

# Wayne County ABC Board

## Performance Audit Report



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



# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

### COMMISSIONERS:

A. D. "ZANDER" GUY, JR.  
Surf City

DANIEL L. BRIGGS  
Lexington

ADMINISTRATOR:  
MICHAEL C. HERRING

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November 19, 2012

Wayne County ABC Board  
Mr. Shelton Moore, Chairman  
909 Landmark Drive  
Goldsboro, NC 27534

Dear Chairman Moore,

We are pleased to submit this performance audit report on the Wayne 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 that your Board makes to exceed in all areas of operating performance along with your ongoing commitment to providing excellent service and revenue distributions to the State and the citizens of Wayne County.

If we can be of assistance in the future, please advise.

Respectfully,

A handwritten signature in black ink, appearing to read "Michael C. Herring".

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 board annual audit for the fiscal year 2011;
- Visited all store locations;
- Interviewed key ABC board personnel.

The Wayne County ABC Board has submitted a response to the performance audit recommendations. Policies and procedures have been implemented and adopted to maintain compliance with statutes and Commission rules and to ensure efficient operations. Internal controls are being maintained to enforce proper segregation of duties while adhering to statutes.

## **BACKGROUND INFORMATION**

Located in the east central part of the state, Wayne County is approximately forty-four miles from Raleigh. Surrounding counties with ABC stores include, Wilson, Greene, Lenoir, Duplin, Johnston, and Sampson. The US Census Bureau reports a population of 122,623 in 2010.

The 1937 Act authorized Wayne County to hold an election by referendum. The referendum was held on April 4, 1964 and passed 5,859 to 5,152. A county-wide vote was held for the sale of mixed beverages and did not pass.

However, a mixed beverage election was held for the following municipalities:

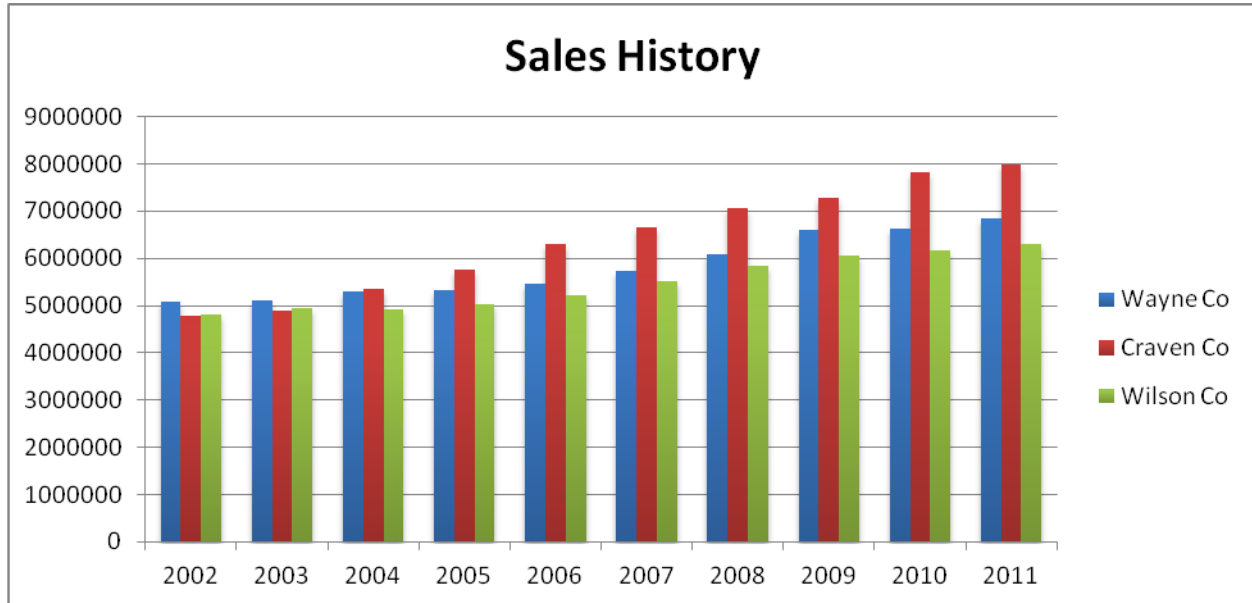
- Goldsboro on September 9, 1986 and passed 2,377 to 1,716;
- Walnut Creek on March 8, 1988 and passed 125 to 37
- Mount Olive on May 6, 1997 and passed 617 to 522.

Current board members are Shelton Moore, chairman, Travis Outlaw, Linda Jones, Joseph Sawyer, and Glen Odom, board members.

The Wayne County ABC Board operates five retail stores and one mixed beverage outlet. Administrative staff consists of business manager, finance officer, and operations manager. Store personnel consist of sixteen full-time and nine part-time employees including a law enforcement officer. The business manager is responsible for the overall operations of the system including forecasting, planning, and policy enforcement. The finance officer is responsible for all financial operations and budget maintenance. The operations manager's duties consist of routine inventory maintenance of stores and warehouse and various payroll duties. All store clerks' responsibilities include selling products, daily stocking, and floor upkeep.

## Profitability

For fiscal year 2011, the board showed a profit; gross sales were \$6,871,181, income from operations was \$477,193, resulting in a profit percentage to sales of 6.94%. Current sales have increased 12.71% over fiscal year 2010. Below is a comparison of Wayne County ABC's sales and other similar size boards. Since 2006, Wayne County ABC's sales have increased 20.44% following the state's increase over the same period.



Factors affecting sales and profitability:

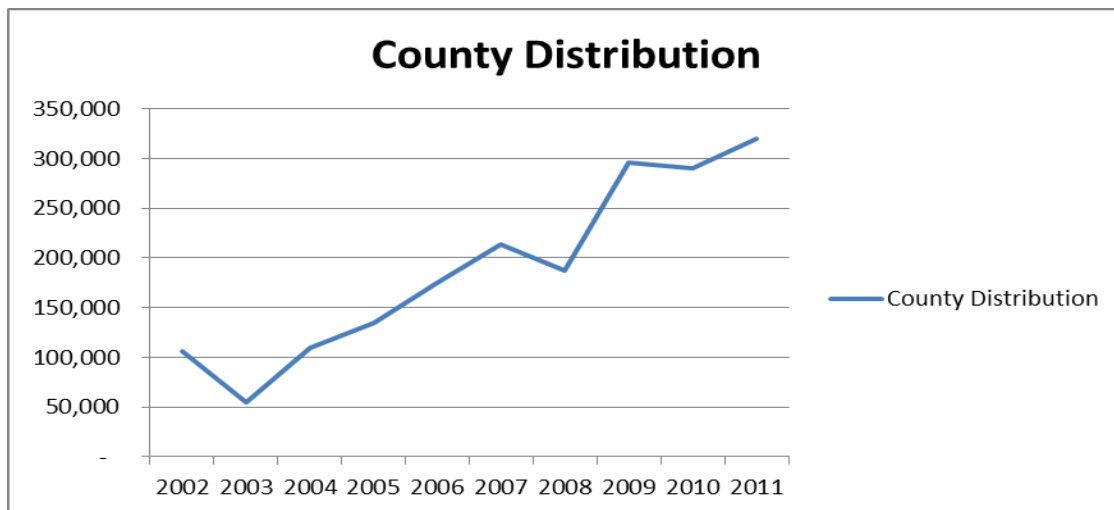
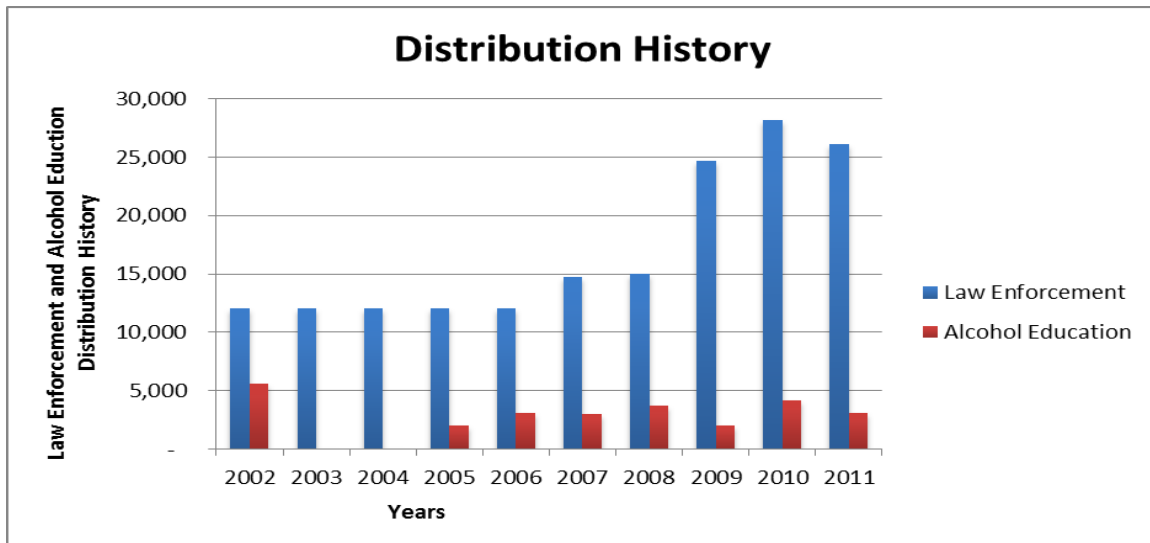
- Overall population increased 8.2% over the past ten years
- Individuals below poverty levels increased 18.6% over the past five years
- In April 2012, the unemployment rate for Wayne County was 8.4%, a 0.3% decrease from the previous month
- Wayne County is home to Seymour Johnson AFB

## Distribution

G.S. 18B-805 (c) (2) requires the board to distribute quarterly at least five percent of profits for law enforcement. The enabling act requires the board to distribute up to five percent to alcohol education. The remaining profits are to be distributed to the following:

- 50% to towns with ABC stores
- 50% to Wayne County General Fund

Below is a history of Wayne County's distributions. Over the past ten years, Wayne County ABC's distributions to the county and law enforcement have increased significantly, reaching an all-time high in 2010 before declining slightly in 2011. In FY 2011, the Wayne County ABC Board paid excise taxes totaling \$1,593,001 and made distributions totaling \$349,184; \$26,095 to law enforcement, \$3,089 for alcohol education purposes, and \$320,000 to the county.



## **FINDINGS AND RECOMMENDATIONS**

On May 3, 2012, ABC Commission Board Auditor, Moniqua S. McLean visited the Wayne County ABC Board office complex and stores and interviewed Michael Myrick, general manager, Thomas Fuhs, finance officer, and Shelton Moore, board chairman. The following are the findings and recommendations relating to the performance audit.

### **Inventory Turnover**

The inventory turnover rate is calculated by dividing the cost of liquor by the average inventory in the system (Cost of Liquor/Average Inventory). The Commission has set goals for determining an effective rate based on the frequency of deliveries. Below are the turnover rates based on the delivery schedule:

- Once a week deliveries target at 6 times or more per year
- Twice a month deliveries target at 5 times or more per year
- Monthly deliveries target at 4.5 times or more per year

The Wayne County ABC Board has a weekly delivery schedule. The inventory turnover rate for the Wayne County ABC Board is 7.9 and has exceeded the target set by the Commission.

### **Operating Cost**

Operating costs are calculated by dividing total operating expenses less depreciation by the profit on sales (Total operating expenses less depreciation/Gross Profit). Below are the average cost ratios for boards with and without mixed beverage sales (MXB):

- Boards with 3 or more stores with MXB – cost ratio .67 or less
- Boards with 3 or more stores without MXB – cost ratio .94 or less
- Boards with 2 stores (with and without MXB) – cost ratio .83 or less
- Single store boards with MXB – cost ratio .77 or less
- Single store boards without MXB – cost ratio .93 or less

The Wayne County ABC Board operates five stores and has an operating cost ratio of 0.67 and has met the goal set by the Commission. Overhead expenses are relatively low, considering that Wayne County leases two out of the five locations totaling \$49,860 in 2011. Wayne County employs a law enforcement officer to handle the enforcement of alcohol laws. In comparing expenses with similar size boards, Wayne County ABC's expenses are not out of line. *Refer to charts in Appendix A for analyses of expense history and common expenses of similar size boards.*

#### *Recommendations:*

- OPEB expenses will continue to rise. It may be beneficial to contact CPA for advice on the benefits vs. cost of continuing this incentive program.



### **Profit percentage to sales**

The profit percentage to sales is calculated by dividing the income from operations by the total liquor sales (Income from Operations/Gross 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%

In fiscal year 2011, the Wayne County ABC Board had gross sales of \$6,871,181; income from operations was \$477,193, a 6.94% profit percentage to sales. The Wayne County ABC Board has exceeded the goal.

### **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

The Wayne County ABC Board had a working capital of \$1,683,919 in FY2011. Under the new guidelines, the working capital retained would exceed the maximum working capital allowed by \$368,382.

#### *Recommendations:*

- Distribute more of the working capital retained or ask the appointing authority to allow a portion of the profits to be retained for a capital improvement plan.

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

- The required Fetal Alcohol Syndrome poster was displayed. The Commission Auditor supplied updated posters.
- The price book and monthly sales list were available in all locations and on the board's website.
- A consistent and easily understood shelf management system was presented in all locations, conforming to current industry and marketing standards. The board has adopted a shelf management policy and a copy was submitted to the auditor.
- All locations were clean and well-maintained. Bottles were dusted and faced. Exterior areas were well-manicured and free of trash.

- Upon entering each store, employees greeted customers in a professional manner and were attentive to customer needs exhibiting good customer service.

*No Recommendations:*

### **Procedure Observations**

- All employees maintain their own cash drawer. On holidays, there may be two clerks working from the same cash drawer. Cash drawers are counted at the beginning and end of each shift. Deposits are made daily before the shift begins.
- Store and MXB inventory counts are performed every month by the store manager and MXB manager with frequent spot checks. Warehouse inventory counts are conducted weekly with frequent spot checks. The operations manager investigates any discrepancies found once inventory is completed.

*No Recommendations.*

### **Personnel and Training**

- One board member has not attended the mandatory ethics training.
- Management has organized quarterly employee meetings to keep employees abreast of new information. RASP training is provided annually to all employees.

*Recommendations:*

- Have all board members attend the mandatory ethics class provided by the Commission within one year of appointment. *Refer to Appendix C (1) for statute.*

### **Administrative Compliance and Internal Control Observations**

- Board meeting minutes were available to view, included the conflict of interest statement, and followed the order of proceedings for conducting a business meeting.
- Board member information on the Commission website reflects the board members' latest appointment dates and compensation amounts.
- 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, finance officer, and all board members are bonded in the amount of \$50,000 as required by G.S.18B-700 (i).

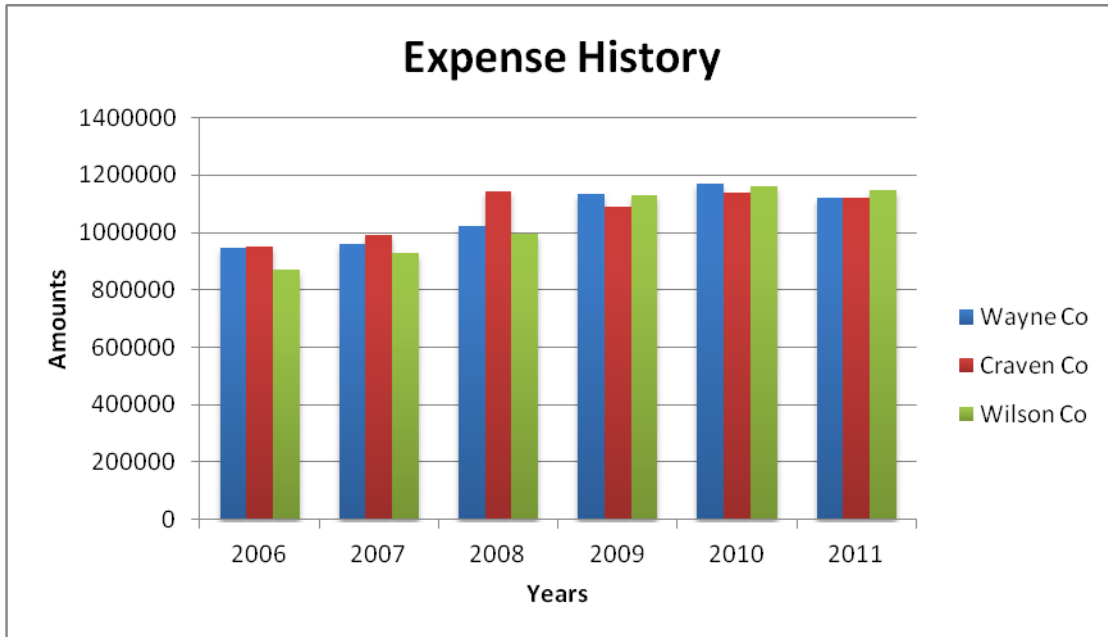
- Although purchase orders are not used, order confirmation printouts from various vendors have the pre-audit certificate and are signed by the finance officer. However, liquor orders are stamped with the pre-audit certificate and signed by the finance officer. The Commission strongly recommends purchases more than \$50 (petty cash) receive written authorization (purchase orders) in addition to verbal approval by the finance officer.
- Checks bear the approved certificate and are signed by the finance officer and the general manager as required by G.S. 18B-700 (q). In the absence of the general manager, a board member is the second signature.
- Policies adopted include and submitted to the Commission:
  - Travel policy
  - Shelf Management Policy
  - Grievance Procedures
  - MXB Policy
  - Credit Card Policy

*No Recommendations.*

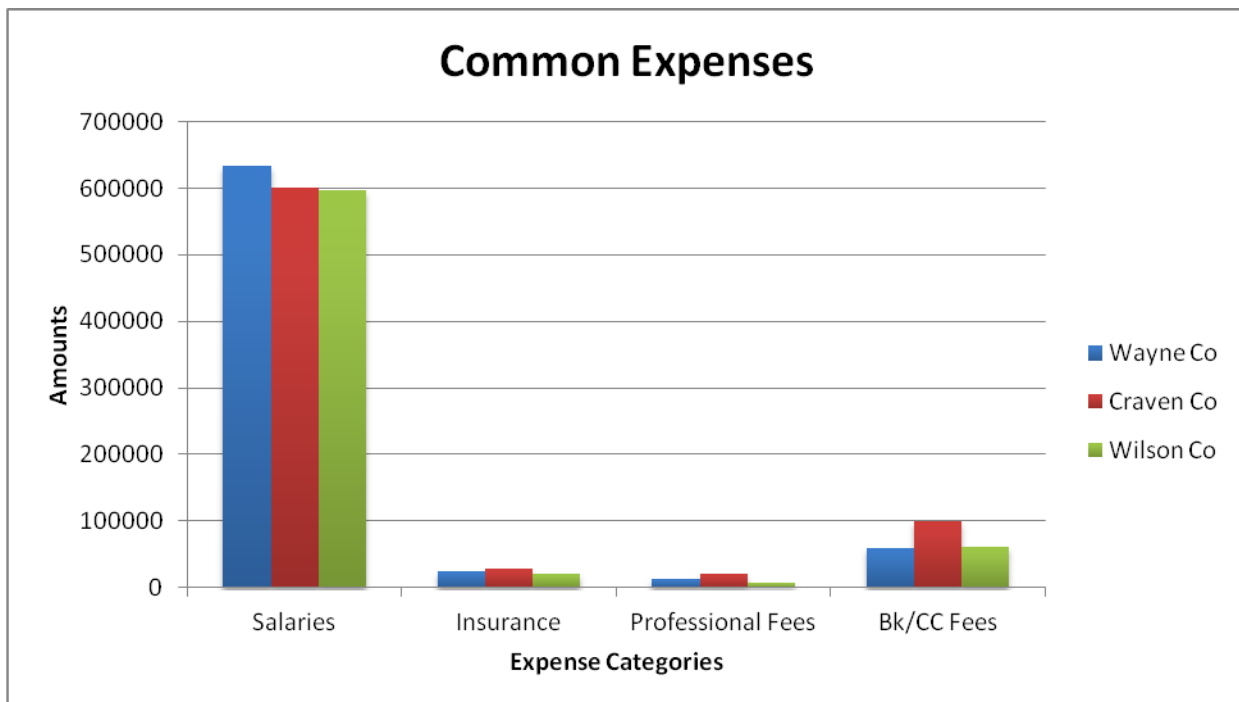
### **Alcohol Education/Community Outreach Programs**

The Wayne County ABC Board provides funding for alcohol education programs to the North Carolina Children's Theater to promote alcohol education and awareness in the public school system.

## APPENDIX A

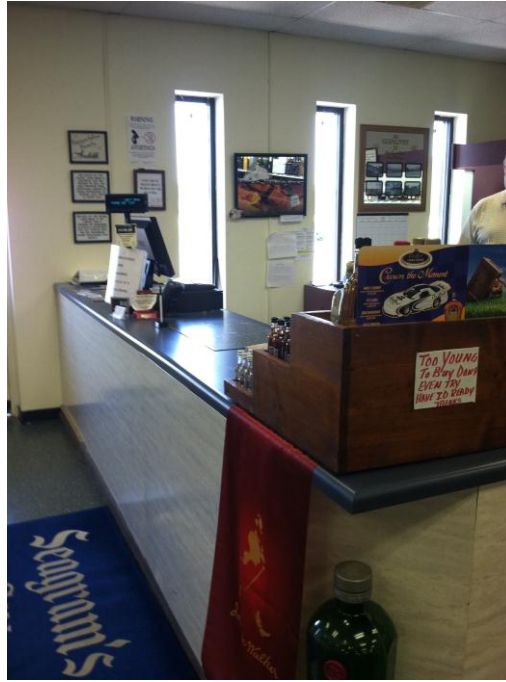


*In analyzing Wayne County ABC's expenses with other boards, the expenses are relatively lower.*



*Common expenses of similar size boards indicate that, except for salaries, Wayne County's expenses are low.*

## APPENDIX B



*Counter view of LaGrange location.*



*Displays at Mt. Olive location.*

## **APPENDIX C**

*(1) 18B-706(b) states, "Each member of a local board shall receive a minimum of two hours of ethics education within 12 months after initial appointment to the office and again within 12 months after each subsequent appointment to the office."*

**WAYNE COUNTY ABC BOARD**  
**909 LANDMARK DRIVE**  
**GOLDSBORO, NC 27534**  
**PHONE: (919) 778-7731**  
**Fax: (919) 778-5528**  
**Email: [admin@wayneabc.com](mailto:admin@wayneabc.com)**

**MEMO**

**To: Moniqua McLean  
ABC Commission of North Carolina**

**From: Michael Myrick, General Manager  
Wayne County ABC Board**

**Date: 1 August 2012**

**Subject: Wayne County ABC Board Responses to Commission Performance  
Audit Review**

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The Wayne County ABC Board has reviewed the draft report of the performance audit performed by the ABC Commission of North Carolina. Following are our responses to the findings in the audit:

- Page 5 – Distribution History Chart. Very misleading chart. Looks like Wayne County ABC distributed more in Law Enforcement than we distributed to the County and Towns. Never seen 2 sets of numbers using same line.
- Page 6 – Operating Costs. Last paragraph. Wayne County leases two out of the “five” locations totaling \$49,860 in 2011.
- Page 7 – Last sentence: The Business Manager “or a Board Member” is second signature on all checks
- Did not report on any of the good practices that Wayne County ABC Board is involved with. Have not seen “good practices” in any of the reports. It would be very beneficial to other boards reading the audits to also see the good things boards are doing in their local communities, such as our involvement with the North Carolina Children’s theater group and our saving hundreds of dollars in utilities with “Greentech”.

- Why is the \$1,593,001 in revenue generated by the Wayne County ABC Board for the State of North Carolina not listed anywhere in the audit? All revenue generated by Local ABC Boards thru the excise tax (and other taxes) should be shown to the public.

Again we would like to thank the North Carolina ABC Commission and especially Monique McLean for their professional attitude in conducting this audit.

Sincerely,

Michael D. Myrick  
Business Manager  
Wayne County ABC Board

Cc: Wayne County ABC Board Chairman and Board Members

**RECEIVED**

AUG 01 2012

**NC ABC COMMISSION**

MM/da



**WAYNE COUNTY ALCOHOL BEVERAGE CONTROL BOARD**

**Recommendation Follow-Up**

<b>RECOMMENDATION</b>	<b>REQUIRED BY STATUTE</b>	<b>IMPLEMENTATION STATUS</b>
<p><b>Personnel and Training:</b> Have all board members attend the mandatory ethics class.</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>All board members have attended the mandatory ethics class.</p>