy detailing future capital improvements for which these funds will be used. Once drafted, submit a copy to the Commission.

Store Appearance and Customer Service

- The exterior areas in both locations were neat and free of trash. Parking was scarce due to the limited number of parking spaces available.
- The front area in Store #1, which is visible to customers, included a desk and the counter. The counter was neat and organized, but the desk was cluttered.
- Store #4 is a counter store. A typical shelf management system would not be utilized here; however, there are still things that can be done to generate customer interest and to increase variety. *Refer to recommendations under inventory turnover.*
- The shelf management system at Store #1 was not clearly defined. Bottles were not fronted and many of the shelves were empty giving the appearance of numerous out-of-stocks. The manager indicated that the empty shelves were used for product overflow.
- Shelves (in neither location) have the prices posted. Currently bottles are stamped with a product code which the clerk uses to determine the price when ringing up for sale. As a result, the customers do not know the price of their selection until it is being entered into the cash register.
- The required Fetal Alcohol Syndrome poster was displayed in each store. The Commission Auditor supplied each store with updated posters.
- Upon entering the store, employees greeted customers in a professional manner exhibiting good customer service.

Recommendations:

- If the board is considering combining the two locations, include a sufficient amount of parking for customers.
- Seating for store personnel should be easy to clear from the aisle/shelf areas. The large upholstered recliner at store #4 creates a hazard, limits staff access to products and sends a message that is not welcoming to store customers. The recliner should be removed from the area that is visible to the customers, and that area behind the counter should be kept orderly and free from clutter.
- Place a locked cabinet in the foyer of Store #4 to display monthly sale and discontinued items.
- Either replace current shelving or adapt it to display current product prices at-a-glance for customers.

Policies and Procedures

- Policies and contracts that have not been adopted and submitted to the Commission:
 - Travel policy
 - Law enforcement contract
- All employees maintain their own cash drawer. Oftentimes, one clerk works the entire day. The cash drawers are counted at the beginning and end of each shift. Deposits are made daily by whoever is scheduled to work. Although not written, it is understood when a shortage occurs, the employee makes up the difference.
- The employee handbook was last submitted in 1997.

Recommendations:

- Adopt a travel policy that conforms to either the policy of the appointing authority or State. *Refer to Appendix C (1) for statute.* While the Commission recognizes that the board does not travel, put a travel policy in place in case the need arises.
- Execute a contract with law enforcement. (Even if the agreement includes no compensation for the law enforcement agency, all boards are required to have an agreement in place). *Refer to Appendix C (2) for statute.*
- Update the employee manual to reflect current store operations and policies. If needed, the Commission will provide a sample upon request. Once updated, submit a copy to the Commission. *Refer to Appendix C (3) for rule.*

Personnel and Training

- Two board members, the finance officer and the general manager have attended the mandatory ethics class. A third board member has recently been appointed and plans to attend the next scheduled class.
- The general manager is cross training key employees on administrative functions pertaining to ordering liquor and closing the end of the month.

Recommendations:

- Continue cross training employees to back up the general manager should he be suddenly unavailable.

Administrative Compliance and Internal Controls

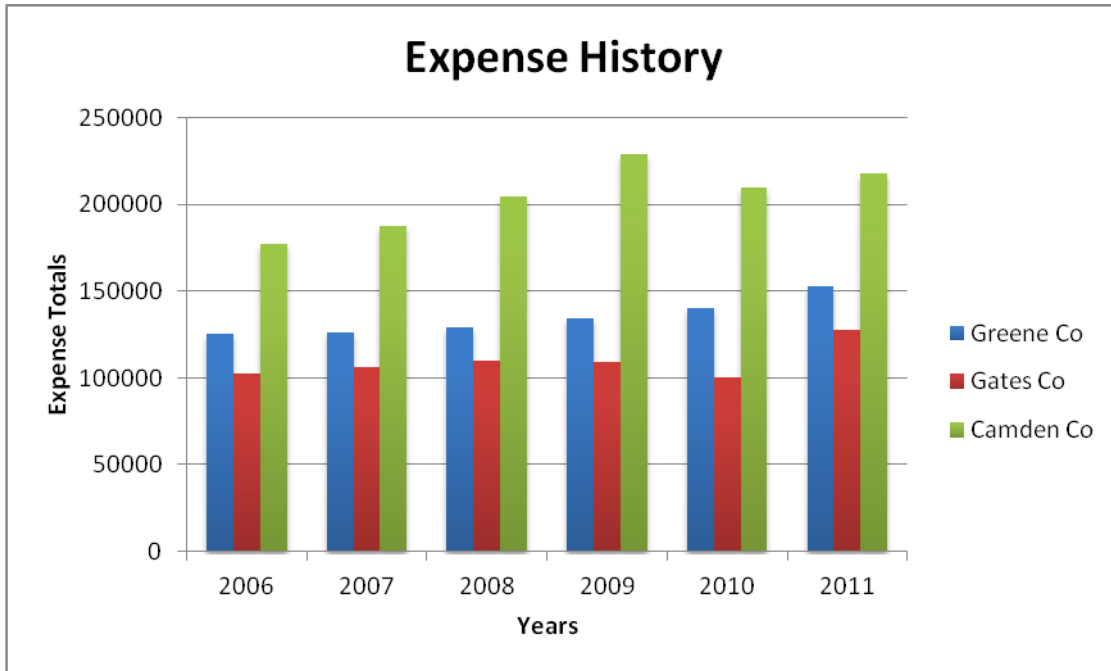
- Board meeting minutes were available: however they did not reference the conflict of interest statement.
- Board member information on the Commission website did not reflect board members' latest appointment dates. The auditor has updated the website since the visit.
- Law enforcement activity reports have not been submitted since January 2011.
- Nepotism – The board is in compliance with G.S. 18B-700(k).
- Purchase orders and liquor orders are not pre-audited and signed by the finance officer as required by G.S. 18B-702(m).
- All checks have the approved certificate and are signed by the finance officer as required by G.S. 18B-702 (q).
- Because there were no prices on shelves, the auditor was unable to verify correct prices with the Commission.
- The board's CPA is engaged to count inventory every six months. In between those counts, a physical inventory count is performed by the general manager and any scheduled staff. When discrepancies arise, the general manager investigates the occurrence. Unsaleable items are deleted from inventory whenever Store #4 delivers reports to Store #1.

Recommendations:

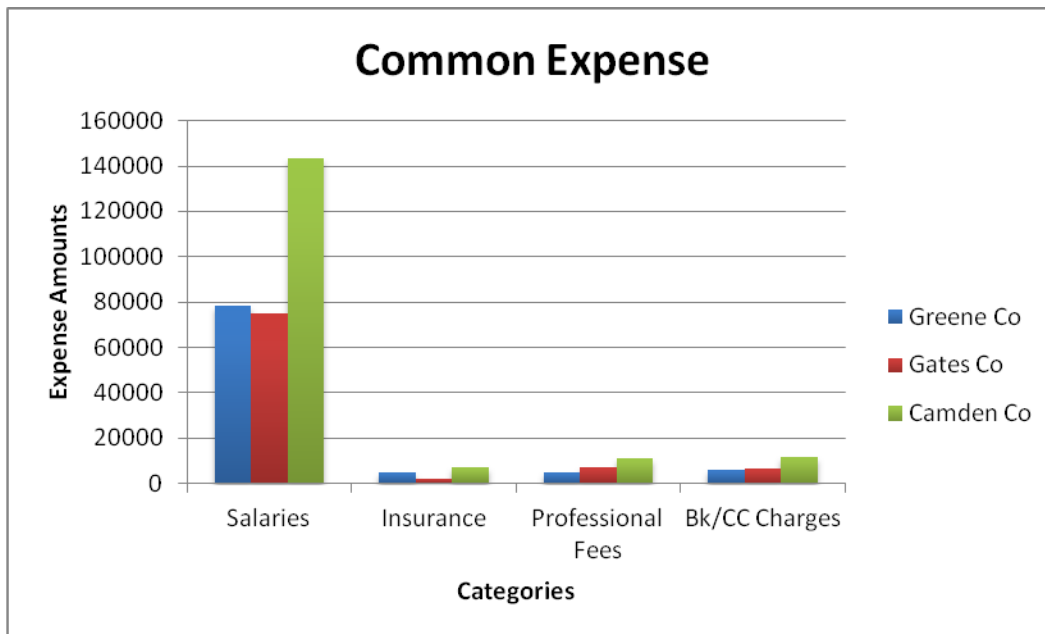
- Board minutes should include copies of any policies adopted, a record of votes taken at each meeting and should make clear where any other documents referenced in minutes can be accessed for public review.
- Have the board chairman read the conflict of interest statement to all board members at the start of each meeting. *Refer to Appendix C (4) for rule.*
- Submit law enforcement activity reports by the 10th of each month. If no activity, submit zeros and indicate in the Remarks section. *Refer to Appendix C (5) for statute.*

- Use purchase orders when ordering all store and office supplies. Have the finance officer verify that funds are budgeted by indicating so with the pre-audit certificate and signature. Liquor orders must have the pre-audit certificate signed by the finance officer.

APPENDIX A

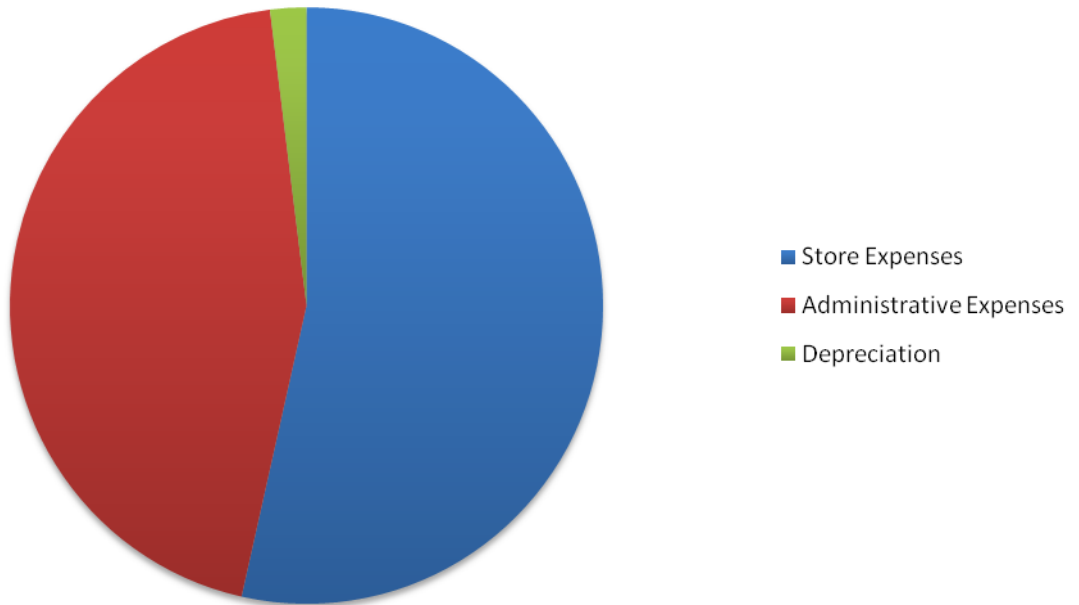


Greene County ABC's expenses have increased 18% over the past five years.



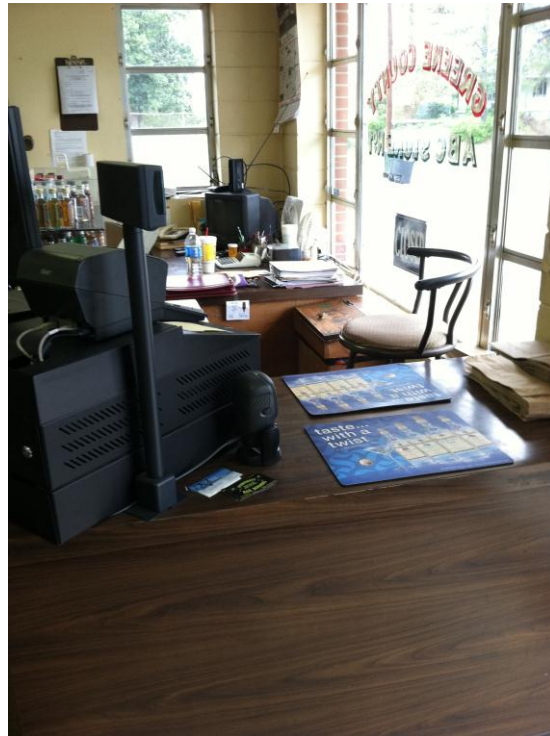
The common expense analysis of Greene County ABC reveals that these expenses are relatively lower than other similar size boards.

Expense/Distribution Analysis



This chart analyzes the breakdown of expenses and distributions of the Greene County ABC Board.

APPENDIX B



Counter view of Store #1



Staff seating in Store #4. View of bottles not fronted.

APPENDIX C

- (1) 18B-700(g2) states “...the local board adopts a travel policy that conforms to the travel policy of the appointing authority and such policy is approved by the appointing authority [or adopts the state policy].”

NCAC02R.0909 (c) Rules to be filed with Commission. Each local board shall file a certified copy of its travel policies and procedures, and any amendments thereto, with the Commission within 10 days of the adoption, or amendment, of the policies by the local board.

- (2) 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.”

- (3) NCAC 02R .1009 (a) states, “Each local board shall establish policies and rules governing each of the following:

- (1) Initial employment of employees, including qualifications and requirements for new employees;
- (2) Compensation and benefits;
- (3) Hours and days of work, holidays, vacation, sick leave and other matters pertaining to the conditions of employment;
- (4) Promotion, transfer, demotion and suspension of employees;
- (5) Separation or termination of employees;
- (6) Granting of salary increases;
- (7) Employee grievance procedures; and
- (8) Any other programs or procedures as may be necessary to promote efficiency and to provide for a fair and reasonable system of personnel administration.

(b) A local board is encouraged to model its personnel policies and procedures after those adopted by the county or municipality in which it operates.”

- (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 GS 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?

(5) 18B-501 (f1) states, "To ensure accountability to the appointing authority and the Commission, every local board's ABC officers and those law enforcement agencies subject to an enforcement agreement entered into shall report to the local board, by the fifth business day of each month, on a form developed by the Commission, the following:

(a) The number of arrests made for ABC law, Controlled Substance Act, or other violations, by category, at ABC permitted outlets,

(b) The number of arrests made for ABC law, Controlled Substance Act, or other violations, by category, at other locations,

(c) The number of agencies assisted with ABC law or controlled substance related matters,

(d) The number of alcohol education and responsible server programs presented.

The local board shall submit a copy of the enforcement report to the appointing authority and the Commission not later than five business days after receipt of the enforcement report by the local board.

GREENE COUNTY ABC BOARD RESPONSE
TO THE N.C. ABC COMMISSION
PERFORMANCE AUDIT REPORT
OF MAY 14, 2012
PERFORMED BY MS. MONIQUA MCLEAN

INTRODUCTION

THE GREENE COUNTY ABC BOARD HAS PROVIDED SERVICE AND CONTROL OF PACKAGED ALCOHOLIC BEVERAGES TO THE RESIDENTS OF GREENE COUNTY AND THE CITIZENS OF NORTH CAROLINA SINCE AUGUST 1, 1935. ONLY THOSE ASPECTS THAT REQUIRE ATTENTION FROM THE PERFORMANCE AUDIT REPORT WILL BE ADDRESSED BY THE BOARD.

1. INVENTORY TURNOVER:

- A. GENERAL MANAGER MOVING STOCK WITHIN STORES SO THEY ARE MORE VISIBLE.
- B. GENERAL MANAGER TAKING ADVANTAGE OF SPA'S WHENEVER POSSIBLE.

2. OPERATING COSTS:

- A. THE BOARD HAS CHOSEN TO OPERATE STORE #4 BY OPENING AT 1:30 PM AND CLOSING AT 9:00 PM EFFECTIVE MAY 7, 2012. THIS WILL REDUCE THE OPERATING COSTS (PRIMARILY IN SALARIES) APPROXIMATELY \$1200.00 PER QUARTER WITHOUT ADVERSELY

AFFECTING OVERALL SALES.

- B. THE BOARD WILL BE SEEKING BIDS FROM DIFFERENT SERVICES TO REDUCE COST IN SOME AREAS.

3. PROFIT PERCENTAGE TO SALES:

- A. THE BOARD HAS ALREADY INSTITUTED MEASURES TO HELP INCREASE ITS PROFIT-TO-SALES MARGIN (See #2 Above)
- B. THE BOARD IS NOT CURRENTLY INVESTIGATING THE MERGING OF BOTH STORES. THE PRELIMINARY AUDIT RESULTS SHOW A SMALL PROFIT FOR THE FIRST HALF OF THE 2011-12 FY.

THE BOARD BELIEVES BY FURTHER ADJUSTING STORE HOURS THAT AN ACCEPTABLE PROFIT-TO-SALES MARGIN CAN BE ACHIEVED.
- C. BECAUSE OF THE POSSIBILITY OF PRIVATIZATION IN THE FUTURE THE BOARD IS NOT CONSIDERING MERGING WITH ANOTHER BOARD.

4. WORKING CAPITAL:

- A. THE BOARD IN PREVIOUS YEARS HAS ASKED THE APPOINTING AUTHORITY TO RETAIN PROFITS FOR CAPITAL IMPROVEMENT. THIS WILL BE CONSIDERED ON A YEAR TO YEAR BASIS.
- B. PROFITS THAT MAY BE RETAINED FOR THIS FISCAL YEAR WILL BE USED TO UPGRADE STORE #1.

5. STORE APPEARANCE:

A. THE FLOORING IN STORE #1 WILL BE REPLACED IF PROFITS CAN BE RETAINED.

B. THE BOARD IS REQUESTING INFORMATION FROM NCABC COMMISSION ON WHERE TO PURCHASE STICKERS TO BE DISPLAYED ON BOTTLES.

6. POLICIES & PROCEDURES:

A. A TRAVEL POLICY HAS BEEN ADOPTED USING THE STATE'S POLICY AND USING APPOINTING AUTHORITY REIMBURSEMENT SHEET, EVEN THOUGH, AT PRESENT THERE IS NOT A NEED FOR THIS POLICY.

B. A CONTRACT FOR LAW ENFORCEMENT HAS BEEN ADOPTED AND ACCEPTED BY THE GREENE COUNTY SHERIFF'S DEPARTMENT AND WE ARE IN COMPLIANCE.

C. GENERAL MANAGER WILL UPDATE EMPLOYEE MANUAL WHEN INFORMATION RECEIVED FROM NCABC COMMISSION.

7. PERSONNEL AND TRAINING

A. GENERAL MANAGER IS CURRENTLY CROSS TRAINING ANOTHER EMPLOYEE FOR BACK-UP PURPOSES.

8. ADMINISTRATIVE COMPLIANCE:

- A. CONFLICT OF INTEREST STATEMENT ARE REFERENCED PRIOR TO EACH BOARD MEETING.
- B. BOARD MEMBER INFORMATION HAS BEEN SUBMITTED TO NCABC COMMISSION.
- C. REPRESENTATIVE FROM GC SHERIFF'S DEPARTMENT WAS CONTACTED AND REPORTS HAVE BEEN SUBMITTED.
- D. A PRE-AUDIT STAMP HAS BEEN PURCHASED AND IN USE BY THE FINANCE OFFICER IN ORDER TO COMPLY WITH PURCHASE ORDERS.

J C 56/10 7/10/12
Chairman

Henry J. Field 7/10/12
Board Member

Daniel L. Taylor 7/10/12
Board Member

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NC ABC COMMISSION

GREENE COUNTY ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Policies and Procedures: Adopt a travel policy that conforms to the appointing authority or the State.</p> <p>Adopt a law enforcement contract and submit to the Commission.</p> <p>**Update the employee handbook.</p>	<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 type="checkbox"/> Fully Implemented</p> <p><input checked="" type="checkbox"/> Partially implemented 75% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The board has adopted the required policies and is currently updating the employee handbook.</p>
<p>Administrative Compliance: **Update board member information on the Commission website.</p> <p>Submit all missing law enforcement activity reports.</p> <p>Affix the pre-audit certificate on all orders before the transaction occurs.</p>	<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 type="checkbox"/> Fully Implemented</p> <p><input checked="" type="checkbox"/> Partially implemented 75% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management has implemented the required procedures successfully. However, the Commission website has not been updated with current board members' appointment dates.</p>