

Person County ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA

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ABC COMMISSION NORTH CAROLINA

Alcoholic Beverage Control

August 20, 2014

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Moniqua S. McLean
ABC Board Auditor

Person County ABC Board
Mr. Michael R. Laws, Chairman
712 N. Madison Blvd.
Roxboro, NC 27573

Dear Chairman Laws,

We are pleased to submit this performance audit report on the Person 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 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 profitable manner in which your ABC system is operated. We also applaud your efforts to find a new location for a modern self-service store in Person County to replace the obsolete Timberlake store.

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

Respectfully,

Michael C. Herring
Administrator

CC. North Carolina Association of ABC Boards
Person County Board of Commissioners

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 2013;
- Visited both stores;
- Interviewed key ABC board personnel.

BACKGROUND INFORMATION

Chapter 49 of the 1937 Session Law authorized Person County to hold an election for an ABC store. The referendum was held on August 25, 1962 and passed 2,617 to 2,210. The first sale occurred on November 14, 1962. A mixed beverage election was held on July 20, 2004 and passed 4,299 to 3,332.

Upon election of an ABC store, the county was authorized to create an ABC board consisting of a chairman and two board members to serve for three year terms. Current board members include Michael Laws, board chairman, Johnny Bradsher and Larry Bowes, board members.

The Person County ABC Board operates two retail stores. The board staffs five full-time employees, including the general manager, and five part-time employees. The general manager's responsibilities include overseeing all daily operations of both stores consisting of supervising personnel, inventory control, and administrative functions. The board has hired an external bookkeeper to serve as finance officer and to provide checks and balances. Store managers and clerks extend friendly customer service, assist with routine store upkeep, and stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On March 20, 2014, ABC Board Auditor, Moniqua S. McLean, visited the Person County ABC stores and interviewed Dale Norris, general manager. Below is a financial analysis followed by operational observations, findings, and recommendations related to the performance audit.

FINANCIAL ANALYSIS

PROFIT PERCENTAGE TO SALES

The profit percentage to sales is calculated by dividing the total income from operates by the total liquor sales (Total Income from Operations/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 2013, the Person County ABC Board had gross sales of \$2,572,004, income from operations \$249,989, a 9.71% profit percentage to sales.

Factors affecting sales and profitability:

- Sales increased 0.7% over the previous fiscal year;
- Surrounding counties with ABC stores include Orange County, Durham County, Granville County, and Caswell County;
- Virginia State border is approximately ten miles from the Roxboro location;
- Population of Person County is estimated to 39,276 in 2013;
- ABC board owns both stores.

DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, mixed beverage, and bottle tax. G. S. 18B-805 (c) (1) requires the board to make a minimum quarterly distribution of the 3½% markup rate to the county. In FY2013, Person County ABC made the required minimum distribution to the county totaling \$77,962, plus additional distribution of \$89,996. (Payments are to be paid quarterly to the County for distribution to the city.) \$590,250 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, and the county.

G.S. 18B-805 (c) (2) and (3) requires the board to distribute at least five percent (5%) of profits to law enforcement and at least seven percent (7%) for alcohol education. The remaining profits for Person County are to be distributed as follows:

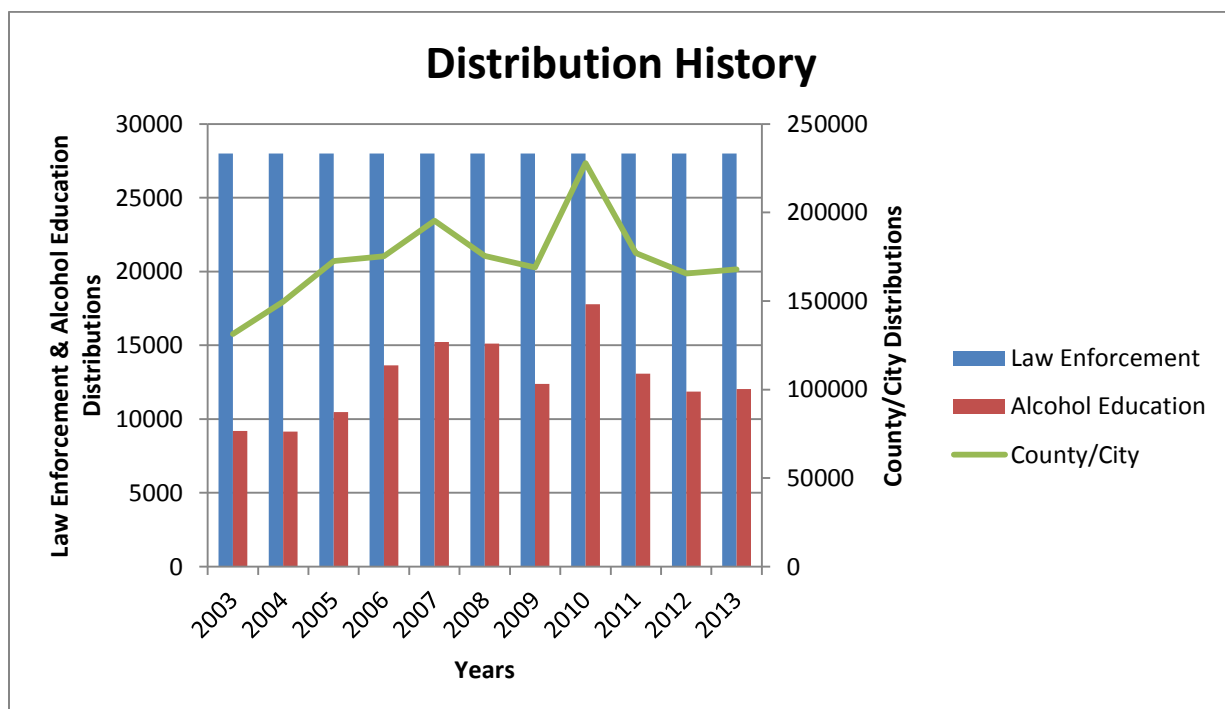
- Seventy percent (70%) to the Person County General Fund
- Thirty percent (30%) to the City of Roxboro General Fund

The Person County ABC Board has a contract with a local law enforcement agency designating a \$28,000 distribution in quarterly installments. Alcohol education/rehabilitation distributions total \$12,042 to various agencies, such as Drug Court, Sold Out Ministries, and Freedom House. However, annual reports for the usage of funds are not always submitted to the ABC board.

RECOMMENDATIONS

1. Request annual reports from all agencies that receive funding for alcohol or substance abuse, rehabilitation, or research. *Refer to Appendix B (1).*

Below is a distribution chart analyzing the high-low trend of the Person County ABC Board.



WORKING CAPITAL

G.S. 18B-805 (d) allows the board to set aside a portion of the remaining gross receipts, within the limits set by the rules of the Commission, as cash to operate the ABC system. 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 FY2013, the Person County ABC Board had a working capital of \$517,598, which is less than three months gross sales and is within the limits of NCAC 02R .0902. The county has allowed the ABC board to set aside \$100,000 for capital improvements. A copy of the approval has been forwarded to the Commission.

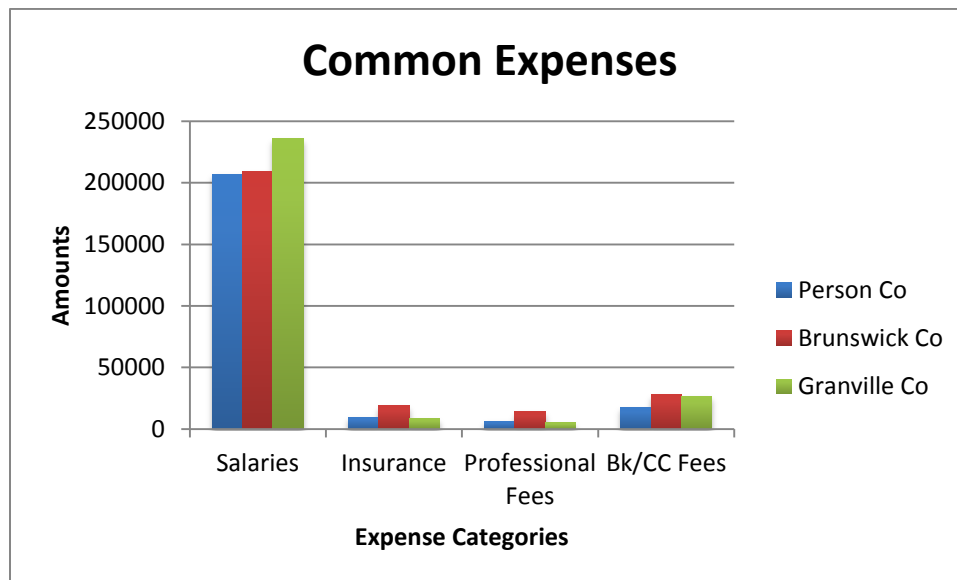
OPERATING COST RATIO

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):

- Single store boards with MXB sales that are equal to or greater than 25% of gross sales – cost ratio 0.75
- Single store boards with MXB sales less than 25% of gross sales – cost ratio 0.85
- Single store boards without MXB sales – cost ratio 0.85
- Boards with 2 stores with and without MXB sales – cost ratio 0.74
- Boards with 3 or more stores with and without MXB sales – cost ratio 0.64

The Person County ABC Board operates two retail stores with mixed beverage sales: the operating cost ratio is 0.58. Mixed beverage sales make up 5.5% of total gross sales. In fiscal year 2013, sales increased 0.7% over fiscal year 2012, as expenses rose 3.5% over the same time period.

A common expense analysis shows that Person County ABC Board expenses compared to other similar size boards are lower. The board contributes to significant savings in overhead expenses as a result of owning both stores.



NO RECOMMENDATIONS

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 Person County ABC Board receives deliveries two times a month: the inventory turnover rate is 5.5. The average inventory turnover rate for similar boards with the same delivery schedule is 5.6.

RECOMMENDATIONS

1. Consider the following to increase inventory turns:
 - Converting counter store to a self-service store to encourage more positive shopping experience;
 - Utilizing end caps and shelf space as much as possible to highlight slow moving and new products;
 - Incorporating a shelf management plan that analyzes sales data to target shopping patterns;
 - Moving stock within store and between stores to increase visibility and to encourage more impulse shopping.

STORE APPEARANCE AND CUSTOMER SERVICE

The Person County ABC Board operates two retail stores with shelf space ranging from approximately 600 to 800 linear feet of shelf space.

ROXBORO LOCATION

- The Roxboro location, a self-service store, was clean, well-dusted, and maintained. Bottles were fronted and dusted. Counter areas were free of clutter and supplies were easily accessible.
- While the interior of the store is inviting, the exterior, due to its dated façade, is not.
- Exterior signage is visible and in good condition. The property around the store was clean and free of trash.
- The Fetal Alcohol Syndrome poster was not displayed. Other interior signage was neat and visible.
- Security systems are in place and functional in all designated areas.
- A shelf management plan is in use that exhibits a strategy following the highest priced product on the top shelves and lowest priced product on the bottom shelves. Product placement is consistent with sizes going from largest to the right and smallest to the left. End caps are used for spotlighting bestselling or newest items.
- The state price book is available should customers ask for specific product. Sales clerks' often refer to the price book for verification of product and pricing.
- Sales clerk's interaction with customers is attentive, courteous, and all are eager to meet the needs of the customers.

TIMBERLAKE LOCATION

- The Timberlake location, a counter store, was clean and dusted. Though clean, the store is outdated and not particularly inviting to customers. Counter areas were free of clutter and supplies were easily accessible.
- Exterior signage was visible and neat. The property around the store was clean and free of trash. Due to damage from a vehicle running into front of store, the store is being repaired and painted. Front door shows evidence of a bullet hole.
- The Fetal Alcohol Syndrome poster was not displayed.
- Security systems are in place and functional in all designated areas.
- Because the store is a counter store, shelf management is not utilized. However, there are things that can be done to market to customers and to help staff. Products are not categorized but are available in code number order. Top selling and new products are placed in the window to encourage shopping.
- The state price book and monthly sales lists are available in the foyer area should customers ask for specific product.
- Sales clerk's interaction with customers is attentive, courteous, and all are eager to meet the needs of the customers.

See next page for recommendations.

RECOMMENDATIONS

1. Display the required Fetal Alcohol Syndrome poster in both stores. *Refer to Appendix B (2) for statute.*
2. Have a more consistent shelf strategy at the Timberlake location. Arrange products by category as to allow clerks, who normally work at the other location, to be more familiar with the organization.
3. The Timberlake location does not conform to customer friendly service standards. Consider renovating or relocating the Timberlake location to attract more customers. The Commission encourages a modern self-service design so that the customers can get the full shopping experience. Recent data has proven the conversion of a counter store to a self-service store generates at least ten percent (10%) more in profits.

PERSONNEL AND TRAINING

- All board members and the general manager have completed the initial ethics training. Board members have since been reappointed and have completed the online/webinar training.
- Cross training opportunities are being extended to key employees on key administrative duties in the event the general manager was suddenly unavailable.
- Training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities on a continual basis. Management often attends the NC Association of ABC Boards General Manager conferences for training opportunities on these specific areas. Responsible Alcohol Sellers Program is offered to mixed beverage permit holders and staff on a routine basis.
- Personnel files are available and displayed human resource documentation and other personnel information as needed.

NO RECOMMENDATIONS

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract
 - Travel Policy (Person County Travel Policy Approval FY2014)
 - FY2013 Annual Audit
 - FY2014 Budget (Proposed and Adopted)
 - Employee Manual
 - Price Discrepancy
 - Person County ABC Board Credit Card Usage Policy
 - Mixed Beverage Policy

NO RECOMMENDATIONS

INTERNAL CONTROL PROCEDURES

- Time cards are used by all clerks to record hours worked. The general manager verifies all time cards. The accounting/payroll software calculates the taxes and other withholdings and creates payroll checks. The software is backed up at every other use.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures when cash drawers are over or short.
- 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 monthly by the finance officer.
- Physical inventory counts are performed monthly by all full-time employees. Spot checks are conducted every two weeks. If discrepancies occur, the general manager will investigate and recount for accuracy and verification. Occasionally, a store manager will assist in checking discrepancies. Once completed, the general manager will adjust the inventory system, excluding any unsalable items, to match with the actual store counts.
- The board has acquired a vehicle to assist in transporting liquor between stores and making deposits. In reviewing expense records, a mileage or gas log was not available. A vehicle usage policy has not been adopted.
- A credit card is issued to the board with the general manager as the only authorized person to use card. The card is intended to be used for travel reservations, gas for vehicle, and office supplies. The board has adopted a credit card usage policy and has forwarded to the Commission.

RECOMMENDATIONS

1. Adopt a vehicle usage policy that would specify the following:
 - who is able to use the vehicle,
 - requirement that all drives must have a valid driver's license
 - what purposes vehicle may be used for
 - requirement that a mileage and/or gas log be filled out for every trip.

ADMINISTRATIVE COMPLIANCE FINDINGS AND OBSERVATIONS

- Board meeting minutes were viewed and followed the order of proceedings, providing sufficient detail that reasonable person would be able to follow what transpired. Board meeting minutes referenced the conflict of interest statement.
- At the time of fieldwork, board member appointment dates and general manager compensation was not current on the Commission website. Management has since corrected the information.
- 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, the general manager, and finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- Orders for liquor and other miscellaneous orders do not bear the pre-audit certificate before the transaction occurs as required by G.S. 18B-702 (m).
- Checks do not bear the approved certificate indicating the payments has been approved by the finance officer or deputy finance officer as required by G.S. 18B-702 (q).
- Although the finance officer does not sign the checks, two signatures are provided, that of the general manager and a board member.
- Out of an average of approximately 500 product codes per store, approximately eighty-four products were sampled and all were correct.

RECOMMENDATIONS

1. Place the pre-audit certificate with the finance officer/deputy finance officer's signature on the order to LB&B or common orders before the transaction takes place. *Refer to Appendix B (3) for statute.*
2. Place or have pre-printed the approved certificate on all checks. *Refer to Appendix B (4) for statute.*

AUDITOR'S SUMMARY

ABC Board Auditor, Moniqua S. McLean, presented to the board the performance audit recommendations on May 13, 2014. The board has since responded to the performance audit recommendations and strives to implement strategies to maintain profitability while reducing costs and meeting budget appropriations. Future goals are to acquire a new store location that will better serve the community and increase passing traffic. Policies and procedures have been implemented to ensure compliance with statutes and Commission rules and to ensure efficient operations while maintaining sufficient checks and balances.

PERSON COUNTY BOARD OF ALCOHOL CONTROL

712 N. Madison Blvd
Roxboro, NC 27573
Telephone: (336) 599-8294
Fax: (336) 599-8326

Michael R. Laws, Chairman
Larry Bowes
John Bradsher

Dale Norris, General Manager

June 6, 2014

Moniqua McLean
ABC Board Auditor
4307 Mail Service Center
Raleigh, NC 27699-4307

Dear Moniqua,

Thank you for meeting with the Board at our monthly meeting. Going forward, the board will request annual reports from ALL agencies receiving funds for Rehabilitation.

The Board has considered conversion of Store 2 to self service. We are currently searching for the best location to suit the needs of Person County.

We are now in compliance by having the correct Fetal Alcohol poster in both locations.

Our shelf strategy for Store 2 has been improved by grouping products by category so that the store layout is similar in both locations.

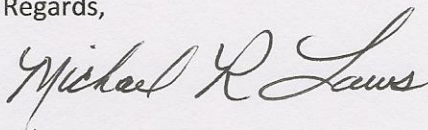
Although the location of Store 2 does not conform to a "customer friendly service standard", we believe that safety is our main priority for personnel. The store is isolated, which is why we are searching for a new location.

A new vehicle use policy has been implemented, based on your recommendation.

When checks are reordered, the purchase approved certification will be added to the face of the check.

The Person County ABC Board would like to thank the ABC Commission staff for their knowledge, guidance and professionalism.

Regards,



Michael R. Laws, Chairman

APPENDIX A

Illustration 1



Exterior view at Roxboro location

Illustration 2



Counter view at Roxboro location

Illustration 3



Example of shelf management at Roxboro location

Illustration 4



Exterior view of the Timberlake

Illustration 5



Counter view of the Timberlake

APPENDIX B

- (1) *G.S. 18B-805 (h) states, "...Any agency or person receiving funds from the county commissioners or local board under this subsection shall submit an annual report to the board of county commissioners or local board from which funds were received, describing how the funds were spent."*
- (2) *18B-808 (a) states, "Each ABC store shall display or cause to be displayed warning signs that meet the requirements of this section on the store's premises to inform the public of the effects of alcohol consumption during pregnancy."*
- (3) *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)' "*

- (4) *18B-702(q) states "...each check or draft on an official depository finance officer approved for this purpose by the local board (or signed by the chairman or some other member of the board pursuant to subsection (o) of this section). The certificate shall take substantially the following form:*

"This disbursement has been approved in the manner required by G.S. 18B-702.

*_____
(Signature of finance officer).' "*

APPENDIX C

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>ABC Board Policy:</p> <ul style="list-style-type: none"> • Adopt a written vehicle use policy 	<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 all polices recommended and has forwarded to the Commission.</p>
<p>Administrative Compliance:</p> <ul style="list-style-type: none"> • Affix the pre-audit certificate on all orders before the transaction occurs. • Affix the approved certificate on all checks once processed. 	<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>Management has implemented procedures to ensure compliance with the ABC statutes and Commission rules.</p>