

# Town of Hertford ABC Board

## Performance Audit Report



Alcoholic Beverage Control Commission  
400 East Tryon Road, Raleigh, NC 27610  
p: 919-779-0700 | f: 919-661-5927 | <http://abc.nc.gov>



**ABC**  
COMMISSION  
NORTH CAROLINA

## TABLE OF CONTENTS

---

ABC Commission Statement.....	3
Operational Observations, Findings, and Recommendations.....	6
Auditor’s Summary.....	16
Appendices.....	17



**ABC**  
COMMISSION  
NORTH CAROLINA

**Alcoholic Beverage Control**

June 11, 2014

CHAIRMAN:  
JAMES C. GARDNER

Hertford ABC Board  
Mr. Cecil Winslow, Chairman  
PO Box 23  
Hertford, NC 27944

COMMISSIONERS:  
JOEL L. KEITH  
Wake Forest

KEVIN M. GREEN  
Greensboro

ADMINISTRATOR:  
MICHAEL C. HERRING

LOCATION:  
400 East Tryon Road  
Raleigh NC 27610

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

PHONE: (919) 779-0700  
FAX: (919) 661-5927  
<http://abc.nc.gov/>

**Moniqua S. McLean**  
**ABC Board Auditor**

Dear Chairman Winslow,

We are pleased to submit this performance audit report on the Hertford 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. 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 and anticipate you implementing the recommendations outlined in the report to hopefully improve operations and increase efficiencies.

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

Respectfully,

Michael C. Herring  
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 728 of the 1961 Session Laws authorized the town of Hertford to hold an election for an ABC store. The referendum was held on August 8, 1961 and passed 312 to 119. The first sale occurred on October 2, 1961. Special legislation allows mixed beverage sales.

Upon election of an ABC store, the town 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 Cecil E. Winslow, board chairman, Michael Hare and George James, board members.

The Town of Hertford ABC Board operates one retail store. The board staffs two full-time and one part-time employee. The general manager is responsible for overseeing and managing daily operations of the store including supervising personnel, inventory control, and providing customer service. The board has appointed a store employee to serve as finance officer and perform specific duties as required by the ABC statutes and rules. Store employees are primarily responsible for providing friendly customer service, store upkeep, and stock maintenance.

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

---

On October 2, 2013, ABC Board Auditor, Moniqua S. McLean, visited the Hertford ABC store and interviewed Don Keaton, general manager, and Cecil Winslow, board chairman. The following are the 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 Hertford ABC Board had gross sales of \$844,960; income from operations was \$53,461, a 6.33% profit percentage to sales.

Factors affecting sales and profitability:

- Sales increased 5.9% over the previous fiscal year;
- Surrounding counties with ABC stores include Pasquotank, Chowan, and Gates counties;
- Population for Perquimans County is estimated to be 13,692 in July 2012;
- Growth and development in surrounding, more heavily populated areas led to a shift in shopping patterns away from small towns which affects sales and profitability.

#### **NO RECOMMENDATIONS**

---

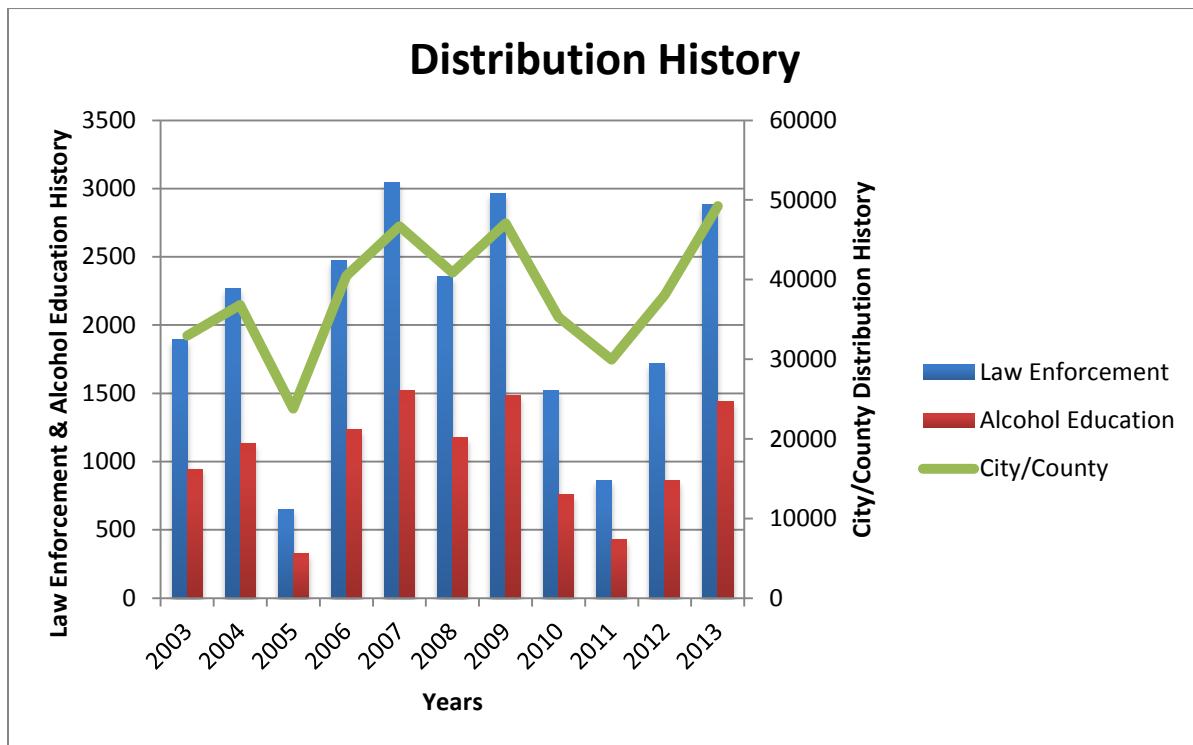
## DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, mixed beverage, and bottle taxes. G.S. 18B-805 (c) (1) requires the board to make a minimum quarterly distribution of the 3 ½% markup rate to the appointing authority. In FY 2013, Hertford ABC made the required minimum distribution to the town totaling \$24,757, plus additional distribution of \$24,482. \$653,816 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, and the city.

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. Alcohol education distributions are not required by the board's enabling act. The remaining profits are to be distributed to the Hertford General Fund.

In FY2013, Hertford ABC distributed to the town \$4,320 toward law enforcement.

Below is a distribution chart analyzing the high-low trend of the Town of Hertford ABC Board for the past ten years.



## **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 FY2013, Hertford ABC had a working capital of \$60,264, which is less than four months gross sales and is within the limits of NCAC 02R .0902.



## OPERATING COST RATIO

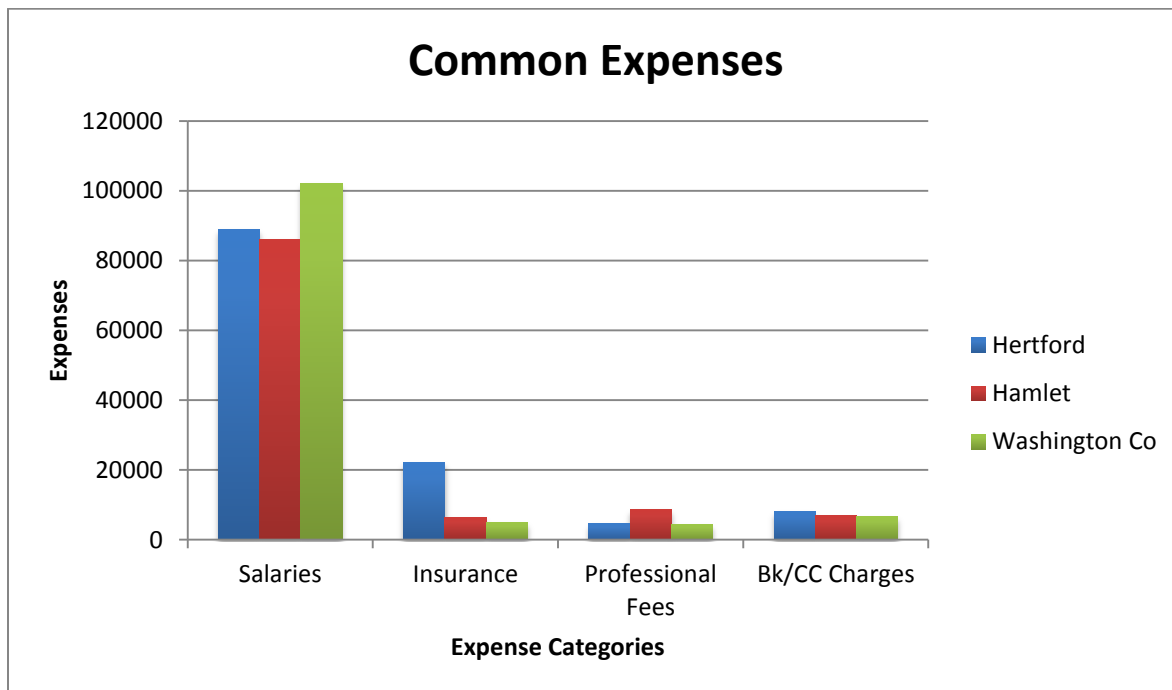
---

Operating costs are calculated by dividing total operating expenses less depreciation by the gross profit on sale (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 Hertford ABC Board operates one retail store without mixed beverage sales: the operating cost ratio is 0.74. (Mixed beverage sales are limited to one sports club outside the town limits.) In fiscal year 2013, sales increased 5.9% over fiscal year 2012 as expenses increased 2.28% over the same time period. The board owns the store which contributes to overhead expense savings.

Below is a common expense analysis that indicates that Hertford ABC's expenses are relatively lower than other similar size boards. Note: Insurance expenses include all insurances, such as health and liability. Bank and credit card charges have increased due to increased credit card transactions.



## NO RECOMMENDATIONS

---

## **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 Hertford ABC Board receives deliveries twice a month: the inventory turnover rate is 4.5. The average inventory turnover rate for similar boards with the same delivery schedule is 5.6.

## **RECOMMENDATIONS**

---

1. To increase inventory turnover, consider the following:
  - Watch customer shopping patterns and use the information to optimize product placement;
  - Cross-merchandising, moving stock within store to increase visibility, displaying more of the bestselling and new item products to encourage more impulse shopping;
  - Selling slow-moving inventory to other boards with greater demand or asking the Commission for a reduced price;
  - Splitting cases with neighboring systems to increase variety.

## **STORE APPEARANCE AND CUSTOMER SERVICE**

---

The Hertford ABC Board operates one retail store with approximately 552 linear feet of shelf space and carries approximately 700 product codes.

- Although dated, the store is clean and well-dusted. Much of the store is wood-paneling. In some areas, paint is chipped. The exterior paint is chipped and rustic.
- Exterior signage and landscaping around the store was clean and free of trash. However, the interior signage was worn and outdated. The Fetal Alcohol Syndrome poster is displayed.
- The store uses a limited shelf management system that exhibits highest priced products on top shelves and lowest priced products on the lower shelves. To highlight new and bestselling items, these items are placed at the front of the store without signage or indication of the significance. *See pictures on page 17.*
- The state price book is available should customers inquire about a specific product.
- Sales clerk's interaction with customers is attentive, courteous, and all are eager to meet the needs of the customers.

## **RECOMMENDATIONS**

---

1. Bring the store up to today's standards that would incorporate plans to increase shelf space and to attract more customers. Take advantage of having an appealing store that will attract passing beach traffic by expanding floor space to attract new customers and to encourage browsing.
2. Look into the costs of renovating the property vs. tearing down and building new. At the least, make improvements on the inside and outside, such as painting and improving the lighting. By making the necessary improvements that attract new customers will increase profitability.
3. Update and eliminate worn and outdated signage. Incorporate the necessary signage in the highlighted areas to encourage more impulse shopping.
4. Consider developing a strategy for product placement utilizing marketing and industry standards. An efficient shelf management plan focuses on the growing market. Recommended practices are as follows:
  - Brand blocking products with bottles with mid-price, or premium products, at eye level, high-priced, or ultra-premium products, on top shelves and lower priced, value products, 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;
  - Allow more space for your more popular brands and re-allocating space when eliminating underperforming brands.

## **PERSONNEL AND TRAINING**

---

- All board members and the general manager have completed the initial mandatory ethics training. The board chairman has since been reappointed and has not completed the online reappointment ethics training.
- Training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities on a continual basis.
- Cross training opportunities are being extended to key employees in the event the general manager was suddenly unavailable.
- Personnel files are not available for employees.

## **RECOMMENDATIONS**

---

1. Have all reappointed board members complete the ethics requirement within 12 months of reappointment. *Refer to Appendix B (1) for statute.*
2. Create personnel files for all employees. Include in the files employment application, if applicable, tax withholding documentation, and federal I-9 forms.

## **ABC BOARD POLICIES**

---

- Policies adopted and submitted to the Commission include:
  - Code of Ethics
  - Law Enforcement Contract
  - Travel Policy (State Travel Policy)
  - FY2013 Annual Audit
  - Employee Manual
  - FY2014 Budget (Proposed and Adopted)
  
- Policies not adopted and submitted to the Commission include:
  - Mixed Beverage Policy
  - Price Discrepancy Policy

## **RECOMMENDATIONS**

---

1. Adopt a mixed beverage policy that details customer friendly and flexible ordering and pickup guidelines. Once adopted, forward copies to all mixed beverage accounts comprised of changes and submit a copy to the Commission.
2. Adopt a price discrepancy policy that incorporates customer friendly practices. *Refer to Appendix B (2) for rule.*

## **INTERNAL CONTROL PROCEDURES**

---

- Time sheets are used for all part-time clerks and are completed by the general manager. During payroll, the general manager will verify time sheets and manually calculate tax and other withholdings. If discrepancies occur, the general manager will adjust hours worked in the master payroll ledger.
- Monthly reports are compiled manually by the general manager.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. A written policy has been adopted and is in the employee manual.
- 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 general manager.
- Physical inventory counts are completed quarterly by all persons. Spot checks are conducted frequently. If discrepancies occur, the general manager will investigate and recount for accuracy and verification. Once completed, only the general manager will adjust the system to match with the actual store counts. Unsalable items are deleted from the inventory system when sales representatives sign off on the breakage reports.
- Out of approximately 700 product codes, approximately 100 product codes were sampled, and all were correct.

## **RECOMMENDATIONS**

---

1. To minimize potential errors, consider upgrading or purchasing a newer accounting system that would incorporate payroll functions and to be able to provide cost analysis and budget to actual reports.

## **ADMINISTRATIVE COMPLIANCE FINDINGS AND OBSERVATIONS**

---

- Board meeting minutes were viewed and revealed that bonuses were approved and paid to board members and employees. A conflict of interest statement has not been read.
- Board member and general manager information, appointment dates and compensations, are not current on the Commission 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).
- Although total actual expenses are less than the total budgeted expenses, as a reminder, the board has to operate within a balanced budget, or make amendments when necessary.
- Nepotism – The board is in compliance with G.S. 18B-700 (k).
- All board members, the general manager, and finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- Although a board member attended the 2013 North Carolina Association of ABC Boards Summer Conference, travel reimbursements were not available due to lack of submitting documentation.
- Orders for liquor and other miscellaneous orders bear the pre-audit certificate as required by G.S. 18B-702 (m).
- All checks bear the approved certificate and are signed by the finance officer and the board chairman. In the event the finance officer or board chairman is unavailable, the general manager or other board members are authorized to sign checks.

## **RECOMMENDATIONS**

---

1. Refrain from issuing bonus payments to board members. Board member compensation is determined by the appointing authority; no other compensation is allowed. *Refer to Appendix B (3) for statute.*
2. For transparency, 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 B (4) for rule.*
3. Update the commission website to reflect current information on board member and general manager.

## **AUDITOR'S SUMMARY**

---

ABC Board Auditor, Moniqua S. McLean, presented to the board the performance audit recommendations on November 12, 2013. However, a response detailing what policies and procedures the board and management have implemented has not been forwarded to the Commission. Therefore, this audit is being submitted without a response from the board. A follow up visit will be schedule within six months of the final audit submission to determine whether the recommendations have been addressed. The Commission encourages the Hertford ABC Board to address the areas of improvement noted in the audit in order to fully realize the opportunities for improved performance.



## APPENDIX A

---



Exterior view of the store



Counter view



Shelf within the store

## APPENDIX B

---

- (1) *G.S. 18B-706 (b) states, "Each member of a local board shall receive a minimum of two hours of ethics education within 12 months after initial appointment to the office and again within 12 months after each subsequent appointment to the office."*
- (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-700 (g) states, "A local board member shall receive compensation in an amount not to exceed one hundred fifty dollars (\$150.00) per board meeting unless a different level of monetary compensation is approved by the appointing authority. If a different level of monetary compensation is approved by the appointing authority, the appointing authority shall notify the Commission of the approved level of compensation in writing. Any change in compensation approved by the appointing authority shall be reported to the Commission in writing within 30 days of the effective date of the change. No local board member shall receive any nonmonetary compensation or benefits unless specifically authorized by this section."*
- (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.'*"