

Tyrrell County 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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June 29, 2012

Tyrrell County ABC Board
Mr. Carl Willis, Chairman
PO Box 449
Columbia, NC 27925

Dear Chairman Willis,

We are pleased to submit this performance audit report on the Tyrrell 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 relocate and modernize the 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 audits 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 the store,
- Interviewed key ABC store personnel.

The Tyrrell County ABC Board has responded to the performance audit recommendations and has begun to take additional steps toward increasing profits. The board is planning for a new store that would bring in new customers. Policies and procedures have been adopted and implemented to maintain compliance with statutes and Commission rules while applying an internal control structure to ensure stronger segregation of duties.

BACKGROUND INFORMATION

Tyrrell County is located along the south shore of the Albemarle Sound. It borders Washington, Hyde, and Dare counties. Best known for the Scuppernon River Festival, Tyrrell County is famous for its natural and historic landmarks. The 2010 US Census Bureau reports a population of 4,407.

Chapter 49 of the 1937 Act authorized Tyrrell County to hold an election for an ABC store. The referendum was held September 18, 1937. The vote for an ABC store passed 358 to 302. The date of the first retail sales was November 1, 1937. A mixed beverage election was held on May 2, 2000. The vote for mixed beverage failed 656 to 350. A final mixed beverage election was held on May 4, 2010. The vote passed 612 to 577.

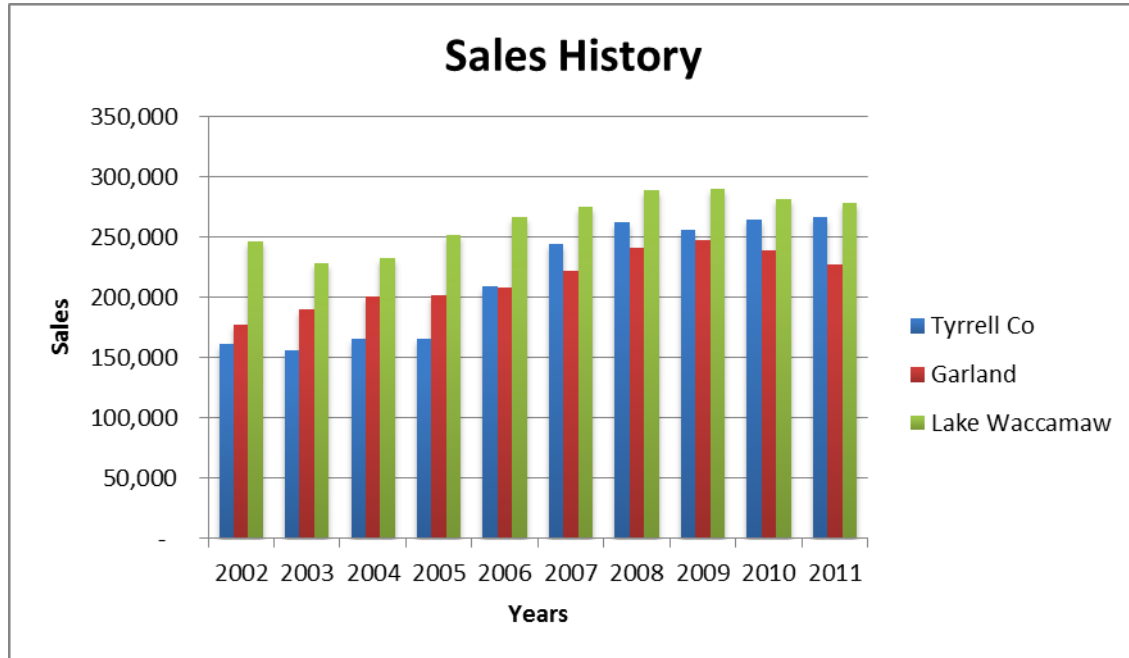
Upon election of an ABC store, Tyrrell County was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members are Carl Willis, board chairman, Charles Ogletree and Sharon Spencer Diggins, board members.

The Tyrrell County ABC Board operates one retail store and staffs one full-time manager and two part-time clerks. The general manager's duties include supervising personnel, inventory management, and retail functions including customer service. The clerk duties are daily stocking, floor upkeep, and retail functions including providing customer service and selling products. The board contracts with the county manager for the finance officer duties and responsibilities. The finance officer delegates some duties to the county staff.

The board is planning to construct a new store on the opposite (east-bound) side of Hwy 64 to attract more of the beach traffic. Currently, the board is in the preliminary stages of the project.

Profitability

For fiscal year 2011, the board showed a loss; gross sales were \$266,582, income from operations was -\$6,926, resulting in a profit percentage to sales of -2.60%. Current sales have increased 3.79% in January over fiscal year 2010; a 2.62% increase since the previous month. In comparing Tyrrell County ABC with other similar size boards, sales over the past ten years have increased following the state's increase. *See Chart below.*



Factors affecting sales and profitability:

- Overall population has increased 6.2% over the past ten years
- Individuals below poverty levels have increased 21.9% over the past five years
- 13.4% unemployment rate in January for Tyrrell County
- Plans to relocate store to a new site

Distribution

G.S. 18B-805 (c) (2) requires the board to expend quarterly at least five percent of profits for law enforcement. The remaining profits are to be expended annually as follows:

- Up to \$1,200 to the Board of Education to supplement teachers' salaries
- Remainder to Tyrrell County

In 2011, the Tyrrell County ABC Board did not make distributions. The last distributions were made in 2009. The board has an agreement to withhold distributions to the County to place into a building fund to help with the construction of the new ABC store.

FINDINGS AND RECOMMENDATIONS

On February 1, 2012, ABC Commission Board Auditor, Moniqua S. McLean, visited the Tyrrell County ABC store and interviewed Kathy Perry, general manager. 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 Tyrrell County ABC Board has a monthly delivery schedule. The inventory turnover rate for the Tyrrell County ABC Board is 5.3 and has exceeded the target rate set by the Commission.

Recommendations:

- Explore alternative strategies for eliminating slow moving products by initiating new marketing opportunities to encourage impulse buying by making high end products more accessible and lower priced products less accessible.
- Take advantage of Special Purchase Allowances (SPA) and quarterly price reductions whenever possible.
- Continue establishing relationships with nearby ABC boards to take advantage of the following:
 - Splitting cases of higher end products when appropriate to increase variety while keeping costs to a minimum, and
 - Sharing resources to avoid out of stocks
 - Transferring slow movers to other boards that have a greater demand

Operating Cost

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:

- 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 Tyrrell County ABC Board has an operating cost ratio of 1.07 and did not meet the goal set by the Commission. To meet the goal and remain at current expense levels, revenues must be increased to approximately \$375,000. To meet the goal and remain at current revenue levels, expenses must be reduced to \$48,000. *Refer to Appendix A for chart analysis of operating expense history and common expense analysis of similar size boards.*

Recommendations:

- Monitor budget more frequently to ensure that expenses do not exceed budgeted amounts. Provide board members monthly reports showing budgeted expenses vs. actual expenses.
- Because salaries and benefits are the largest segment of operating expenses, analyze personnel hours to assess efficient personnel usage. Determine when your slowest hours are and consider adjusting the number of personnel needed for those time periods.
- Request bids annually from various vendors to get the best rates possible on audit fees, credit card processing fees, and insurance and bonding rates.
- Other post employment benefit expenses will continue to rise. Discuss long-term expense implication with CPA and if the board has not already done so, consider cancelling this benefit for future employees.

Profit percentage to sales

The profit percentage to sales is calculated by dividing the total income from operations 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 Tyrrell County ABC Board has a profit percentage of -2.60% and did not meet the goal set by the Commission.

Recommendations:

- Increase sales by developing new marketing techniques. *Refer to recommendations under inventory turnover.*
- Analyze and reduce operating expenses to increase profits by monitoring budget. Provide year-to-date reports to board members detailing how much has been spent.

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 working capital limits 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

According to the new rule, Tyrrell County had a working capital of \$64,636 for FY2011 and is within the limits set by the Commission.

Store Appearance and Customer Service

The Tyrrell County ABC store has 412 linear footage of shelf space carrying approximately 350 product codes. *See Appendix B for photos.*

- The store was clean, well-lit, and clutter free around the counter area. The exterior area had used cigarettes left in the yard and potholes. Often, clerks clean the outside area to remove the cigarette butts. There are no defined parking spaces due to a limited area.
- There is no comprehensive shelf management system in place. Products are shelved in NC code number order; some products are displayed left-to-right with the largest size on the left and others are right-to-left with largest size on the right. Some higher profit products appear on lower shelves.
- The price list and monthly reductions are available for customers to view.
- The Fetal Alcohol Syndrome poster was displayed. The ABC Commission auditor provided an updated poster during her visit.

Recommendations:

- Develop an effective and efficient shelf management system that better utilizes empty areas, encourages impulse buying, and provides better visibility for higher priced products. An acceptable shelf management plan incorporates the concepts found in NCAC 02R.1711. *Refer to Appendix C (1) for rule.*
- Repair potholes in parking lot if plans to relocate the store will not be implemented within the next year.

Policy and Procedures

- A Code of Ethics and a law enforcement contract was not filed with the Commission. However, a copy was submitted to the ABC Commission auditor during her visit.
- The employee manual on file is from 1984. The board is currently in the process of revising the manual.
- The following policies have not been adopted:
 - Price Discrepancy Policy
 - Mixed Beverage Policy
- All of the monthly reports and invoices are transferred to the county office for payment. The finance officer designates an employee to produce monthly financial reports for the board, reconcile bank statements, and write the checks. The finance officer reviews the invoices and signs the checks. A second signature is provided on all checks.
- All deposits are made nightly by whomever is working.
- When the store needs immediate supplies, the store manager purchases and is reimbursed by the county office. All other store and office supplies are purchased through the county office.
- The store manager maintains a calendar for scheduling clerks' hours. Time sheets are filled out by the manager and the clerks sign for verification. Once all time sheets are completed, they are sent to the county office. The finance officer designate verifies the hours worked and initiates payroll.
- Physical inventory counts are usually performed every three months by all scheduled staff. Any discrepancies are checked by the staff and discussed with the general manager.

Recommendations:

- Have a written price discrepancy policy and include in the employee handbook so that all employees will know what to do if a customer has a discrepancy. The Commission will provide a sample policy upon request. *Refer to Appendix C (2) for rule.*
- Adopt a written mixed beverage policy. The Commission suggests an open mixed beverage policy that reflects good customer service and allows customers to order and pickup Monday through Saturday.
- To ensure stronger internal controls of inventory, take physical inventory monthly. Have board members conduct spot checks on a regular basis and review all monthly inventory adjustments.

Personnel/Training Compliance

- Training is provided to new and existing employees as new information is available.
- All board members, the finance officer, and the general manager have attended the mandatory ethics class.

Recommendations:

- Continue cross training employees on key functions that include ordering liquor, closing the end of the month, paying bills, and filing taxes in the event the general manager were suddenly unavailable.
- Attend free annual training, such as the Responsible Alcohol Seller Program, offered by the Commission and other approved venues. Document training opportunities and place in employee's personnel file.

Administrative Compliance

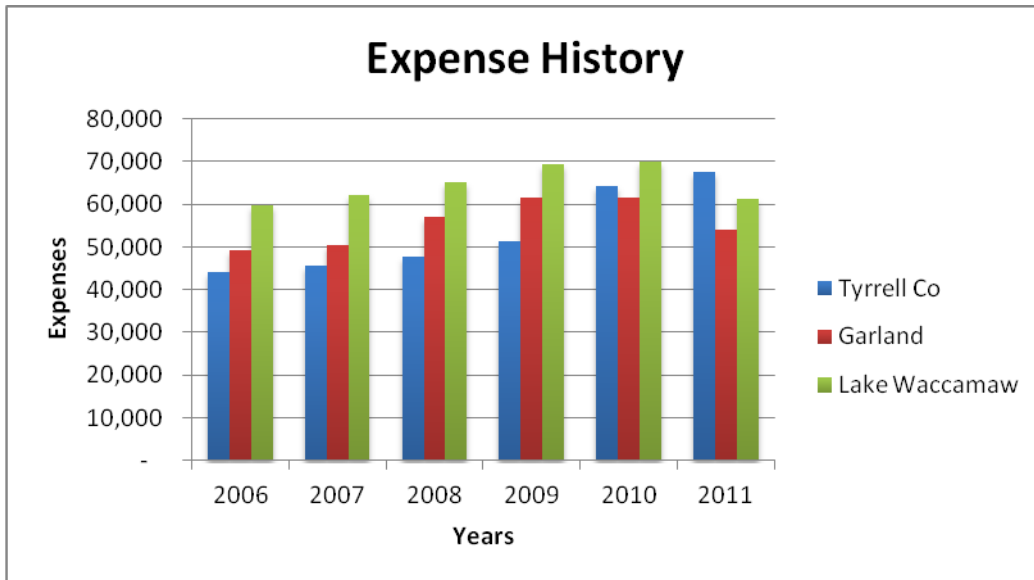
- Board meeting minutes were available to view and followed the order of proceedings for conducting a business meeting. However, they did not reference the conflict of interest statement.
- Except for current board member appointment dates, board information on the Commission website was updated. Board member compensation met the current statutory requirements.
- Nepotism – The board is in compliance with G.S. 18B-700(k).
- Orders to LB&B nor purchase orders do not bear the pre-audit certificate as required by G.S. 18B-702(m).
- A deputy finance officer has not been appointed to aid in the duties if the finance officer is unavailable.
- The board is not making quarterly distributions as required by G.S. 18B-805(g). However, the board has obtained approval from the appointing authority to retain any profits for the new store construction.
- The board has not increased the insurance bond for the required persons as required per G.S. 18B-700 (i).
- Current shelf prices do not reflect the price set by the Commission. Crown Russe 1.75L, for example, reflected May 2011 prices in the month of February 2012.

Recommendations:

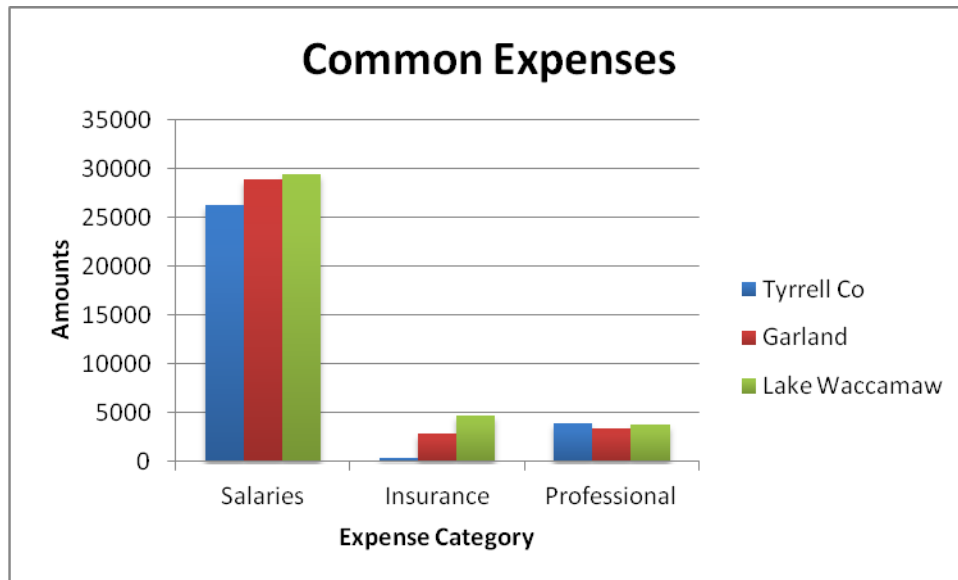
- In an effort to avoid possible conflicts of interest, it is recommended that at the beginning of each board meeting the Chairman ask fellow board members if there are any potential conflicts of interest. *Refer to Appendix C (3).*
- Update board information on the internal Commission website to reflect current appointment dates for board members.
- Orders to LB&B for liquors must have a pre-audit certificate stamped and signed by the finance officer before the orders are placed. Use purchase orders when ordering all store and office supplies. Purchase orders are required to have the pre-audit certificate signed by the finance officer. *Refer to Appendix C (4) for statute.*

- Appoint a deputy finance officer to perform the finance officer's duties should he/she is absent. *Refer to Appendix C (4).*
- Update the bonding insurance policy to have the general manager, all board members, and finance officer bonded for \$50,000. *Refer to Appendix C (5).*
- North Carolina statutes require uniform pricing in all ABC stores. Audit all shelf tags in the store and the cash register system for correct pricing. To ensure accurate pricing in the future, incorporate a shelf tag audit (by section) into the inventory schedule.

APPENDIX A



The expense history comparisons determines that Tyrrell County ABC expenses have increased in the past five years resulting in the highest expenses in 2011.



The common expense analysis determines that Tyrrell County ABC's expenses are not out of lined compared to other boards.

APPENDIX B



View of the counter area.



Parking lot view.



Incorrect pricing on 43-472.

APPENDIX C

(1) NCAC 02R .1711 (a) states "Each local board shall establish and maintain a shelf management plan. The local board shall establish policies within its plan that incorporates the following concepts:

(1) Set the higher priced items on the upper shelves at eye level and set the lower priced items on the bottom shelves;

(2) Block categories in vertical sets per their category;

(3) Arrange bottle sizes so they increase left to right of the same item;

(4) Create brand billboard by stacking all brand sizes together;

(5) Set shelf space for products considering the following factors:

A.Marker share;

B.Promotions;

C.Traffic patterns

D. Seasonal sales; and

E.Cross merchandising;

(6) Set and maintain all bottles at the front of the shelf; and

(7) Discontinue low profit slow moving items.

(b) Each local board shall keep a copy of its shelf management plan at each store location and, upon request, provide a copy to a Commission representative.

(2) 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."

(3) 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?'

(4) 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)

(5) 18B-700 (i) states, "Each local board member and the employees designated as the general manager and finance officer of the local board shall be bonded in an amount not less than fifty thousand dollars secured by a corporate surety, for the faithful performance of his duties.

**Response from the
TYRRELL COUNTY ABC BOARD**

**North Carolina ABC Commission
PERFORMANCE AUDIT REVIEW OF FEBRUARY 1, 2012**

Inventory Turnover

In an effort to keep our inventory under control the General Manager reviews the stock for slow-movers before placing the LB&B order each month. She also acknowledges the fast-moving products, as well. Upon opening of the new ABC, Store stocking of products on the shelves will fall in line with the recommendations of the performance audit. The General Manager has been in contact with Guy Potts to assist with that process. She has also been in contact with Currituck and other local Boards on the Outer Banks to find out the best sellers during the summer months.

Store Appearance

Upon opening of the new ABC Store there will be a new shelf management system that will enhance sells of all products available. The Board is looking into getting a hand-held scanner to track inventory through the Cash Register System. With the opening of the new store the appearance will be more appealing and the parking lot will be paved and well-lit. The new store parking lot will be more convenient for customers towing boats, campers, trailers, and motor homes. Until the new store opens the ABC Board is maintaining the current location and ABC Commission compliances.

Operating Cost

With the opening of the new store the Board is anticipating a 50% increase in sales, along with the set-up of the store, and a 2% salary increase for employees. The budget is monitored and reviewed by the Board monthly to maintain their objectives. During the fiscal year audit fees, credit card processing fees, and insurance and bonding rates, and other fees are looked at for best rates available.

Profit percentage to sales

With the appeal of the new store location the Board is anticipating it will bring a much better profit percentage because of the changes in inventory turnover and store appearance and looking at developing new marketing techniques. The General Manager will continue to take advantage of the Special Purchase Allowances. She orders enough product at special prices to hold the store over until the next special. Monthly reports are presented to the Board for their review and discussion on all profit and loss.

Customer Service

The Board strives to have excellent customer service and satisfaction. With the ABC Commission's assistance the Board has adopted a policy to cover "Pricing Discrepancies" and "Mixed Beverage orders" on April 23, 2012. The General Manager encourages good customer relations when discrepancies between the shelf price and the register price happen. Mixed Beverage orders are welcome with enough notice to accommodate the customers' needs. These policies are posted in the ABC Store.

Policy and Procedural Compliance

As referenced under Customer Service a Mixed Beverage policy was adopted by the Board on April 23, 2012 and is posted in the ABC Store for customers. The policy requests customers to allow a 24 hour turn-around period for pick-up orders. For "special orders" a six to eight week shipment time is needed to the warehouse. Payment in advance is requested on "special orders." Regarding the Employee manual, although the ABC Board is revising their employee manual, the Board follows the County of Tyrrell's Personnel Policy Manual and a copy was given to Ms. Moniqua McLean, Auditor for the NC ABC Commission.

Personnel/Training Compliance

Cross-training is always a requirement of employment at the ABC Store. The Assistant Manager position is responsible for being back-up for the General Manager in her absence. Any training that is received by personnel or the Board is put in their personnel files.

Administrative Compliance

The ABC Board and Staff have made the following changes to be in compliance upon recommendations of the Performance Audit Review:

- **Board meetings:** At the beginning of each Board meeting the conflict of interest statement is addressed.
- **Update Board Appointments:** Updated Board appointments have been provided for the Commission website.
- **Orders to LB&B:** All orders to LB&B now have the pre-audit certificate signed by the Finance Officer.
- **Use purchase orders:** Purchase orders are used for all store and office supplies and have the pre-audit certificate signed by the Finance Officer.
- **Appoint deputy finance officer:** At the March 26, 2012 Board meeting Terry Somers was appointed Deputy Finance Officer.
- **Update Bonds:** The \$50,000.00 Bond coverage for the Board members, Finance Officer, and General Manager has been issued along with \$10,000.00 coverage on part-time employee positions. All Bond copies have been submitted to the ABC Commission.
- **Audit pricing on shelves:** The General Manager monthly audits the pricing on the shelves and the cash register system to make sure the ABC Store is within the required statutes by the State.

Internal Control

Physical inventory counts: To assist with assurance that the Store's inventory is correct the Board is looking into purchasing a hand-held scanner for inventory that is connected to the cash register system. The store employees also do physical counts monthly and quarterly to make sure internal controls are met. At fiscal year-end the appointed auditor from designate CPA firm also does a inventory count to make sure all internal controls are met.

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NC ABC COMMISSION

TYRRELL COUNTY ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Store Appearance: **Develop an efficient shelf management plan.</p>	<p style="text-align: center;"> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No </p> <p>**Note: Required by Commission Rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p> <input checked="" type="checkbox"/> Fully Implemented <input checked="" type="checkbox"/> Partially implemented 50% complete. (Explain below.) <input type="checkbox"/> Not implemented (Explain below.) </p> <p>A Commission representative has visited the store to suggest recommendations on implementing a more modern shelf management plan. The Board has plans to implement suggestions once the new store is opened.</p>
<p>Policy and Procedures: ** Adopt a price discrepancy policy and a mixed beverage policy.</p>	<p style="text-align: center;"> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No </p> <p>**Note: Required by Commission Rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p> <input checked="" type="checkbox"/> Fully Implemented <input type="checkbox"/> Partially implemented ____% complete. (Explain below.) <input type="checkbox"/> Not implemented (Explain below.) </p> <p>The Board has adopted the following policies and copies have been submitted to the Commission.</p>

TYRRELL COUNTY ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Administrative Compliance: **Read the conflict of interest statement and have the board meeting minutes state that fact.</p> <p>**Update the Commission website to reflect current board members' appointment dates.</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>**Note: Required by Commission 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 updated the Commission website with the required information and has included the conflict of interest statement in meeting minutes.</p>
<p>Administrative Compliance (continued): Affix the pre-audit certificate on all orders.</p> <p>Update the bonding insurance policy.</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>Purchase orders and liquors are being signed by the finance officer. The board has updated the bonding insurance policy with the required coverage for all board members, finance officer, and general manager. A copy of the insurance policy has been forwarded to the Commission.</p>