

Lillington 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

COMMISSIONERS:
JOEL L. KEITH
Wake Forest

KEVIN M. GREEN
Greensboro

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Moniqua S McLean
ABC Board Auditor

October 31, 2013

Lillington ABC Board
Mr. Marshall Page, Chairman
PO Box 1087
Lillington, NC 27546

Dear Chairman Page,

We are pleased to submit this performance audit report on the Lillington 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 taken to reduce operating expenses at your ABC store. We also hope the new bridge there will open soon improving accessibility for your customers.

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 Lillington ABC Board has responded to the performance audit recommendations and is striving to improve profitability through analyzing and reducing current costs while continuing to meet the demands of customers. 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

Chapter 798 of the 1963 Session Laws authorized the Town of Lillington to hold an election upon a petition of at least fifteen percent of registered voters. The referendum was held on October 8, 1966 and passed 351 to 243. The first retail sale occurred on December 12, 1966.

Upon election of an ABC store, the Town of Lillington was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members are Marshall Page, board chairman, Helen Stewart and Alex McPherson, board members.

The Lillington ABC Board operates one retail store. The board staffs three part-time employees. The general manager is responsible for overseeing and managing daily operations of the store including supervision personnel, inventory control, and providing customer service. Store clerks are primarily responsible for providing friendly customer service, store upkeep, and inventory management. 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 Lillington ABC Board receives deliveries one a month: the inventory turnover rate is 6.9.

Recommendations:

- Continue with the following that are already being used effectively:
 - Analyzing sales and history reports to determine the bestselling products needed and to avoid overstock;
 - Splitting cases with other boards to increase variety;
 - Asking for price reductions from the Commission to clear dead stock.

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 Lillington ABC Board operates one retail store with mixed beverage sales; the operating cost ratio is 0.74. Mixed beverage sales began in 2004 and make up 8.5% of total gross sales. In fiscal year 2012, sales increased 10.6% while expenses decreased 1.5% over the same time period. The board owns the building which contributes to savings on rental expense. To pay for capital improvements, the board has utilized a portion of working capital and acquired long-term debt expense.

No Recommendations.

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, Lillington ABC had a working capital of \$272,000, which is equivalent to less than 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:

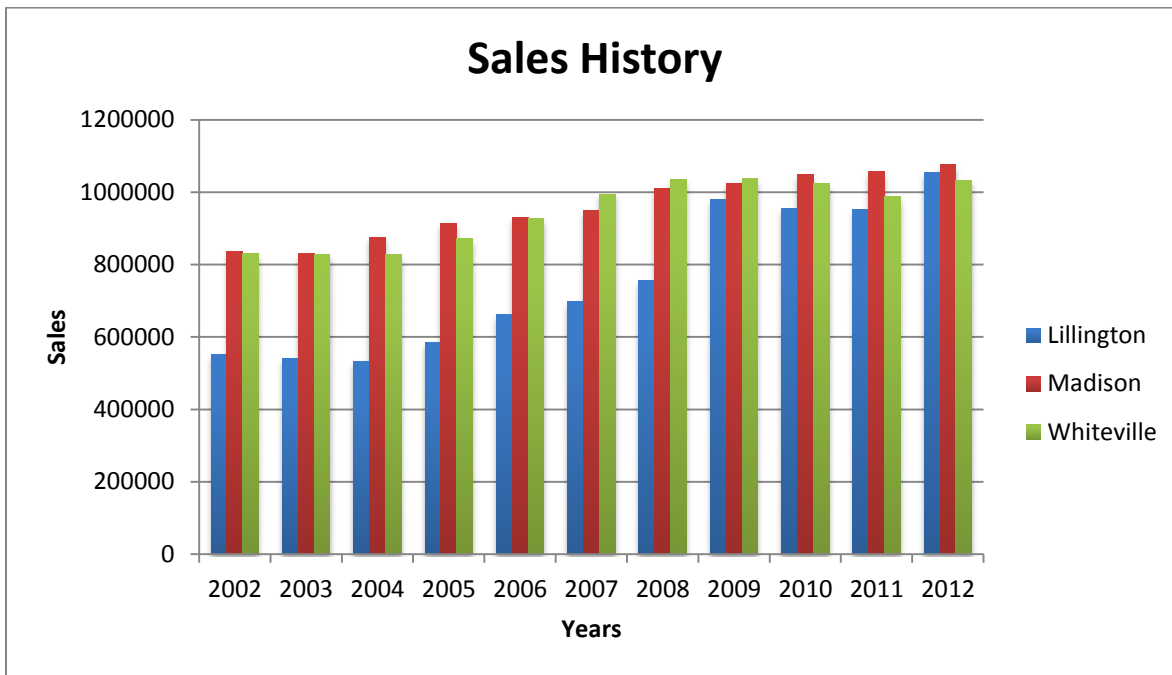
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Lillington ABC Board had gross sales of \$1,054,152; income from operations was \$35,702, a 3.39% profit percentage to sales.

Factors affecting sales and profitability:

- US Census Bureau reports a population of 3,194 in 2010;
- Surrounding towns with ABC stores within a fifteen mile radius include Dunn and Angier;
- 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;
- Construction of the road to replace bridge beside the store making entrance and exit difficult.

Below is a sales history analysis of similar size boards compared with Lillington ABC Board. This chart analyzes the sales trends for the past ten years. The new store was built in 2008 from a counter store to modern, self-service store.



Recommendations:

- To increase profitability, consider testing different marketing strategies such as cross-merchandising and adding displays to encourage impulse shopping;
- Invite the Association’s Efficiency Committee to visit the store with the possibility of making additional recommendations to improve profitability.

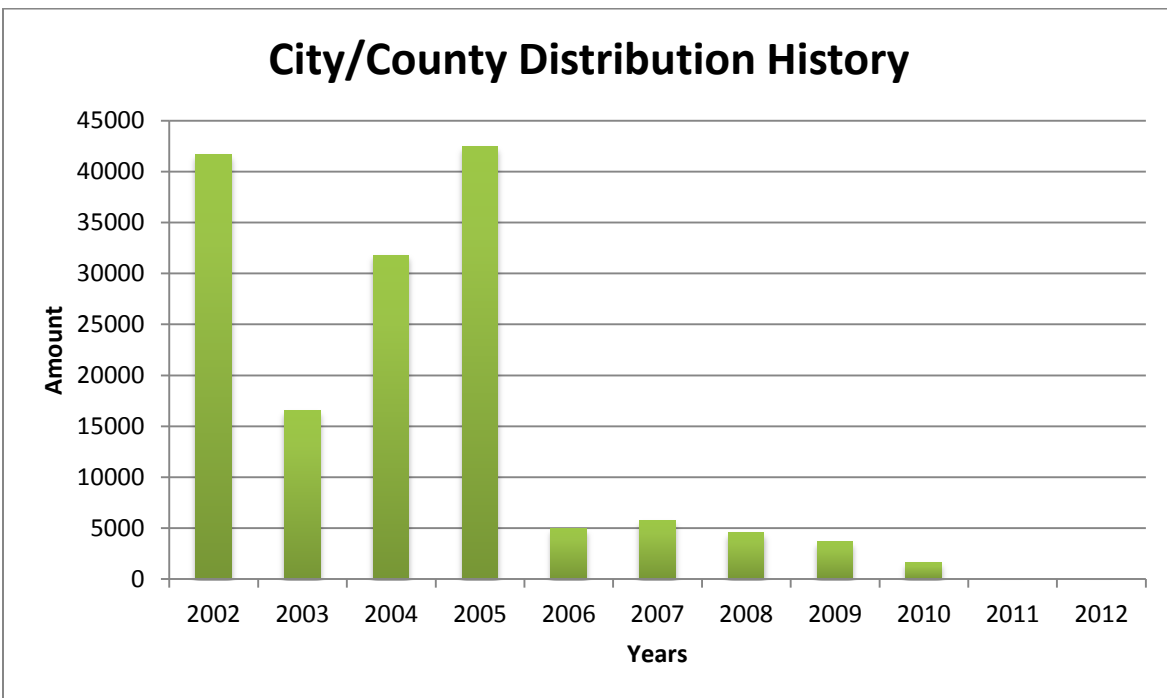
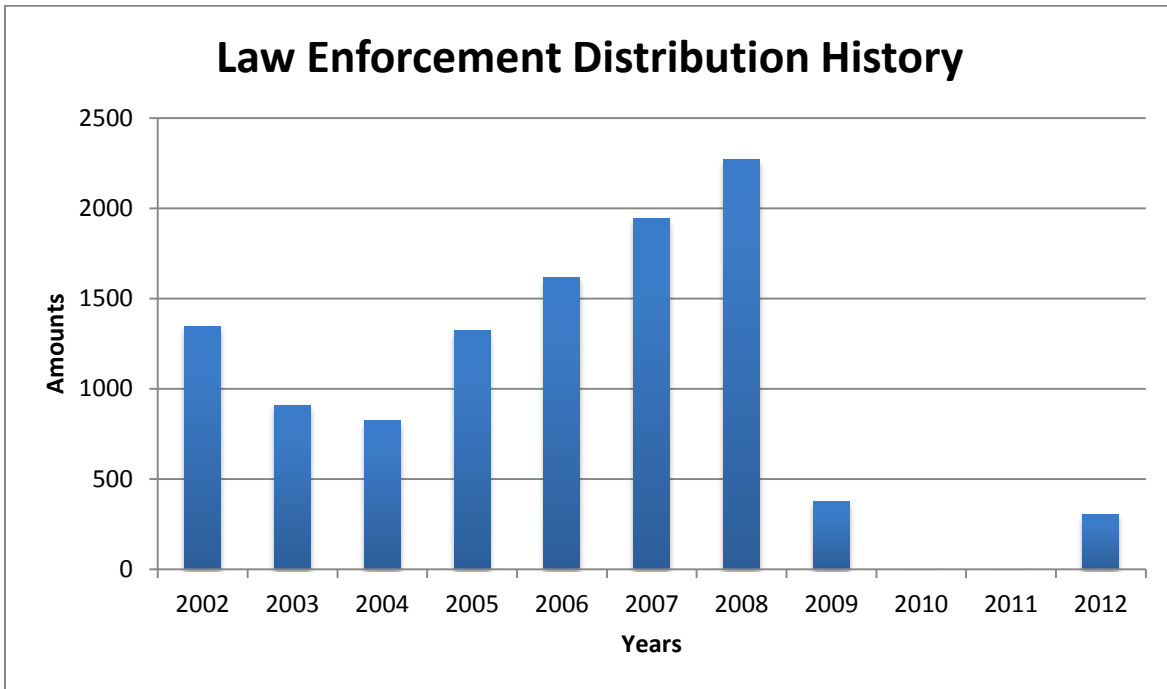
Distributions

G.S. 18B-805 (c) required 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:

- 25% to Harnett County Public Library
- 75% to Lillington General Fund of which 10% may be used for alcohol rehabilitation

In FY2012, Lillington ABC did not make the required minimum distributions totaling \$30,472 to Lillington General Fund. The appointing authority has allowed the ABC board to withhold distributions through the life of the note payable on the new building. \$246,255 in Excise and other taxes were paid to the NC Department of Revenue and \$304 to law enforcement.

Below is a chart analyzing the high-low trend of distributions to law enforcement and to the city.



OPERATIONAL FINDINGS, OBSERVATIONS, AND RECOMMENDATIONS

On May 20, 2013, ABC Board Auditor, Monique S. McLean visited the Lillington ABC Board and interviewed Robert Clack, general manager, and Marshall Page, board chairman. The following are the operational findings, observations, and recommendations related to the performance audit.

Store Appearance and Customer Service Observations

The Lillington ABC Board operates one retail store with approximately 1040 linear feet of shelf space and carrying approximately 900 product codes. The store was upgraded in 2008. *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 signage and landscaping around the store was clean and free of trash. The Fetal Alcohol Syndrome poster and other signage is displayed.
- Some shelves were empty giving the impression that there were not enough products available. Front display cases were under-utilized. The store displayed a shelf management plan that exhibits highest priced product on top shelf and lowest priced product on the lower shelf. *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.
- Although smoking was not observed, the remnants of smoke were evident.

Recommendations:

- Utilize front display case and end caps to highlight new, on sale or discontinued items. To reduce the amount empty shelving, consider filling a section with a product display of bestselling products. Cross merchandising products in various categories will increase impulse shopping patterns and also make shelves look fuller.
- As a reminder, smoking is prohibited on ABC store premises.

Personnel and Training

- All board members and general manager have attended the initial mandatory ethics class. The finance officer is scheduled to attend the next class. The chairman has since been reappointed and has not taken the online training.
- Formal training has not been provided as new information becomes available to current staff.
- Management has begun cross training opportunities 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.
- 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)
- Policies not adopted and submitted to the Commission include:
 - Mixed Beverage Policy
 - Price Discrepancy Policy
 - Employee Handbook

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

- Physical inventory counts are performed monthly by everyone. Spot checks are conducted often. 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 adjusted whenever the sales representatives sign the form. To save time, the board has purchased scanners to aid staff in the inventory counting process.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. 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 reconciliations are completed quarterly by the finance officer.
- Payroll documentation is completed by the general manager and forwarded to the finance officer for processing. The master payroll activity report is verified by the general manager. Payroll software calculates tax and other withholdings.

Recommendations:

- Adopt a written cash shortage and overage policy. While this is understood, it is good business practice to have written procedures in place for current and future employees. Once adopted, submit a copy to the Commission and include in the employee personnel manual.

Administrative Compliance Findings and Observations

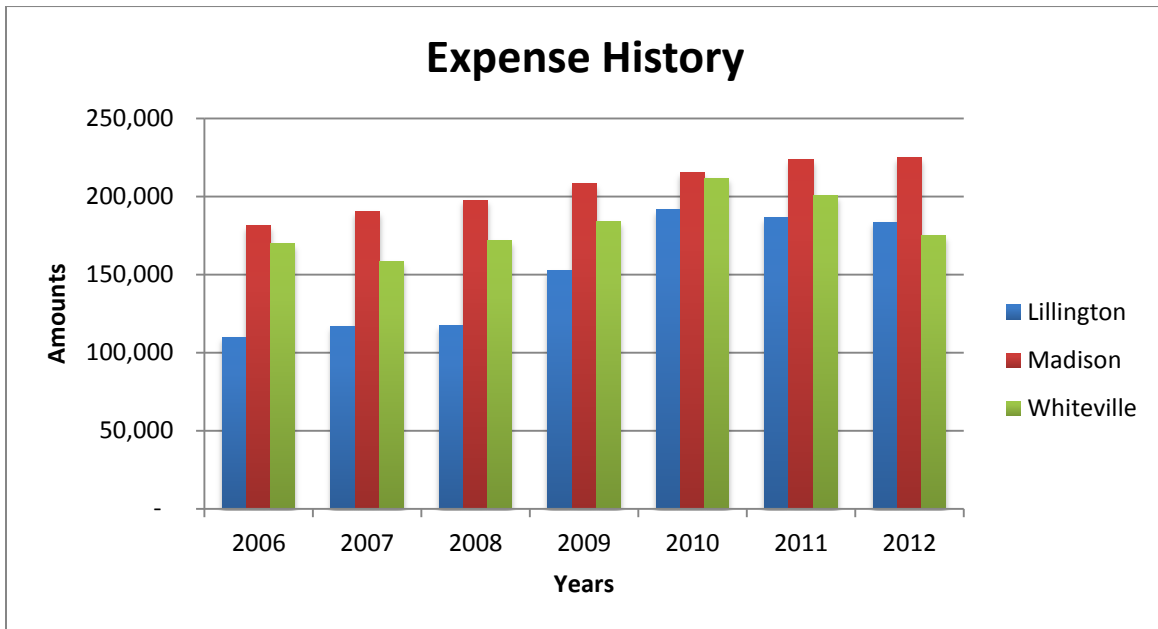
- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting referencing the conflict of interest statement.
- Board member appointment dates were not updated on the Commission website. However, compensation amounts were current.
- Board member and general 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).
- All board members, general manager, and finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- Orders for liquor and other common orders do not bear the pre-audit certificate as required by G.S. 18B-702 (m). However, when using petty cash funds, purchase orders are used.

- Although checks have two signatures, that of the finance officer and a board member, the approved certificate is not shown on all checks as required.
- Out of approximately 900 product codes, approximately 116 codes were sampled and all reflected the correct price.

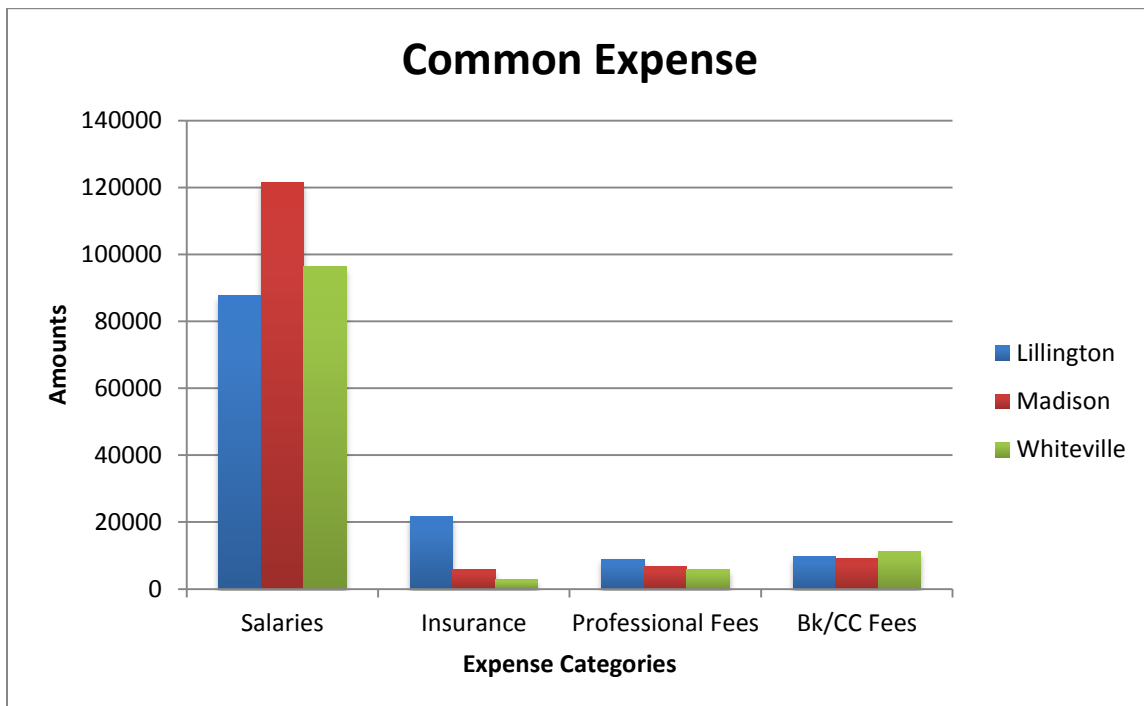
Recommendations:

- Update the Commission website to reflect current information.
- 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 (4) for statute.*

APPENDIX A



The expense history data indicates that Lillington ABC's total expenses have decreased 1.46% since FY2011. Compared with other similar size boards, Lillington ABC's expenses are not out of line.



Common expense analysis indicates that Lillington ABC's expenses are relatively lower compared with other similar size boards. Note: Insurance fees may have health insurance included resulting in a higher insurance amount.

APPENDIX B



Interior view.



Counter view.



Interior 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) *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)

LILLINGTON ABC BOARD

Chairman:
Marshall A. Page

General Manager:
Robert (Bobby) Clack

Board Members:
Alex (Pete) McPherson
Janice Arnold

September 8, 2013

P.O. Box 1087
Lillington, N.C.
27546

Moniqua S. McLean
ABC Board Auditor

Reference:
Performance Audit

Dear Mrs. McLean,

This letter is in response to the performance audit and follow-up after you attended our board meeting, to present and explain the audit. We were worried about your inspection, especially being the first one, and did not know what to expect. The ABC Board, General Manager and Staff try very hard not only in having a clean, neat and attractive store, but providing the very best service we can to our customers.

The Lillington Board of Commissioners, the ABC Board, the General Manager, Staff and myself are very proud of our ABC Store and the changes that have occurred since we opened our new self-service facility. Just like modernization of our store, your performance inspection opened our eyes to several changes we needed in order to provide a better service to the general public and our employee's.

After receiving your mailed report, we immediately began implementing the changes you recommended, and as reported to you at our August Board Meeting, all are in place, or waiting (October 9th. Ethics training) to be placed in effect, except one. Your recommendation to upgrade the Employee's Manual has become a "Big One ". Our current manual has been in place since 1999, and has most of the general information an employee needs. However after taking a real good look at the manual, we realize as you indicated we need an up-dated version. Bobby and I have spent hours researching, reading and discussing what needed changing or modifying, taking out or putting into the manual. I have taken on the job of organizing and re-typing the manual, and I'm not done with it yet. Mrs. McLean as soon as I complete the Employee Manual, I will send you a copy for your review.

It has been a challenge here at our store for the past two years because of the bridge replacement over the Cape Fear River. Traffic flow and accessibility getting to the store at times has been a nightmare, and customers have been unhappy. However time move on, the bridge is nearing completion, and we're moving forward. Our future looks promising, and we thank you for your input, ideas and service.

RECEIVED

SEP 10 2013

NC ABC COMMISSION

Respectfully,

Marshall
Marshall

LILLINGTON ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>ABC Training</p> <p>Bring all board members into compliance with the ethics training requirement.</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>All board members have completed the required ethics training.</p>
<p>ABC Board Policies</p> <ul style="list-style-type: none"> • Adopt the following policies <ul style="list-style-type: none"> ○ Mixed Beverage Policy ○ **Price Discrepancy Policy ○ **Employee Handbook 	<p><input type="checkbox"/> Yes</p> <p><input checked="" 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 is currently updating the employee handbook and will forward to the Commission upon completion. All other policies have been adopted and forwarded to the Commission.</p>

LILLINGTON ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Administrative Compliance:</p> <p>Affix the pre-audit certificate on documents before transaction occurs.</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>The board has implemented procedures to incorporate this practice on all documentation before the transaction occurs.</p>