

# Warsaw ABC Board

## Performance Audit Report



Alcoholic Beverage Control Commission  
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**ABC**  
COMMISSION  
NORTH CAROLINA



# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

February 11, 2013

CHAIRMAN:  
JAMES C. GARDNER

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COMMISSIONERS:  
JOEL L. KEITH  
Wake Forest

KEVIN M. GREEN  
Greensboro

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ADMINISTRATOR:  
MICHAEL C. HERRING

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Warsaw ABC Board  
Mr. James Jackson, Chairman  
114 South Pine Street  
Warsaw, NC 28398

Dear Chairman Jackson,

We are pleased to submit this performance audit report on the Warsaw 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 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 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 the store;
- Interviewed key ABC board personnel.

The Warsaw ABC Board submitted a response to the performance audit recommendations and has begun to take steps toward becoming more profitable through analyzing and reducing current costs while continuing to meet the demands of customers. Policies and procedures have been adopted and implemented to maintain compliance with statutes and Commission rules and to maintain stronger segregation of duties.

## **BACKGROUND INFORMATION**

Chapter 1004 of the 1965 Session Law authorized the Town of Warsaw to hold an election upon a written petition signed by at least twenty-five percent of voters. The referendum was held on November 9, 1965 and passed 212 to 97. The first retail sale was December 1, 1965. A mixed beverage election was held on December 11, 1999 and did not pass. Another election was held on March 6, 2001 and passed 204 to 91.

Upon election of an ABC store, the Town of Warsaw was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members include James Jackson, chairman, Joel Smith and Walker McNeil, board members.

The Warsaw ABC Board operates one retail store. The board staffs one full-time manager and three part-time employees. 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.

## **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 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 Warsaw ABC Board receives deliveries twice a month: the inventory turnover rate is 5.1 and has met the target rate set by the Commission.

#### *Recommendations:*

- To increase inventory turns, consider the following:
  - Splitting cases with surrounding boards to increase variety as well as to reduce cost,
  - Cross-merchandising or moving stock within the store to increase visibility and to encourage more impulse shopping,
  - Utilizing end caps and shelf space as much as possible to highlight slow moving and new products;
  - Analyzing sales data and history reports to plan orders and to take advantage of Special Purchase Allowance offers whenever possible;
  - Selling slow-moving inventory to another board with demand for the products or requesting price reductions from the Commission to clear out dead stock.
- 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 sale (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 Warsaw ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.85 and does not meet the rate set by the Commission. In fiscal year 2012, sales have increased 2.56% since the previous year and overall operating expenses have increased 4.02% over the same period. To meet the cost ratio goal and remain at current expense levels of \$102,899, revenue must be increased to approximately \$555,000, a 10.1% increase over previous year's sales. To meet the cost ratio goal and remain at current revenue levels of \$504,286, operating expense

levels must be reduced to \$92,500, a 11.2% decrease over the previous year's expenses. An analysis indicates that expenses have increased since 2008 following other similar size boards. *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, specific utilities, maintenance contracts, and credit card processing fees.
- While continuing current practices that have increased sales, consider including other recommendations under inventory turnover.
- Analyze the cost vs. benefits of relocating the store away from downtown and out on the highway.

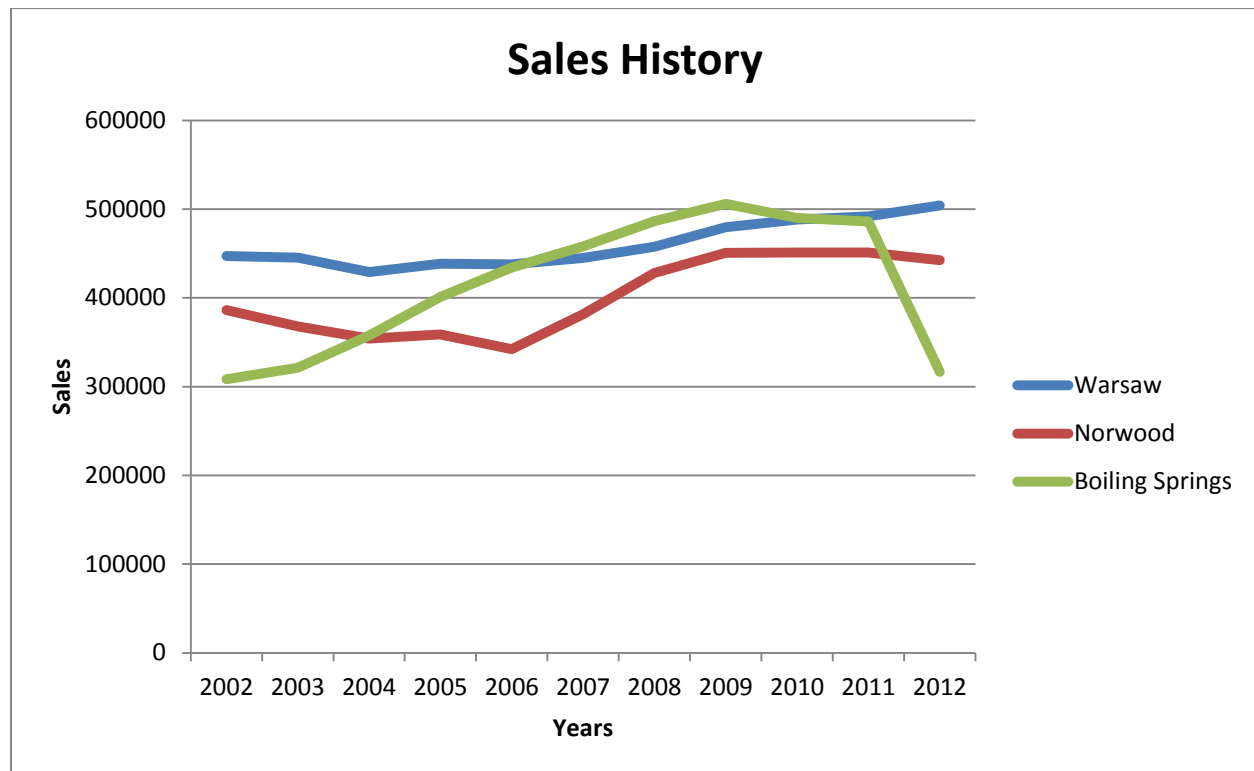
## Profit Percentage to Sales

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 Warsaw ABC Board had gross sales of \$504,286; income from operations was \$11,267, a 2.23% profit percentage to sales and has not met the goal.

Below is a sales history analysis of similar size boards. In the analysis, Warsaw ABC began showing an increase in 2005 following the state's increase.



*Note: For FY2012, Boiling Springs had a fire to occur which resulted in lost sales.*

Factors affecting sales and profitability:

- US Census Bureau reports a population of 3,054 in 2010;
- Adult working population is approximately 77% of the total population;
- Individuals below poverty levels is 23.3% to the state's 15.5%
- 9.9% unemployment rate for Duplin County in August 2012
- Over a ten-year period, sales have increased 12.74%



*Recommendations:*

- Improve sales strategies by developing new marketing techniques, such as cross-merchandising, using end caps to have more visibility of seasonal and new products. Refer to recommendations addressed under inventory turnover.
- Expenses are fairly conservative; consider other approaches to increase sales to help improve profitability, such as relocating the store to get more traffic from the interstate.

**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

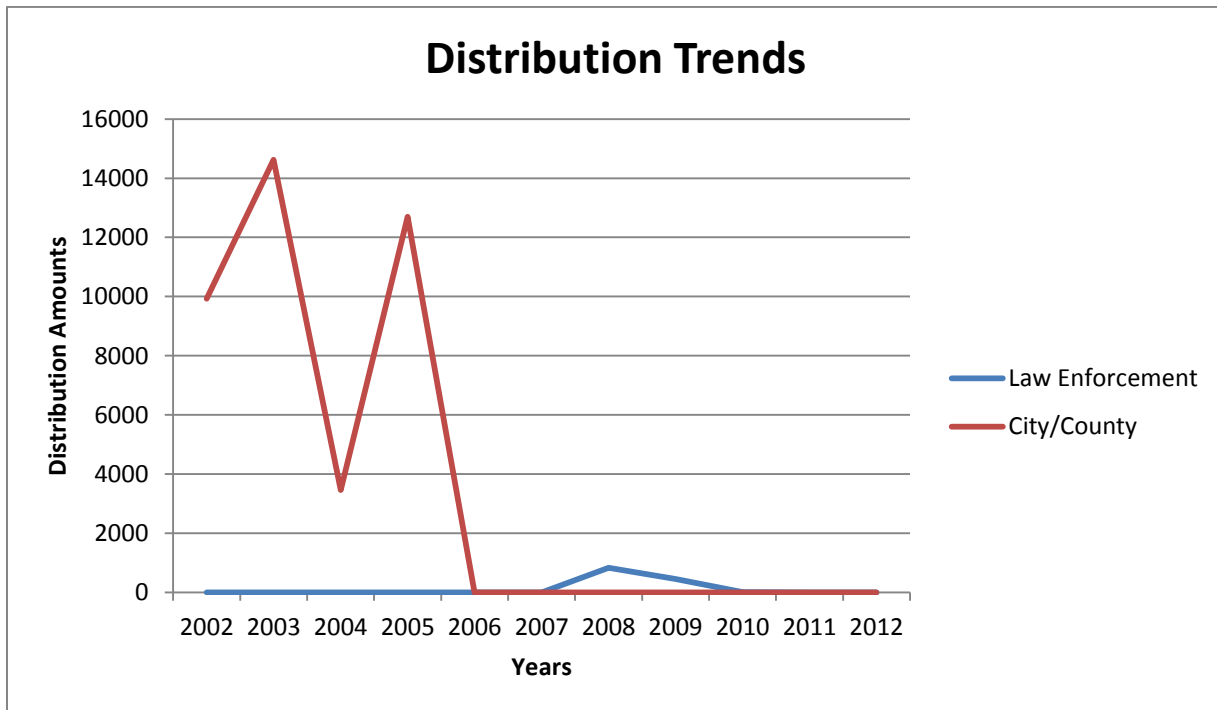
Based upon the new limits, the Warsaw ABC Board had a working capital of \$104,341 and is within the limits set by the Commission. The board has obtained an approval from the appointing authority to withhold the three and a half percent markup and bottle tax until the working capital goal of approximately \$125,000 is reached.

## 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 following:

- 10% to Duplin County for drainage control
- 35% to Duplin County General Fund
- 55% to Warsaw General Fund

In FY2012, the board did not make distributions to law enforcement or to the appointing authority. Below is a historical trend of Warsaw ABC's distributions. As stated above, in 2011, the board has obtained an approval from the appointing authority to withhold distributions.



## **FINDINGS, OBSERVATIONS, AND RECOMMENDATIONS**

On August 21, 2012, ABC Commission Board Auditor, Moniqua S. McLean, visited the Warsaw ABC store and interviewed Diane Blackburn, general manager. The following are the findings, observations, and recommendations relating to the performance audit.

### **Store Appearance and Customer Service Observations**

The Warsaw ABC Board operates one retail store with approximately 800 linear feet of shelf space and carries approximately 950 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 the store, employees greeted customers in a professional manner and were attentive to customer needs exhibiting good customer service.

*No Recommendations.*

### **Personnel and Training**

- Training is provided as new information becomes available to new and current staff. However, other training opportunities, such as the RASP class, have not been made available to staff.
- Cross training opportunities have been extended to key employees in the event the general manager was suddenly unavailable.

*Recommendations:*

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

### **Policies and Procedures**

- Policies adopted and submitted to the Commission include:
  - Code of Ethics
  - Law Enforcement Contract
  - Mixed Beverage Policy
  - Shelf Management Policy
- A written price discrepancy policy has not been adopted; however employees do understand how to handle pricing differences between the shelf and the register.
- A travel policy has not been adopted that conforms to the State or the appointing authority.

- All employees maintain their own cash drawer. Cash drawers are counted at the end of each shift. Deposits are made daily by the authorized persons. Deposit reconciliations against the register receipts are made by the bookkeeper. The board has adopted policy that indicates the procedures when overages and shortages occur.
- Physical inventory counts are performed monthly or bi-monthly by scheduled staff. Once completed, the general manager investigates discrepancies and makes adjustments in the inventory management system. Unsalable items are adjusted from inventory immediately. Spot checks are performed on a daily basis.

*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.*
- Adopt a travel policy that conforms to either the appointing authority's or the State's policy. If the county's travel policy is adopted, submit a copy of the town's travel policy and a copy of the county's minutes stating they have approved the ABC board to adopt the policy. If the State's travel policy is adopted, submit a copy of the ABC board's minutes stating the travel policy was adopted. *Refer to Appendix C (2) for statute.*

**Administrative Compliance Findings and Observations**

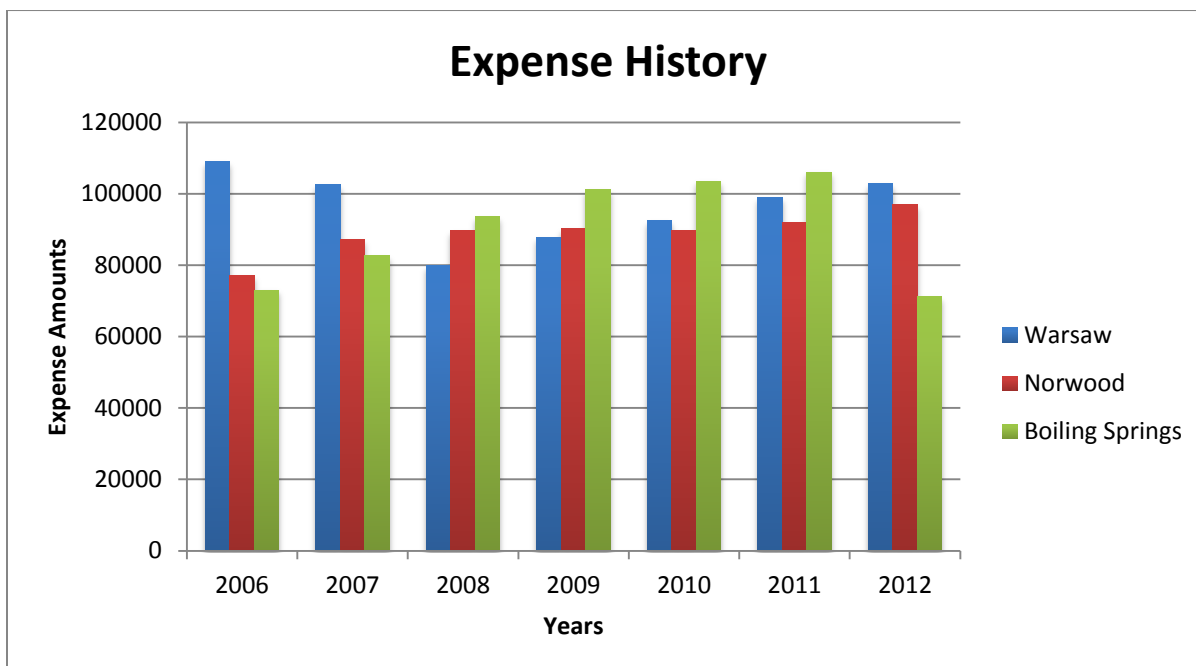
- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting. However, the conflict of interest statement was not referenced.
- Board member appointment dates were not current on the Commission internal website, however, the auditor was supplied with the current dates.
- 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).
- The general manager serves as the finance officer for the board. The board has obtained an approval from the Commission for the general manager to serve as the finance officer for one year. The exemption request expired in October 2011.
- The general manager and all board members are bonded in the amount of \$50,000 as required by G.S. 18B-700 (i).
- The initial liquor order is not stamped with the pre-audit certificate, however each individual invoice has the certificate stamped and the finance officer's signature.

- Checks bear the approved certificate and signed by the general manager/finance officer and a board member.
- Because there were no prices on shelves for products not on sale, the auditor was unable to verify correct prices with the Commission. However, out of approximately 900 product codes, approximately sixteen sale items were sampled and reflected the correct price set by the Commission.

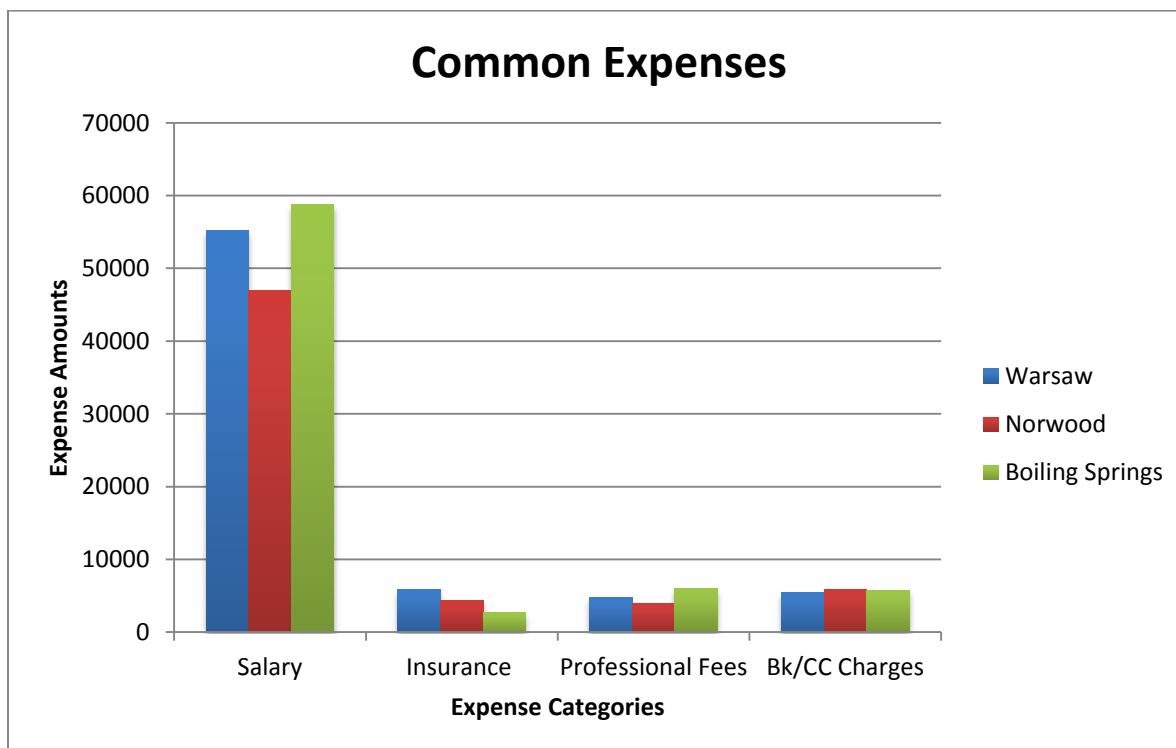
*Recommendations:*

- Have the board chairman read the conflict of interest statement to all board members at the start of each meeting. *Refer to Appendix C (3) for rule.*
- Appoint a finance officer other than general manager or ask the Commission for an additional two years' exemption. *Refer to Appendix C (4) for statute.*
- To save time, eliminate stamping and signing each invoice; place the pre-audit certificate on the order to LB&B. Authorization should occur before the transaction takes place.

## APPENDIX A



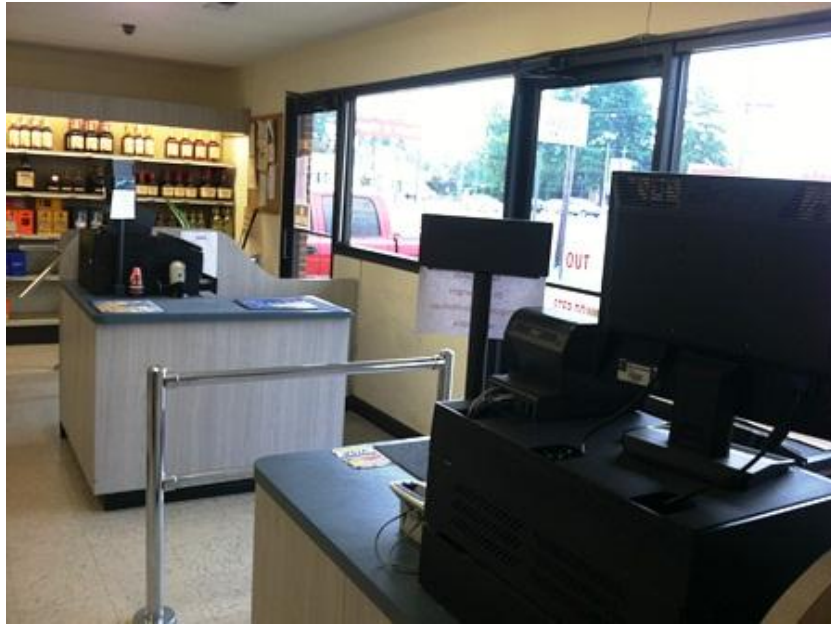
*The expense history data indicates that Warsaw ABC Board's overall expenses have increased by 4.02%. In analyzing sales and expenses, the data shows that as sales have increased 2.56%, expenses have also increased. Compared to other board's expenses, Warsaw ABC is the highest.*



*Excluding insurance fees, common expenses for the Warsaw ABC Board are lower than other similar size boards.*



## APPENDIX B



*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) 18B-700(g2) states "...the local board adopts a travel policy that conforms to the travel policy of the appointing authority and such policy is approved by the appointing authority [or adopts the state policy]."

*NCAC02R.0909 (c) Rules to be filed with Commission. Each local board shall file a certified copy of its travel policies and procedures, and any amendments thereto, with the Commission within 10 days of the adoption, or amendment, of the policies by the local board.*

(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:"

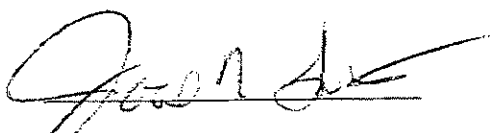
*In accordance with GS 18B-201, it is the duty of every Board member to avoid both conflicts of interest and appearances of conflicts. Does any member have any known conflict of interest or appearance of conflict with respect to any matters coming before the Board today?*

(4) 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."

Response of the Warsaw ABC Board  
to the  
State ABC Board Performance Audit

Warsaw ABC Board

\_\_\_\_\_ Chair  
Jim Jackson

  
Joal Smith

  
Walker McNeill

RECEIVED

DEC 19 2012

NC ABC COMMISSION

*Jim was out*  
==

A performance audit was conducted on the Warsaw ABC store August 21, 2012 by ABC Board Auditor, Moniqua McLean. Findings of the audit were discussed at that time with Diane Blackburn, Warsaw ABC store manager. A written report was then submitted to the Warsaw ABC Board on October 18, 2012 and Ms. McLean reviewed the report with the Warsaw board at its November 26, 2012 meeting.

The Warsaw board submits this response to the findings of the audit with particular emphasis on the shortcomings and recommendations therein.

#### Inventory Turnover

The Warsaw store meets the target turnover rate for stores receiving deliveries twice a month. Two of the recommendations regarding split cases with neighboring stores and selling slow-moving inventory to other stores offer the Warsaw store possibilities should we need to increase our turnover in the future.

#### Operating Cost Ratio

At the time of the audit Warsaw had one small restaurant offering mixed beverages. This put the Warsaw store in the category of single store with MXB and our ratio did not meet the target of 0.77 or less. Since the audit, this restaurant has gone out of business and there are no other restaurants in Warsaw having a MXB license. Warsaw's ratio of 0.85 subsequently meets the target of 0.93 or less for the single store without MXB category. Specific recommendations were made in this category to:

1. Monthly budget frequently and closely and provide year-to-date financial reports to the board. This has been and is being done at the monthly board meetings.
2. Request bids from vendors to get the lowest price. This is also being done routinely for those items for which bids can be obtained. Bids were obtained for parking lot repairs, lighting fixture replacement, and credit card charges this past year.
3. Continue current practices that have increased sales and consider recommendations under inventory turnover. The store manager is encouraged to continue the current practices and to utilize the recommendations under inventory turnover whenever possible.
4. Analyze the cost vs. benefits of relocating the store in the vicinity of the I-40 NC 24 exit area. The board is very much interested in investigating the possibility of moving the store near the rest area exit to increase sales. Our first goal is to reach a working capital that will enable us to have a feasibility study performed.

### Profit Percentage to Sales

The Warsaw store had a profit percentage to sales of 2.5% which is less than the target goal of 5% for a store with sales less than \$2 million. The recommendations for improving this percentage include improving sales strategies by developing new marketing techniques and other approaches to increasing sales. The audit found that expenses were conservative and they are. Thus, the only way to increase this percentage is by increasing sales volume. As the audit report pointed out, the population in the market area for the Warsaw store is both small and many live below the poverty level. These two factors make it difficult to increase sales. The two areas which could possibly result in increased sales are; the reopening of a mixed beverage restaurant which would have an average or above sales volume and the relocation of the store to the I-40 area as previously mentioned. While the former is beyond the control of the board, the latter remains a possibility depending upon further study.

### Working Capital

With a working capital of \$104, 341, the Warsaw store is within the limits set by the Commission.

### Distributions

It was reported during the Performance Audit that the Warsaw store had a waiver from the two appointing authorities. However, this waiver was not renewed for FY 2012 - 2013. The Warsaw Board is currently appealing this ruling with a hearing before the town board set for the December town board meeting. If the waiver is approved by the town, an appeal will be made to the county Board of Commissioners to also approve the waiver. The board feels the continuation of the waiver is necessary so that enough working capital can be saved to conduct a study of relocating the store to the I-40 exit.

### Findings, Observations, and Recommendations

The audit report under this section showed that a complete, comprehensive performance audit was done covering a wide range of areas from store appearance to board/store compliance with the Commission's statutes and regulations. This response will address only those areas for which a deficiency was found and recommendations made.

1. The board has adopted a written policy stating that, "in the event there is a discrepancy between the shelf price and the register price, the register price will be used." This policy will also be communicated to all employees.
2. The board chairman now reads the conflict of interest statement at every board meeting and it has been made part of the minutes.

3. After considering various options, the board will request a waiver from the requirement that there be a separate store manager and finance officer. Reasons for this request will be given in the letter to the Commission requesting the waiver.
4. The board has adopted the travel policy used by the Town of Warsaw government. It will request approval from the town to use the policy at the town board meeting in December 2012. Annual approval of the use of the policy by the Warsaw ABC Board will be requested each December.

**WARSAW ALCOHOL BEVERAGE CONTROL BOARD**

**Recommendation Follow-Up**

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Policies and Procedures:</b> **Adopt a written price discrepancy policy.</p> <p>Adopt a travel policy that conforms to the State or the appointing authority.</p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></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>The board has adopted the policies specified and copies have been submitted to the Commission.</p>
<p><b>Administrative Compliance:</b> Appoint a finance officer other than the general manager.</p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></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 obtain approval from the Commission to allow the general manager to serve as the finance officer for an extended two years.</p>