

# Liberty 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

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COMMISSIONERS:  
JOEL L. KEITH  
Wake Forest

KEVIN M. GREEN  
Greensboro

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ADMINISTRATOR:  
MICHAEL C. HERRING

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**Moniqua S. McLean**  
ABC Board Auditor

January 14, 2014

Liberty ABC Board  
Mr. Roy Stevenson, Chairman  
PO Box 1186  
Liberty, NC 27298

Dear Chairman Stevenson,

We are pleased to submit this performance audit report on the Liberty 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 control operating expenses 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 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 2012;
- Visited the store;
- Interviewed key ABC board personnel.

The Liberty ABC Board has responded to the performance audit recommendations and continues to create goals and strategies to increase profitability through analyzing and reducing costs where possible. Because of the economic constraints, expenses have been reduced or eliminated. Policies and procedures are being implemented to maintain compliance with statutes and Commission rules and to maintain stronger segregation of duties.

## **BACKGROUND INFORMATION**

Chapter 972 of the 1973 Session Laws authorized the town of Liberty to hold an election for an ABC store upon at least fifteen percent (15%) of registered voters. The referendum was held on January 16, 1978 and passed 639 to 321. The first retail sale occurred on March 15, 1978.

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 members include Roy Stevenson, board chairman, Ed Hernandez and Thomas McManua, Jr., board members.

The Liberty ABC Board operates one retail store. The board staffs one full-time general manager and five part-time employees. The general manager is responsible for overseeing and managing daily operations of the store including supervising personnel, inventory control, and providing customer service. Store employees are primarily responsible for providing friendly customer service, store upkeep and stock maintenance. The board has hired an external finance officer to assist in preparing financial statements, monthly bookkeeping services, and other duties as required by the ABC statutes and rules.

## **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 Liberty ABC Board receives deliveries twice a month: the inventory turnover rate is 5.6. This rate compares favorably to the benchmark of 5.0 for boards with the same delivery schedule.

*No Recommendations.*

### **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 Liberty ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.88. Mixed beverage sales make up 0.71% of total gross sales. Sales in fiscal year 2012 5.82% over fiscal year 2011, expenses increased 3.44% over the same time period. Rent expense (\$24,000) contributes to the high operating expense. To meet the cost ratio goal and remain at current operating expense of \$153,796, revenues must be increased to approximately \$935,000, a 29% increase. To meet the cost ratio goal and remain at current revenue of \$727,316, expenses must be reduced to approximately \$135,000, a 12% decrease. *An analysis of operating expenses is found in Appendix A.*

*Recommendations:*

- 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.

### **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, Liberty ABC had a working capital of \$87,108, which is equivalent to approximately four months gross sales and is within the limits of NCAC 02R .0902.

### **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:

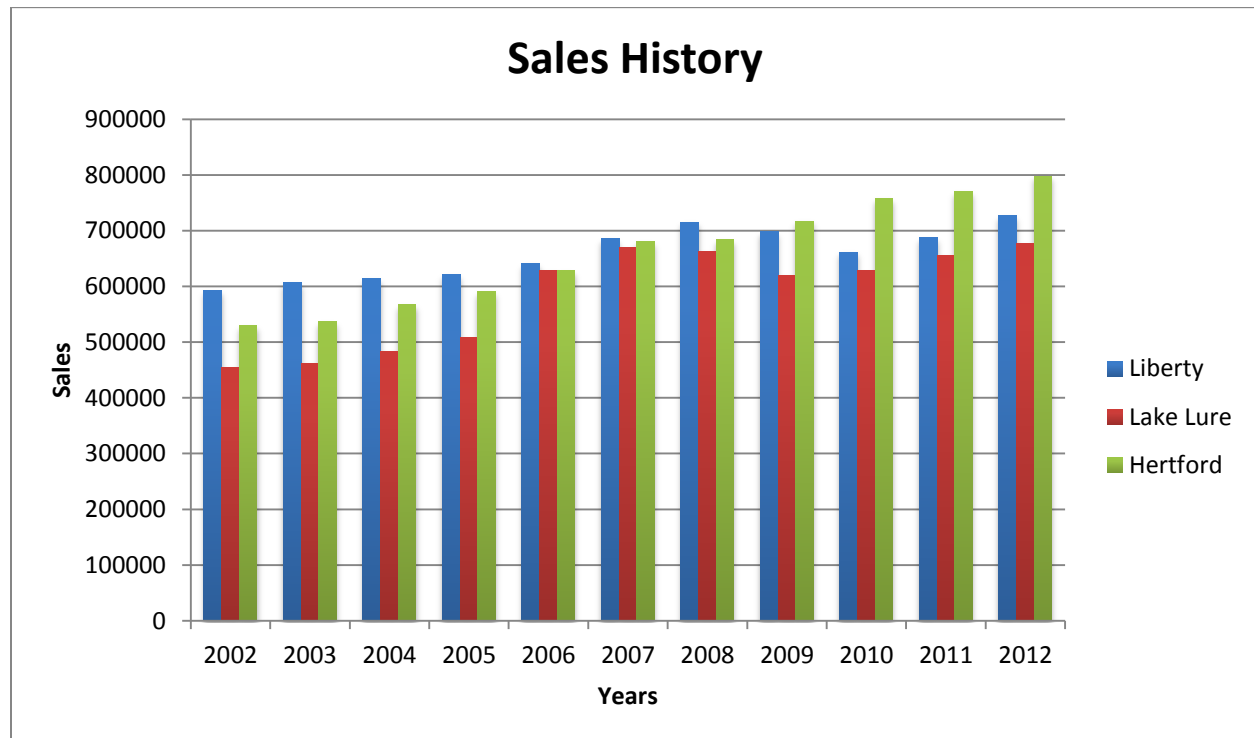
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Liberty ABC Board had gross sales of \$727,316; income from operations was \$19,497, a 2.68% profit percentage to sales.

Factors affecting sales and profitability:

- US Census Bureau reports a population of 2,656 in 2010;
- Surrounding towns with ABC stores within a twenty mile radius include Randleman and Asheboro;
- 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 of similar size boards compared with Liberty 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 and adding displays to encourage impulse shopping;
- Closely monitor monthly overhead and business expenses;
- Invite the Association’s Efficiency Committee to visit the store with the possibility of making additional recommendations to improve profitability.

**Distributions**

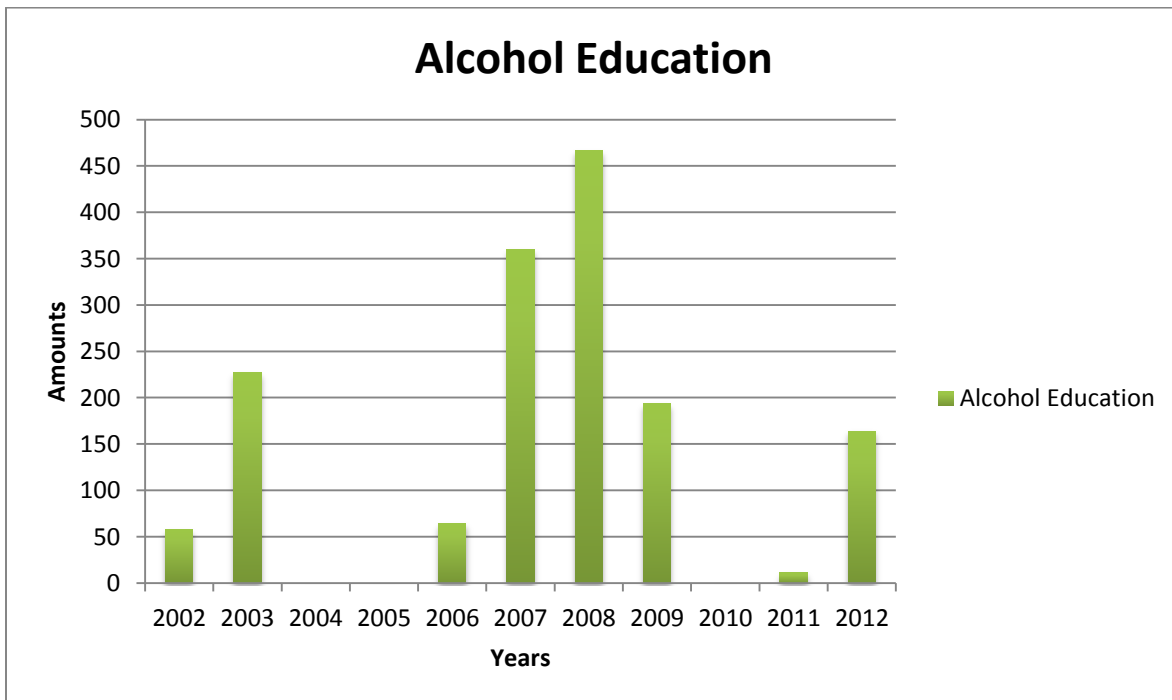
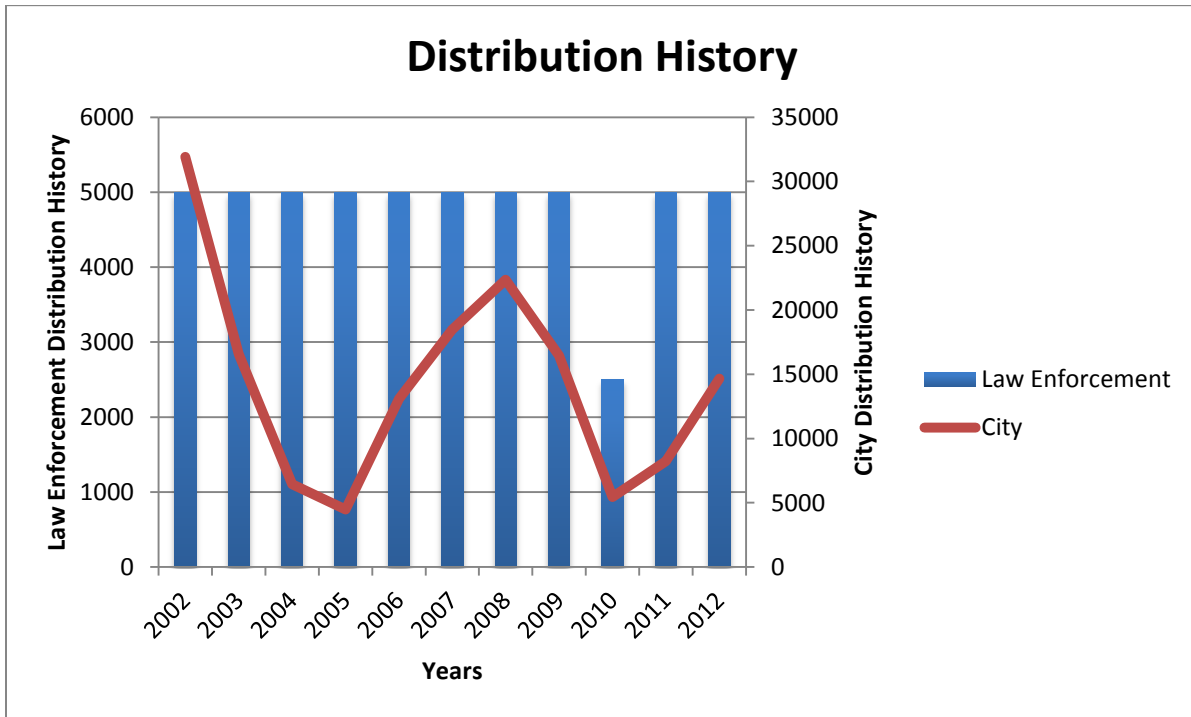
G.S. 18B-805 (c) (2) requires the board to distribute at least five percent (5%) of profits to law enforcement. The board follows the local enabling act for alcohol education distributions. The remaining profits are to be distributed as follows:

- 7% for education and rehabilitation – may spend additional 3%;
- 5% to Town Medical Clinic Maintenance Fund;
- Remainder to Liberty General Fund

In FY2012, Liberty ABC did not make the required minimum distribution totaling \$21,638. However, \$164,395 in Excise and other taxes were paid to the NC Department of Revenue. The board distributed \$5,000 to law enforcement and \$164 to alcohol education and rehabilitation.



Below is a chart analyzing the high-low trend of distributions for law enforcement, alcohol education, and the city in the past ten years.



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

On June 11, 2013, ABC Board Auditor, Moniqua S. McLean visited the Liberty ABC Board and interviewed Anthony Beasley, general manager, and Roy Stevenson, board chairman. The following are the operational findings, observations, and recommendations related to the performance audit.

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

The Liberty ABC Board operates one retail store with approximately 1,000 linear feet of shelf space and carrying approximately 1,026 product codes. Refer to pictures in Appendix B.

- The store was clean and well-lit. Bottles were fronted and dusted. Counter areas were free of clutter and supplies were easily accessible.
- Exterior and landscaping around the store was clean and free of trash.
- The Fetal Alcohol Syndrome poster and other signage is displayed.
- The store displayed a shelf management plan that exhibits highest priced product on top shelves and lowers priced product on the lower shelves. See pictures on page 15
- Security systems are in place and functional.
- The state price book is available along with the monthly sales lists.
- Sales clerks' interaction with customers was attentive, courteous, and eager to meet the needs of customers.

#### *Recommendations:*

- Consider using additional methods such as cross merchandising in various categories to increase impulse shopping patterns.

### **Personnel and Training**

- Two out of three board members, the general manager, and the finance officer have attended the initial mandatory ethics class.
- Training is provided to new employees but other alcohol educational training is not available.
- Cross training opportunities are not extended to key employees in the event the general manager was suddenly unavailable.
- A sample of personnel files were viewed and contained the applicable tax information. However, additional information, such as the I-9 for employees was not documented.

#### *Recommendations:*

- Bring all board members into compliance with state ethics requirement. All reappointed board members must receive ethics education within 12 months of the reappointment date. *Refer to Appendix C (1) for statute.*

- Provide additional training that will include alcohol education, customer service, and product knowledge. Contact other boards that have a training module(s) in these areas and take advantage of RASP classes offered by the Commission.
- Cross train key employees in various areas such as ordering liquor, paying bills, etc. in the event that management is unavailable.
- Update personnel files to include the above referenced form.

### **ABC Board Policies**

- Policies adopted and submitted to the Commission include:
  - Code of Ethics
  - Law Enforcement Contract
  - Travel Policy (State Policy)
  - FY2012 Annual Audit
  - FY2013 Budget (Proposed and Adopted)
  - Employee Handbook (1997)
- Policies not adopted and submitted to the Commission include:
  - Mixed Beverage Policy
  - Price Discrepancy Policy

#### *Recommendations:*

- Adopt a mixed beverage policy that details customer friendly and flexible ordering and pickup guidelines. The Commission expects excellent service to be provided to all customers coming into local ABC Boards. Once adopted, submit a copy to the Commission.
- Adopt a price discrepancy policy that incorporates customer friendly practices. *Refer to Appendix C (2) for rule.*
- Adopt an updated or revise employee handbook that outlines the duties and responsibilities of each employee, board policies, and benefits offered, if any. Forward copies to all employees and implement an acknowledgement of receipt from every employee to be filed in the personnel files. Once adopted, submit to the Commission. *Refer Appendix C (3) for rule.*

### **Internal Control Procedures**

- Payroll documentation is completed by the general manager and entered into accounting software for processing. The master payroll activity report is verified by the general manager and finance officer. Payroll software calculates tax and other withholdings. However, the payroll software is not regularly backed up.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. During the day, the general manager will perform a mid-day audit to ensure accuracies. However, there is no written policy should any cash discrepancies occur.

- Bank deposits are made regularly as required by the ABC Commission rule. Bank notification is received and matched with corresponding daily register reports. Bank reconciliation are completed monthly by the finance officer.
- Physical inventory counts are performed monthly by the general manager and at least two other persons. Spot checks are conducted often. If discrepancies occur, all persons involved with the initial count 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.

*Recommendations:*

- Back up all systems to prevent data loss or compromise on a regular basis.

### **Administrative Compliance Findings and Observations**

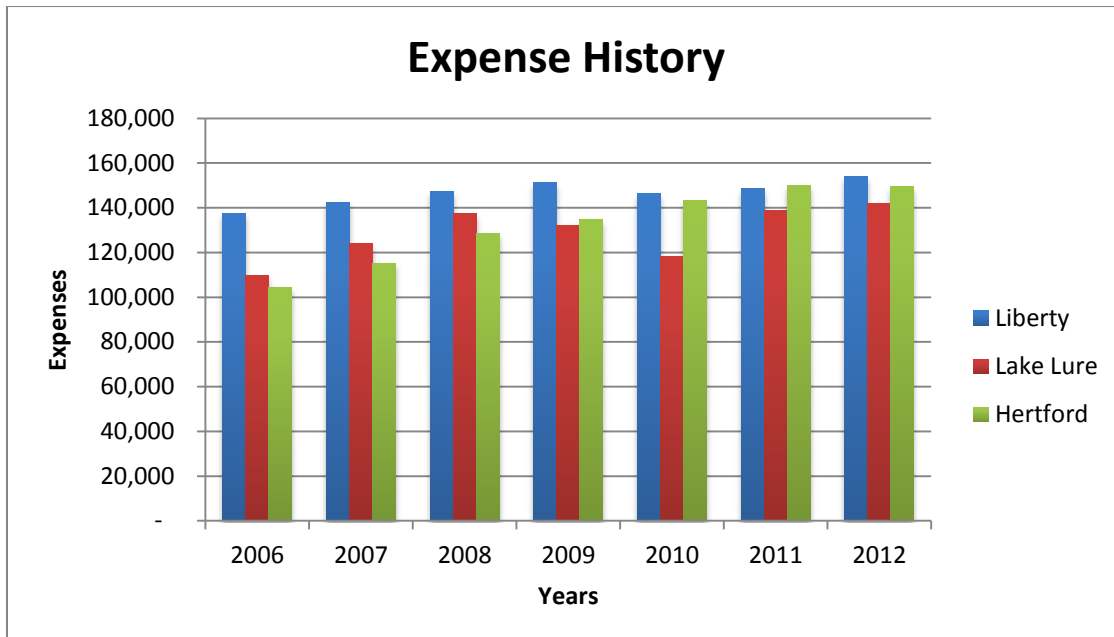
- Board meeting minutes were viewed and followed the order of proceeding for conducting a business meeting. However, the conflict of interest statement was not referenced.
- Board member appointment dates and compensation amounts are current on the Commission website.
- Board member and general manager 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).
- Nepotism – The board is in compliance with G.S. 18B-700 (k).
- Each board member, the general manager, and finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- Orders for liquor and common orders do not bear the pre-audit certificate as required by G.S. 18B-702 (m). However, individual liquor invoices have the pre-audit certificate included.
- All checks bear the approved certificate and are signed by the general manager and a board member.
- An audit of paid liquor bills revealed that payments were not paid within 30 days.
- Out of approximately 1,000 product codes, approximately 100 codes were sampled and all reflected the correct price.

*Recommendations:*

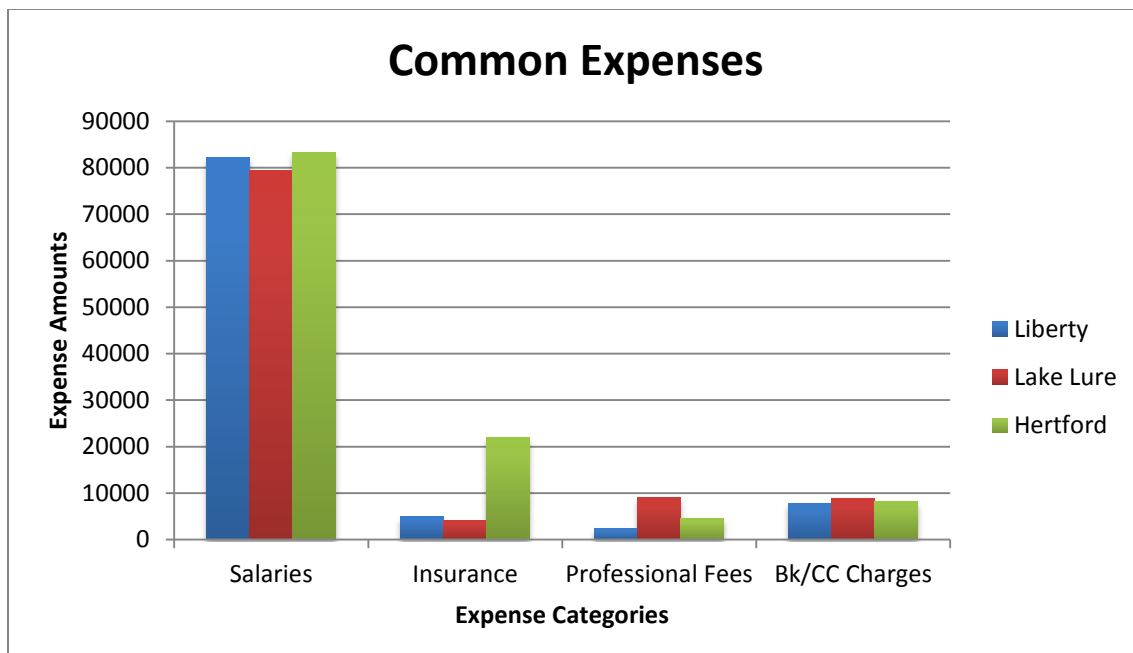
- Have the board chairman read the conflict of interest statement to all board members at the start of each meeting. Reference the conflict of interest statement was read in the board minutes. *Refer to Appendix C (4) for rule.*

- As a reminder, when reporting law enforcement activity, report only activity that the designated alcohol enforcement officers perform.
- To save time, eliminate stamping individual invoices with the pre-audit certificate. 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.*

## APPENDIX A



*The expense history data indicates that Liberty ABC's total operating expenses have 3.44% since FY2011. Rent expense contributes to the higher operating expense (\$24,000), 3% more than Lake Lure. Note: Hertford owns their location. Compared with other similar size boards, Liberty ABC's expenses are slightly higher.*



*Common expense analysis indicates that Liberty ABC's expenses are in line with other similar size boards. Note: Insurance expenses for Hertford include additional insurance fees.*

## APPENDIX B



*Exterior view*



*Interior view*



*Counter view*

## APPENDIX C

- (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) *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.*
- (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."*

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*(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."*



## REPLY TO LIBERTY ABC BOARD AUDIT REPORT

- Operating expenses are closely monitored and will continue to be studied in an attempt at lowering operating cost.
- Store manager has been task to setup a visit from the Associations Efficiency Committee.
- All Board Members have attended Ethics Training.
- Store manager will initiate appropriate training for all employees and update personnel files as required.
- Mixed beverage ordering and pickup policy has been established as well as price discrepancy policy. Employee handbook is in progress.
- Payroll software is backed up on a regular basis.
- Conflict of interest statement is read at each meeting.
- Liquor bills will be paid on a timely basis.

Liberty ABC Board Chairman,

Roy Stevenson

## LIBERTY ALCOHOL BEVERAGE CONTROL BOARD

### Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Personnel and Training:</b></p> <p>Have all board members complete the ethics training.</p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></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>All board members have completed the ethics training.</p>
<p><b>ABC Board Policies:</b></p> <p>Adopt or update the following policies:</p> <ul style="list-style-type: none"> <li>• Mixed Beverage Policy</li> <li>• Price Discrepancy Policy</li> <li>• **Employee Handbook</li> </ul>	<p><input type="checkbox"/> <b>Yes</b></p> <p><input checked="" type="checkbox"/> <b>No</b></p> <p>**Note: Required by rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>The board is working on updating policies to incorporate current practices. Once completed, copies will be forwarded to the Commission.</p>

# LIBERTY ALCOHOL BEVERAGE CONTROL BOARD

## Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Administrative Compliance:</b></p> <p>Pay all liquor bills within thirty days of receipt of liquor.</p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></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 policies and procedures to remain in compliance with this statute.</p>