

Garland 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
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December 21, 2011

The Honorable Anthony Johnson, Mayor
Town of Garland
190 S. Church Street
Garland, NC 28441

Dear Mayor Johnson,

We are pleased to submit this performance audit report of the Town of Garland 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.

This report consists of an executive summary, background information and operational findings and recommendations. The Chairman of the Garland ABC Board reviewed a draft copy of this report and his written comments are included.

We would like to thank the ABC Board and their staff for the assistance and cooperation provided to us during the audit and we hope you and your Town Council Members will find the report informative.

Respectfully,

Michael C. Herring
Administrator

Cc: Teresa Vaught, Town Clerk
Garland ABC Board

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EXECUTIVE SUMMARY

By state law, the ABC Commission shall ensure that all local ABC Boards comply with established performance standards by conducting regular audits or performance evaluations. Performance standards shall include, but are not limited to, standards that address enforcement of ABC laws, store appearance, operating efficiency, solvency, and customer service. Performance audits are examinations of existing operating policies, practices, controls, and activities to determine those areas in which there may be a need for improvements. This audit was conducted in accordance with Government Auditing Standards. This report details findings and recommendations with regard to organizational and operational issues.

To achieve the objectives of the audit, ABC Commission staff

- Reviewed applicable General Statutes, ABC Commission Rules, and administrative policies;
- Reviewed applicable reports and studies of ABC boards with similar size and geography;
- Verified compliance with Commission and Board policies;
- Reviewed organizational chart and job descriptions;
- Reviewed ABC store annual audit for the fiscal year 2011;
- Visited the store;
- Interviewed key ABC store personnel.

The Garland ABC Board has submitted a response to the performance audit recommendations and has begun to take steps toward becoming profitable through analyzing and reducing current costs. Since our visit, training opportunities have been extended to employees. Internal controls have been modified to maintain proper segregation of duties and to adhere to statute regulation. A follow up visit will be scheduled within six months to verify in current practices have been modified to incorporate current statutes.

BACKGROUND INFORMATION

The town of Garland is located in Sampson County a few miles from Clinton, NC. The town was incorporated in 1907. It is home to the well known Brooks Brothers shirt outlet, a Rotary Fair that exhibits community spirit, arts and crafts, an annual parade, and much more. The current population is approximately 625. ABC stores within the county include Clinton, Newton Grove, and Roseboro.

Chapter 144 of the 1969 Session Law authorized the town of Garland to hold an election upon a petition signed by at least fifteen percent of the registered voters. The referendum was held on June 3, 1969. The vote for an ABC store passed 101 to 78. The date of the first retail sales was July 1, 1969.

The Garland ABC Board staffs one part-time general manager, who is also the general manager of the Clinton ABC store, and three part-time employees. The general manager is responsible for the daily operations of the store including supervising personnel, retail operations, and administrative functions. The clerk duties involve various retail functions including selling products and accounting for stock.

Profitability

For fiscal year 2011, the board showed a loss; total liquor sales were \$227,639, income from operations was -\$4,627, resulting in a profit percentage to sales of -2.03%. Although current sales are beginning to show an incline, Garland ABC is still down from previous year's sales. *Refer to Chart 1.*

Garland ABC sales as well as sales of similar size boards have dropped over the past ten years while other similar size boards continue to follow the state's 56% ten year increase. *Refer to Chart 2.*

Factors affecting sales and profitability:

- While overall population has increased 8%, adult working population has decreased 9% over the past ten years
- Population below poverty level has increased 14% over the past ten years
- 8.4% unemployment rate in Sampson County in October, a reduction of 0.6% from September

Distribution Schedule

G.S. 18B-805 (c) (2)(3) requires that the board expend quarterly at least five percent of profits for law enforcement. Garland is not required to make a distribution for alcohol education. The statute also requires the board to expend quarterly the remaining gross receipts to the Garland General Fund.

In 2010, the Garland ABC Board did not make any distributions. Distributions have not been made since 2005. *Refer to Chart 3.*

FINDINGS AND RECOMMENDATIONS

On July 19, 2011, ABC Commission Auditor, Moniqua S. McLean, visited the Garland ABC store and interviewed Barbara Bailey, general manager and Elizabeth Johnson, board member. The following are the findings and recommendations relating to the performance audit.

1. Inventory Turnover

The inventory turnover rate is calculated by dividing the cost of goods sold by the average inventory in the system. 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:

- Daily/weekly deliveries target at 6 times per year
- Bi-weekly deliveries target at 5 times per year
- Monthly deliveries target at 4.5 times per year

The Garland ABC board has a bi-weekly delivery schedule. The inventory turnover rate for Garland ABC is 4.6 and does not meet the target rate set by the Commission.

Recommendations:

- Explore different strategies for eliminating slow moving products by:
 - Identify dead stock for transfer to another board which has demand
 - Request permission from the Commission for a price reduction to sell off slow moving products. Use proceeds for distribution or for more saleable inventory.
 - Move stock within the store to increase visibility
- Continue taking advantage of SPA's and quarterly price reductions whenever possible
- Continue using recipe cards, displays, and other marketing techniques to increase sales

2. Operating costs

Operating costs are calculated by dividing total operating expenses less depreciation by the gross profit on sales. Below are the average cost ratios for boards with and without mixed beverage sales.

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

The Garland ABC board has an operating cost ratio of 1.02 while the average for similar size boards is .93 or less. To meet the goal of .93 and remain at current revenue levels, operating expenses must be reduced to less than \$50,000. To meet the goal and remain at current operating expense levels, revenue must be greater than \$260,000.

Recommendations:

- Monitor budget monthly to ensure that expenses do not exceed budgeted amounts. Have finance officer present reports detailing all expenses of the board.
- Because salaries are the largest segment of operating expenses, analyze personnel hours to assess efficient personnel usage.
- Request bids annually from various vendors to get the best rates possible on audit, credit card processing fees, and insurance and bonding rates.

3. Profit percentage to sales

The profit percentage to sales is calculated by dividing the total profit before distributions by the total liquor sales. The Commission has set efficiency goals based on the following breakdown:

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

The Garland ABC board has a profit percentage to sales of -3.59% and does not meet the targeted rate set by the Commission.

Recommendations:

- Analyze and reduce operating expenses to increase profits. Refer to recommendations under operating cost.
- Take advantage of every selling day possible; do not close the store except when required by law. Keep store open on all other holidays (Martin Luther King Jr. Birthday, Good Friday/Monday, Memorial Day, Veteran's Day) and advertise in advance the fact that you will be open by posting a sign on the door or with your local newspaper or town office.
- Consider closing the ABC store if it cannot become profitable
- Alternatively, consider merging with another ABC board to reduce overhead

4. 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:

- 4 months for boards with gross sales less than \$1.5M
- 3 months for boards with gross sales less than \$50M and greater than or equal to \$1.5M
- 2 months for boards with gross sales equal to or greater than \$50M

For FY2011, the Garland ABC board had a working capital of \$11,673 and met the minimum goal set by the Commission.

5. Store Appearance

The linear footage for the Garland ABC store is approximately 468 feet of shelf space. The store holds approximately 450 product codes. *Refer to Appendix A for photos.*

- The store, though dated, was clean, well lit, and smoke-free; countertops were free of clutter and bottles were not dusty.
- The shelf management system was clearly defined, consistent, and easily understood.
- The Fetal Alcohol Syndrome poster was visible

6. Policies and Procedures

- The following have not been adopted and filed with the Commission:
 - Travel policy
 - Law enforcement contract
- The Code of Ethics and the adopted budget were not filed with the Commission by the required due dates. The ABC Commission auditor collected the documents during her visit.

Recommendations:

- While the Commission recognizes that the board does not travel, put a travel policy in place in case the need arises. *Refer to Appendix B (1).*
- Adopt a law enforcement contract. *Refer to Appendix B (2).*

7. Administrative Compliance

- Board meeting minutes were available and followed the order of proceedings for conducting business meetings.
- Board information on the Commission website does not reflect the board members' latest appointment date. Board members' compensation meets the current statutory requirements.
- Law enforcement reporting has not been submitted to the Commission since March.
- Nepotism – The board does not employ immediate family members.
- Liquor invoices are not paid within the thirty day time period as required.
- The board has not made distributions to law enforcement or to the town since 2005.

Recommendations:

- Update board information on the Commission website to reflect current appointment dates.
- Submit law enforcement reports to the Commission and to the appointing authority by the tenth business day of each month. *Refer to Appendix B (3).*

- Pay all liquor bills within thirty days of receipt of inventory.

8. Personnel/Training Compliance

- Training is conducted when need arises and whenever new information is available.
- No employee has been cross-trained to fill in for the general manager should she become unable to work.
- Employees have not viewed an employee manual.
- All board members have attended the mandatory ethics training.

Recommendations:

- Have training for employees on topics of customer service, administrative functions, price changes, etc.
- Attend annual training, such as the Responsible Alcohol Seller Program, offered by the Commission and other approved venues
- Create a checklist for use in training new and existing employees and have each employee sign it once training is completed
- Cross-train employees on key functions that include ordering liquor, closing the month, paying bills, and filing taxes in the event the general manager were suddenly unavailable
- Provide each employee with a copy of the personnel manual and have employees sign an acknowledgement that he/she has read it through

9. Internal Controls

- When approving the purchase of store and office supplies, purchase orders are not used.
- The pre-audit certificate is placed on all individual liquor bills.
- Checks are currently signed by both the general manager and the board chairman. However, they do not bear the certificate on the face of the instrument which is required by GS 18B-702(q).
- The general manager is currently the finance officer. The board is planning to appoint the board chairman as the finance officer.
- Inventory counts are performed monthly by general manager and staff. Random spot-checks are performed throughout the month by staff.
- A petty cash fund is maintained for purchasing store supplies. The general manager approves purchases and reconciles the fund. The fund is replenished monthly.

Recommendations:

- Use purchase orders for ordering all store and office supplies. Purchase orders are required to have the pre-audit certificate signed by the finance officer. *Refer to Appendix B (5).*
- Orders to LB&B for liquor, not the liquor invoices, must have a pre-audit certificate signed by the finance officer. Approval must take place before the liability is incurred.
- All checks written after May 1, 2011 must include the approval certificate. *Refer to Appendix B (6).*
- Have someone other than the people responsible for inventory perform spot-checks.
- To ensure better internal controls, have someone other than the person making purchases from petty cash reconcile the petty cash fund.

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Chart 1

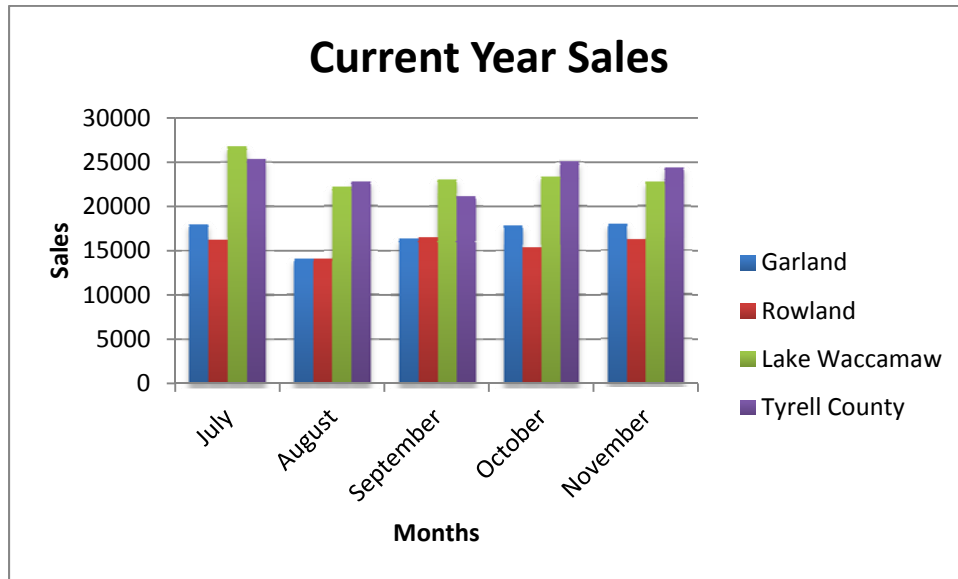


Chart 1 shows current year sales for similar boards. Note: Tyrell County has mixed beverage similar-size sales.

Chart 2

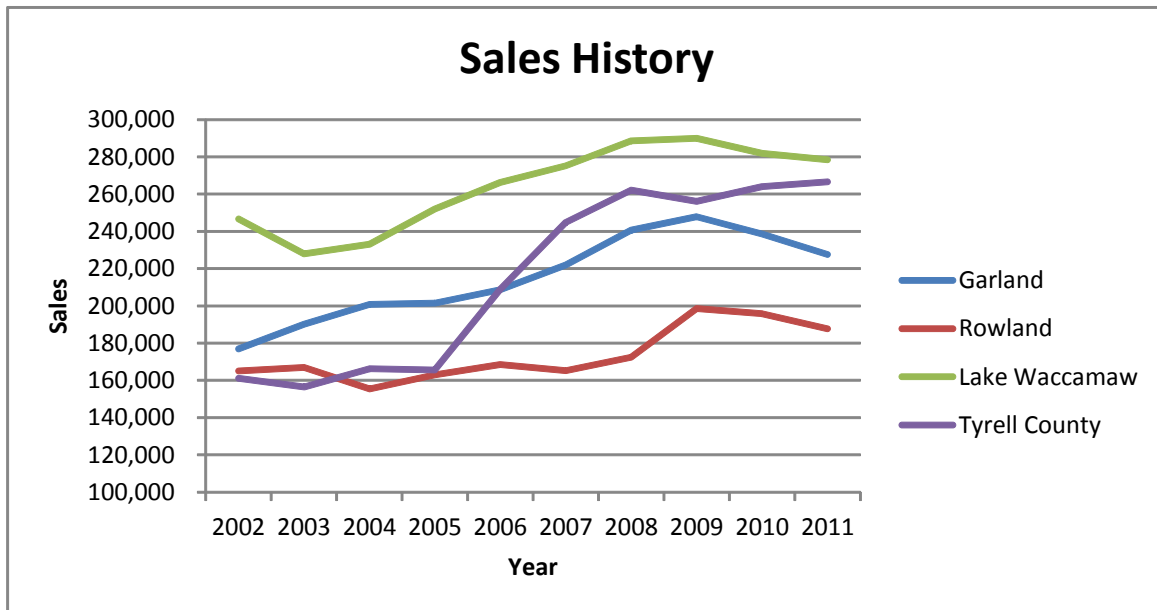


Chart 2 reflects the historical sales growth for similar size boards for the past ten years.

Chart 3

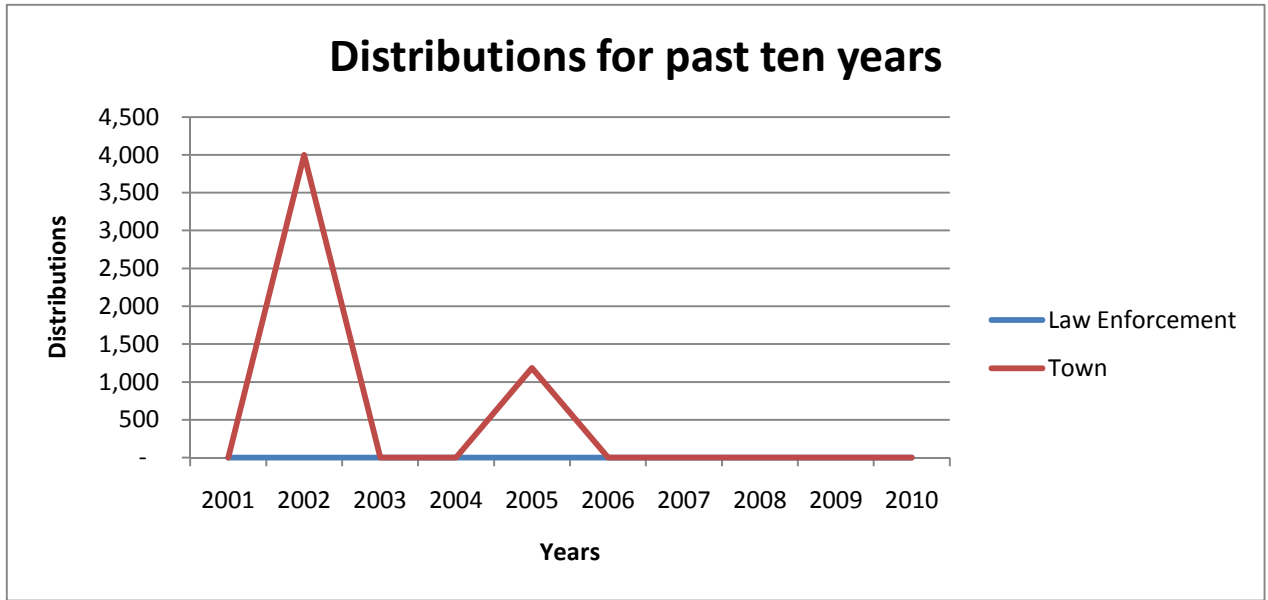


Chart 3 shows the downward trend of profit distributions to the appointing authority.

Chart 4

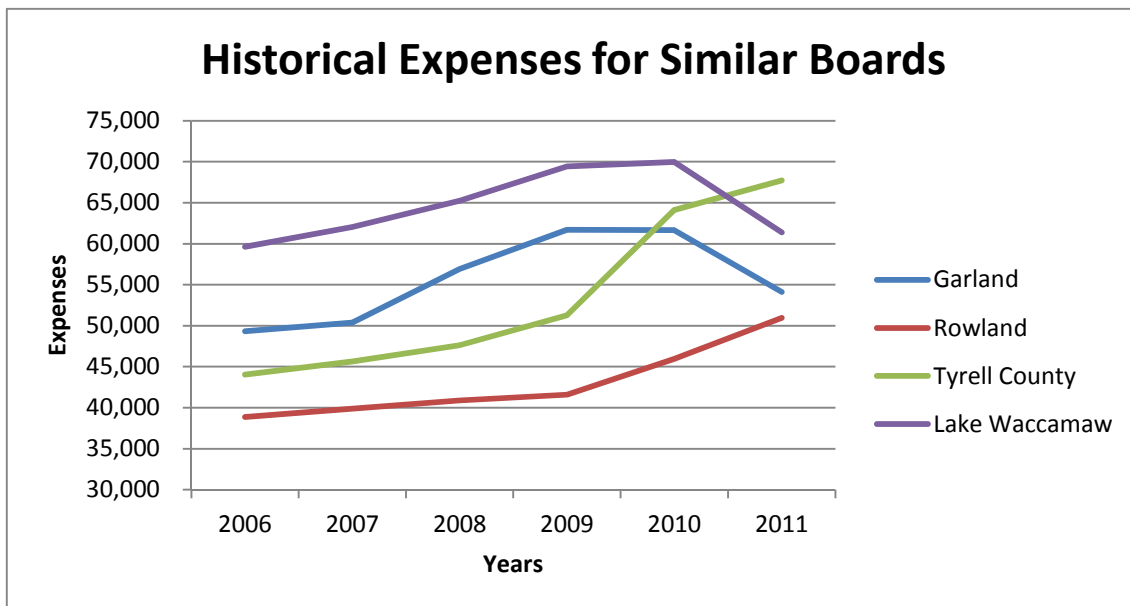


Chart 4 reflects the historical trend of operating expenses for similar size boards.

APPENDIX A

Picture 1



Picture 2



APPENDIX B

- (1) 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.

- (2) 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.”

- (3) 18B-501(f1) states, “To ensure accountability to the appointing authority and the Commission, every local board’s ABC officers and those law enforcement agencies subject to an enforcement agreement entered into shall report to the local board, by the fifth business day of each month, on a form developed by the Commission, the following:

- (a) The number of arrests made for ABC law, Controlled Substance Act, or other violations, by category, at ABC permitted outlets,
- (b) The number of arrests made for ABC law, Controlled Substance Act, or other violations, by category, at other locations,
- (c) The number of agencies assisted with ABC law or controlled substance related matters,
- (d) The number of alcohol education and responsible server programs presented,

The local board shall submit a copy of the enforcement report to the appointing authority and the Commission not later than five business days after receipt of the enforcement report by the local board.

- (4) 18B-805(e) states “...the local board shall pay each quarter the remaining gross receipts to the general fund of the city or county for which the board is established, unless some other distribution or some other schedule is provided for by law.

- (5) 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)

(6) 18B-702(q) states "...each check or draft on an official depository shall bear on its face a certificate signed by the finance officer or a deputy finance officer approved for this purpose by the local board. The certificate shall take substantially the following form:

"This disbursement has been approved in the manner required by G.S. 18B-702."

(Signature of finance officer)

December 07, 2011

Ms. Moniqua S. McLean
ABC Board Auditor
4307 Mail Service Center
Raleigh, NC 27699-4307

Dear Mrs. McLean

Enclosed is a summary of the Garland ABC Board objectives reference the audit conducted by the ABC Commission in 2011.

1). Salaries--The Garland ABC Board staffs one part time general manager, who is also the general manager of the Clinton ABC store, and three part time employees. Personnel hours have been reduce; operating hours have also been reduced in order to hold down salaries.

2.) Inventory-We have reduced our dead stock, by selling, and transferring stock with other stores. We have asked for price reduction on slow moving products, also we are currently use all displays and other marketing techniques to increase sales.

3.) Administrative Compliance-,

a.)Travel policy has been adopted, and in place in case the need arises.

b.)Adopt a law enforcement contract.

c.)Updated board information on Commission website to reflect current appointment dates.

4.) Training/Personnel- We are currently cross training employees on key functions, of the stores daily/monthly duties. All employees have been provided with a personnel manual/and acknowledgement that he/she has read it through.

5.) Internal controls- The board has appointed finance officer, all checks now bear the certificate required by GS 18B-702(q).

Garland ABC Board
Phillip D. Smoak Chairman
Garland, NC

GARLAND ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Administrative Compliance – Adopt a travel policy and law enforcement contract.</p> <p>Update information on the Commission website to include board member appointment dates and law enforcement reports. **</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>**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 40% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The Board has adopted a travel policy. A law enforcement contract has not been adopted. The town will provide accurate dates for the board members, however the law enforcement reports have not been updated. A follow up visit will be schedule to verify if recommended policies were adopted.</p>
<p>Training – Cross train employees on key functions in the event the general manager is absent.</p> <p>Present to each employee a personnel manual and have sign an acknowledgement once received. **</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 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 is currently in the process of training employees in various duties.</p>

GARLAND ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Internal Controls – Appoint a finance officer other than the general manager.</p> <p>Have all checks bear the required certificate signed by the finance officer.</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 appointed a finance officer. All checks bear the required certificate and signed by the finance officer.</p>



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July 13, 2012

The Honorable Anthony Johnson, Mayor
Town of Garland
190 S. Church Street
Garland, NC 28441

Dear Mayor Johnson,

The ABC Commission has completed the follow up to the performance audit which occurred on July 19, 2011. The purpose of the follow up visit was to determine the implementation status of recommendations made and to ensure the ABC Board was in compliance with the ABC laws outlined in the audit report.

During the follow up visit, it was confirmed by interviewing board personnel and analyzing documentation that the board has adopted all recommendations and has implemented the required policies to fully comply with the ABC Laws and Commission Regulations. The Board continues to work on improving profits.

This concludes the performance audit conducted on July 19, 2011.

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

Respectfully,

Moniqua S. McLean
ABC Board Auditor

Cc: Teresa Vaught, Town Clerk
Garland ABC Board
Michael Herring, NC ABC Administrator



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