

Rockingham ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA



ABC

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NORTH CAROLINA

Alcoholic Beverage Control

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September 11, 2012

Rockingham ABC Board
Mr. Bob McLester, Chairman
PO Box 625
Rockingham, NC 28380

Dear Chairman McLester,

We are pleased to submit this performance audit report on the Rockingham 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 General Manager'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 taken to increase profits since the opening your second 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 2011;
- Visited both stores;
- Interviewed key ABC board personnel.

The Rockingham ABC Board has responded to the performance audit recommendations and has continued to take steps to maintain and increase profits while analyzing and reducing current costs. Policies and procedures have been adopted and implemented to maintain compliance with statutes and Commission rules while striving to meet the demands of customers.

BACKGROUND INFORMATION

Located in Richmond County, Rockingham is well-known for the natural wildlife. It is home to the Rockingham Speedway and Rockingham Dragway which often bring thousands of people to the area. It is approximately twelve miles from the South Carolina border. Surrounding towns with ABC boards include Hamlet and Wadesboro, NC. The US Census Bureau reports a population 9,558 in 2010.

Chapter 199 of the 1965 Session Law authorized the City of Rockingham to hold an election upon a signed petition of fifteen percent of voters. The referendum was held on July 6, 1965 and passed 516 to 507. The first retail sales date was on December 13, 1965. A mixed beverage election was held on September 19, 2000 and passed 1360 to 682.

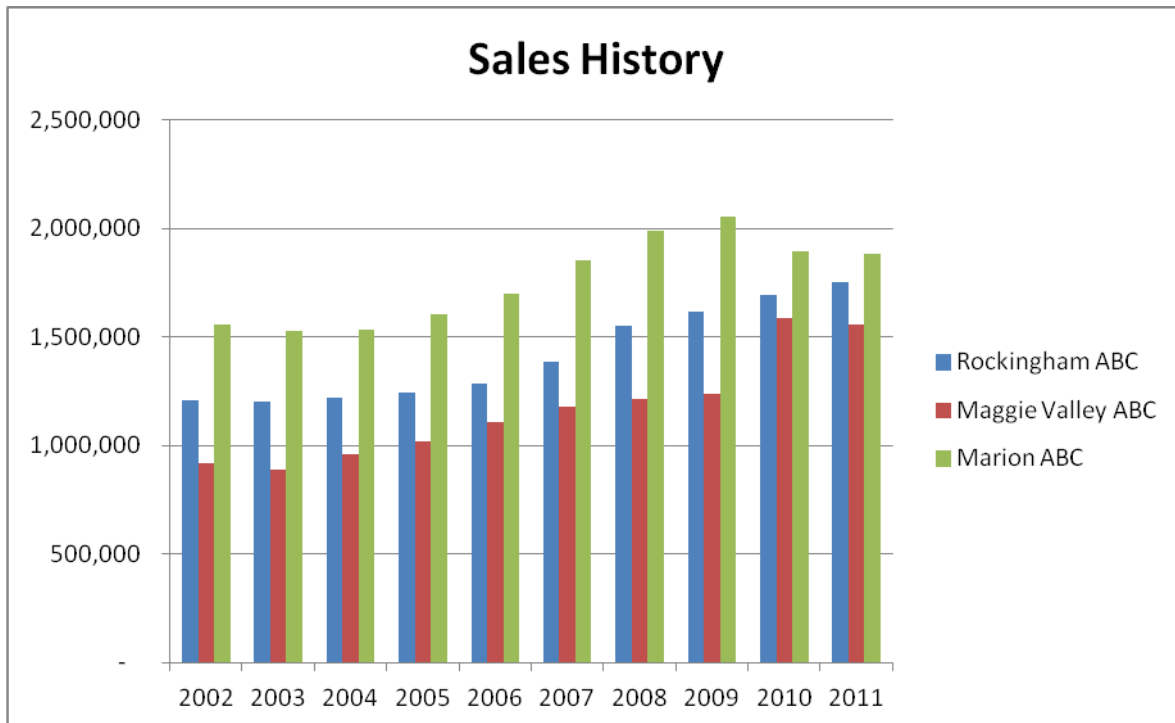
Upon election of an ABC store, the City of Rockingham was authorized to establish an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members are Bob McLester, chairman, Benny Sharpe and Greg LeBerthe, board members.

The Rockingham ABC Board operates two retail stores and employs four full-time and five part-time employees. The general manager is responsible for the daily store operations including supervising personnel, inventory management, and various retail functions. The board has hired an internal finance officer whose duties consist of cash disbursements, financial documentation, and providing customer service as needed. Clerk responsibilities include selling products, daily stocking, and floor upkeep.

Profitability

For fiscal year 2011, the board showed a profit; gross sales were \$1,758,785, income from operations was \$68,826, resulting in a profit percentage to sales of 3.91%. Current sales have increased 24.36% over fiscal year 2010. Since 2005, Rockingham ABC's sales have shown a significant increase following the state's increase over the same time period.

Below is a comparison of Rockingham ABC's sales and other similar size boards.



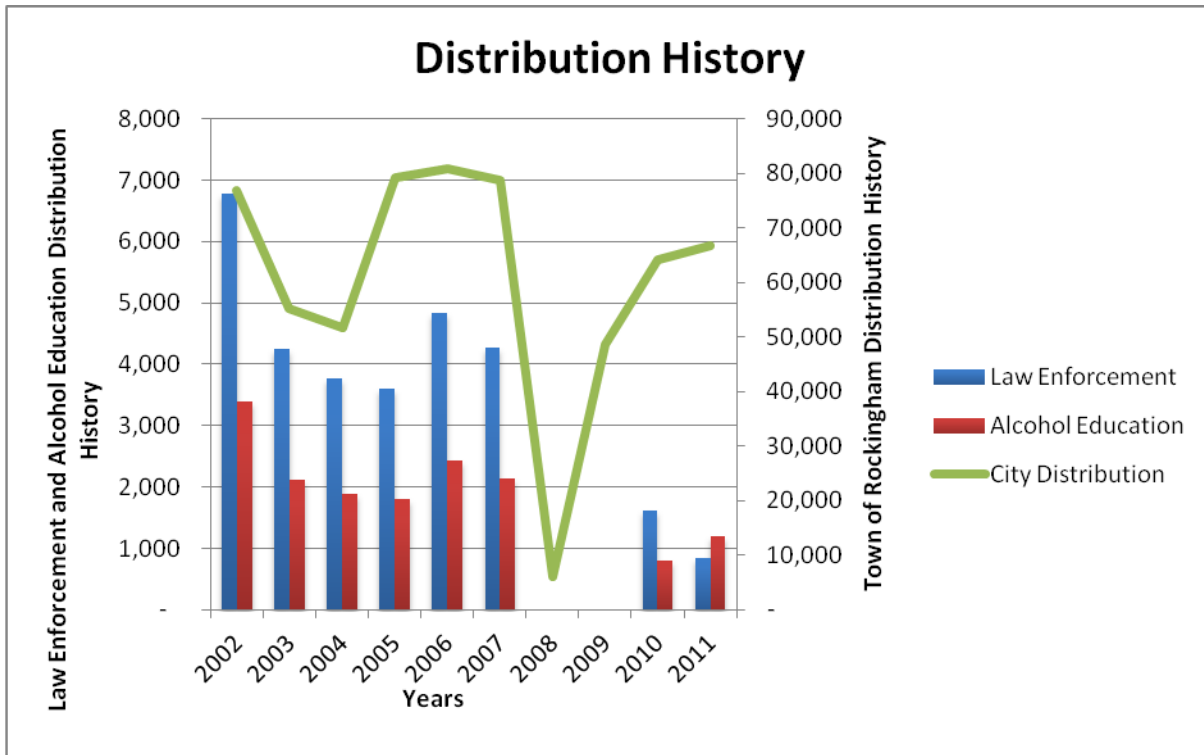
Factors affecting sales and profitability:

- Overall population has decreased -1.2% over the past ten years
- Individuals below poverty levels have increased 36.1% over the past five years
- In April 2012, the unemployment rate for Richmond County was 12.7%, a 0.1% decrease over the previous month
- Opening of the second store in July 2007
- Another ABC store within Richmond County approximately five miles from the main location.

Distributions

G.S. 18B-805 (c) requires the board to distribute quarterly at least five percent of profits for law enforcement. The enabling act requires the board to distribute five percent of profits for alcohol education. The remaining profits are to be distributed quarterly to the City of Rockingham General Fund.

In FY 2011, the Rockingham ABC Board made distributions totaling \$68,826; \$850 to law enforcement, \$1,190 to alcohol education, and \$66,786 to the town. In 2007, distributions plummeted but have since increased significantly. *See below for distribution history.*



Note: The second location opened in 2007.

FINDINGS AND RECOMMENDATIONS

On May 16, 2012, ABC Commission Board Auditor, Moniqua S. McLean, visited the Rockingham ABC stores and interviewed Mack Odom, general manager, Laura (Ann) Rishel, finance officer, and Bob McLester, board chairman. 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 Rockingham ABC Board receives deliveries monthly: the inventory rate is 3.8 and therefore does not meet the goal set by the Commission.

Recommendations:

- Increase inventory turns using the following methods:
 - Analyzing sales data and history reports to plan orders by taking advantage of Special Purchase Allowance (SPA) offers whenever possible
 - Splitting cases with surrounding boards to increase variety as well as to reduce cost
 - Cross-merchandising or moving stock within store to increase visibility and to encourage more impulse shopping
 - Utilizing end caps as much as possible to highlight slow moving and new products
- Contact other boards whose inventory turnover rate exceeds the target for other ideas that may be implemented

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 with or without MXB – 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 Rockingham ABC Board has an operating cost ratio of .79 and has met the goals set by the Commission. The board owns the main location and leases the second location. Annual lease obligations total \$17,380. In comparing expenses with similar size boards, Rockingham ABC's

expenses are lower. *Refer to charts in Appendix A for analyses of expense history and common expenses of similar size boards.*

Recommendations:

- Continue to monitor budget frequently to ensure that the actual expenses do not exceed budgeted amounts. Provide year-to-date reports to board members detailing how much has been spent.

Profit percentage to sales

The profit percentage to sales is calculated by dividing the total profit before distributions by the total liquor 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%

The Rockingham ABC Board has a profit percentage to sales of 3.91% and does not meet the goal set by the Commission.

Recommendations:

- Increase sales strategies by developing new marketing techniques, for example, cross merchandizing. Refer to recommendations under inventory turnover.
- Continue maintaining or reducing expenses further to increase profits by monitoring budget. Refer to recommendations under operating costs.

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

Under the new guidelines, the Rockingham ABC Board was allowed to retain up to a maximum of three months but had a working capital of \$298,804 which is equivalent to approximately two and a half months. The working capital retained is within the limits allowed by NCAC 02R .0902.

Store Appearance and Customer Service

The Rockingham ABC stores ranges from approximately 554 to 985 linear feet of shelf space and carry an average of 1,175 product codes in each store. See Appendix B for photos.

- Both interior and exterior areas of the stores were clean, well-lit, and inviting. Countertops were free of clutter.
- The shelf management system was clearly defined, consistent, and easily understood. Bottles were dusted, fronted, and well-stocked.
- The required Fetal Alcohol Syndrome poster was displayed.
- Upon entering both stores, employees greeted customers in a professional manner exhibiting good customer service. When not helping customers, employees continued with store upkeep and inventory maintenance.

Policies and Procedures

- All employees maintain their own cash drawer. The cash drawers are counted daily at the beginning of each shift. If any shortages arise, the employee responsible will make up the difference. If any significant amount of overages, it is investigated.
- Inventory counts are performed quarterly by all scheduled staff. Unsaleable items are removed from inventory immediately. Spot checks are conducted frequently in each category which results in a full inventory count. Discrepancies are investigated by management.
- The manager creates a work schedule for all employees and maintains records for vacation and sick hours earned and used.
- The following policies were either not on file or not current, however, copies were submitted to the Commission auditor:
 - Updated Employee Handbook
 - Price Discrepancy Policy
 - Mixed Beverage Policy
 - Law Enforcement Contract
- Although the board is notified of purchases made by credit card, there is no written policy for future usage.

Recommendations:

- Adopt a written credit card usage policy. Include a maximum limit 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 debit 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

- Two out of three board members, the finance officer, and the general manager have attended the mandatory ethics class. The newly appointed board member is planning to attend the next scheduled class.
- RASP training is provided annually to existing employees and whenever there are new employees.

Recommendations:

- Continue providing training but include other training opportunities that deal with alcohol education, customer service, and product knowledge. Contact other boards that have a training module to incorporate into professional development for employees.
- Continue cross training employees should the manager be suddenly unavailable. Include training on paying invoices, and ordering and receiving liquor.

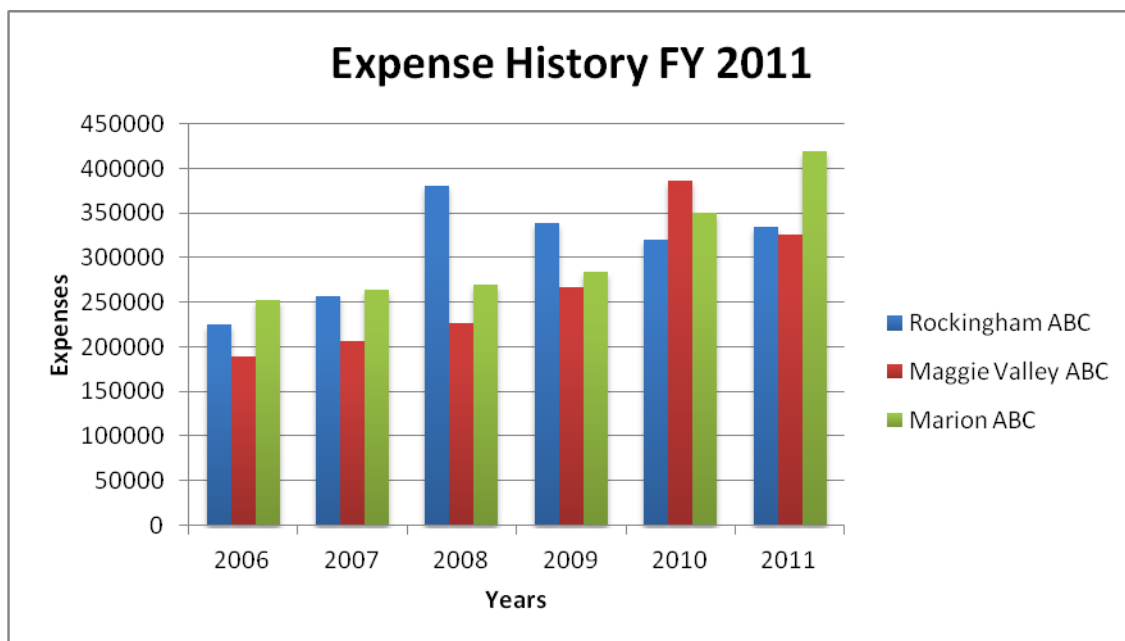
Administrative Compliance and Internal Controls

- Board meeting minutes were available to view and followed the order of proceedings for conducting a business meeting. However, the board meeting minutes does not state that the conflict of interest statement has been read.
- Board information on the Commission website is current.
- Nepotism – The board is in compliance with G.S. 18B-700(k).
- General Manager Compensation – The board is in compliance with G.S. 18B-700(g1).
- Liquor orders and maintenance agreements bear the pre-audit certificate as required by G.S.18B0-702(m).
- All checks have the approved certificate and signed by the finance officer as required by G.S.18B-702(q). All checks have two signatures, the finance officer and the general manager. In the event, the finance officer or general manager were unavailable, the board has appointed a deputy finance officer.

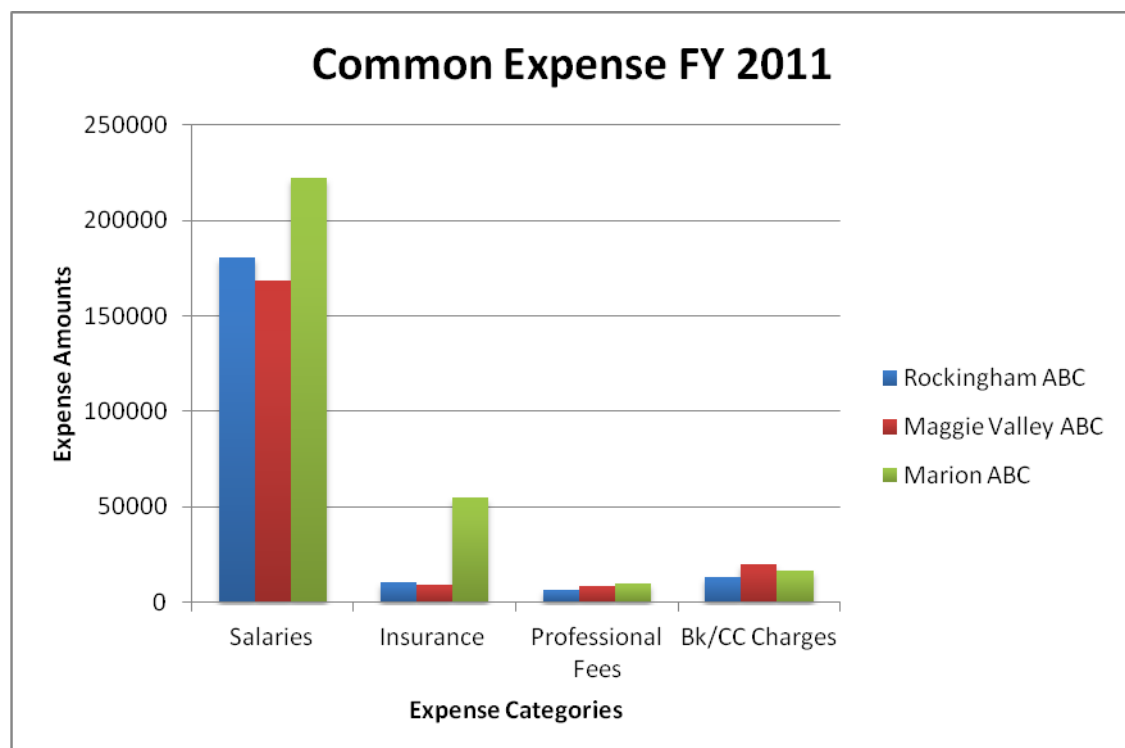
Recommendations:

- In an effort to avoid possible conflicts of interest, it is recommended that at the beginning of each board meeting the Chairman ask fellow board members if there are any potential conflicts of interest. *Refer to Appendix C (1).*

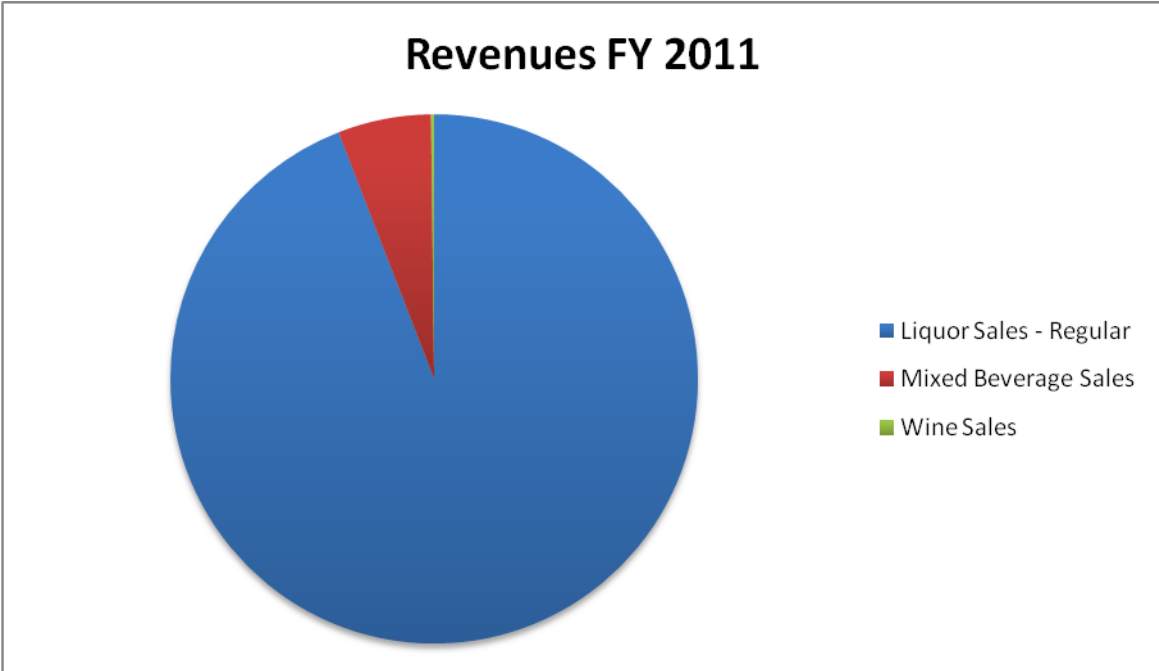
APPENDIX A



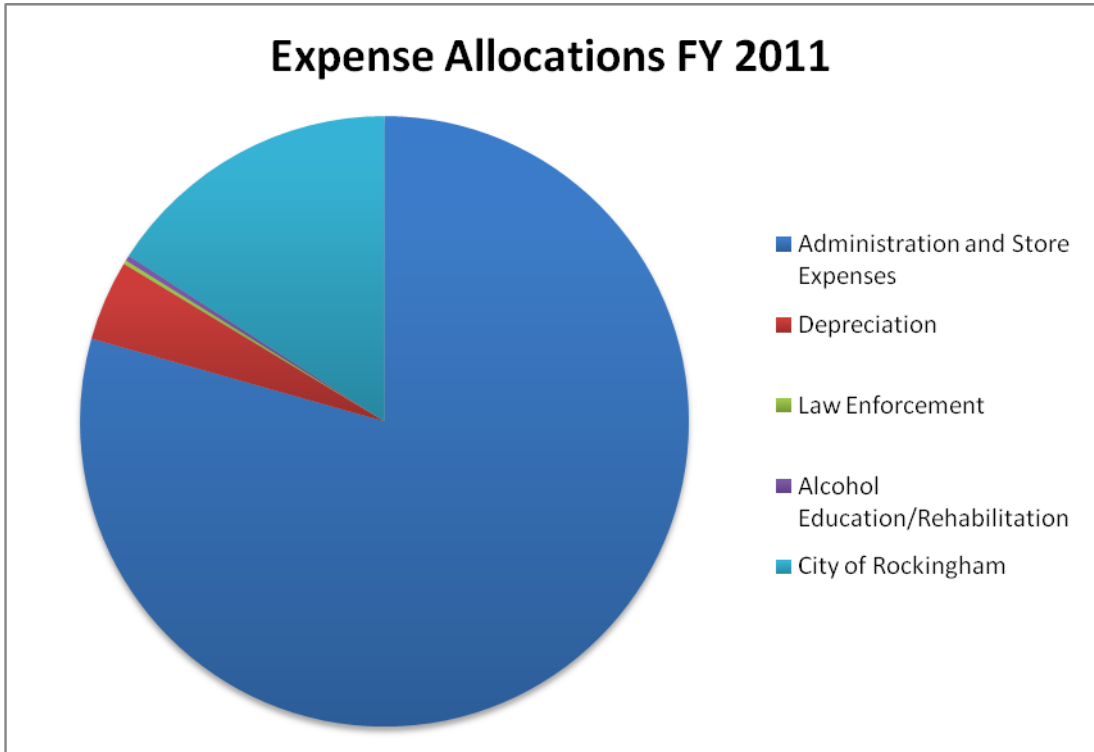
In analyzing Rockingham ABC's expenses with other boards, the expenses are relatively lower.



Rockingham ABC's common expenses are lower than other boards. Note; Insurance expense for Marion ABC includes group insurance. All other insurance expenses are bonding.



Rockingham ABC's revenue allocations.



Rockingham ABC's expense allocations.

APPENDIX B



Counter view of the main location.



Counter view of second location.

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 GS 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?'

Rockingham ABC

642 East Broad Avenue
Rockingham, NC 28379

The Rockingham ABC Board would like to thank Moniqua McLean for a very professional and productive audit.

The following is our response to the findings of our audit conducted on May 16, 2012.

Inventory Turnover

We will strive to increase inventory turnover by following the recommendations of the audit. We are aggressively working to “move” de-listed codes and slow items. We display those items both at the counter and on our front end caps. We also prominently display new items at the store front for maximum exposure. We will work to cross-merchandise more products for increased visibility.

Operating Cost

We are within goals set by the commission. We will continue to monitor our budget and work to keep expenses down.

Profit percentage to sales

Although we recognize our profit of 3.91% does not meet the 5% minimum set by the commission, we feel we will continue the upward trend of the last couple years. Our profit dropped initially due to the costs involved in opening our second store. After going through growing pains, profit has been increasing. We fully expect this trend to continue. Not long before opening our second store we also experienced the loss of NASCAR racing in Richmond County. The closure of the Rockingham Motor Speedway (The

Rock) was a big economic hit for all in this area. We do see a little light ahead as the track has re-opened to ARCA racing and has the return of a NASCAR Truck Race. We will continue to monitor expenses and follow the recommendations presented in the audit.

Working Capital

We are within allowed limits.

Store Appearance and Customer Service

As it is very important to us, we will continue to maintain our appearance and provide the absolute best customer service.

Policies and Procedures

We have now provided the Commission with all required and recommended policies.

Personnel and Training

All board members have now attended the ethics class. We only have one "new" employee that needs RASP training. We will ensure he receives training ASAP. We will continue to explore all means to keep our employees well trained and cross utilized.

Administrative Compliance and Internal Controls

The conflict of interest statement has been added to the beginning of every board meeting.

Sincerely,

Mack Odom
General Manager

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AUG 07 2012

NC ABC COMMISSION

ROCKINGHAM ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

| RECOMMENDATION | REQUIRED BY STATUTE | IMPLEMENTATION STATUS |
|--|--|---|
| <p>Policies and Procedures: Adopt or update the required policies such as:</p> <ul style="list-style-type: none"> • Employee Handbook • **Price Discrepancy Policy • **Mixed Beverage Policy • Law enforcement contract <p>Adopt a written credit card usage policy as recommended.</p> | <p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>**Note: Required by rule.</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 the required policies and submitted to the Commission.</p> |
| <p>Administrative Compliance and Internal Controls: To avoid possible conflicts of interest, include in each meeting the conflict of interest statement.</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 incorporated the statement to be read in each meeting.</p> |