

Warren 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

CHAIRMAN:
JAMES C. GARDNER

COMMISSIONERS:
JOEL L. KEITH
Wake Forest

KEVIN M. GREEN
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Moniqua S McLean
919-779-8365

October 3, 2013

Warren County ABC Board
Mr. Karl Hehl Jr. Chairman
305 B East Macon Street
Warrenton, NC 27589

Dear Chairman Hehl,

We are pleased to submit this performance audit report on the Warren 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 Finance Officer'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 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 performance audit evaluations. Performance standards shall include, but are not limited to, standards that address enforcement of ABC laws, store appearance, operating efficiency, solvency, and customer service. Performance audits are examinations of existing operating policies, practices, controls, and activities to determine those areas in which there may be a need for improvements. This audit was conducted in accordance with Government Auditing Standards. This report details findings and recommendations with regard to organizational and operational issues.

To achieve the objectives of the audit, ABC Commission staff

- Reviewed applicable General Statutes, ABC Commission Rules, and administrative policies;
- Reviewed applicable reports and studies of ABC boards with similar size and geography;
- Verified compliance with Commission and Board policies;
- Reviewed organizational chart and job descriptions;
- Reviewed ABC store annual audit for the fiscal year 2012;
- Visited all store locations;
- Interviewed key ABC board personnel.

The Warren County ABC Board has responded to the performance audit recommendations and is striving to improve profitability through analyzing expenses and reducing costs while meeting the needs of customers. Policies and procedures have been implemented to ensure compliance with ABC statutes and rules while maintaining stronger segregation of duties.

BACKGROUND INFORMATION

Chapter 493 of the 1935 Pasquotank Act authorized Warren County to hold an election. The referendum was held on July 6, 1935 and passed 1,281 to 669. The first retail sales occurred on July 22, 1935. A mixed beverage election was held on July 20, 2004 and passed 2,008 to 1,327.

Upon election of an ABC store, Warren 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 Karl Hehl Jr., board chairman, Clarence Jones and Victor Hunt, board members.

The Warren County ABC Board operates three retail stores. The board staffs three full-time and ten part-time employees. The general manager is responsible for the overall operations of the system including ordering liquors and financial management oversight. Store managers are responsible for the operations of their stores, inventory management, and customer service. Store clerks are responsible for store upkeep, daily stocking, and customer service. The board has hired an external finance officer to handle all financial operations excluding payroll. The board's auditing firm is responsible for all payroll functions.

FINANCIAL ANALYSIS

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 Warren County ABC Board receives deliveries twice a month: the inventory turnover rate is 3.9.

Recommendations:

- To increase inventory turns, consider the following:
 - Cross merchandising or moving stock between stores to increase visibility and to encourage more impulse shopping in more heavily populated areas;
 - Using the Commission monthly and quarterly reports to plan orders and to take advantage of buy-ins and Special Purchase Allowance offers whenever possible;
 - Using the zero sales report and other sales ranking reports available through the stores' POS systems to identify products that need to be discontinued.
 - Requesting price reductions from the Commission to encourage sales;
- Contact other boards whose inventory turnover rate exceeds the target for additional 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 Warren County ABC Board operates three retail stores including a mixed beverage outlet; the operating cost ratio is 0.78. Mixed beverage sales make up 4.5% of total gross sales. In fiscal year 2012, sales increased 5.51% over fiscal year 2011 and expenses increased 7.28% over the same time period. To meet the cost ratio goal and remain at current operating expense of \$383,957, revenues must be increased to approximately \$2,400,000, a 18% increase. To meet the goal and remain at current revenue of \$2,038,984, expenses must be decreased to approximately \$330,000, a 14% decrease.

Recommendations:

- Compared to other similar size boards, the highest expense is the bank/credit card charges. Request bids from various vendors to get comparable rates to offset the increase of credit/debit card sales.

- Monitor budget frequently and more closely to ensure that overall actual expenses do not exceed budgeted amounts. Provide year-to-date reports to board members monthly detailing how much has been spent.

Profit Percentage to Sales

The profit percentage to sales is calculated by dividing the total income before distributions by the total liquor sales (Total Income before Distribution/Total Liquor Sales). The Commission has set goals based on the following breakdown:

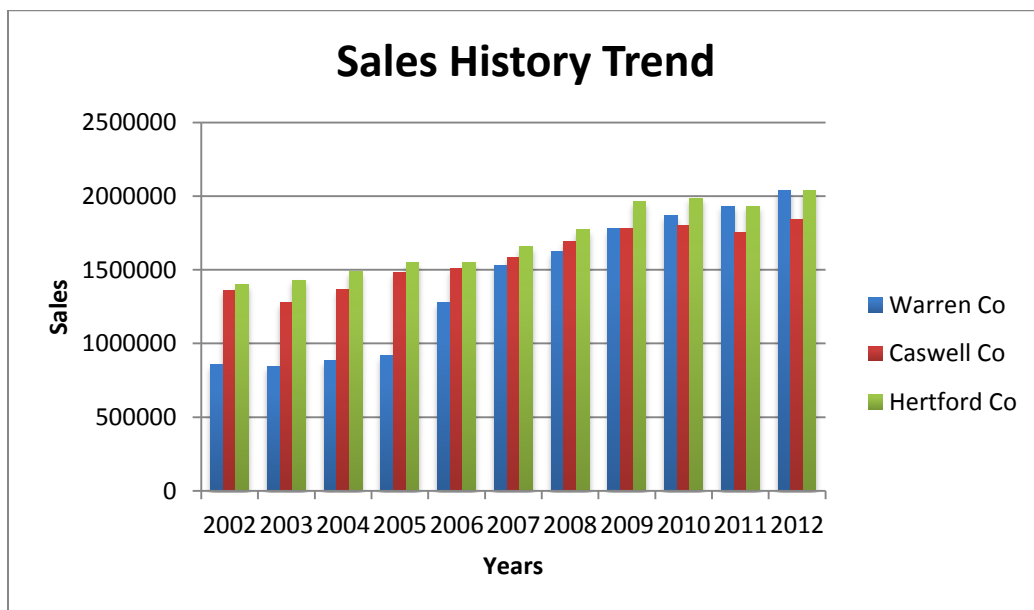
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Warren County ABC Board had gross sales of \$2,038,984, income from operations was \$101,143, a 4.96% profit percentage to sales.

Factors affecting sales and profitability:

- US Census Bureau reports an estimated population of 20,972 in 2010;
- Sales increased 5.51% over the previous year;
- Surrounding counties with ABC stores include Northampton, Halifax, Vance, and Franklin;
- Growth and development in surrounding, more heavily populated areas contribute to the shift in shopping patterns away from rural areas to larger urban areas which affect sales and profitability.

Below is a sales history analysis of similar size boards compared with Warren County ABC Board. This chart analyzes the sales trends for the past ten years. Note: Warren County began mixed beverage sales in 2004 and opened a third store in 2006.



Recommendations:

- To increase profitability, consider testing different marketing strategies such as cross-merchandising, transferring slow-moving products between stores, modernizing dated stores to increase shelf space, etc.;
- Seek suggestions from other boards on how to boost sales;
- Closely monitor monthly overhead and business 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

Warren County ABC had a working capital of \$76,947 which is equivalent to less than two months gross sales and is within the limits of NCAC 02R .0902.

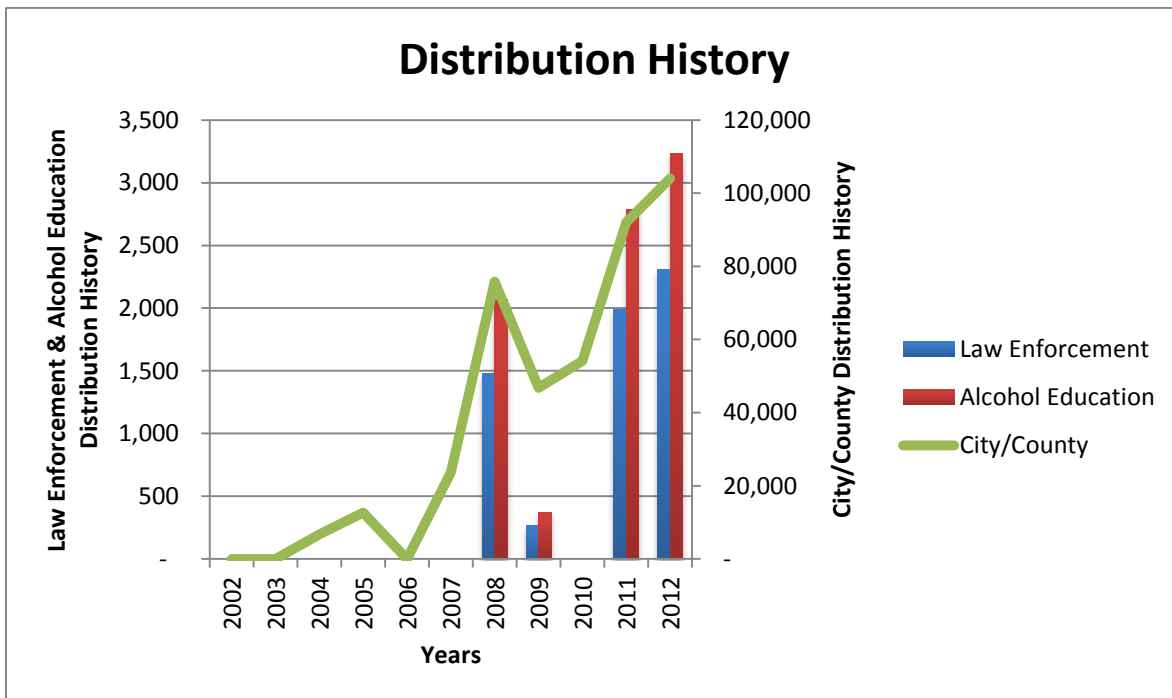
Distributions

G.S. 18B-805 (c) requires the board to distribute at least five percent (5%) of profits to law enforcement. The board follows the local enabling act for alcohol distributions, whereas alcohol distributions are not required but funds have been distributed. The remaining profits are to be distributed as follows:

- 15% to towns in which stores are located; and
- 85% to Warren County General Fund

In FY2012, Warren County made the required minimum distributions totaling \$59,846 to Warren County General Fund plus additional distribution of \$44,123. \$464,461 in Excise and other taxes were paid to the NC Department of Revenue and to the towns/county. Other distributions totaled \$5,540; \$2,308 for law enforcement, \$3,232 for alcohol education.

Below is the chart analyzing the high-low trend of the Warren County ABC Board's distribution.



OPERATIONAL FINDINGS, OBSERVATIONS, AND RECOMMENDATIONS

On January 17, 2013, ABC Board Auditor, Moniqua S. McLean visited the Warren County ABC Board and interviewed Larry Spruill, general manager, Susan Brown, finance officer, and all current board members. The following are the operational findings, observations and recommendations related to the performance audit.

Store Appearance and Customer Service

The Warren County ABC board operates four retail stores with approximately 550 feet of shelf space in each store and carrying approximately 650 to 700 product codes.

- Each store was clean and dusted. However, lighting in the Warrenton store was poor. Bottles were fronted and dusted. Counter areas were free of clutter and supplies were easily accessible. No televisions were evident.
- Because all stores are located in strip malls, parking areas are shared with neighboring retail establishments and were clean.
- All stores displayed the required Fetal Alcohol Syndrome poster. Other signage was worn and faded.
- Security systems were in place and fully functional.
- The state price book was available at each location along with monthly sales lists.
- Sales clerks' interaction with customers was attentive, courteous, and eager to meet the needs of customers.

Recommendations:

- Replace worn signage with new so that customers are able to read clearly what is prohibited.

Personnel and Training

- Two board members, the general manager, and finance officer have attended the initial mandatory ethics class. A newly appointed board member is scheduled to attend training.
- Other training is provided as new information becomes available to current staff. However, training opportunities, such as the RASP class, have not been made available to staff.
- Personnel files are not maintained for all employees, however, the auditing firm retains payroll tax withholding documentation on all employees. Backup procedures occur frequently.
- An employee handbook was submitted to the Commission in 1999; however, some procedures and policies have not been updated to reflect current practices.

Recommendations:

- Provide additional training to employees to keep abreast on current interests in the alcohol industry and laws. Include RASP training from the Commission and other training modules on customer service and product knowledge.
- Create personnel files for all employees. Every employee should have a personnel file that includes authorization for hiring, salary history, hours authorized to work, federal and state withholding tax forms, health insurance, retirement information, when applicable, and support for any other payroll deduction.
- Update the employee handbook and submit a copy to the Commission. Once updated, forward a copy to each employee. Have all employees sign an acknowledgement of receipt to be filed in their personnel file.

ABC Board Policies

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Warren County Travel Policy
 - FY2013 Budget (Proposed and Adopted)
 - FY2012 Annual Audit
- Other policies not adopted include:
 - Law Enforcement Contract
 - Price Discrepancy Policy
 - Mixed Beverage Policy

Recommendations:

- Have an agreed upon law enforcement contract and submit to the Commission. All local boards are required to have an agreement, even if the agreement results in no enforcement activity without compensation. *Refer to Appendix C (1) for statute.*
- 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 (2) for rule.*
- In the event of new mixed beverage permit holders, have a written mixed beverage policy to distribute. Incorporate flexible ordering and pickup hours.

Internal Control Procedures

- Physical inventory counts are performed monthly at all locations by all scheduled staff. Spot checks are performed on a weekly basis. If discrepancies have occurred, the general manager will review the discrepancies by the variance reports and have the store manager to recount. When verification is complete, the general manager and the store managers adjust the system to match with the actual store count. Warehouse inventory control is handled by the general manager. The general manager performs physical counts on the warehouse quarterly.
- Cash drawers are often counted at the beginning of each shift. Because there is only one register at each location, employees may work from the same drawer. Although understood, there are no written procedures/policies explaining how to handle cash drawer overages and shortages.
- Bank deposits are made nightly by whomever is working. Deposits and credit card transactions are verified monthly by the finance officer while completing the bank reconciliations.

Recommendations:

- Implement procedures for handling cash drawer overages and shortages. Incorporate these procedures into the updated employee manual for current and future employees.
- Have the finance officer/general manager verify deposits made more frequently by using deposit slips and daily sales reports. Have the bank contact a board member for unusual transactions.

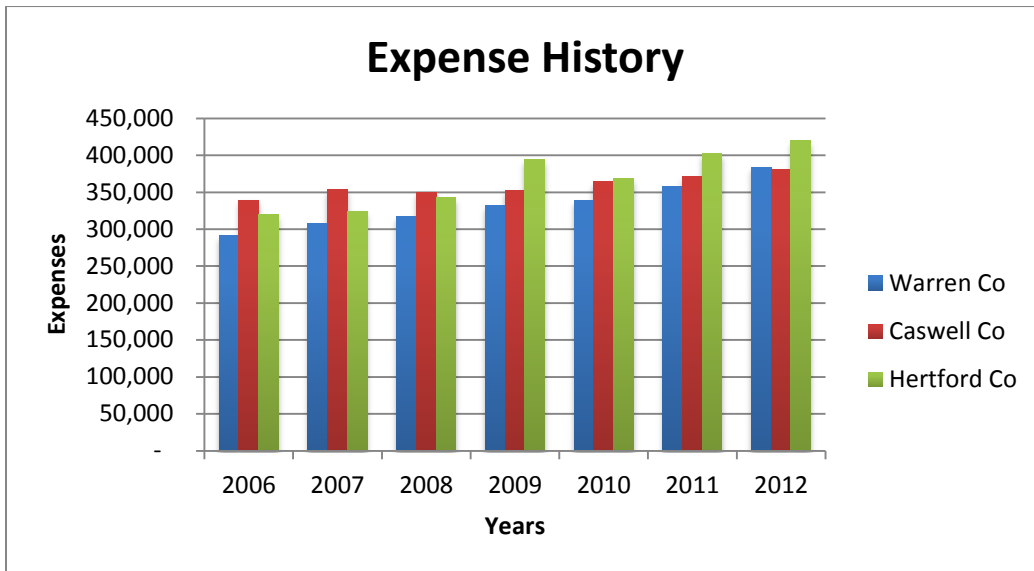
ADMINISTRATIVE COMPLIANCE FINDINGS AND OBSERVATIONS

- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting. The conflict of interest statement is referenced on the agenda and included in the minutes.
- Board member appointment dates and compensation amounts are not current on the Commission website.
- 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, general manager, and finance officer are bonded in the amount of \$50,000 as required by G.S. 18B-700 (i).
- Orders for liquor and other common orders do not bear the pre-audit certificate as required by G.S. 18B-702 (m).
- A recent review of paid liquor invoices revealed that payments were not paid within 30 days.
- All checks bear the approved certificate with the finance officer/deputy finance officer signature. A board member is the second signature on all checks. The general manager has been designated as the deputy finance officer in the event the finance officer is unavailable.
- Out of approximately 700 product codes in each location approximately 90 product codes were sampled and four were found incorrect.

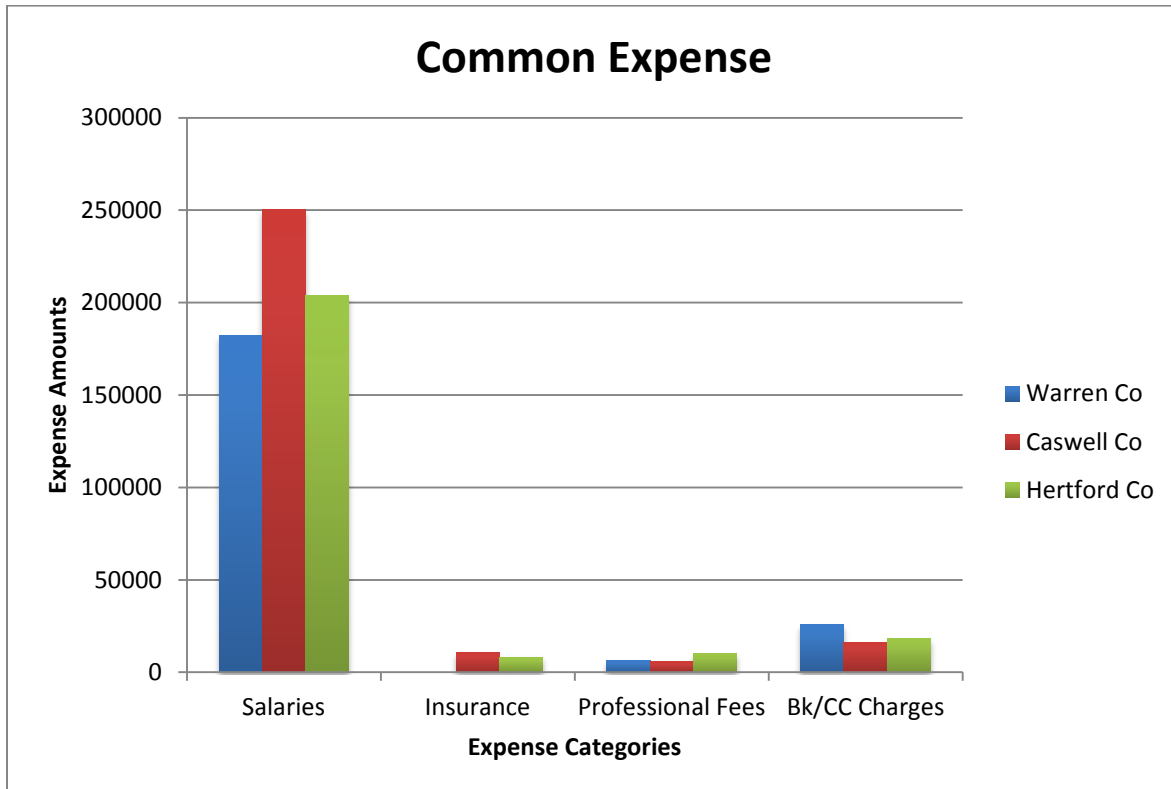
Recommendations:

- Update the Commission website to reflect current information on board member appointment terms and compensation and general manager compensation.
- Place the pre-audit certificate with the finance officer's signature on the order to LB&B. When ordering supplies, have a purchase order or order confirmation that will have authorization from the finance officer before the transaction takes place. *Refer to Appendix C (3) for statute.*
- Pay all liquor bills within thirty days of receipt of liquor. It is the Commission's policy to stop liquor shipments when liquor invoices become delinquent. *Refer to Appendix C (4) for rule.*
- Audit all shelf tags in the store and the cash register for correct pricing on a regular basis. To ensure accurate pricing in the future, incorporate a shelf tag audit (by section) into the weekly inventory count.

APPENDIX A



The expense history data indicates that Warren County ABC Board's total expenses have increased 31.90% overall since FY2006 following sales increase of 59.5% over the same time period. Warren County ABC's overall expenses are not out of line with other similar size boards.



Warren County ABC's common expenses are relatively lower than other similar size boards. Bank and credit card charges have increased to reflect the increase of sales by credit card. Note: No insurance or bonding expense was recorded for Warren County.

APPENDIX B



Interior view of Norlina store



Interior view of the Littleton store.



Interior view of the Warrenton store.

APPENDIX C

- (1) 18B-203 (f) states, "Instead of hiring local ABC officers, a local board may contract to pay its enforcement funds to a sheriff's department, city police department, or other local law enforcement agency for enforcement of the ABC laws within the law enforcement agency's territorial jurisdiction. Enforcement agreements may be made with more than one agency at the same time."
- (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) 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) NCAC 02R .1407 (c) states, "Local boards shall remit full payment of the distiller's invoice within thirty days of delivery of the liquor."

**Warren County ABC Board
305-B East Macon Street
Warrenton, NC 27589**

August 9, 2013

Ms. Moniqua S. McLean
ABC Board Auditor
4307 East Tryon Road
Raleigh, NC 27610

Dear Ms. McLean:

Attached is a response to the Finding of the Performance Audit you performed in Warren County on January 17, 2013. We appreciate your assistance and thank you for your recommendations to improve our retail and financial operations.

Please let us know if you need further information.

Sincerely,



Susan W. Brown
Finance Officer

C: Warren County ABC Board
Larry Spruill, General Manager

Response to Performance Audit Performed January 17, 2013

Store Appearance and Customer Service

All worn signage in the stores has been replaced.

Personnel and Training

All store personnel attended RASP training in June, 2013. The Finance Officer attended RASP training in August, 2013.

Personnel Files are being created for each employee with pertinent information enclosed.

Staff is currently reviewing the sample Personnel Manual provided on the State Commission's website to adapt it for our use in Warren County. We will submit it to our Board for final approval and then distribute it to each employee, obtaining their signature to document the distribution.

ABC Board Policies

A Law Enforcement Policy will be presented to our local Board at our next meeting for approval and then submitted to the Commission.

A price discrepancy policy will be included in the Personnel Manual.

A mixed beverage policy will be presented to our local Board at our next meeting and distributed to current and future mixed beverage permit holders.

Internal Control Procedures

A procedure for handling cash drawer overages and shortages will be included in the Personnel Manual.

The General Manager is verifying deposits on a weekly basis by comparing deposit tickets to daily sales reports.

Administrative Compliance Findings and Observations

Updated Board Member terms and compensation as well as the general manager's compensation have been emailed to the Commission for updating the Commission's website.

The Finance Officer will begin signing the pre-audit certificate on future LB&B orders. The General Manager will issue blanket purchase orders for supplies, signed by the Finance Officer.

The Finance Officer is making every effort to pay bills within 30 days of the invoice dated.

The General Manager has issued a memorandum to Store Managers directing them to perform weekly audits to compare shelf tag to cash register prices.

WARREN COUNTY ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Internal Control Procedures/ABC Board Policies:</p> <p>Adopt the following policies:</p> <ul style="list-style-type: none"> • Law Enforcement Contract • **Price Discrepancy Policy • Mixed Beverage Policy • Cash Drawer Overage/Shortage Policy 	<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 following policies and have included in the board employee manual. Copies have been submitted to the Commission.</p>
<p>Administrative Compliance:</p> <p>**Pay all liquor bills within thirty days.</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 75% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Although the board is making efforts to pay liquor bills within thirty days, vendor notification of past due invoices has been forwarded to the Commission since the initial audit. The Commission will follow up frequently to ensure that payments are received to vendors within thirty days.</p>