

Pitt 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/>

September 24, 2012

Pitt County ABC Board
Mr. Henry L. Smith, Chairman
PO Box 30340
Greenville, NC 27834

Dear Chairman Smith,

We are pleased to submit this performance audit report on the Pitt 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 and operational findings and recommendations along with your Board'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 the steps being taken to improve in all areas of service. Your ongoing efforts of providing exceptional customer service in modern, customer friendly and efficient stores is recognized and valued.

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

Respectfully,

Michael C. Herring
Administrator

Cc: North Carolina Association of ABC Boards

TABLE OF CONTENTS

Findings and Recommendations.....	8
Pitt County ABC Board Response.....	17
Recommendation Follow up.....	20

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 the stores;
- Interviewed key ABC board personnel.

The Pitt County ABC Board has responded to the performance audit recommendations and is continuing to create steps toward becoming more profitable while reducing expenses. Policies and procedures have been established to maintain compliance with statutes and to ensure efficient operations. Since the initial audit fieldwork, new board members have been appointed by the county commissioners.

BACKGROUND INFORMATION

Pitt County is located in eastern part of North Carolina. It is approximately ninety miles from the nearest beach and approximately seventy-eight miles from Raleigh. Surrounding counties with ABC stores include, Wilson, Greene, Craven, Lenoir, Edgecombe, Beaufort, and Martin. The US Census Bureau reports a population of 168,148 in 2010.

Chapter 493 of the 1935 Pasquotank Act authorized Pitt County to hold an election. The referendum was held July 6, 1935 and passed 3,469 to 1,171. The date of the first retail sales was July 27, 1935.

A mixed beverage election was held for the following:

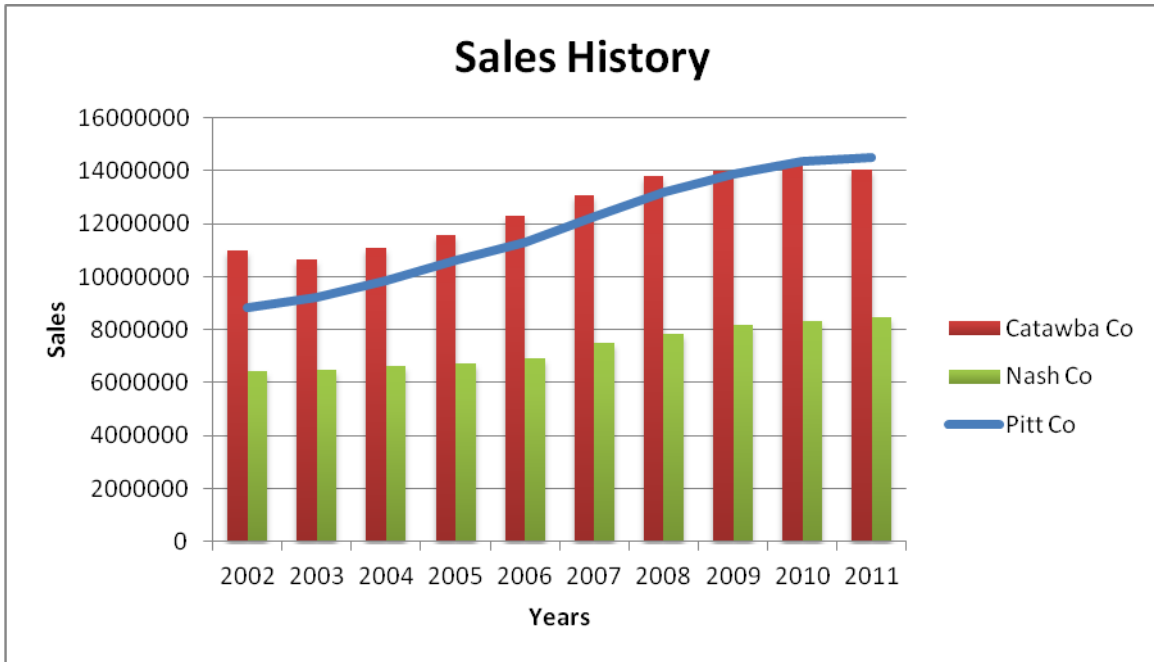
- Pitt County on June 8, 1979 and did not pass;
- City of Greenville on February 17, 1981 and passed 4,148 to 2,599;
- Town of Winterville on July 20, 2004 and passed 375 to 359; and
- Town of Farmville on November 6, 2007 and passed 574 to 411

Upon election of an ABC store, Pitt County was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. House Bill 531 of the 1997 Session Law increased the size of the board from three to five members. Current board members are Henry Smith, chairman, Jean Wilkerson, John Minges, Melvin McLawhorn, and Steve Little, board members.

The Pitt County ABC Board operates ten stores with a warehouse and employs thirty-three full-time employees, including the administrative office personnel and law enforcement, and fifteen part-time employees. The administrative office personnel consists of the administrator, assistant administrator/finance officer, accounting and human resources manager, warehouse manager, and accounts receivable technician. The administrator is responsible for the overall operations of the system including forecasting, planning, and policy enforcement. The assistant administrator/finance officer is responsible for all financial operations and budget maintenance. The accounting and human resources manager is primarily responsible for the personnel and financial reporting consisting of reconciliations of accounts and payroll. The accounts receivable technician's duties consist of maintaining store reports and recording payments.

Profitability

For fiscal year 2011, the board showed a profit; gross sales were \$14,529,348, income from operations was \$1,465,802, resulting in a profit percentage to sales of 10.09%. Below is a comparison of Pitt County's sales and other similar size boards. Since 2002, Pitt County's sales have been trending up following the state's increase over the same time. See chart below.



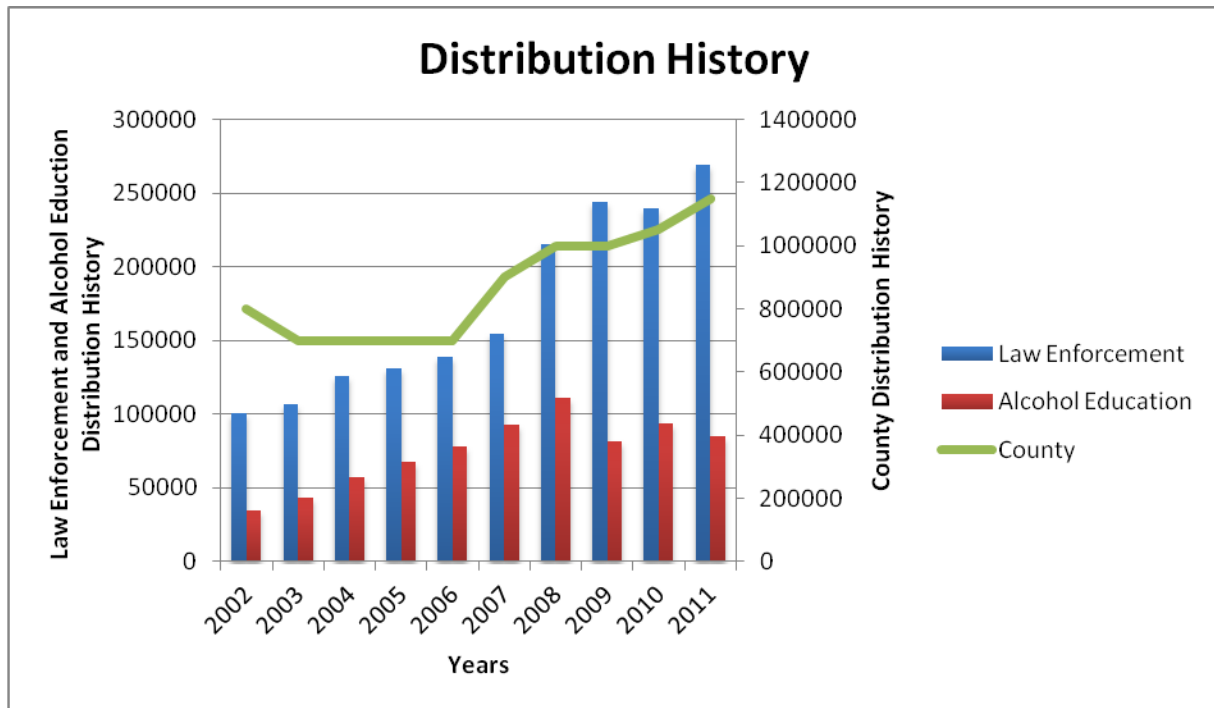
Factors affecting sales and profitability:

- Overall population has increased 25.7% over the past ten years
- Individuals below poverty levels has increased 23.9% over the past five years
- In March 2012, the unemployment rate for Pitt County was 9.5%, a decrease of 0.3% over the previous month

Distributions

G.S. 18B-805(c) requires the board to distribute quarterly at least five percent of profits for law enforcement and at least seven percent to alcohol education. The remaining profits are to be distributed quarterly to the Pitt County General Fund. In 2011, the Pitt County ABC Board made distributions totaling \$1,504,223; \$269,574 to law enforcement, \$84,649 to alcohol education, and \$1,150,000 to the county.

Below is a history of Pitt County's distributions. Pitt County's distributions have continued to increase for law enforcement and county distributions. Even though alcohol education distributions have decreased, Pitt County ABC continues to distribute more than the required amount.



FINDINGS AND RECOMMENDATIONS

On March 27, 2012, ABC Commission Board Auditor, Moniqua S. McLean, visited the Pitt County ABC stores and interviewed Teresa Campbell, administrator, David Byrum, finance officer, and all office personnel. The following are the findings and recommendations relating to the performance audit.

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 Pitt County ABC Board receives deliveries weekly. The inventory turnover rate for the Pitt County ABC Board is 5.4 and has missed the goal set by the Commission.

Recommendations:

- Maximize inventory turnover using the following additional methods:
 - Moving stock within stores and between stores to increase visibility and to encourage more impulse shopping
 - Utilizing shelf space as much as possible to highlight slow moving and new products
 - Asking for a price reduction from the Commission on slow moving stock
- Contact boards whose inventory turnover rate exceeds the target for other ideas that may be implemented in your stores.

Operating Cost

Operating cost ratio is 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 .67 or less
- Boards with 3 or more stores without MXB – cost ratio .94 or less
- Boards with 2 stores – 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 Pitt County ABC Board has an operating cost ratio of 0.57 and has met the target set by the Commission. Overhead expenses are relatively lower, considering that Pitt County leases two out of ten locations totaling \$3,050 per month. Pitt County also employs law enforcement officers to handle the enforcement of alcohol laws. In comparing expenses with similar size boards, Pitt

County ABC's expenses are not out of line. *Refer to charts in Appendix A for analyses of expense history and common expenses of similar size boards.*

Recommendations:

- Request bids annually from various vendors to get the best rates possible on insurance fees, audit, utilities, maintenance contracts, and credit card processing fees.
- OPEB expenses will continue to increase. It may be valuable to contact CPA for advice on the benefits of continuing this incentive program or to eliminate for future employees.

Store Appearance and Customer Service

The Pitt County ABC stores ranges approximately 364 to 1,466 linear feet of shelf space and carries an average of 700 product codes in each store. *See Appendix B for photos.*

- The required Fetal Alcohol Syndrome poster was displayed in all locations.
- The price book and monthly sales list are available to customers.
- A consistent and easily understood shelf management system was presented in all locations, conforming to industry and marketing strategies.
- All locations were clean and well-maintained. Bottles were dusted in most locations. Other locations, bottles were dusty because of an older building.
- Lighting in some stores was poorer than others. Management has identified these areas and is making plans to update lighting where needed.
- Due to the limited amount of space in some stores, displays are not as heavily used as in others.
- Because some stores share parking areas, parking areas are not clearly defined and have potholes.
- Upon entering each store, employees greeted customers in a professional manner exhibiting good customer service.

Recommendations:

- Continue to dust bottles in each store on a regular basis. Include this duty as part of a daily responsibility for clerks.
- Clean or remove carpets to remove stains.
- Consult with landlords to have the parking lots repaired. If the landlord will not comply, consider moving the store to a better area. If the lease contract allows, partner with neighboring stores to improve parking areas by defining parking spaces and eliminating potholes.

Profit percentage to sales

The profit percentage to sales is calculated by dividing the total income before distributions by gross sales (Total Income before Distributions/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 Pitt County ABC Board had gross sales of \$14,529,348, income from operations \$1,465,802, a 10.09% profit percentage to sales. The Pitt County ABC Board has exceeded the goal.

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), 92), (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

Based upon the new limits, the Pitt County ABC Board had a working capital of \$1,806,666 for FY2011. The working capital retained is within the maximum allowed.

Policies and Procedures

- All employees maintain their own cash drawer. Depending on time of the day and the store location, two people are working during a shift. Other times, one clerk works the entire day. The cash drawers are counted at the beginning and end of each shift. Deposits are made daily and sometimes nightly by designated persons, primarily, the general manager, finance officer, or law enforcement.
- Inventory counts are performed every week by whoever is working. Unsaleable items are taken out of inventory whenever inventory is counted. Spot checks are conducted occasionally throughout the week. When discrepancies arise, the warehouse manager and other administrative personnel will check behind to investigate the occurrences.
- The board does not have a written credit card policy.

Recommendations:

- Adopt a written credit card usage policy. Include a maximum amount allowed on purchases before a board member is notified for approval. A board member is to be notified of all purchases over the limit. Once adopted, submit a copy to the Commission. Document procedures for the usage of the credit card including:

- Who has the 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,
- A purchase order must accompany each receipt.

Personnel and Training

- All board members, finance officer, and the general manager have attended the mandatory ethics class.
- Cross training opportunities are made available to key employees should the administrator or any of the administrative staff be unable to work.

Recommendations:

- Continue cross training employees on key functions, such as ordering liquor, maintaining budget, paying bills to back up the administrator or other staff should they be suddenly unavailable.

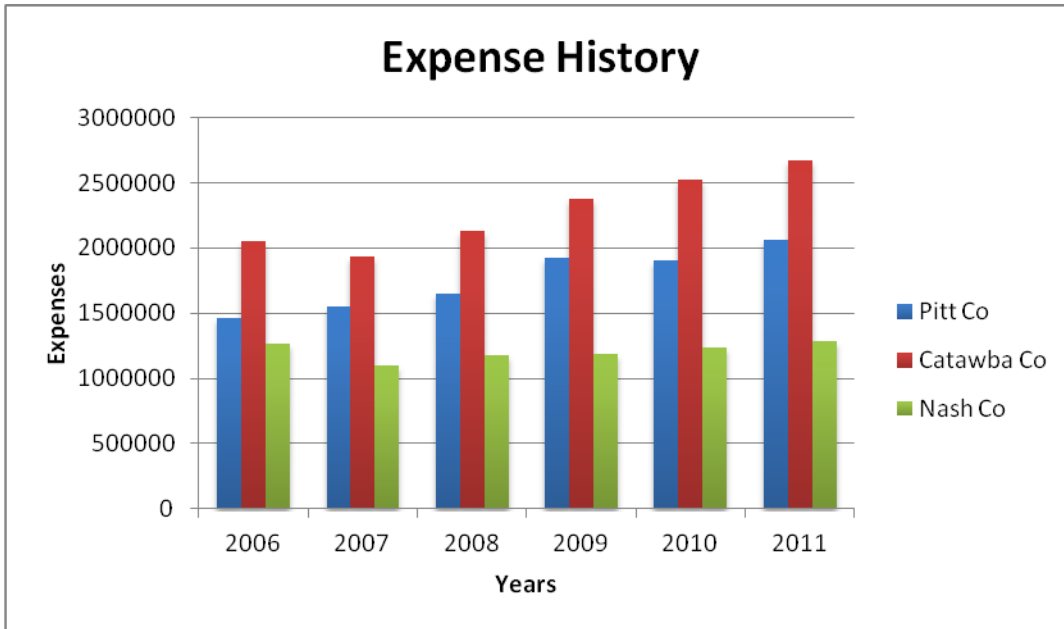
Administrative Compliance and Internal Controls

- Board meeting minutes were available to view, including the conflict of interest statement, and followed the order of proceedings for conducting a business meeting.
- Board member information on the Commission website reflects the board members' latest appointment dates and compensation amounts.
- Nepotism – The board is in compliance with G.S. 18B-700(k).
- Purchase orders are used and signed by the finance officer when ordering store and office supplies.
- All checks have the approved certificate and signed by the finance officer as required by G.S. 18B-702(q). The general manager is the second signature on all checks.
- Out of an average of 700 product codes in nine stores, approximately 300 product codes were tested, and six products did not reflect prices set by the Commission. Tezon Blanco .75L, 64-778 (*Memorial Drive*), Junipero .75L, 40-851 (*Old Tar Road*), Mandarin Napoleon .75L, 63-593(*Central Park Drive*), and Tezon Anejo .75L, 65-355 (*Arlington Blvd*), displayed discontinued prices but not the last listed price. Hennessy VS .75L, 20-480 (*Bethel*), displayed November 2011 prices.

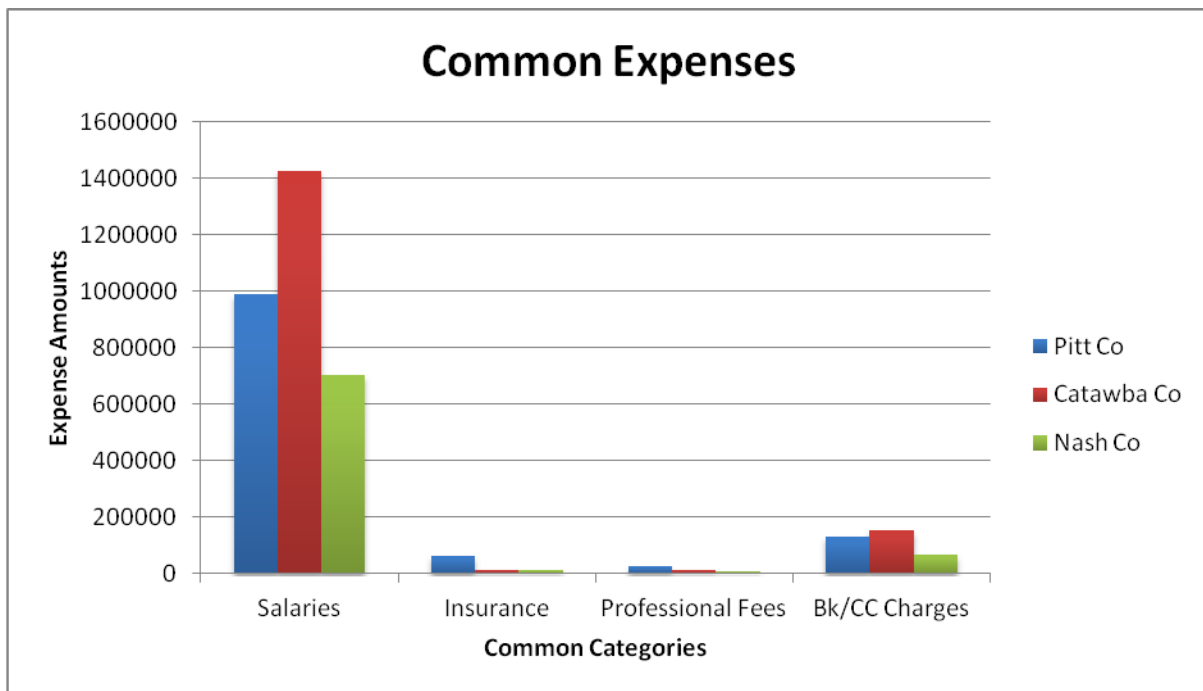
Recommendation:

- Audit all shelf tags in the store and the cash register for correct pricing. To ensure accurate pricing in the future, incorporate a shelf tag audit (by section) into the weekly inventory count.

APPENDIX A

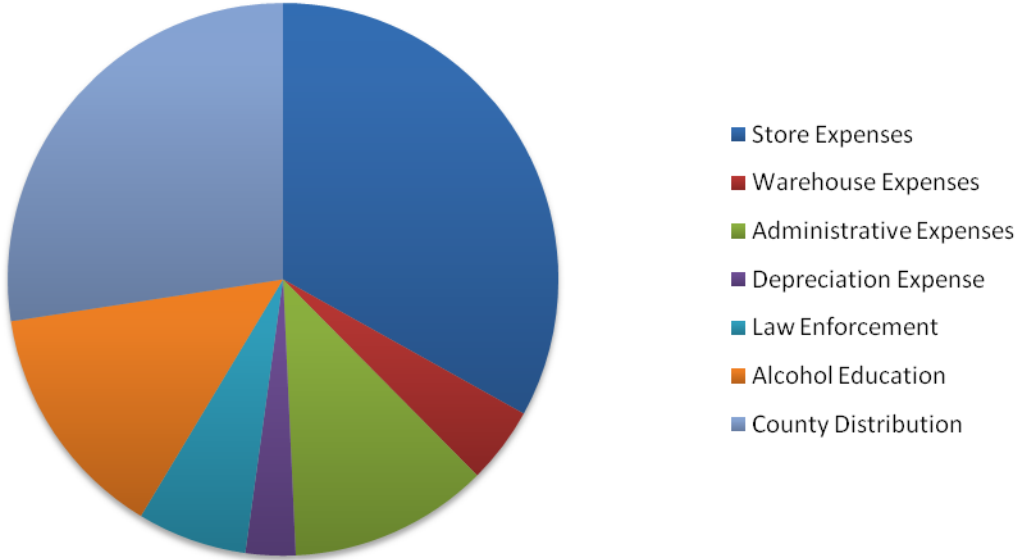


The expense history data indicates that Pitt County ABC's expenses have increased 30% over the past five years.



Common expenses of similar size boards indicates that, except for insurance, Pitt County's expenses are relatively lower.

Expenses vs. Distributions



This chart analyzes the breakdown of expenses and distributions of the Pitt County ABC Board.

APPENDIX B



Carpet stains at the Memorial Drive location.



Incorrect prices for 64-778.



Incorrect prices for 20-480.



Incorrect prices for 40-851



Incorrect prices for 63-593



Incorrect prices for 65-335

*PITT COUNTY
ALCOHOLIC BEVERAGE CONTROL BOARD*



*Henry L. Smith, Chairman
John F. Minges, Vice-Chair
Glen Webb, Member
Melvin C. McLawhorn, Member
Jean R. Wilkerson, Member
Teresa L. Campbell, Administrator*

*2307 S Memorial Drive
PO Box 30340
Greenville, NC 27833
Phone: (252) 756-2350
Fax: (252) 756-4844
pitt.abc.nc.gov*

To: NC State ABC Commission
From: Pitt County ABC Board
Date: July 2, 2012
Subject: ABC Board Performance Audit Response

This is in response to the Pitt County ABC Board Performance Audit conducted on March 27, 2012 by Moniqua S. McLean, ABC Commission Board Auditor. Our Board continues to increase in sales and profitability and as a result has increased distributions to Law Enforcement and our County and continues to distribute more than the amount required by statute.

The performance standards addressed during the audit consisted of enforcement of ABC Laws, store appearance, operating efficiency, solvency, and customer service. Listed below are the performance standards that were evaluated, the recommendations made with regard to organizational and operational issues, and our suggestions for improvement.

- **Inventory Turnover**

The Pitt County ABC Board receives shipments weekly and the goal set by the Commission for the inventory turnover rate is 6 times or more a year. The actual inventory turnover rate for the Board is 5.4, just missing the target set by the Commission. The main reason for not meeting this goal is when possible the Board takes advantage of Special Price Allowances and purchases enough products for a 3 month period which in turn maximizes profit and results in a slower rate of turnover. The Board will continue this practice but will also continue moving stock between stores, utilizing

shelf space to highlight slow moving and new products, and sell off slow moving inventory to Boards with greater demand as recommended by the Commission.

- **Operating Cost**

The average cost ratio for Boards with 3 or more stores with MXB is .67 or less. The Pitt County ABC Board has an operating cost ratio of .57 and has met the target set by the Commission. Our Board's expenses have increased over the past five years, but compared to the common expenses of similar sized Boards, except for insurance, Pitt County ABC Board's expenses are relatively lower. The Board plans to eliminate one of its leased locations and close another store and combine the two in a new location to help keep operating costs down. This can only be achieved if our appointing authority will permit us to retain the working capital required. The Pitt County ABC Board will continue to request bids from various vendors to get the best possible rates on insurance fees, audit, utilities, maintenance contracts and credit card processing fees. As of 7/1/2010, the Board voted to eliminate post employment benefits for any employee hired after that date as recommended by the Commission.

- **Store Appearance and Customer Service**

All locations met the requirements set by the Commission with the exception of a few minor things. These are being addressed and the Board plans to update both interior and exterior areas in the stores that need improvement. We have recently renovated two of our store locations and have seen an increase in revenue as a result. The administrative staff is in the process of creating a structured Customer Service Training Program and will be glad to share this with other Boards once completed.

- **Profit Percentage to sales**

The target rate of Boards with gross sales greater than \$10 million is 9% and our Board has exceeded this goal. With the continuing upward trend in sales the Board hopes to increase this percentage by limiting expenses whenever possible.

- **Working Capital**

The maximum amount of working capital retained for Boards with gross sales less than \$50 million and greater than or equal to \$1.5 million is three months. Our Board's working capital retained is within the maximum allowed. We will continue to work closely with the appointing authority to retain more of our working capital to ensure the ability to take advantage of SPA's, to increase profits, as well as updating store appearances to meet the recommendations made by the Commission.

- **Policies and Procedures**

Our Board constantly reviews policies and procedures and models relevant items after the appointing authority and other comparable Boards. At the time the audit was performed there was no written credit card policy. At the Board meeting in June, the Board approved the new credit card policy with the guidelines suggested by the Commission. They also approved a revised copy of the Personnel Manual that included several new policies including attendance, 401k, transferring sick time, and a structured salary plan.

- **Personnel and Training**

The Board will continue cross training employees to ensure office staff are knowledgeable about key functions in case an employee becomes suddenly unable to work. As stated earlier the Board is in the process of implementing a Customer Service Training Program to be made available to all employees of the Board.

- **Administrative compliance and Internal controls**

The Board met the requirement set by the Commission in most areas. Out of an average of 700 products in nine stores, a sample of approximately 300 product codes, six products did not reflect prices set by the Commission. These codes were discontinued items but did not show the last listed price. North Carolina statutes require uniform pricing in all ABC Stores and to ensure accurate pricing in the future the Board plans to audit shelf tags in the store and the register for correct pricing.

Based on the findings and recommendations of the Auditor, the Pitt County ABC Board's overall performance is in compliance with the standards recommended by the Commission. Our plan is to improve in all areas by continuing to update store locations, build new customer friendly and efficient stores by retaining more of our working capital, maximize inventory turnover, increase profit by monitoring expenses, provide training to employees, and meet the administrative compliance and internal control standards.

The Pitt County ABC Board will continue to work diligently to control the sale of spirituous liquor, provide exceptional customer service, maintain modern and efficient store locations and manage expenses in order to provide as much revenue as possible to our local appointing authority.

Sincerely,


Teresa L. Campbell

RECEIVED

AUG 20 2012

NC ABC COMMISSION

PITT COUNTY ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Policies and Procedures: Adopt a written credit card usage policy.</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" 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 adopted a credit card usage policy and has submitted to the Commission.</p>
<p>Administrative Compliance: Audit shelf tags on a routine basis to ensure accurate pricing.</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>Based upon the response, management has incorporated procedures to ensure accurate pricing on all products.</p>