

# Louisburg 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

ADMINISTRATOR:  
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**Your Name**  
Director  
Permit Division  
(this is editable)

July 22, 2013

Louisburg ABC Board  
Mr. Thurman A. Gardner Jr., Chairman  
605 N Bickett Blvd.  
Louisburg, NC 27549

Dear Chairman Gardner,

We are pleased to submit this performance audit report on the Louisburg 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 increase operating efficiencies 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 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 2012;
- Visited the store;
- Interviewed key ABC board personnel.

The Louisburg ABC Board has responded to the performance audit recommendations and strives to take steps toward becoming more profitable 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 862 of the 1947 Session Laws authorized the Town of Louisburg to hold an election upon a petition of at least fifteen percent of registered voters. The referendum was held on July 1, 1947 and passed 394 to 148. The first retail sale occurred on July 11, 1947. A mixed beverage election was held on September 21, 1978 and passed 197 to 186. The first mixed beverage sale occurred on June 18, 1979.

Upon election of an ABC store, the Town of Louisburg was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members are Thurman Allen Garner, Jr., board chairman, William Hill, Jr. and Frank Freeman Jr., board members.

The Louisburg ABC Board operates one retail store. The board staffs three full-time and two part-time employees. The general manager is responsible for overseeing and managing daily operations of the store including supervising personnel and invoice payments. The store clerks are primarily responsible for selling products to customers, store upkeep, and inventory management. The board has hired an external finance officer to assist in preparing financial statements and monthly bookkeeping services.

## **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 Louisburg ABC Board receives deliveries twice a month; the inventory turnover rate is 6.1.

#### *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 Louisburg ABC Board operates one retail store with mixed beverage; the operating cost ratio is 0.82. Mixed beverage sales began in 1978 and currently make up 2.6% of total gross sales. In fiscal year 2012, sales increased 2.5% over fiscal year 2011 and expenses decreased 1.84% over the same time period. The board owns the building which contributes to savings on rental expense. To meet the cost ratio goal and remain at current expense of \$221,144, revenues must be increased to approximately \$1,250,000, an 8% increase. To meet the cost ratio goal and remain at current revenue of \$1,154,595, expenses must be reduced to \$208,000, a 5% decrease.

#### *Recommendations:*

- Because salaries and benefits are the biggest expense, consider whether it is beneficial to decrease full-time status employees to part-time employees through attrition in order to reduce the health benefit costs.
- 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.

## 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:

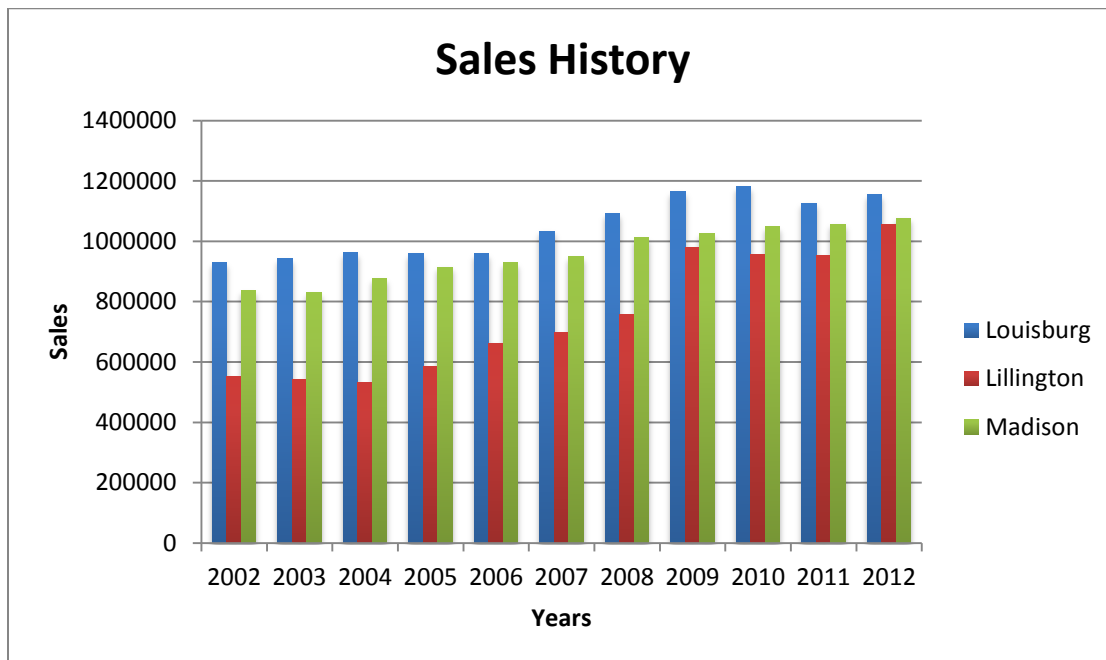
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Louisburg ABC Board had gross sales of \$1,154,595; income from operations was \$46,206, a 4% profit percentage to sales.

Factors affecting sales and profitability:

- Surrounding counties and towns with ABC stores include Wake County, Warren County, Vance County, Granville County, Bunn, Franklinton, Youngsville;
- US Census Bureau reports an estimated population of 3,359 in 2010;
- Student population increase contributes to the 2.5% sales increase.

Below is a sales history analysis of similar size boards compared with Louisburg 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 modernizing store to increase shelf space and encourage impulse shopping;
- Closely monitor monthly overhead and business expenses;

## 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

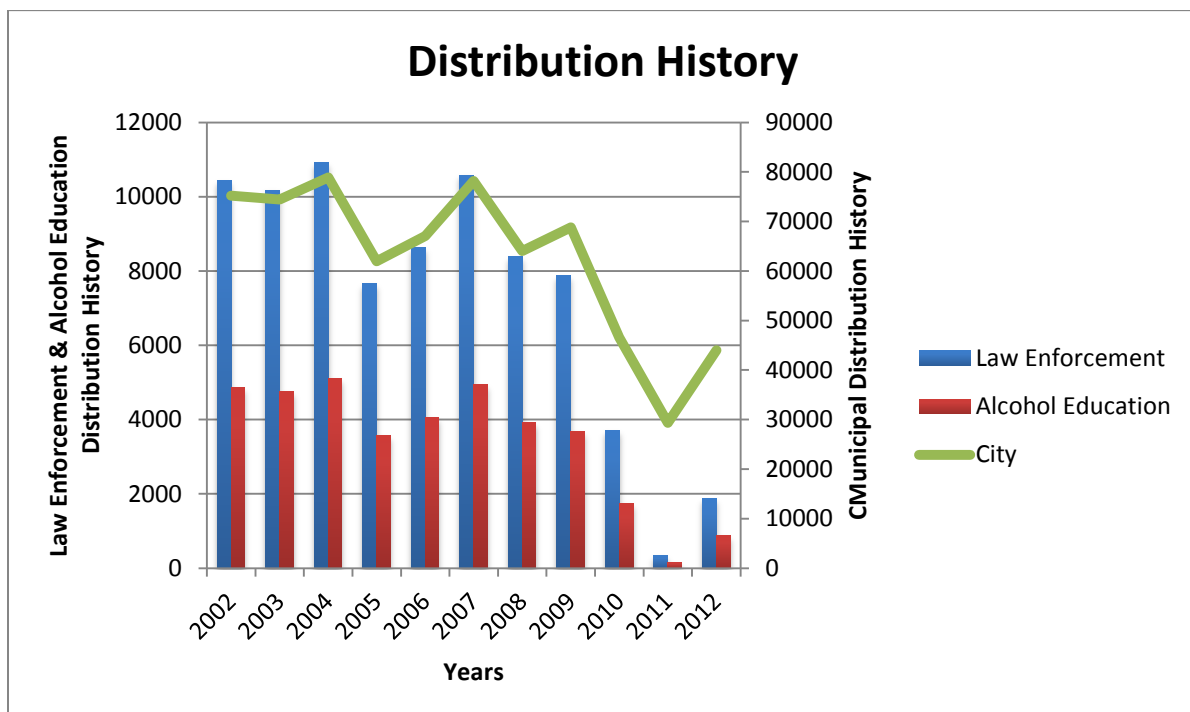
Louisburg ABC had a working capital of \$235,492 which is equivalent to less than two months gross sales and is within the limits of NCAC 02R .0902.

## Distributions

G.S. 18B-805 (c) requires the board to distribute at least five percent (5%) of profits to law enforcement. The board follows the local enabling act for alcohol distributions. Alcohol education distributions are not required but funds have been distributed. The remaining profits are to be distributed to the Louisburg General Fund.

In FY2012, Louisburg ABC made the required minimum distributions totaling \$34,288 to Louisburg General Fund and \$262,487 in Excise and other taxes to the NC Department of Revenue. Other distributions totaled \$43,996: \$1,867 to law enforcement, \$871 to alcohol education, and \$43,996 for city distributions.

Below is chart analyzing the high-low trend of the Louisburg ABC Board's distribution.





## **OPERATIONAL FINDING, OBSERVATIONS, AND RECOMMENDATIONS**

On February 4, 2013, ABC Board Auditor, Moniqua S. McLean visited the Louisburg ABC Board and interviewed Danny Matthews, general manager. The following are the operational findings, observations, and recommendations related to the performance audit.

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

The Louisburg ABC Board operates one retail store with approximately 760 linear feet of shelf space and carrying approximately 890 product codes. The store was built in the 1950s.

- Although dated, the store was clean and well-lit. Bottles were fronted and dusted. Counter areas were free of clutter and supplies were easily accessible. No televisions were evident. However, a radio was present.
- Due to the position and size of the store, the parking area is compact and not traffic friendly. However, the parking area was well-lit and trash free.
- The Fetal Alcohol Syndrome poster was displayed.
- Security systems were in place and functional.
- The state price book along with monthly sales lists was available.
- Sales clerks' interaction with customers was attentive, courteous, and eager to meet the needs of customers.

#### *Recommendations:*

- Consider relocating or renovating store to have a more modern and inviting look.
- Improve parking areas to have an easily accessible entrance and exit.

### **Personnel and Training**

- All board members, general manager, and finance officer have attended the initial mandatory ethics class. One member has since been reappointed and has completed the online ethics training.
- Training is provided as new information becomes available to current staff. However, other training opportunities, such as the RASP class, have not been made available to staff.
- Cross training opportunities have not been extended to key employees in the event the general manager was suddenly unavailable.

#### *Recommendations:*

- Provide additional training that will include alcohol education, customer service, and product knowledge. Contact the Commission for RASP classes and other boards that have a training module(s) in these areas.
- Cross train employees on key functions that include ordering liquor, closing the month, paying bills, and filing taxes in the event the general manager were suddenly unavailable.

## **ABC Board Policies**

Policies adopted and submitted to the Commission include:

- Code of Ethics
- Law Enforcement Contract
- State Travel Policy
- FY2012 Annual Audit
- FY2013 Budget (Proposed and Adopted)
- Mixed Beverage Policy
- Price Discrepancy Policy

*No Recommendations.*

## **Internal Control Procedures**

- Physical inventory counts are performed every quarter by the general manager and one clerk. If discrepancies occur, both the general manager and clerk will investigate and recount. Once completed, only the general manager will adjust the system to match with the actual store count. Unsalable items are adjusted when the claim form is signed by the distiller representative.
- Cash drawers are counted at the beginning of each shift. All clerks' are responsible for their own cash drawer. The board has adopted a cash drawer overage and shortage policy.
- Bank deposits are made daily usually by the general manager. The general manager receives deposit verification and matches with the corresponding daily register reports. The finance officer reconciles the deposits with the bank statements at the end of the month.

*No Recommendations.*

## **Administrative Compliance Findings and Observations**

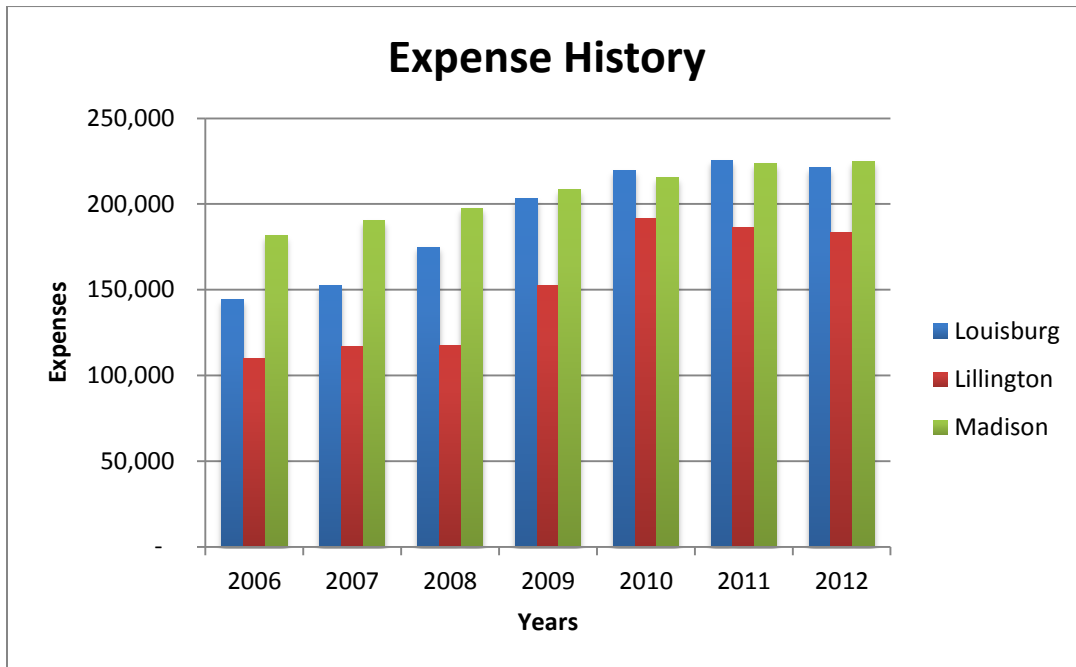
- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting. However, the conflict of interest statement was not referenced in the board minutes.
- Board member appointment dates and compensation amounts are current on the Commission website.
- Board member 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).

- All board members, general manager, and finance officer are bonded in the amount of \$50,000 as required by G.S. 18B-700 (i).
- Orders for liquor bear the pre-audit certificate as required by G.S. 18B-702 (m).
- An audit of travel expense reimbursements indicated that the payment of spouse attendance to conferences was not prepaid.
- All checks bear the approved certificate with the finance officer signature. The general manager is the second signature on all checks. In the event that the finance officer and general manager is unavailable, board members are authorized to sign checks.
- Out of approximately 800 product codes approximately 50 product codes were sampled and all were correct.

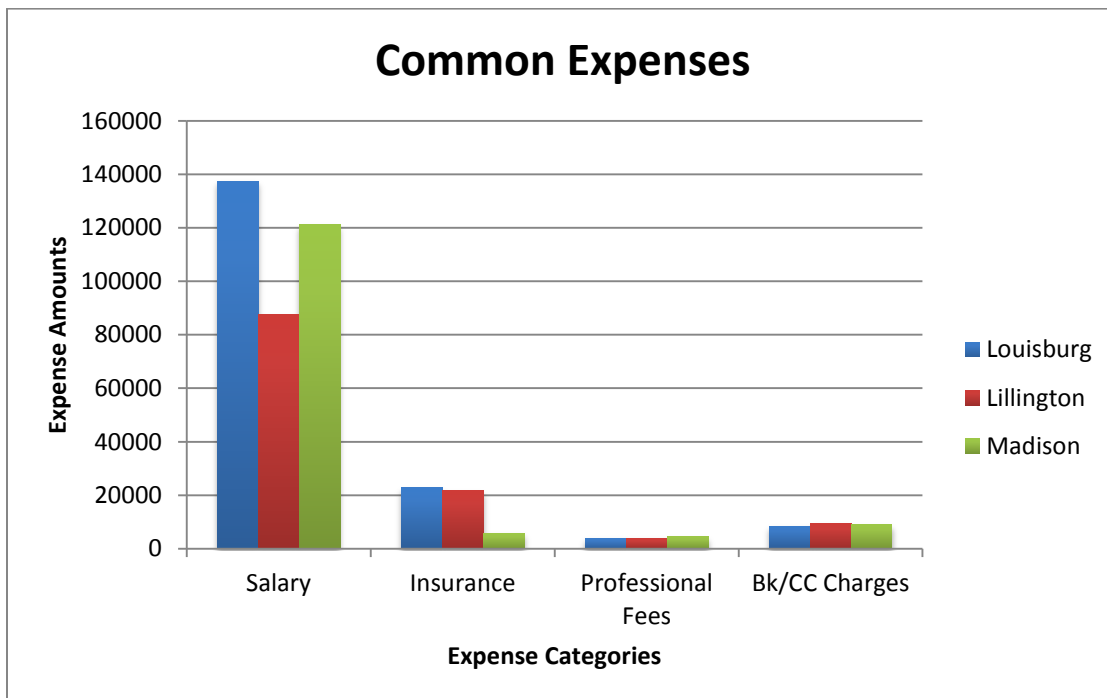
*Recommendations:*

- In an effort to eliminate conflicts, 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 (1) for rule.*
- Prepay conference fees for spouses and/or non-employees without using ABC board funds.

## APPENDIX A



*The expense history data indicates that Louisburg ABC Board's total expenses have increased 53.4% overall since FY2006 following sales increase of 20.4% over the same time period. Louisburg ABC's peaked in FY11 but has since begun to decrease.*



*Excluding salaries, Louisburg ABC's common expenses are in line with other similar size boards. Higher salaries contribute to the full-time status of employees. Note: Insurance expenses for Louisburg and Lillington include group insurance.*

## APPENDIX B



*Exterior view.*



*Counter view.*



*Interior view.*

## APPENDIX C

(1) 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.'*"

TOWN OF LOUISBURG  
ALCOHOLIC BEVERAGE CONTROL BOARD  
605 NORTH BICKETT BLVD  
LOUISBURG, NORTH CAROLINA  
PHONE: 919/496/3631

TO : MOIQUA S. McLEAN  
ABC BOARD AUDITOR  
FROM: LOUISBURG ABC BOARD

DANNY MATTHEWS/GM

WE THE LOUISBURG ABC BOARD ARE RESPONDING TO THE PERFORMANCE  
AUDIT REPORT GIVEN BY MONIQUA S. McLEAN ABC BOARD AUDITOR, WE  
THINK THAT YOU PERFORMED A WELL DONE JOB IN EVERY ASPECT, AND  
ESPECIALLY IN EXPLANTION, QUESTIONS, AND RECOMMENDATIONS. IT WAS  
A PLEASURE TO HAVE YOU AS OUR GUEST.

ALLEN GARDNER/CHAIRMAN  
FRANK FREEMAN/MEMBER  
W.M. HILL/MEMBER  
DANNY MATTHEWS/GM