

# Johnston County 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



# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

### COMMISSIONERS:

A. D. "ZANDER" GUY, JR.  
Surf City

DANIEL L. BRIGGS  
Lexington

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) 662-3583  
<http://abc.nc.gov/>

November 8, 2012

Johnson County ABC Board  
Mr. Neal Johnson, Chairman  
PO Box 909  
Smithfield, NC 27577

Dear Chairman Johnson,

We are pleased to submit this performance audit report on the Johnson 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 General Manager'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 along with your ongoing commitment to providing excellent service and profit distributions to the citizens of Johnson County.

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
Johnston County ABC Board Response.....	12
Recommendation Follow up.....	14

## **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 2011;
- Visited all store locations;
- Interviewed key ABC board personnel.

The Johnston County ABC Board has submitted a response to the performance audit recommendations and continues to take steps toward maintaining profitability while striving to reduce costs where possible. 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 along Interstate 95, Johnston County is approximately thirty miles from Raleigh. Surrounding counties with ABC stores include, Wake, Wayne, Wilson, and Sampson. The US Census Bureau reports a population of 168,878 in 2010.

The 1937 Act authorized Johnston County to hold an election by referendum. The vote for ABC stores was approved in 1937, rescinded in 1940, and another referendum was held on September 2, 1964. The vote passed 4,495 to 4,324. The first ABC store opened on December 15, 1964.

A county-wide mixed beverage election was held on May 6, 1997 and passed 6,175 to 6,074. Mixed beverage sales began on May 28, 1997.

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 Neal Johnson, chairman, Skip Browder and Steve Upton, members.

The Johnston County ABC Board operates seven retail stores and staffs twenty-six employees consisting of eighteen full-time and eight part-time. The general manager is responsible for the daily operations of the county-wide system including supervising personnel, inventory maintenance, and policy enforcement. The finance officer is responsible for all financial operations and budget maintenance. All store managers and clerks are responsible for the floor upkeep, customer service, and daily stocking.

## **FINANCIAL ANALYSIS**

### **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 Johnston County ABC Board receives deliveries to the main store twice a month and has a monthly direct shipment schedule to two stores: the inventory turnover rate is 5.6 and therefore meets the goal set by the Commission.

*No Recommendations.*

### **Operating Cost**

Operating costs are calculated by dividing total operating expenses less depreciation by the 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 and 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 Johnston County ABC Board operates seven retail stores with an operating cost ratio of 0.59 and has met the goal set by the Commission. Johnston County leases two out of seven locations totaling \$37,800 in 2011. Both leases are expected to expire in 2012. In comparing expenses with similar size boards, Johnston County ABC's expenses are higher. Various reasons for these expenses vary due to geographical location, amount of stores, amount of sales in heavily populated areas, and MXB sales. *Refer to charts in Appendix A for analyses of expense history and common expenses of similar size boards.*

*Recommendations:*

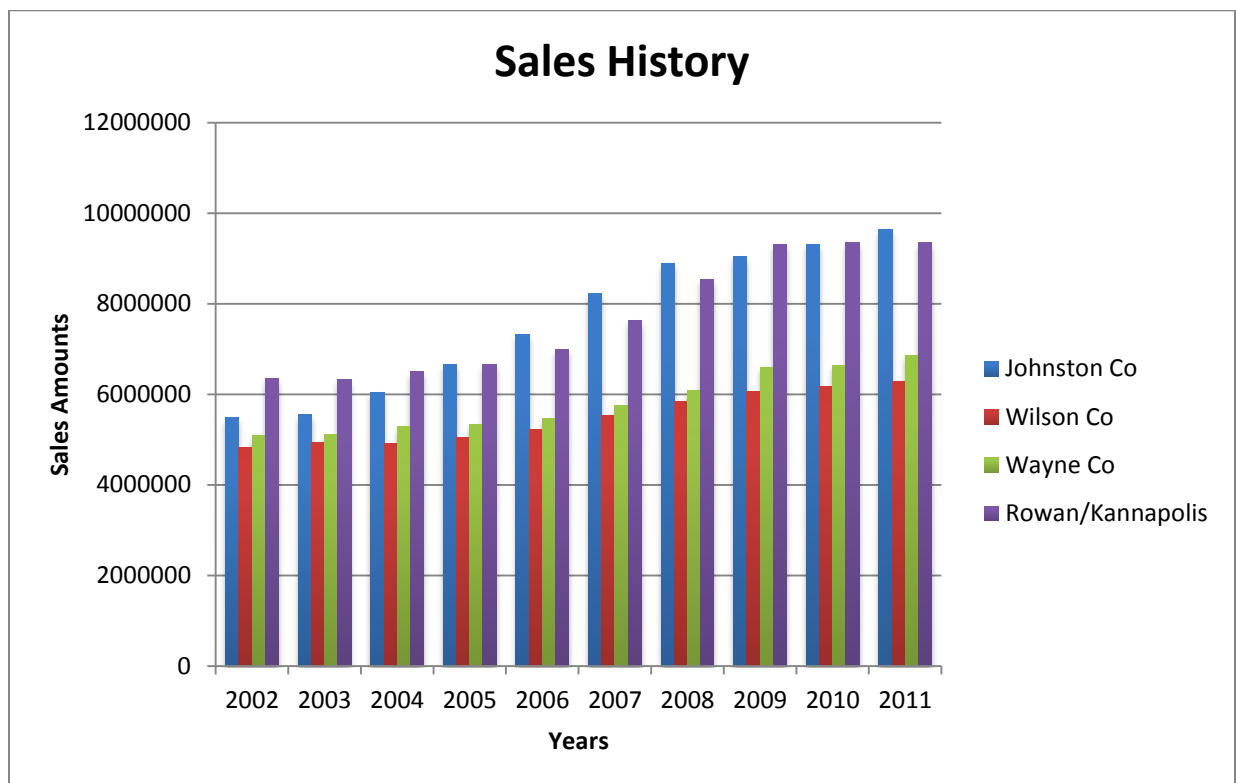
- OPEB expenses will continue to rise. It may be beneficial to contact CPA for advice on the benefits vs. cost implication of continuing this incentive program.
- Request bids annually from various vendors to get the best rates possible on audit, utilities, maintenance contracts, and credit card processing fees.

## Profit percentage to sales

The profit percentage to sales is calculated by dividing the total profit before distributions by the total liquor 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 Johnston County ABC Board had gross sales of \$9,659,272; income from operations was \$872,678, a 9.03% profit percentage to sales. The Johnston County ABC Board has exceeded the goal.



Factors affecting sales and profitability:

- Overall population has increased 2.2% from April 2010 to July 2011;
- Individuals below poverty level have increased 15.1% over the past five years;
- 8.3% unemployment rate for Johnston County, a 0.3% increase since the previous month;
- 6.8% sales increase in fiscal year 2012 over last fiscal year;
- Growth and development in surrounding and heavily populated areas contribute to the different shopping patterns.

## 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

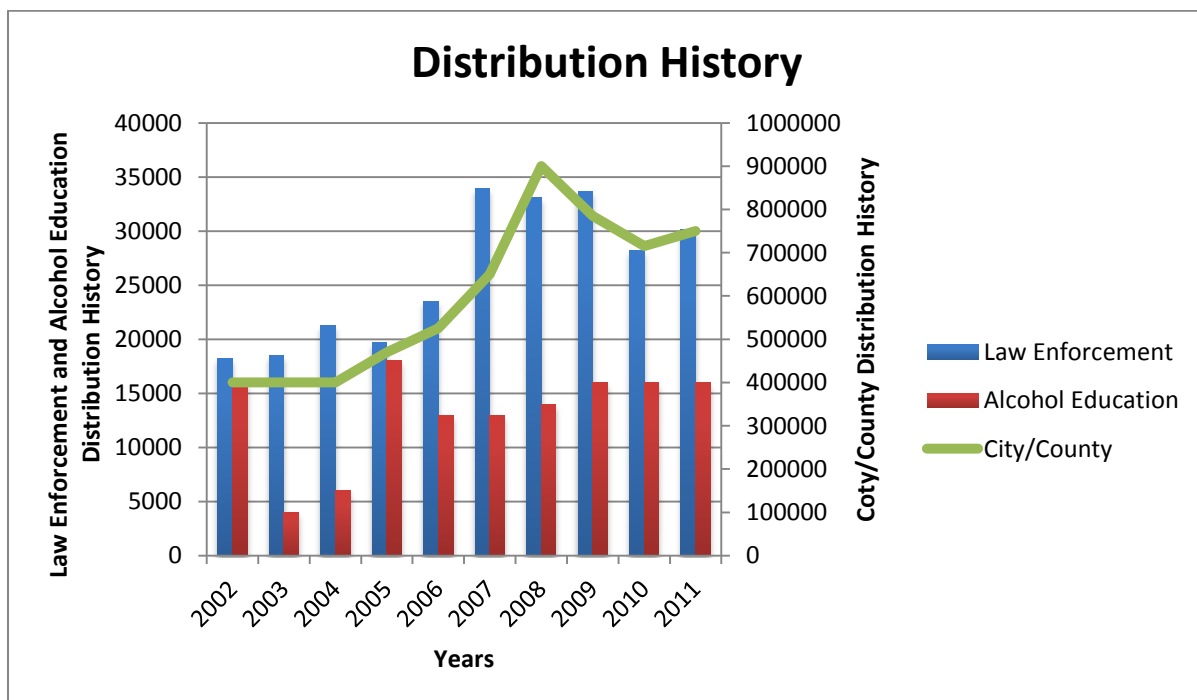
Under the new guidelines, the Johnston County ABC Board had a working capital of \$1,394,556 in FY2011. The working capital retained is within the maximum allowed.

## Distributions

G.S. 18B-805 (c) (2) requires the board to distribute quarterly at least five percent of profits for law enforcement. The enabling act requires the board to distribute up to five percent to alcohol education. The remaining profits are to be distributed to the following:

- 25% to all incorporated municipalities on basis of federal census
- 75% to Johnston County General Fund

Below is a history of Johnston County's distributions. Johnston County's distribution history has begun to increase from two years ago and is still rising. In FY2011, the Johnston County ABC Board made distributions totaling \$796,171; \$30,171 to law enforcement, \$16,000 for alcohol education purposes, and \$750,000 to the county and municipalities.





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

On July 17, 2012, ABC Commission Board Auditor, Moniqua S. McLean visited the Johnston County ABC board office and interviewed Swade Carroll, general manager and Wanda Holloman, finance officer. The following are the findings, observations, and recommendations relating to the performance audit.

### **Store Appearance and Customer Service Observations**

The Johnston County ABC stores range from approximately 662 to 1,468 linear feet of shelf space and carry an average of 800 product codes in each store.

- The required Fetal Alcohol Syndrome poster was displayed in all locations.
- The price book and monthly sales list are available to customers via website and in each store.
- A consistent and easily understood shelf management system was present in all locations, conforming to industry and marketing strategies. Management has submitted a shelf management policy and plan to the auditor.
- All locations were clean and well-maintained in interior and exterior areas. Bottles were dusted and fronted.
- Upon entering each store, employees greeted customers in a professional manner and were attentive to customer needs exhibiting good customer service.

*No Recommendations.*

### **Personnel and Training**

- All board members, general manager, and finance officer have attended the mandatory ethics class.
- Training is provided as new information becomes available. Other training opportunities, such as the RASP class, have not been provided.

*Recommendations:*

- Provide annual training including alcohol education, customer service, and product knowledge. Contact the Commission and other boards that have a training module(s) to incorporate into professional development for employees.

### **Policy and Procedure Observations**

- All required policies have been adopted and submitted to the Commission. Management has also created operational policies and procedures that the board has approved. Copies of policies have been submitted to the auditor.
- The board has obtained a gas card. The general manager is the only authorized user. A written gas card usage policy has not been adopted.

- All employees maintain their own cash drawer. Cash drawers are counted at the beginning and end of each shift. Deposits are made daily before each shift. A policy has been adopted to handle instances where the cash drawer is over or short.
- Physical inventory counts are performed monthly by the store manager and scheduled clerks. Unsalable items are taken out of inventory before the physical inventory count. The store manager enters the counts into the register. After the main office polls the sales and exports the counts into the master computer, a variance report is created for each store detailing discrepancies. The discrepancy list is forwarded to the particular store for a re-count.

*Recommendations:*

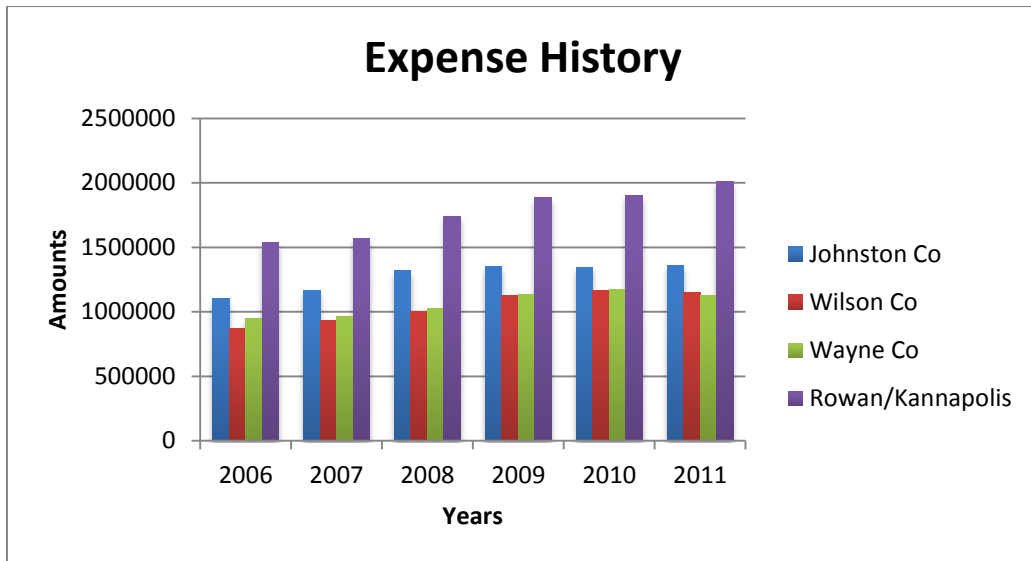
- Adopt a written gas card usage policy. Document procedures for the usage of the gas card including:
  - Who has authority to use the card,
  - What types of items the card may be used for,
  - Personal usage is not allowed,
  - A detailed receipt for every transaction is required.

**Administrative Compliance Findings and Observations**

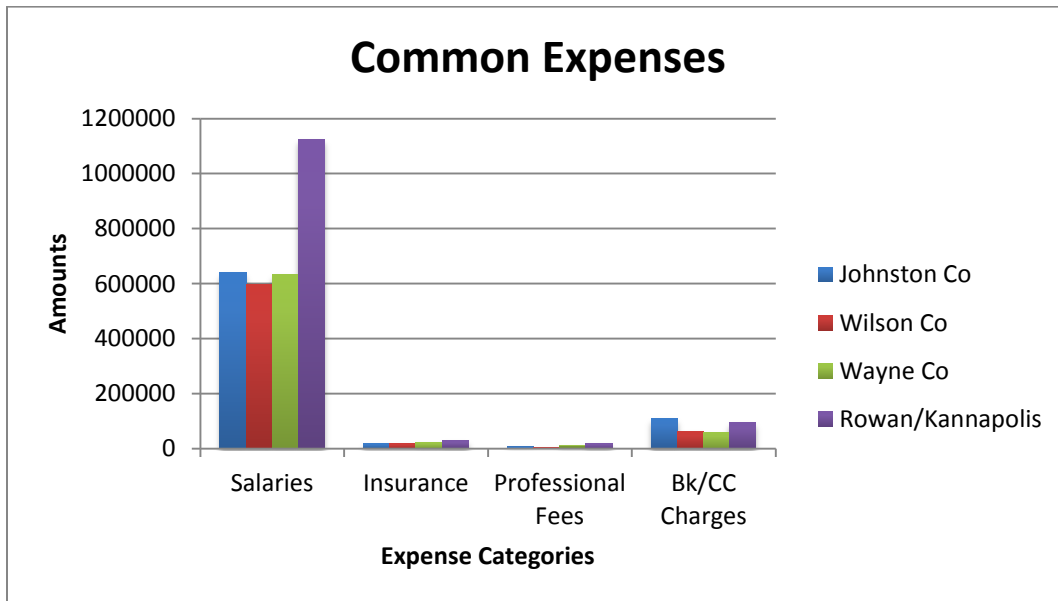
- Board meeting minutes were viewed, followed the order of proceedings for conducting a business meeting, and reference the conflict of interest statement.
- Board member information and general manager information on the Commission internal website reflected current appointment dates and salary information.
- Board member and general manager compensation is in compliance with G.S. 18B-700 (g) and (g1).
- Nepotism – The board is in compliance with G.S. 18B-700 (k).
- Law enforcement activity reports have been submitted to the Commission.
- All liquor orders and purchase orders bear the pre-audit certificate and are signed by the finance officer.
- All checks bear the approved certificate and are signed by the finance officer and general manager.
- Out of an average of 800 product codes in each store, approximately 114 codes were sampled and all reflected the correct price set by the Commission.

*No Recommendations:*

## APPENDIX A



*In analyzing Johnston County's expense history with other boards, the expenses are relatively lower.*



*Common expenses of similar size boards indicate that, except for bank and credit card charges, other common expenses are in line with other boards.*

**JOHNSTON COUNTY**  
**BOARD OF ALCOHOLIC BEVERAGE CONTROL**  
417 SOUTH BRIGHTLEAF BLVD  
P.O BOX 909  
SMITHFIELD, NORTH CAROLINA 27577  
(919) 934-7249 Ph. - Fax (919) 934-3324  
[icabc@earthlink.net](mailto:icabc@earthlink.net)

To: NC ABC Commission October 3, 2012

From: Johnston County ABC Board

Subject: ABC Board Performance Audit Response

This is in response to the Johnston County ABC Board Performance Audit conducted on July 17, 2012 by NC ABC Commission Auditor Moniqua McLean. We were pleased to have Moniqua here to help the Johnston County ABC Board operations and our commitment to excellent service to the citizens of Johnson County.

The performance standards addressed during the audit were inventory turnover, operating cost, profit percentage to sales, working capital, distributions, store appearance/customer service, personnel/training, policies and procedures.

Inventory turnover, operating cost, profit percentage to sales and working capital all met or exceeded the goals set by the NC ABC Commission. The OPEB expenses are a concern to the Board and will be addressed at our regular Board meeting in October 2012.

The last RASP training session was March 3, 2011. In the future, the Johnston County ABC Board will have yearly RASP training as well as product knowledge sessions and continued cross training of employees. We will contact other ABC Boards for the training modules they may be using.

Lack of a written gas card usage policy was noted. The Board has adopted a gas card usage policy and a copy was given to Moniqua McLean on September 25, 2012. The policy addresses who has authority to use the card, what types of purchases may be made, personal usage not allowed and there is to be a detailed receipt for every transaction.

Sales in Johnston County have increased every year and with this increase we have been able to increase our contributions to the County of Johnston, local municipalities, alcohol education and law enforcement. One important program we contribute to is the Student Assistant Program (SAP) with the Johnston County School system. This money is used

to help students receive the programs and help they need to stay in school and get an education.

The Johnston County ABC Board is pleased with the results of this performance audit and strives to improve in all areas so we can be as efficient as possible. Our goal is to run a profitable retail operation and manage expenses in order to increase revenues to our local appointing authority.

Sincerely,



Swade W. Carroll

RECEIVED

OCT 04 2012

NC ABC COMMISSION

## JOHNSTON COUNTY ALCOHOL BEVERAGE CONTROL BOARD

### Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
Policies and Procedures: Adopt a written gas card usage policy.	<input type="checkbox"/> <b>Yes</b>  <input checked="" type="checkbox"/> <b>No</b>	(Please provide documentation supporting implementation status.) <input checked="" type="checkbox"/> Fully Implemented <input type="checkbox"/> Partially implemented ___% complete. (Explain below.) <input type="checkbox"/> Not implemented (Explain below.)  The Board has adopted a gas card usage policy.