

Roseboro 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:
A.D. "ZANDER" GUY, JR.

COMMISSIONERS:
DANIEL L. BRIGGS
Lexington

ALLEN M. THOMAS
Greenville

ADMINISTRATOR:
MICHAEL C. HERRING

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Moniqua S McLean
ABC Board Auditor

January 11, 2013

Roseboro ABC Board
Mr. Robby James, Chairman
501 East Street
Roseboro, NC 28382

Dear Chairman James,

We are pleased to submit this performance audit report on the Roseboro 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 is making to comply with the new performance standards along with our recommendations 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 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 all store locations;
- Interviewed key ABC board personnel.

The Roseboro ABC Board has responded to the performance audit recommendations and is taking steps toward becoming profitable 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

Chapter 48 of the 1963 Session Law authorized the Town of Roseboro to hold an election upon receipt of a petition signed of at least fifteen percent of the registered voters. The referendum was held on June 8, 1963 and passed 262 to 223. The first retail sale was on July 6, 1963. A mixed beverage election was held on November 6, 2007 and passed 152 to 137.

Upon election of an ABC store, the Town of Roseboro was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members include Robby James, chairman, Chip Crumpler and Rod Burgess, board members.

The Roseboro ABC Board operates one retail store. The board staffs four employees consisting of one full-time manager and three part-time clerks. The general manager's duties consist of the overall operations of the store including supervising personnel, accounts payable, inventory management, and customer service. All clerks are responsible for routine store upkeep, stock maintenance, and customer service. The board has hired an accountant who is responsible for maintaining records of payments, handling all tax payments, and serving as the deputy finance officer.

FINANCIAL ANALYSIS

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:

- 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 Roseboro ABC Board receives deliveries twice a month: the inventory turnover rate is 3.5 and does not meet the target set by the Commission.

Recommendations:

- Increase inventory turns using the following methods:
 - Analyzing sales data and history reports to plan orders so that the majority of inventory is on the shelves, not sitting in the warehouse,
 - 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 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 Roseboro ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.79 and does not meet the goal set by the Commission. The board owns the store and overhead expenses are substantially lower as is the case for most boards who own their store. In fiscal year 2012, sales have increased 9.44% since the previous year and overall operating expenses have increased 1.64% over the same period. To meet the cost ratio goal and remain at current expense levels of \$119,720, revenue must be increased to approximately \$675,000, a 3.21% increase over previous year's sales. To meet the cost ratio goal and remain at current revenue levels of \$654,034, expense levels must be reduced to \$117,000, a 2.3% decrease over previous year's expenses. An analysis indicates that expenses peaked in FY2010, began tapering off in

FY2011, but have begun to rise in FY2012, while other similar size boards have decreased overall expenses. Refer to chart in Appendix A for analyses of expense trends.

Recommendations:

- 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, bookkeeping, specific utilities, maintenance contracts, and credit card processing fees.
- Continue current practices that have resulted in increased sales.

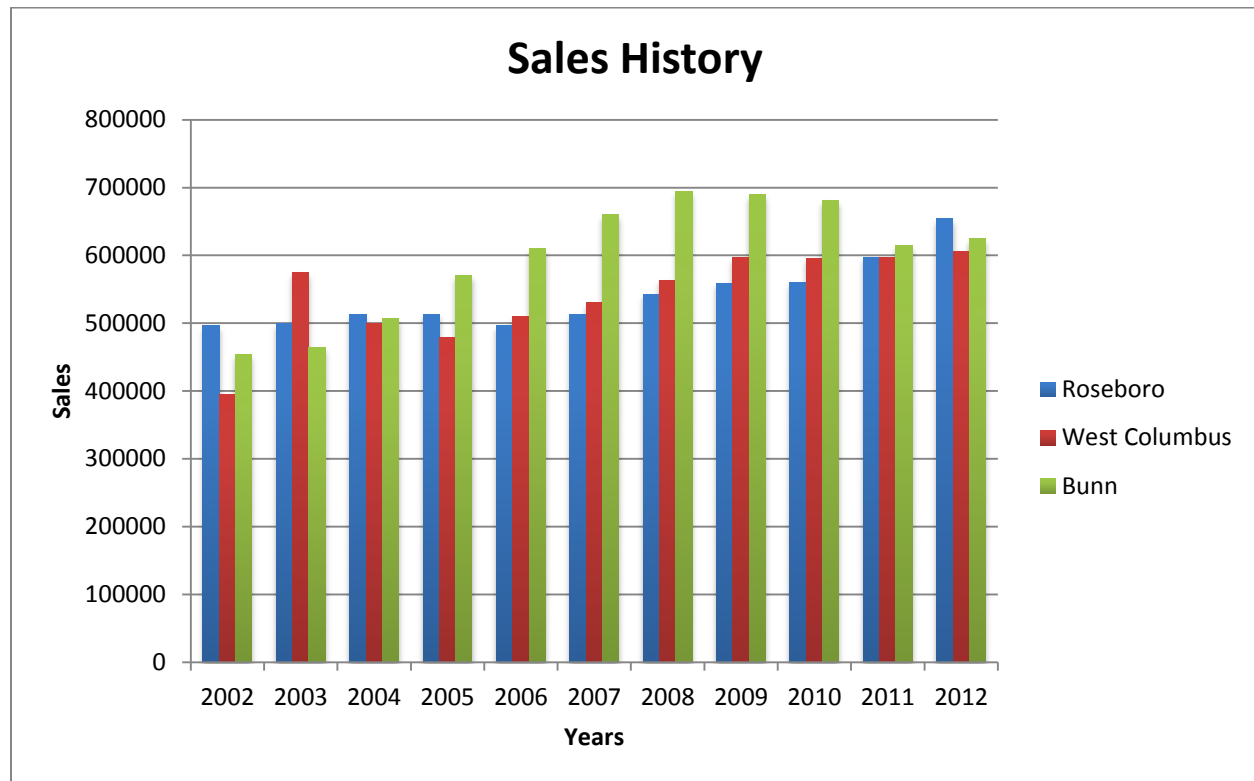
Profit Percentage to Sales

The profit percentage to sales is calculated by dividing the total profit 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 Roseboro ABC Board had gross sales of \$654,034; income from operations was \$27,012, a 4.13% profit percentage to sales and has not met the goal.

Below is a sales history analysis of similar size boards. In the analysis, Roseboro ABC showed a steady increase following the state's increase while peaking in 2012 at 4.13%, a 2.15% increase from the previous year.



Factors affecting sales and profitability:

- US Census Bureau reports a population of 1,191 in 2010;
- Individuals below poverty levels is 25% to the state's 15.5%;
- 9.4% unemployment rate for Sampson County in August 2012, a 0.7% increase since the previous month
- Over a ten-year period, sales have increased 31.62%.

Recommendations:

- Improve sales strategies by developing new marketing techniques. Refer to recommendations addressed under inventory turnover.
- Analyze expenses more closely to increase profits by monitoring budget closely and reducing costs where needed.
- Consider merging with another system to acquire profits without the burden of common 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:

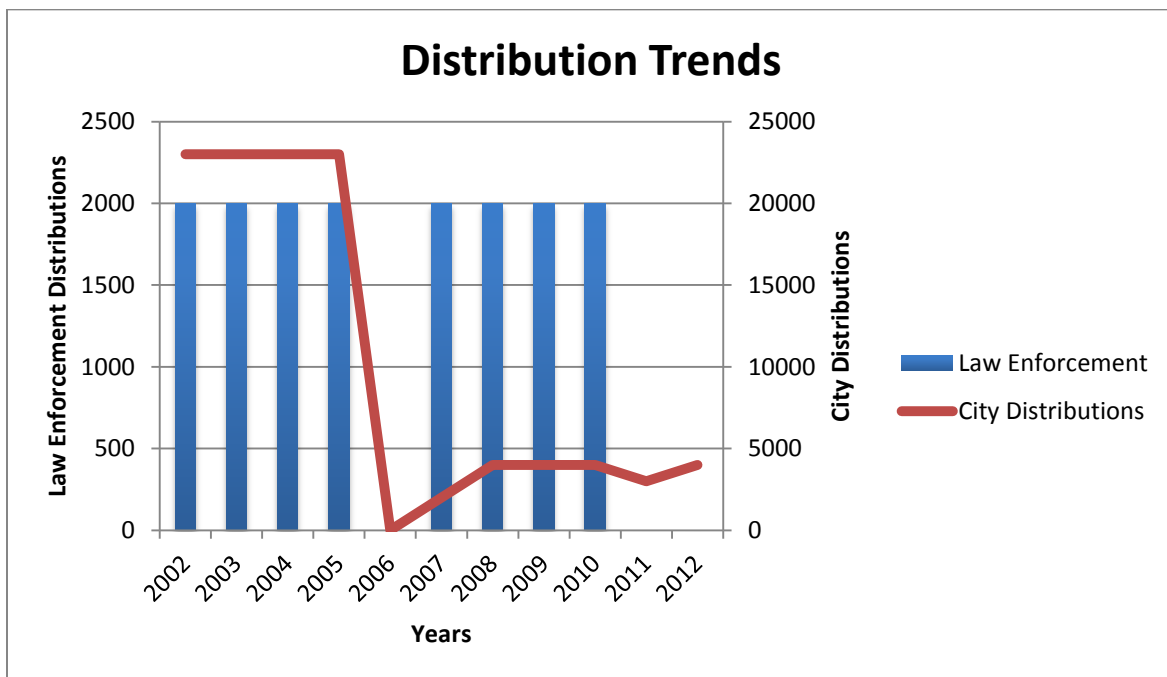
- Four months for boards with gross sales less than \$1.5M
- Three months for boards with gross sales less than \$50M and greater than or equal to \$1.5M
- Two months for boards with gross sales equal to or greater than \$50M

Based upon the new limits, the Roseboro ABC Board had a working capital of \$97,410 and is within the limits set by the Commission.

Distributions

G.S. 18B-805 (c) (2) requires the board to distribute quarterly at least five percent of profits for law enforcement. The remaining profits are to be distributed to the Roseboro General Fund or 10% (whichever is less) to public schools located within the corporate limits of the town for educational purposes.

In FY2012, the board did not make distributions to law enforcement, but distributions were made to the town totaling \$4,000. Below is a historical trend of Roseboro ABC's distributions. The chart indicates that distributions have declined significantly for law enforcement and has begun to grow for city distributions.



FINDINGS, OBSERVATIONS, AND RECOMMENDATIONS

On September 11, 2012, ABC Commission Board Auditor, Moniqua S. McLean, visited the Roseboro ABC store and interviewed Robby Caison, general manager, and Dean Matthews, accountant. The following are the findings, observations, and recommendations relating to the performance audit.

Store Appearance and Customer Service Observations

The Roseboro ABC Board operates one retail store with approximately 700 linear feet of shelf space and carries approximately 1,015 product codes.

- The Fetal Alcohol Syndrome poster was displayed.
- The store was clean and well-maintained. Bottles were dusted and fronted.
- A consistent and easily understood shelf management system was present conforming to the latest industry and marketing strategies while catering to customer interests.
- Upon entering each store, employees greeted customers in a professional manner and were attentive to customer needs exhibiting good customer service.

No Recommendations.

Personnel and Training

- All board members and general manager have attended the mandatory ethics class.
- Training is provided as new information becomes available to current staff. Other training opportunities, such as the RASP class, have been provided.
- Cross training opportunities have been extended to key employees in the event the general manager was suddenly unavailable.
- An updated employee handbook has been adopted and submitted to the Commission auditor. Personnel files were viewed to verify that applicable forms were documented. Each file had an acknowledgement stating that the employee has viewed the updated personnel manual.

Recommendations:

- Provide additional training that will include alcohol education, customer service, and product knowledge. Contact the Commission and other boards that have a training module(s) in these areas.

Policies and Procedures

- Polices adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement contract
 - State Travel Policy
 - FY2013 Budget (Proposed and Adopted)

- A written price discrepancy policy has not been adopted; however employees do understand how to handle pricing differences between the shelf and the register.
- All employees share a single cash drawer. Employees will use the manager's clerk number to initiate sales. The cash drawer is counted at the beginning of each shift. Deposits are made daily before each shift by the authorized persons. Deposit reconciliations against the register receipts are made by the accountant.
- Physical inventory counts are performed bi-monthly by scheduled staff. The general manager and one other person investigate discrepancies and makes adjustments in the inventory management system. Unsalable items are adjusted from inventory when it occurs.

Recommendations:

- Although understood by all employees, have a written price discrepancy policy. Having written procedures will allow future employees to be knowledgeable about current practices. *Refer to Appendix C (1) for rule.*
- To have stronger internal control functions for cash handling purposes, have procedures in place that will eliminate using one clerk number for all sales transactions. Consider the following:
 - Contact computer vendor on how to set up multiple clerk numbers,
 - Have written procedures for handling cash.

Administrative Compliance Findings and Observations

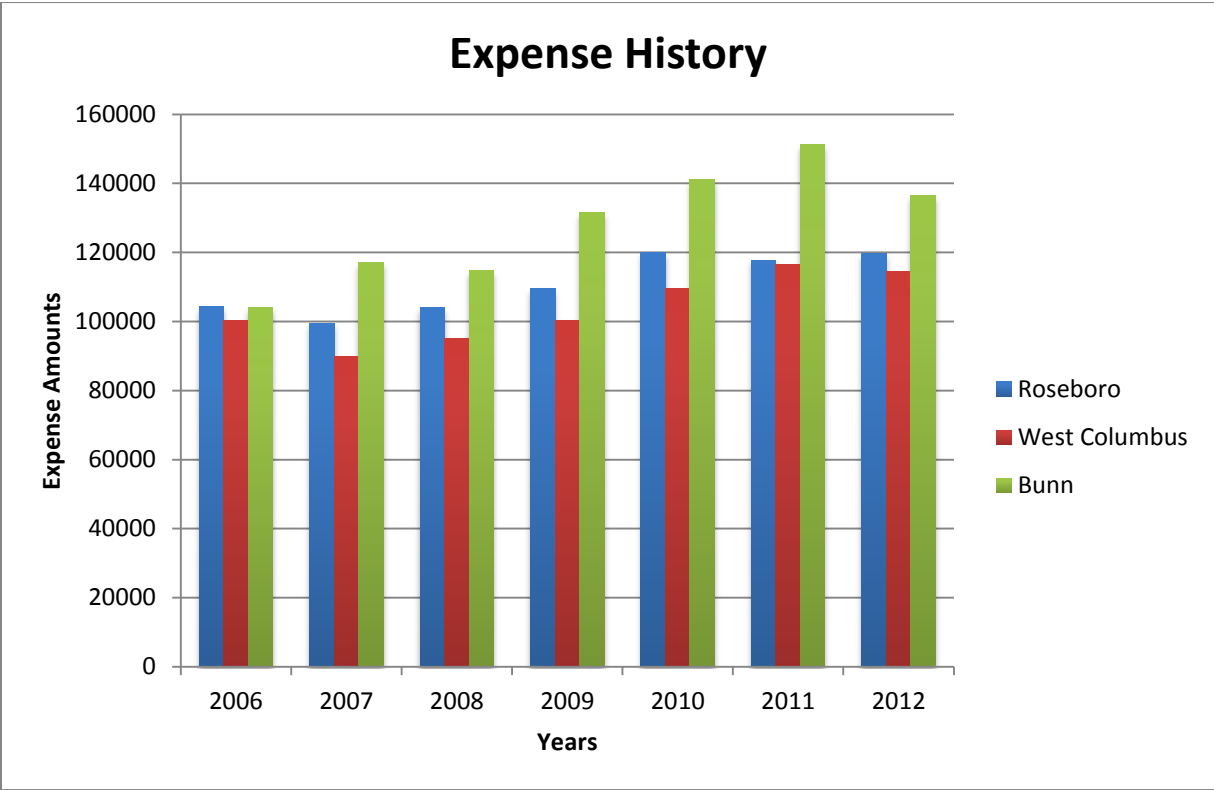
- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting and referenced the conflict of interest statement.
- Board member compensation information was incorrect on the Commission internal website. However, the general manager salary information was current.
- Board member and general manager compensation is in compliance with G.S.18B-700 (g) and (g1).
- Law enforcement activity reports were missing for the following months: July – December 2011, January 2012, April – May 2012, and July 2012. Reports were submitted at the time of the audit.
- Nepotism – The board is in compliance with G.S. 18B-700 (k).
- The general manager and all board members are bonded in the amount of \$50,000 as required by G.S. 18B-700 (i).
- The board has not appointed a finance officer. The board has not obtained approval from the Commission to allow the general manager to perform the duties of the finance officer.
- Liquor orders and purchase orders are pre-audited and signed by the general manager as required by G.S. 18B-702(m).

- All checks bear the approved certificate as required by G.S. 18B-702 (q). Checks are signed by the general manager and a board member.
- Out of approximately 1,000 product codes, approximately fifty codes were sampled and all reflected the correct price set by the Commission.

Recommendations:

- Updated the Commission internal website to reflect current compensation rates.
- Appoint a finance officer other than the general manager or request an exemption from the Commission allowing the general manager to perform that role. *Refer to Appendix C (2) for statute.*

APPENDIX A



The expense history data indicates that Roseboro ABC Board's overall expenses have slightly increased by 1.64% since the previous year and have 14.81% over the past seven years. Compared to other boards' expenses, Roseboro ABC's expenses are not out of line.

APPENDIX B



Exterior view.



Counter view.

APPENDIX C

- (1) *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."*
- (2) *GS 18B-702 (j) states "...the local board shall designate (i) a part-time or full-time employee of the board other than the general manager or (ii) the finance officer of the appointing authority with consent of the appointing authority to be the finance officer for the local board."*

Roseboro ABC Board

From: "Roseboro ABC Board" <roseabc@embarqmail.com>
To: "McClean, Moniqua S" <moniqua.mcclean@abc.nc.gov>
Sent: Thursday, December 13, 2012 2:06 PM
Subject: Re: Performance Audit Draft Complete
 Response to performance audit, Roseboro ABC Board.

A. Increase inventory turns

1. Looking at order history and reorder points to reduce the number of cases in warehouse between shipments.
2. Time, distance, travel and paperwork to split cases between neighboring stores (no of the same board) may increase variety but would add to overall cost.
3. We implemented cross merchandising recommendation after your initial visit and consider this successful recommendation.
4. Target date for this recommendation is December 17.

B. Operating Cost Ratio

1. Year to date expences are reported at each monthly board meeting, and examinded in detail.
2. Will follow recommendation by NCABC Commision for preferred vending services 2013.
3. Will continue current practices that has resulted in increase sales.

C. Profit Percentage to Sales

1. Will implement all items adressed in inventory turnover items.
2. Expences, reduced costs and increasing profits will be analized in more detail at monthly board meetings.

D. Personnel and Training

1. September 2012 recieved training from NCABC commision for Responsible Alcohol Seller Program.
2. Store Manager and all board members have attended ethics training.

E. Policies and Procedures

1. Contacted computer vendor and looking into procedure to set up multiple clerk numbers on one register.
2. Procedures for handling cash models NCABC Commision recommendations in ther Policies and Procedures manual.

F. Administrative Compliance Findings and Oberservations

1. Commision website has been updated and corrected.
2. Finance officer other than General Manager has been appointed.

Moniqua, Our entire board and staff apprecites your recommendations and visit. We sincerely wish you and your family a Merry Christmas. Thank You, Robby Casion

RECEIVED

----- Original Message -----

DEC 13 2012

From: McClean, Moniqua S
To: Roseboro ABC Board (roseabc@embarqmail.com)
Sent: Monday, October 15, 2012 11:42 AM
Subject: Performance Audit Draft Complete

NCABC COMMISSION

Enclosed is the draft performance audit. Please forward a copy to each board member. Once everyone has reviewed the document, if there are any errors in facts, please let me know. At your next board meeting, I will present the report and discuss any questions that arise. For the final report, I will need a written response from the board within 60 days, **December 14, 2012**. If you

12/13/2012

prefer, you may wait until I present the audit to the board before you respond. Please let me know of your next board meeting date within a three week minimum.

A hard copy will be mailed.

Moniqua S McLean, MAFM
ABC Board Auditor

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ROSEBORO ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Policies and Procedures: **Adopt a written price discrepancy plan</p>	<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 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Although the board has implemented policies and procedures from Commission rules, the Commission has not received a written price discrepancy policy.</p>
<p>Administrative Compliance: Appoint a finance officer.</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 appointed a finance officer.</p>