

Hamlet 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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September 10, 2012

Hamlet ABC Board
Mr. Jerry Thomas, Chairman
921 Hamlet Ave
Hamlet, NC 28345

Dear Chairman Thomas,

We are pleased to submit this performance audit report on the Hamlet 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 recent steps taken to modernize your ABC store.

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..... | 8 |
| Hamlet ABC Board Response..... | 16 |
| Recommendation Follow up..... | 17 |

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 store; and
- Interviewed key ABC board personnel.

The Hamlet ABC Board has 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. Since the initial audit, the board has expanded to five members. 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

Located deep in the Sandhills area, Hamlet is famous for the railroad industry and the birthplace of famous jazz musician, John Coltrane. It is approximately five miles from the South Carolina border. Surrounding towns with ABC boards include Rockingham, Laurinburg, and Maxton, NC. The US Census Bureau reports a population of 6,495 in 2010.

Chapter 982 of the 1963 Session Law authorized the Town of Hamlet to hold an election upon a signed petition of fifteen percent of voters. The referendum was held on September 24, 1963 and passed 1,168 to 586. The first retail sales date was on December 4, 1963. A mixed beverage election was held on September 19, 2000 and passed 793 to 466.

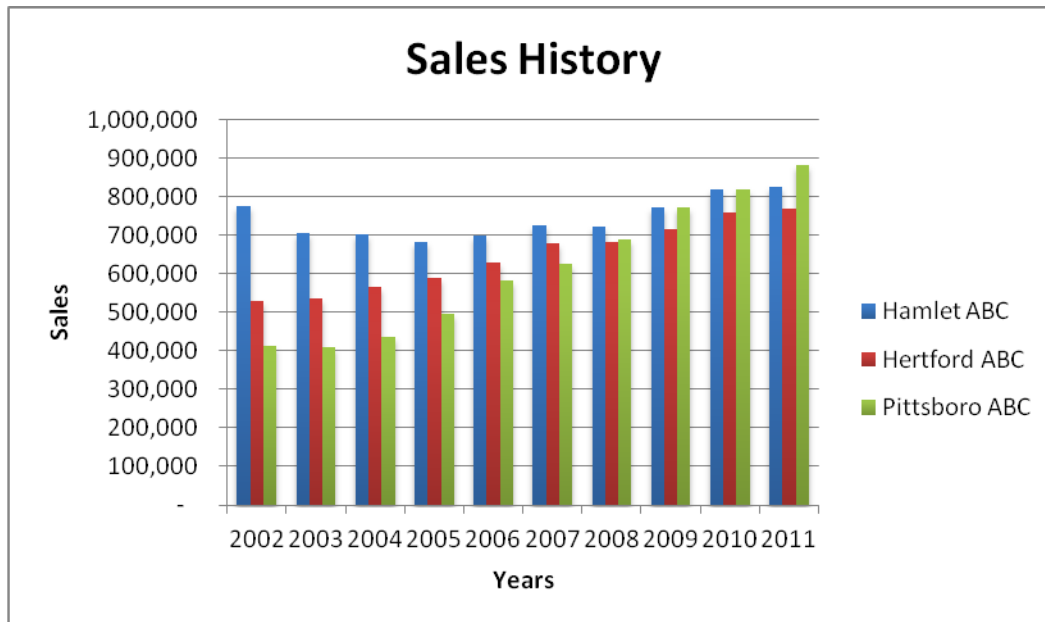
Upon election of an ABC store, the City of Hamlet was authorized to establish an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members are Jerry Thomas, chairman, Bert Unger and Dot Bynum, board members.

The Hamlet ABC Board operates one retail store and employs two full-time and three part-time employees. The general manager is primarily responsible for the daily store operations including supervising personnel, inventory management, and various retail functions. The finance officer's duties consist of signing checks, daily deposits, and budget maintenance. Clerk responsibilities include selling products, daily stocking, and floor upkeep. The board has hired an external bookkeeper to maintain financial documents.

Profitability

For fiscal year 2011, the board showed a profit; gross sales were \$827,106, income from operations was \$36,709, resulting in a profit percentage to sales of 4.44%. Current sales have increased 13.16% over fiscal year 2010. Since 2005, Hamlet ABC's sales have shown a significant increase following the state's increase over the same time period.

Below is a comparison of Hamlet ABC's sales and other similar size boards.



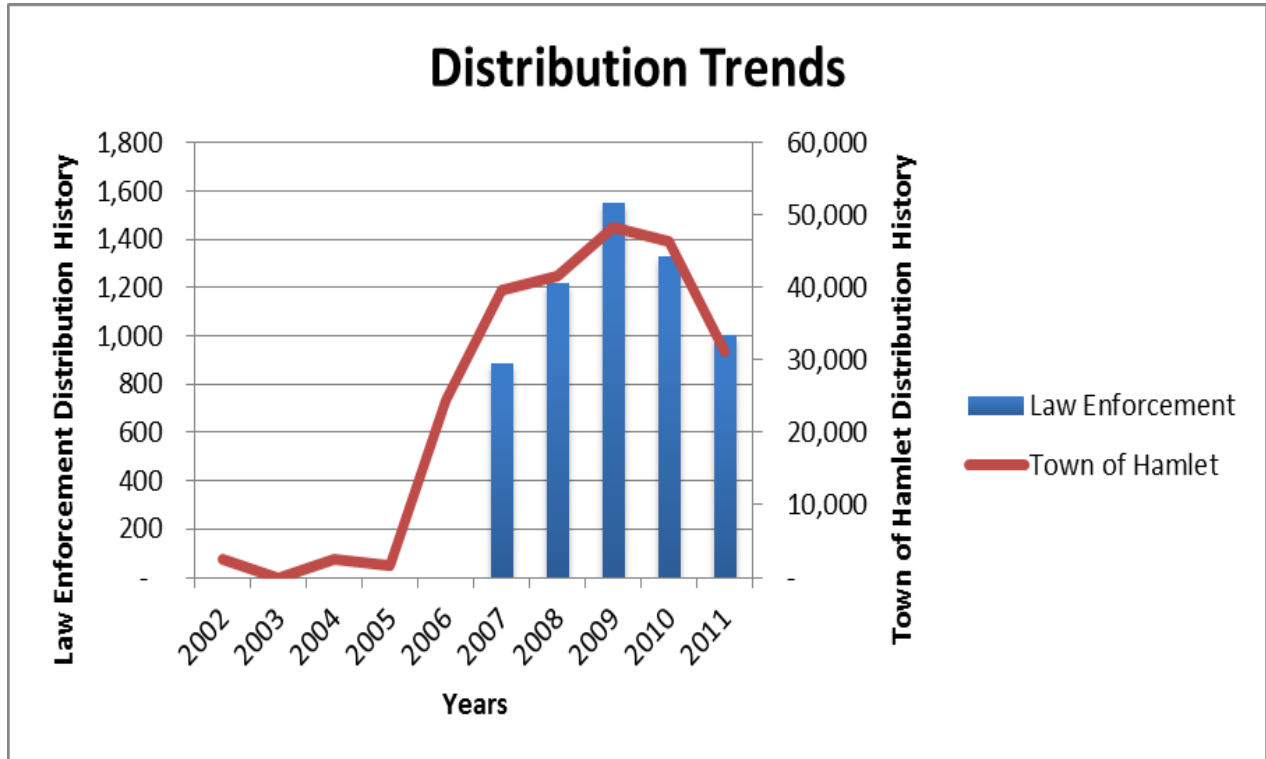
Factors affecting sales and profitability:

- Overall population has increased 7.9% over the past ten years
- Individuals below poverty levels have increased 21.4% over the past five years
- In April 2012, the unemployment rate for Richmond County was 12.7%, a 0.1% decrease over the previous month
- Another ABC store within a five mile radius

Distributions

G.S. 18B-805 (c) requires the board to distribute quarterly at least five percent of profits for law enforcement. The remaining profits are to be distributed quarterly to the City of Hamlet General Fund.

In FY2011, the Hamlet ABC Board made distributions totaling \$32,067; \$1,000 to law enforcement, and \$31,067 to the town. Over the past three years, distributions have dropped. See below chart for distribution history.



FINDINGS AND RECOMMENDATIONS

On May 15, 2012, ABC Commission Board Auditor, Moniqua S. McLean, visited the Hamlet ABC store and interviewed Mary Faulkner, general manager, Greg Rush, finance officer, and Jerry Thomas, board chairman. 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 Hamlet ABC Board receives deliveries monthly, therefore the inventory rate is 2.7 and does not meet the goal set by the Commission.

Recommendations:

- Increase inventory turns using the following methods:
 - Analyzing sales data and history reports to plan orders by taking advantage of Special Purchase Allowance (SPA) offers whenever possible
 - Splitting cases with surrounding boards to increase variety as well as to reduce cost
 - Cross-merchandising or moving stock within store to increase visibility and to encourage more impulse shopping
 - Utilizing end caps as much as possible to highlight slow moving and new products
- Ask for price reductions from the Commission on obsolete inventory
- Contact other boards whose inventory turnover rate exceeds the target for other ideas that may be implemented

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 (MXB):

- 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 with or without MXB – 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 Hamlet ABC Board has an operating cost ratio of .77 and has met the goal set by the Commission. Overhead expenses are relatively low because the board owns the building. In comparing expenses with similar size boards, Hamlet ABC's expenses are not out of line. *Refer to charts in Appendix A for analyses of expense history and common expenses of similar size boards.*

Recommendations:

- Request bids annually from various vendors to get the best rates possible on audit, utilities, maintenance contracts, and credit card processing fees.
- Continue to monitor budget frequently to ensure that the actual expenses do not exceed budgeted amounts. Provide year-to-date reports to board members detailing how much has been spent.

Profit percentage to sales

The profit percentage to sales is calculated by dividing the total profit before distributions by the total liquor 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%

The Hamlet ABC Board has a profit percentage to sales of 4.44% and has slightly missed the goal set by the Commission.

Recommendations:

- Increase sales strategies by developing new marketing techniques, for example, cross-merchandizing. *Refer to recommendations under inventory turnover.*
- Continue maintaining or reducing expense further to increase profits by monitoring budget. *Refer to recommendations under operating costs.*

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 Hamlet ABC Board was allowed to retain up to a maximum of four months but had a working capital of \$212,945 which is equivalent to approximately three months. The working capital retained is within the limits allowed by NCAC 02R .0902.

Store Appearance and Customer Service

The Hamlet ABC store has approximately 960 linear feet of shelf space. The store has approximately 1027 product codes. Refer to Appendix B for photos.

- Both interior and exterior areas of the store were clean, well-lit, and inviting. Countertops were free of clutter.
- The shelf management system was clearly defined, consistent, and easily understood. Bottles were dusted, fronted, and well-stocked.
- The required Fetal Alcohol Syndrome poster was displayed.
- Upon entering the store, employees greeted customers in a professional manner exhibiting good customer service. When not helping with customers, employees continued with store upkeep and inventory maintenance.

No Recommendations.

Policies and Procedures

- All employees maintain their own cash drawer. The cash drawers are counted daily at the beginning of each shift. If any significant shortages arise, the employee responsible will make up the difference. Overages are the property of the store.
- Inventory counts are performed monthly by all scheduled staff. Unsaleable items are removed from inventory immediately. Spot checks are conducted daily as part of the clerk's daily routine. The manager investigates any discrepancies as they occur.
- The manager creates a work schedule for all employees and maintains records for vacation and sick hours earned and used. Employees are aware of the manager's schedule and other co-workers.
- The board does not have a written mixed beverage policy.

Recommendations:

- Have a written mixed beverage policy in place for future permit holders. Incorporate a policy that reflects good customer service and allows a flexible schedule to order and pickup.

Personnel and Training

- All board members, the finance officer, and the general manager have attended the mandatory ethics class. Re-appointed board members have taken the online ethics training to remain in compliance with G.S. 18B-706 (b).
- RASP training is provided annually to existing employees and whenever there are new employees.
- Management has begun training key employees on administrative duties should she be suddenly unavailable.

Recommendations:

- Expand training to include other training opportunities that deal with alcohol education, customer service, and product knowledge. Contact other boards that have a training module to incorporate into professional development for employees.

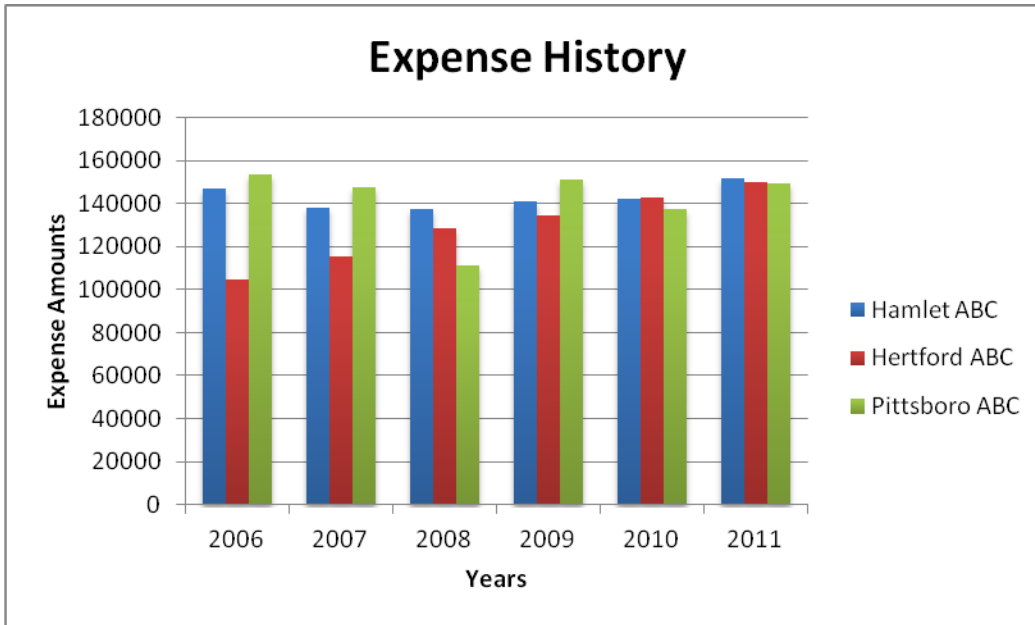
Administrative Compliance and Internal Controls

- Board meeting minutes were available to view and followed the order of proceedings for conducting a business meeting. Board meeting minutes included the conflict of interest statement.
- Board information on the Commission website is current.
- Nepotism – The board is in compliance with G.S. 18B-700(k).
- General Manager Compensation – The board is in compliance with G.S. 18B-700(g1).
- Orders to LB&B and maintenance agreements do not bear the pre-audit certificate as required by G.S. 18B-702 (m).
- All checks have the approved certificate and signed by the finance officer as required by G.S. 18B-702 (q). All checks have two signatures, the finance officer and the general manager. In the event, the finance officer or general manager were unavailable, a board member is authorized to sign checks.

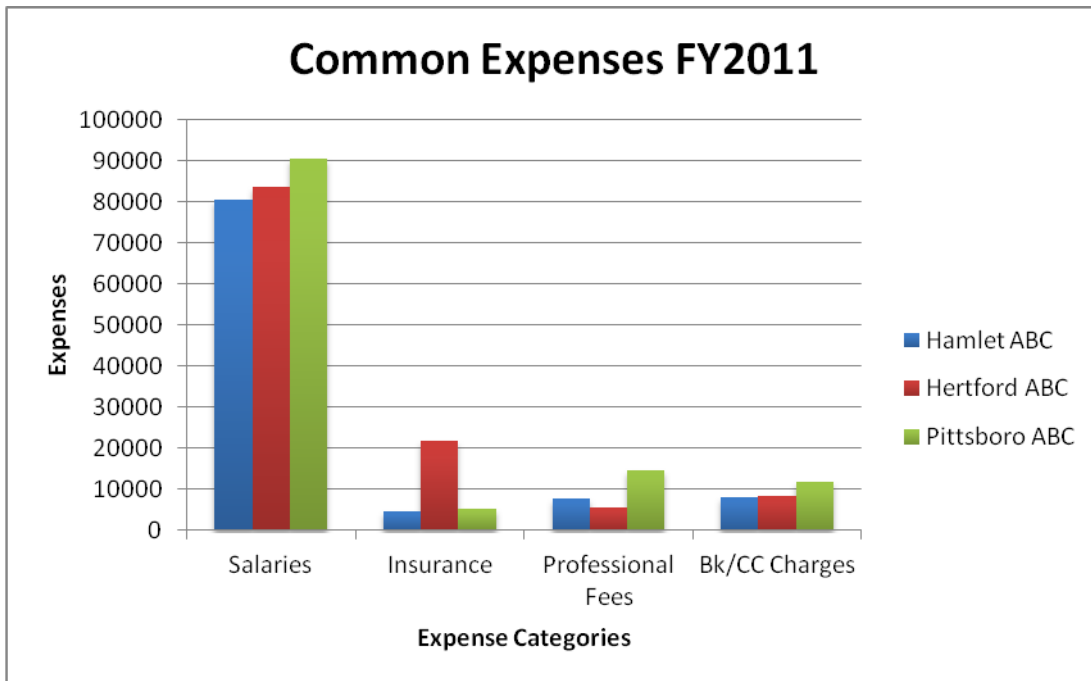
Recommendations:

- Have the pre-audit certificate and the finance officer's signature on all purchase orders and liquor orders before the purchase is made. *Refer to Appendix C (1)*. When using petty cash for purchases over fifty dollars have a blanket purchase order for a specific time period and attach receipts once the period has expired.

APPENDIX A

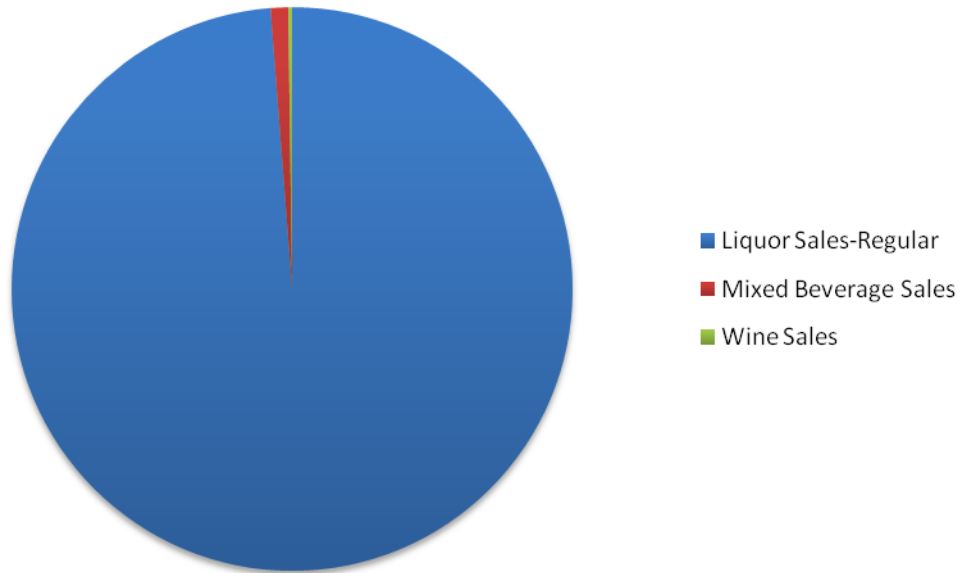


Although Hamlet ABC's expenses are slightly higher than other boards, in comparing the previous expenses, Hamlet ABC's sales have also slightly increased.



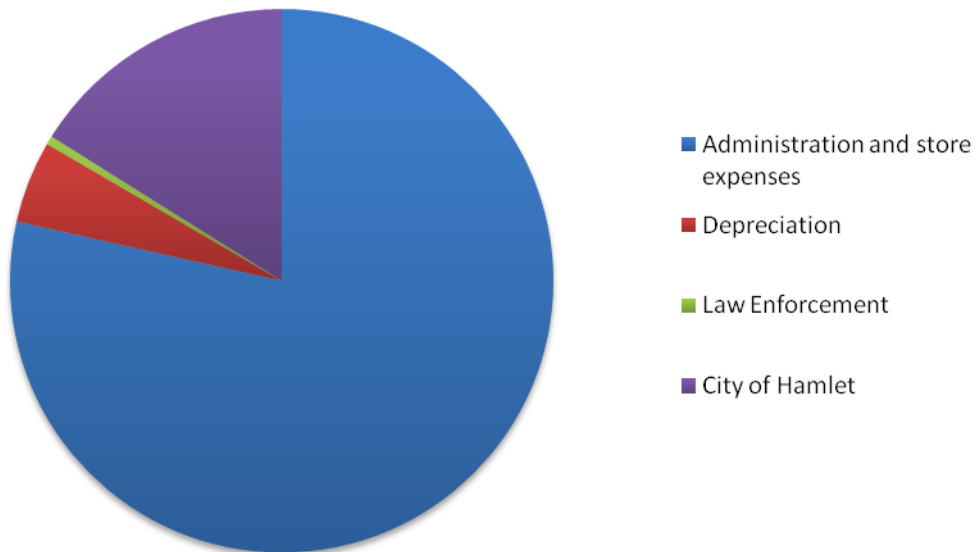
Common expense comparisons reveal that Hamlet ABC's expenses are relatively lower than other similar size boards.

Operating Revenue - Sales FY 2011



An analysis of the breakdown of retail, mixed beverage, and wine sales of the Hamlet ABC Board.

Expense Allocations FY 2011



An analysis of the breakdown of expense allocations of the Hamlet ABC Board.

APPENDIX B



View near the entrance.



View from the counter area.

APPENDIX C

(1) 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)

**Hamlet ABC Board
921 Hamlet Avenue
Hamlet, NC 28345
July 29, 2012**

Ms. Moniqua McLean
ABC Board Auditor
400 East Tryon Road
Raleigh, NC 28345

The Hamlet ABC Board appreciates your review of your audit of the Hamlet ABC Store on June 13, 2012.

Our comments are below:

Inventory Turnover: Our rate is 2.7 and the commission would like a 4.5. Even though we are below the turnover rate, we believe that the store is operating at a level in regard to our county's overall rate of unemployment and the lack of mixed beverage outlets in our community. We carry a good mix of stock to satisfy most of our customers. We will look at the suggestions that you made and try to implement as many as we can.

Profit percentage to sales: The Board has made an effort to clean up the store, make some very badly needed improvements, and feel that being .6% behind the recommended level is acceptable. We will continue to work at reducing our overall expenses without affecting our sales.

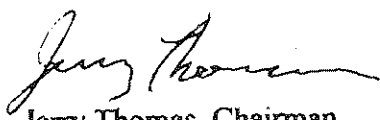
Policy and Procedures: Our manager has written a policy for mixed beverages. It is acceptable for our one mixed beverage customer and it will be amended when we have other mixed beverage customers to meet their needs.

Administrative Compliance and Internal Control: The only two full-time employees are the manager and finance officer. They work on the beverage order together. Since your audit information was received, the finance officer has been signing the purchase orders.

The store was in compliance on all the other procedures, therefore we will not comment on them at this time.

Thank you for the audit and we are looking forward to seeing you again.

Best Regards,



Jerry Thomas, Chairman
Hamlet ABC Board

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JUL 29 2012

NC ABC COMMISSION

HAMLET ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

| RECOMMENDATION | REQUIRED BY STATUTE | IMPLEMENTATION STATUS |
|--|---|---|
| <p>Policies and Procedures: Adopt a written mixed beverage policy.</p> | <p><input type="checkbox"/> Yes</p> <p><input checked="" 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>The Board has adopted a written mixed beverage policy and submitted to the Commission.</p> |
| <p>Administrative Compliance and Internal Controls: Affix the pre-audit certificate on all purchase orders and liquor orders before the purchase is made.</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 changed procedures to include the pre-audit certificate and the finance officer's signature on all orders before they are placed.</p> |