

Sanford 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

LOCATION:
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Your Name
Director
Permit Division
(this is editable)

September 10, 2013

Sanford ABC Board
Mr. Jimmy Foster, Chairman
PO Box 967
Sanford, NC 27330

Dear Chairman Foster,

We are pleased to submit this performance audit report on the Sanford 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 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 additional funding support that you provide in the local community for alcohol education and prevention programs.

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 both stores;
- Interviewed key ABC board personnel.

The Sanford ABC Board has responded to the performance audit recommendations and continues to strive to increase profitability while reducing costs and supporting the alcohol educational programs within the county. 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 105 of the 1961 Session Laws authorized the town of Sanford to hold an election for an ABC store upon a petition of at least fifteen (15%) of registered voters. The referendum was held March 2, 1961 and passed 2,256 to 1,227. The first retail sale occurred on July 1, 1961. A mixed beverage election was held on September 20, 1978 and passed 1,426 to 1,165. The first mixed beverage sale occurred on November 1, 1978.

Upon election of an ABC store, the town of Sanford was authorized to create an ABC Board consisting of a chairman and two board members to serve for three year terms. Current members include Jimmy Foster, board chairman, Joyce Barger and Lisa McBryde, board members.

The Sanford ABC Board operates two retail stores. The board staffs nine full-time and eight part-time employees. The administrative staff consists of the general manager and an administrative assistant. The general manager is responsible for overseeing and managing daily operations of the stores to include supervising personnel, inventory control, and financial operations as required by the ABC statutes and rules. The administrative assistant is responsible for providing customer service to mixed beverage account holders, inventory processing and adjustments. Store employees are primarily responsible for providing friendly customer service, store upkeep and inventory management.

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 Sanford ABC Board receives deliveries twice a month: the inventory turnover rate is 6.6.

Recommendations:

- Continue with the following strategies that have already proven successful;
 - Analyzing sales and history reports to determine the bestselling products needed and to avoid overstock;
 - Watching customer shopping patterns and using the information to optimize product placement;
 - Transferring between stores slow moving products;
 - Utilizing additional practices such as cross-merchandising and periodic shelf reorganization;
 - Interspersing product and displays along the side shelves.

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 Sanford ABC Board operates two retail stores with mixed beverage sales: the operating cost ratio is 0.64. Mixed beverage sales make up 7.1% of total gross sales. In fiscal year 2012, sales increased 7.4% over fiscal year 2011 while expenses increased 2.42% over the same time period. The board owns both locations which contributes to significant savings.

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 FY2012, Sanford ABC had a working capital \$818,893, which is equivalent to approximately 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:

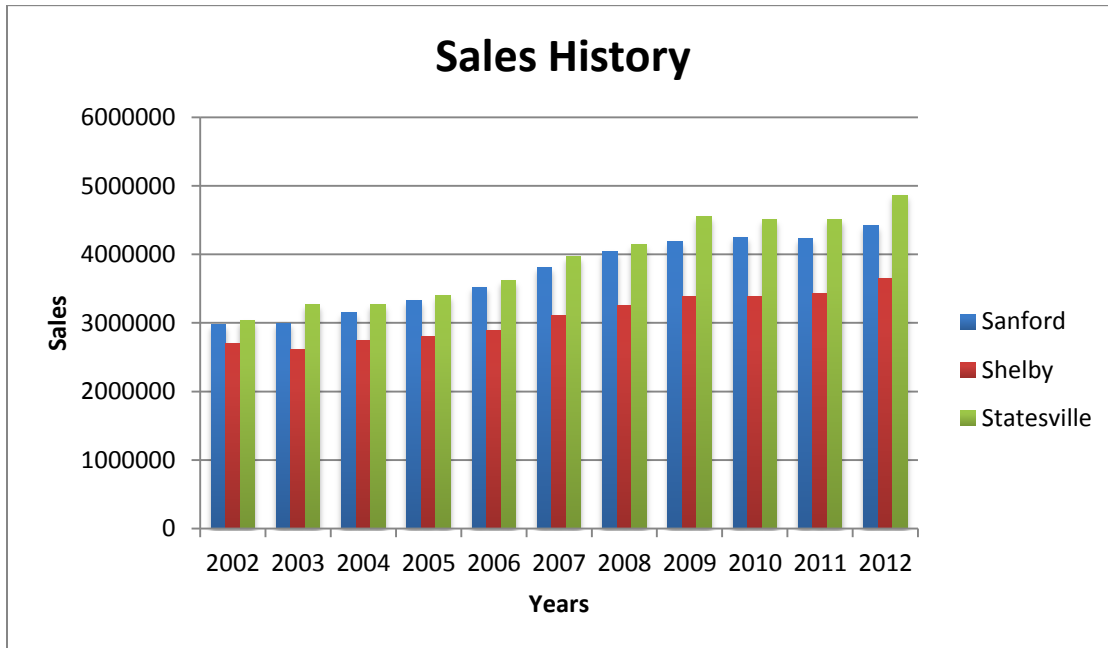
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Sanford ABC Board had gross sales of \$4,417,257; income from operations was \$340,872, a 7.72% profit percentage to sales.

Factors affecting sales and profitability:

- US Census Bureau reports an estimated population of 29,064 in 2012;
- Surrounding counties with ABC stores include Chatham, Cumberland, and Moore counties;
- Currently, Sanford has the only ABC stores in Lee County.

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



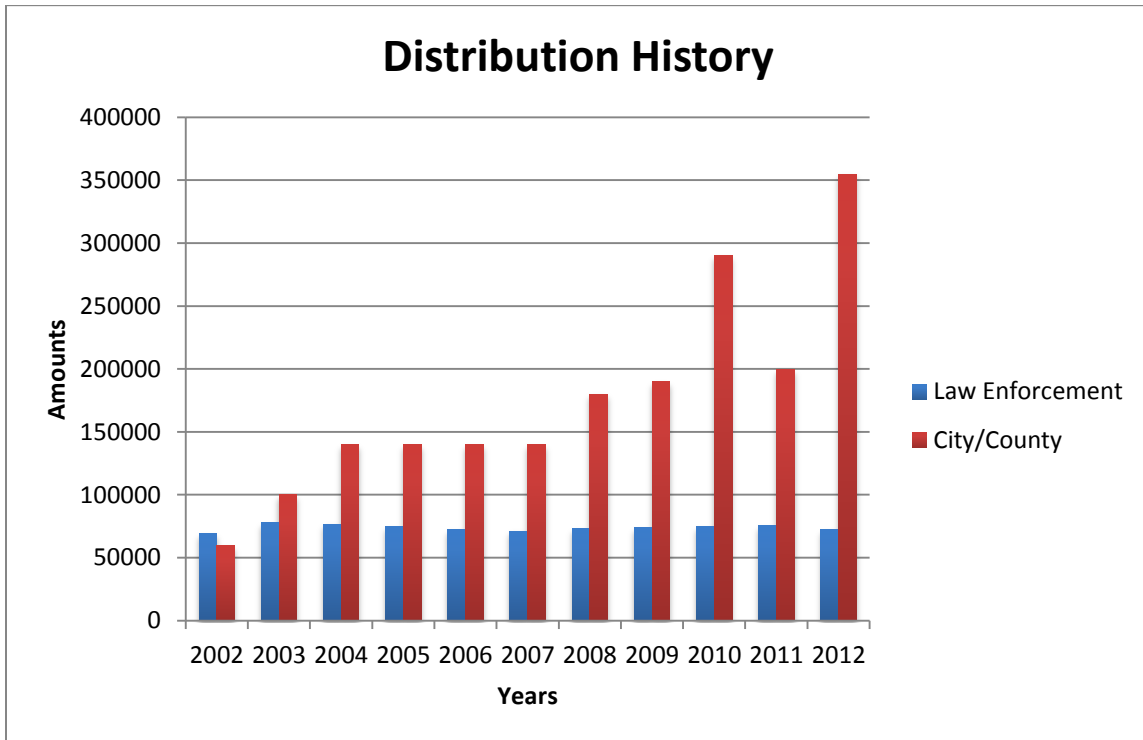
Distributions

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 education distributions which requires the board to distribute seven percent (7%). The remaining profits are to be distributed as follows:

- 50% to Sanford General Fund
- 50% to Lee County General Fund

In FY2012, Sanford ABC made the required minimum distributions totaling \$127,607 to the Sanford General Fund, plus additional distributions totaling \$227,393. A total of \$1,022,627 in Excise and other taxes were paid to the NC Department of Revenue and the town/county and \$72,747 to law enforcement and \$38,764 for alcohol education.

Below is a chart analyzing the high-low trend of distributions to law enforcement and to the city/county.



OPERATIONAL FINDINGS, OBSERVATIONS, AND RECOMMENDATIONS

On June 25, 2013, ABC Board Auditor, Moniqua S. McLean visited the Sanford ABC office complex and interviewed Lee Dowd, general manager. The following are the operational findings, observations, and recommendations related to the performance audit.

Store Appearance and Customer Service Observations

The Sanford ABC Board operates two retail stores ranging from approximately 850 to 1,300 feet of shelf space and carries a range of approximately 1,000 to 1,400 product codes.

- Both stores were clean, well-lit, and well-dusted. Counter areas were free of clutter having supplies easily accessible. No televisions were evident.
- The Fetal Alcohol Syndrome poster was displayed in both locations.
- Security systems are in place and functional.
- All stores display a consistent shelf management plan that exhibits a vertical blocking strategy within each category following the highest priced product on the top shelves and the lowest priced product on the bottom shelves. The shelf management plan follows the Commission rule, NCAC 02R .1711. Merchandising and product indicators, such as shelf tags for new items, etc., are shown throughout the stores indicating bestsellers, new items, discontinued items, etc.
- The state price book along with monthly sales lists is available in both locations.
- 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/finance officer have attended the initial mandatory ethics class.
- Training is provided as new information becomes available to current staff. Occasionally, employees may travel to surrounding boards for additional training or product knowledge opportunities.
- A sampling of personnel files were viewed and contained the applicable tax information and documentation.

No Recommendations.

ABC Board Policies

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract
 - Travel Policy (City of Sanford Approval Included)
 - FY2012 Annual Audit
 - Employee Handbook
 - FY2013 Budget (Proposed and Adopted)
 - Mixed Beverage Policy
 - Price Discrepancy Policy
 - Shelf Management Policy

No Recommendations.

Internal Control Procedures

- Payroll documentation is completed by the store managers and forwarded to the general manager for recalculation and processing. The master payroll activity report is verified by the general manager. Payroll software calculates tax and other withholdings. Back up is conducted daily.
- Cash drawers are counted daily. All clerks are responsible for their own cash drawer. Management has implemented procedures and guidelines for safeguarding assets.
- Bank deposits are made regularly by law enforcement 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 general manager.
- Physical inventory counts are performed monthly by the store managers and at least two other persons. Spot checks are only conducted if there is a pattern of discrepancies or if a problem occurs. If discrepancies occur, the general manager and the administrative assistant will investigate and recount for accuracy and verification. Once completed, either the general manager or the administrative assistant will adjust the inventory system to match with the actual store count. Unsalable items are adjusted monthly.

No Recommendations.

Administrative Compliance Findings and Observations

- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting and referenced the conflict of interest statement.
- Board member 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 employs one employee who is related to a board member. At this time, there is no indication of favoritism. To incorporate potential appearances of conflict of interest that affect the employee, the board member abstains from voting.
- All board members and the general manager/finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- A review of travel reimbursements revealed that expense forms follow the travel policy adopted with documentation attached.
- Orders for liquor and other common orders bear the pre-audit certificate as required by G.S. 18B-702 (m). When ordering for supplies, it is the policy that the vendor must invoice the board.
- Although checks have two signatures, that of the general manager/finance officer and the administrative assistant, the approved certificate is not shown on all checks as required. In the event that either the general manager or assistant is unavailable, a board member is authorized to sign checks.
- Out a range of 1,000 to 1,400 product codes, approximately 250 codes were sampled and one was incorrect.

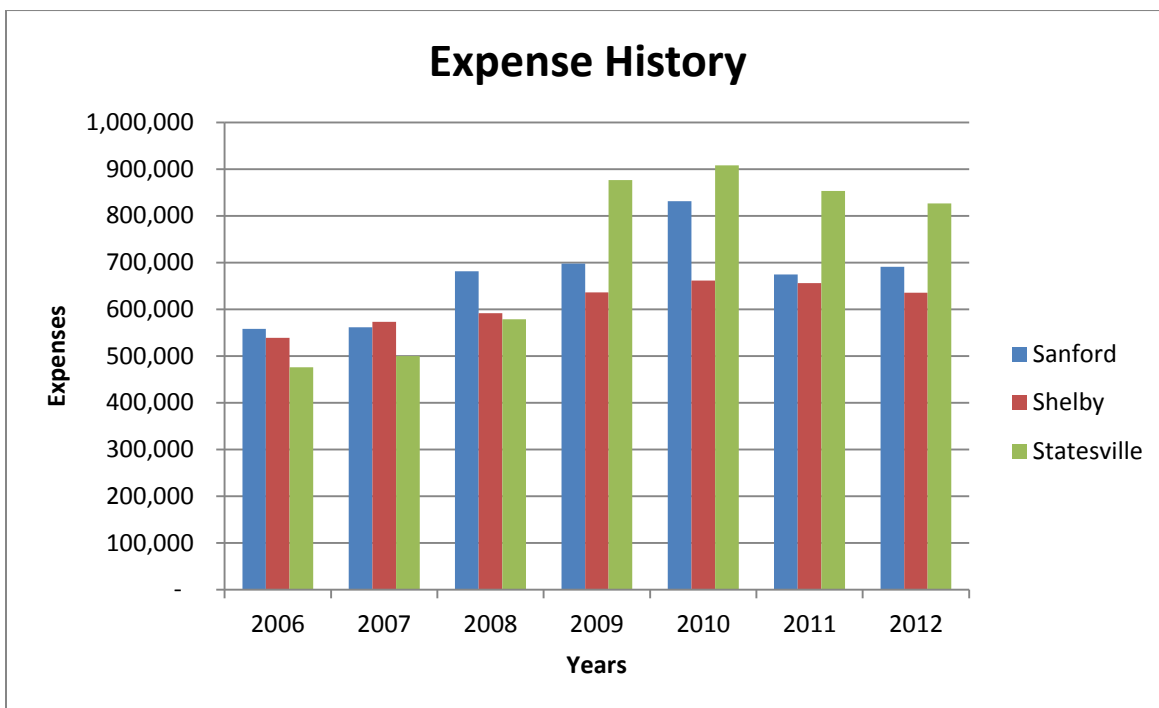
Recommendations:

- Affix the approved certificate with the finance officer's signature on all checks. *Refer to Appendix C (1).*
- Audit shelf tags more frequently. Incorporate such practices within spot check time periods.

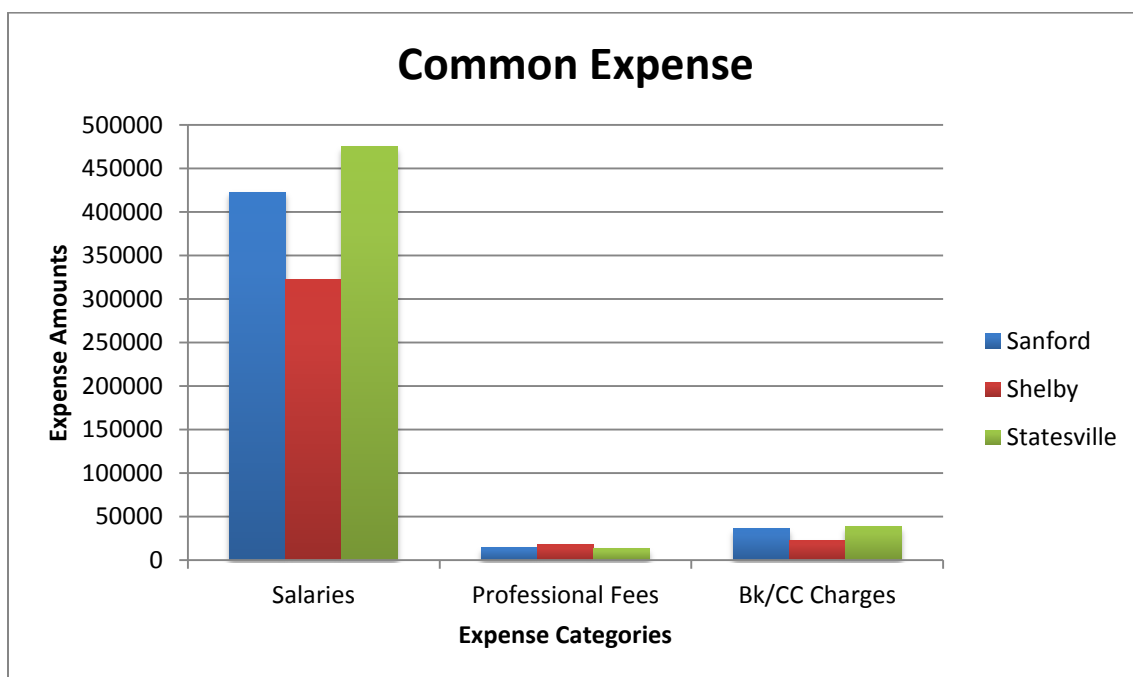
Other

- Sanford ABC provides scholarship funding for graduating seniors dealing with alcohol awareness and education. In FY2012, the board awarded twelve (12) scholarships at \$2,000 each, totaling \$24,000..
- Other funding has been awarded to the school system totaling \$12,500 annually, for over-all alcohol and drug abuse education programs, such as Saving All Families Through Education, SAFTE.

APPENDIX A



The expense history data indicates that Sanford ABC's total expenses have increased 2.42% since FY2011 following the sales increase of 4.5% over the same time period. Overall expenses have decreased significantly since FY2010 but remain in line with other similar size boards.



Common expense analysis indicates that Sanford ABC's expenses are relatively lower compared with other similar size boards.

APPENDIX B



Exterior view of Horner Blvd location



Counter view of Horner Blvd location



Shelf view at Horner Blvd location



Exterior view of Tramway location



Interior view of Tramway location



Counter view of Tramway location

CITY OF SANFORD BOARD OF ALCOHOLIC BEVERAGE CONTROL

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September 4, 2013

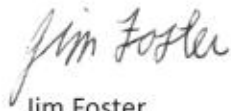
Ms. Moniqua McLean, ABC Board Auditor
North Carolina ABC Commission
4307 Mail Service Center
Raleigh, NC 27699-4307

Dear Ms. McLean:

The Sanford ABC Board would like to thank you for your professional manner in conducting the performance audit on our Board in June and when attending our meeting on August 14, 2013 to present your report. The Board will use your recommendations to continue to improve our ABC system.

Our Board takes great pride in our system and is continually looking for ways to improve our stores and shopping experience for our customers. We also strive to continue to maximize our profits to be able to return as much funds as possible to the City of Sanford, Lee County and Lee County Schools for underage drinking educational programs.

Sincerely,



Jim Foster
Chairman