

Currituck 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

CHAIRMAN:
JAMES C. GARDNER

COMMISSIONERS:
JOEL L. KEITH
Wake Forest

KEVIN M. GREEN
Greensboro

ADMINISTRATOR:
MICHAEL C. HERRING

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Moniqua S. McLean
ABC Board Auditor

February 20, 2014

Currituck County ABC Board
Mr. Gene Gregory, Chairman
PO Box 417
Grandy, NC 27939

Dear Chairman Gregory,

We are pleased to submit this performance audit report on the Currituck 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 general manager's response to our recommendations. This report will be posted on the Commission's public web site.

We would like to thank you, the ABC Board and your staff for the assistance and cooperation provided to us during the audit. Additionally, we appreciate the efforts your Board has made to comply with the new performance standards along with the steps taken the past several years to reduce operating expenses.

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 2013;
- Visited all stores;
- Interviewed key ABC board personnel.

The Currituck County ABC Board responded to the performance audit recommendations and continues to explore different strategies to maintain profitability while reducing and maintaining operating expenses. Policies and procedures have been implemented to ensure compliance with statutes and Commission rules and to ensure efficient operations while maintaining sufficient checks and balances.

BACKGROUND INFORMATION

Chapter 493, Pasquotank Act, and chapter 49 of the 1937 Act authorized Currituck County to hold an election. The referendum was held on January 31, 1967 and passed 820 to 618. The first sale occurred on April 11, 1967. A mixed beverage election was held on February 18, 2002 and passed 1,083 to 942.

Upon election of an ABC store, an ABC board was created consisting of a chairman and two members to serve for three year terms. Special legislation authorized the town to increase board membership from three to five members. Current board members are Gene Gregory, board chairman, David Griggs, David Myers, Gary Barco, and Horace Bell, board members.

The Currituck County ABC Board operates three retail stores. To ensure coverage during the busy season, the board staffs fourteen employees in the peak time (Summer) and eleven employees in the off-peak times (Winter). The administrative staff consists of a full-time general manager and a part-time finance officer. The general manager is responsible for overseeing and managing daily operations of the stores including supervising personnel, inventory control, and providing customer service. The board has hired an external bookkeeper/accountant to serve as the finance officer and perform duties as required by the ABC statutes and rules. Each store is assigned a store manager who primarily assists with the ordering, staff scheduling, and store upkeep. All store employees are responsible for providing friendly customer service, store upkeep, and stock maintenance.

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 Currituck County ABC Board receives deliveries twice a month: the inventory turnover rate is 5.8.

No Recommendations.

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):

- Single store boards with MXB sales that are equal to or greater than 25% of gross sales – cost ratio 0.75
- Single store boards with MXB sales less than 25% of gross sales – cost ratio 0.85
- Single store boards without MXB sales – cost ratio 0.85
- Boards with 2 stores with and without MXB sales – cost ratio 0.74
- Boards with 3 or more stores with and without MXB sales – cost ratio 0.64

The Currituck County ABC Board operates three retail stores with mixed beverage sales: the operating cost ratio is 0.54. Mixed beverage sales make up 12.1% of total gross sales. In fiscal year 2013, sales decreased 0.36% over fiscal year 2012 as expenses decreased 2.8% over the same time period. *An expense analysis is located in Appendix A.*

No Recommendations.

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

In FY2013, Currituck County ABC had a working capital of \$688,443, which is equivalent to less than three months gross sales and is within the limits of NCAC 02R .0902.

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:

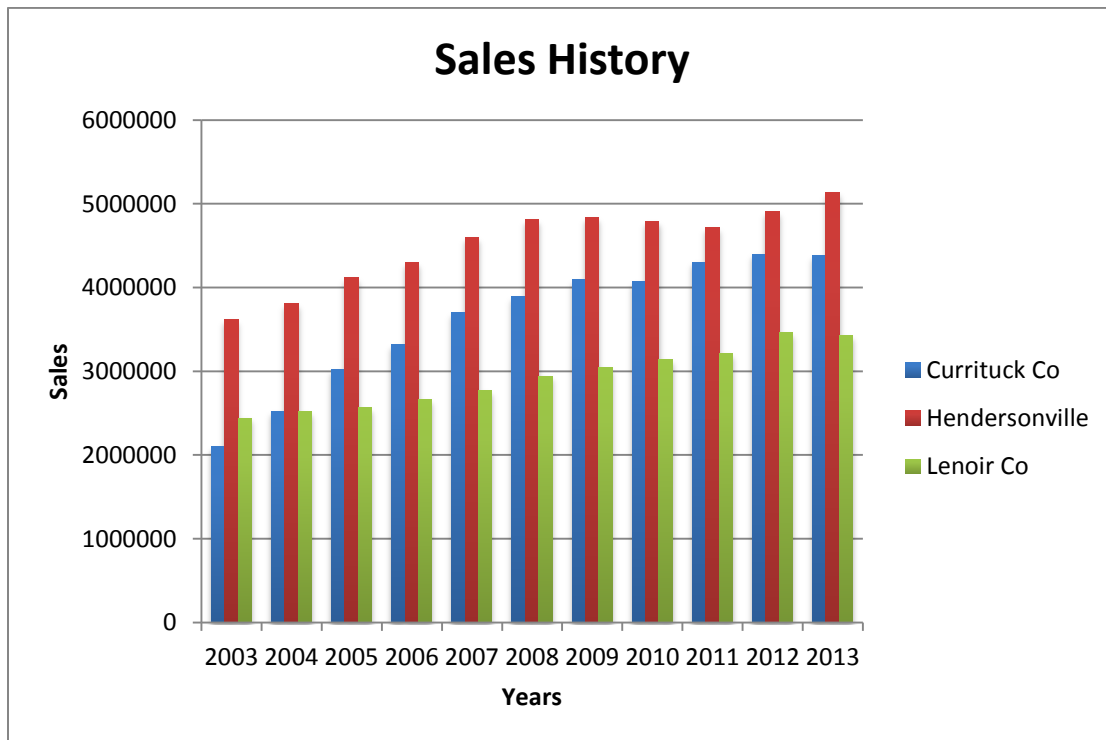
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2013, the Currituck County ABC Board had gross sales of \$4,384,949; income before distributions was \$415,970, a 9.47% profit percentage to sales.

Factors affecting sales and profitability:

- Sales are heavily impacted by travelers going to beach in the peak summer months;
- Remodeling of two stores within the county has led to increased sales;
- Surrounding ABC boards include Dare and Camden counties

Below is a sales history analysis of similar size boards compared with Currituck County ABC Board. This chart analyzes the sales trends for the past ten years.



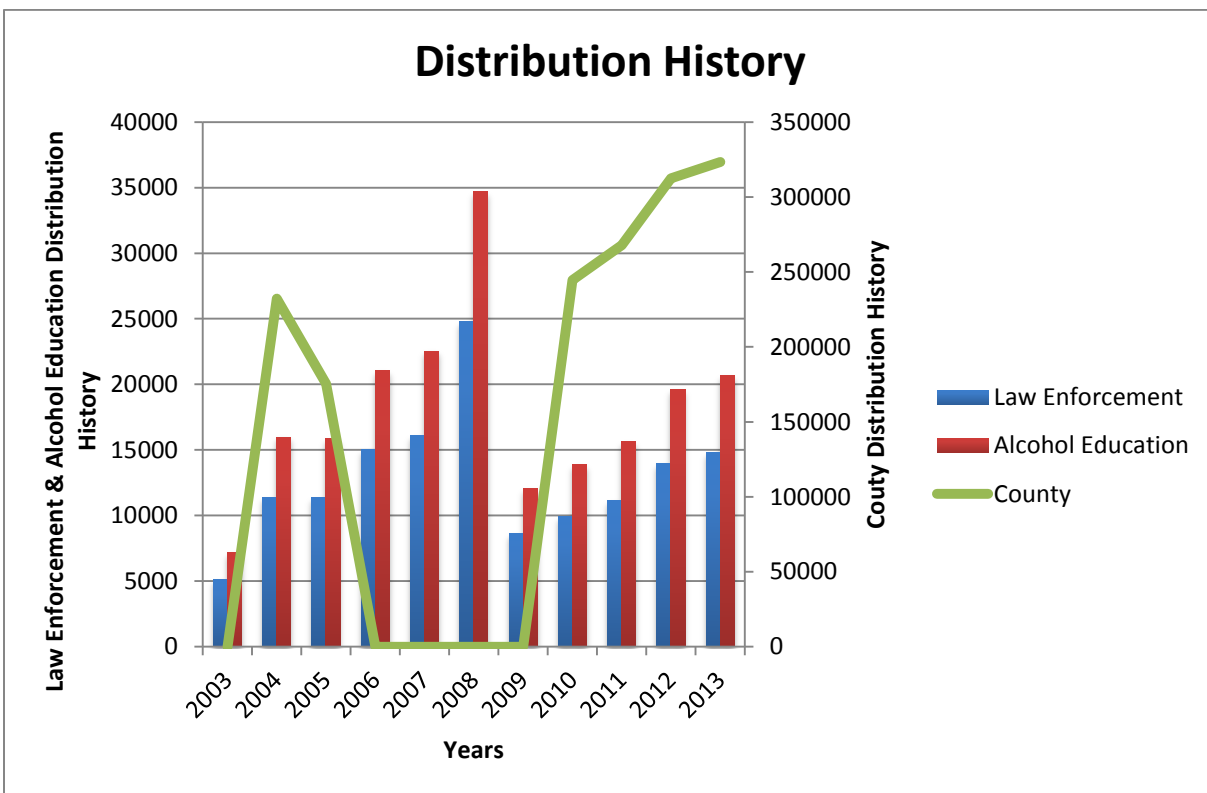
Distributions

G.S. 18B-805 (c) (2) requires the board to distribute at least five percent (5%) of profits to law enforcement. The board follows the local enabling act for alcohol education distributions, whereas alcohol distributions are not required but funds have been distributed. The remaining profits are to be distributed as follows:

- 85% to Currituck County General Fund
- 15% to ABC Building Fund

In FY2013, Currituck ABC made the required minimum distribution to the county totaling \$120,483, plus additional distribution of \$202,951. \$1,012,878 in Excise and other taxes were paid to the NC Department of Revenue and the town. A total of \$14,774 was paid to law enforcement and \$20,684 for alcohol education.

Below is a distribution chart analyzing the high-low trend of the Currituck County ABC Board.



OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On October 1, 2013, ABC Board Auditor, Moniqua S. McLean, visited the Currituck County ABC administrative office and interviewed Michelle Lancaster, general manager, and Judy Tate, finance officer. The following are the operational observations, findings, and recommendations related to the performance audit.

Store Appearance and Customer Service

The Currituck County ABC Board operates three retail stores with a range of approximately 870 to 1,050 feet of shelf space and carrying a range of approximately 900 to 1,100 product codes.

- All stores were clean, well-dusted, and maintained. Bottles were fronted and dusted. Counter areas were free of clutter and supplies were easily accessible.
- Exterior signage and landscaping around the stores was clean and free of trash. Interior signage was neat and visible. The Fetal Alcohol Syndrome poster was displayed.
- Security systems are in place and functional in all locations.
- A consistent shelf management plan is in place that exhibits a strategy per category following the highest priced product on the top shelves and the lowest priced product on the bottom shelves. Product displays are available throughout the store spotlighting bestselling or newest items and seasonal or holiday items. *See pictures on page 14.*
- The state price book is available should customers ask for specific product. Sales clerks' often refer to the price book for verification of product and pricing.
- Sales clerk's interaction with customers is attentive, courteous, and all are eager to meet the needs of the customers.

No Recommendations.

Personnel and Training

- All board members and general manager have completed the initial ethics training. A board member and finance officer have been appointed and are planning to complete the webinar in the fall. Since the audit fieldwork, the board member and finance officer were unable to complete the webinar training and plans are being made to purchase the on-demand version.
- Training is provided continuously to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities.
- Cross training opportunities have been extended to key employees in the event the general manager or finance officer is suddenly unavailable.

No Recommendations.

ABC Board Policies

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract
 - Travel Policy (Currituck County Approval not submitted for FY2014)
 - FY2013 Annual Audit
 - Employee Handbook
 - FY2014 Budget (Proposed and Adopted)
 - Mixed Beverage Policy
 - Price Discrepancy Policy

Recommendations:

- As a reminder, submit a written approval from the appointing authority allowing the board to adopt the county's travel policy. *Refer to Appendix C (1) for statute.*

Internal Control Procedures

- All store managers determine the sales clerks' schedules. Payroll time sheets are verified by the general manager and the finance officer. The finance officer uses payroll software to calculate tax and other withholdings. Software backup is conducted often.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures when cash drawers are over or short.
- Bank deposits are made regularly as required by the ABC Commission rule. Bank notification is received and matched with corresponding daily register reports. Bank reconciliations are completed monthly by the finance officer.
- Physical inventory counts are performed monthly by the general manager and all store managers before the monthly shipment. Spot checks are conducted frequently throughout the month. If discrepancies occur, the general manager will investigate and recount for accuracy and verification. Occasionally, a store manager will assist in checking discrepancies. Once completed, the general manager will adjust the inventory system to match with the actual store counts. Unsalable items are adjusted monthly.
- The board has acquired a vehicle to assist in transporting liquor between stores. In reviewing expense records, a mileage report or gas log was not available. A vehicle usage policy has not been adopted.
- A credit card is issued to the board with the general manager as the only authorized person to use the card. The finance officer reconciles all transactions purchased with the card. Board members view the credit card statement on a monthly basis. However, a written credit card policy has not been implemented.

Recommendations:

- Adopt a vehicle usage policy that would specify who is able to use the vehicle, all persons must have a valid driver's license, and a mileage form needs to be completed at every trip.
- To ensure stronger internal controls of credit card purchases, adopt a written credit card usage policy. Document procedures for the usage including:
 - Who has authority to use the card,
 - What types of items the card may be used for,
 - Personal usage is prohibited;
 - An itemized receipt for every transaction is required,
 - Maximum limit allowed on purchases before approval is needed from the finance officer,
 - Receipts are to be submitted within 15 days of the purchase;
 - Have someone other than the person purchasing reconcile the credit card statements.

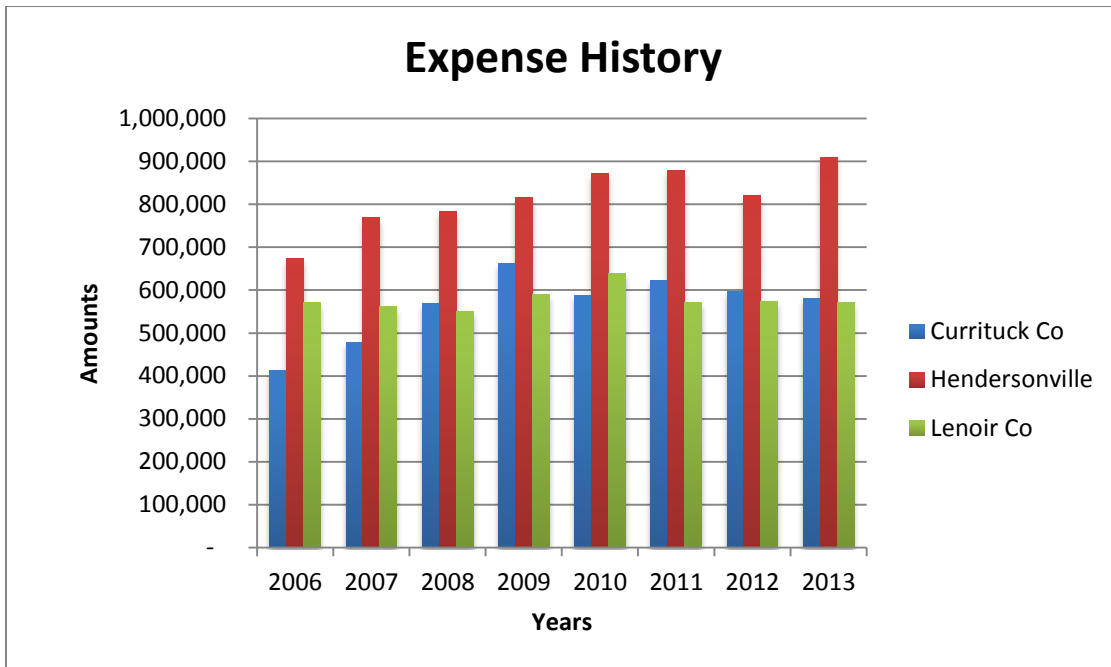
Administrative Compliance Findings and Observations

- Board meeting minutes were viewed and followed the order of proceedings while providing information that a reasonable person would be able to follow. Board meeting minutes referenced the conflict of interest statement.
- Board member and general manager information, appointment dates and compensation amounts, are 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, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- A review of travel reimbursements revealed that expenses follow the travel policy adopted with documentation attached.
- Each store issues a purchase order when ordering liquor and forwards the order to the general manager who consolidates them into one order. The initial order does not have the pre-audit certificate. However, the general manager approves the orders.
- All checks bear the approved certificate and are signed by the finance officer and the board chairman. In the even the finance officer is unavailable, other board members or the general manager is authorized to sign checks.
- Out of a range of approximately 900 to 1,100 product codes, approximately 280 product codes were sampled and one was incorrect.

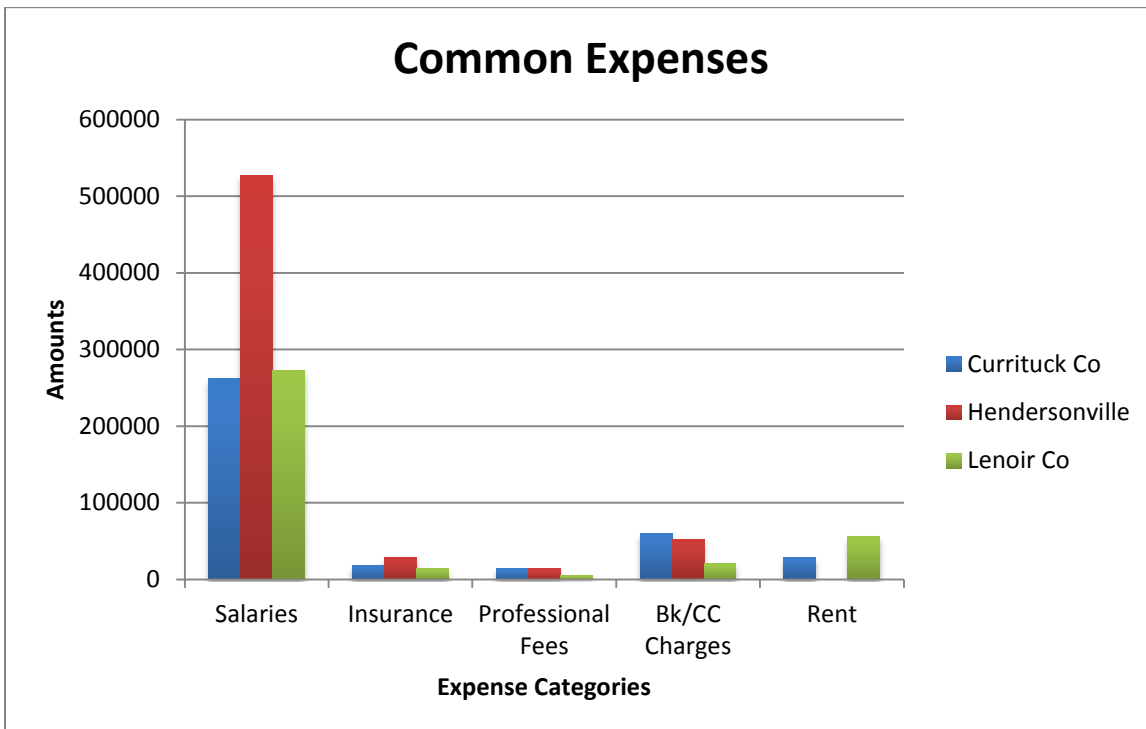
Recommendations:

- To be in compliance with the statute, affix the pre-audit certificate on liquor orders before the transaction occurs. *Refer to Appendix C (2) for statute.*
- Audit shelf tags more frequently. Incorporate such practices within spot check time periods.

APPENDIX A



The expense history data indicates that Currituck County ABC's total expenses have decreased 2.8% as sales have decreased 0.36%. Currituck County ABC's are not out of line.



Common expense analysis indicates that Currituck County ABC's expenses are relatively lower compared with other similar size boards. Note: Bank/credit card charges have increased due to increased transactions.

APPENDIX B



Main office complex in Grandy, NC



Interior view of Grandy store



Counter view of Grandy store



Exterior view of Corolla store



Interior view of Corolla store



Counter view of Corolla store



Exterior view of the Moyock store



Interior view of the Moyock store



Counter view of the Moyock store

APPENDIX C

- (1) *G.S. 18B-700 (g2) states, "...unless 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. The local board shall annually provide the appointing authority's written confirmation of such approval to the Commission and a copy of the travel policy authorized by the appointing authority."*
- (2) *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)

CURRITUCK COUNTY ABC BOARD

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(252)453-9791-fax

December 19, 2013


Ms. Moniqua McLean, ABC Board Auditor
N.C. State ABC Commission
4307 Mail Service Center
Raleigh, NC 27699-4307


Dear Ms. McLean,

The Board, as well as the General Manager and Finance Officer, thank you for attending our board meeting on December 12, 2013 to present your performance audit report and findings. It was a pleasure meeting you and working with you to improve our local ABC system. We are committed to using your recommendations and comments to become a more improved ABC.

Our Board continually strives to improve our stores and shopping environment for our customers. We also want our funding to benefit our county, municipalities, and organizations providing substance abuse treatment and education.

The Currituck County ABC Board, as well as the General Manager and Finance Officer, appreciates the time and effort required of you to prepare this performance audit.

Sincerely,

Michelle Lancaster
General Manager


Judy Tate
Finance Officer

RECEIVED

DEC 25 2013

NC ABC COMMISSION

CURRITUCK COUNTY ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Personnel and Training:</p> <p>Have all required persons complete the required ethics training.</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>The board has purchased the webinar and is making plans to have the required persons complete the training. A verification form will be forwarded to the Commission once completed.</p>
<p>ABC Board Policies:</p> <p>Have an annual approval from the appointing authority allowing the board to adopt the county's travel 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>The board has obtained the appointing authority's approval allowing the ABC Board to adopt the travel policy. A copy of the approval has been forwarded to the Commission.</p>

CURRITUCK COUNTY ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Internal Control:</p> <p>To ensure strong internal controls, have written policies for vehicle use and credit card purchases.</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented ____% complete. (Explain below.)</p> <p><input checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>Management has implemented procedures for effective internal controls. Written policies are being reviewed and adopted. Once adopted, copies will be forwarded to the Commission.</p>
<p>Administrative Compliance:</p> <p>Affix the pre-audit certificate on orders before the transaction occurs.</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>Management has implemented procedures to comply with the statute.</p>