

Dunn ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

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Your Name
Director
Permit Division
(this is editable)

September 10, 2013

Dunn ABC Board
Mr. Dal Snipes, Chairman
PO Box 70
Dunn, NC 28335

Dear Chairman Snipes,

We are pleased to submit this performance audit report on the Dunn 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 steps taken to reduce operating expenses at your two ABC stores.

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 Dunn ABC Board has responded to the performance audit recommendations and is striving to maintain profitability 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 1157 of the 1949 Session Law authorized the town of Dunn to hold an election for an ABC store upon a petition of at least fifteen percent (15%) of registered voters. The referendum was held on February 6, 1962 and passed 1,162 to 726. The first retail sale occurred on May 1, 1962. Mixed beverage elections were held on June 29, 1995 and July 17, 1998 and did not pass. A final mixed beverage election was held on October 30, 2001 and passed 1,190 to 712. The first mixed beverage sale occurred on December 7, 2001.

Upon election of an ABC store, the town of Dunn was authorized to create an ABC Board consisting of a chairman and two members. Current board members are Dal Snipes, board chairman, Helen Alspaugh and Jesse Moore, board members. Since the initial audit, a new board member has been appointed.

The Dunn ABC Board operates two retail stores. The board staffs nine employees consisting of three full-time and six part-time employees. The general manager is responsible for the overall operations of the store including providing and maintaining sufficient inventory and supervising personnel. The board has hired a finance officer within to handle financial duties as required. Clerks are primarily responsible for providing friendly customer service 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 Dunn ABC Board receives deliveries twice a month or once a month per store: the inventory turnover rate is 5.2.

Recommendations:

- Continue with the following strategies already in place:
 - Analyzing sales and history reports to determine the bestselling products needed and to avoid overstock;
 - Transferring stock between stores;
 - Watching customer shopping patterns and using the information to optimize product placement;
- Contact other boards for additional ideas that may be implemented in areas of shelf management and marketing techniques.

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 Dunn ABC Board operates two retail stores with mixed beverage sales; the operating cost ratio is 0.66. In fiscal year 2012, sales increased 1.8% over fiscal year 2011 while overall expenses decreased 5.22% over the same time period. Mixed beverage sales make up 4.2% of total gross sales. A chart analysis of expenses is found 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 FY2012, Dunn ABC had a working capital of \$342,673 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:

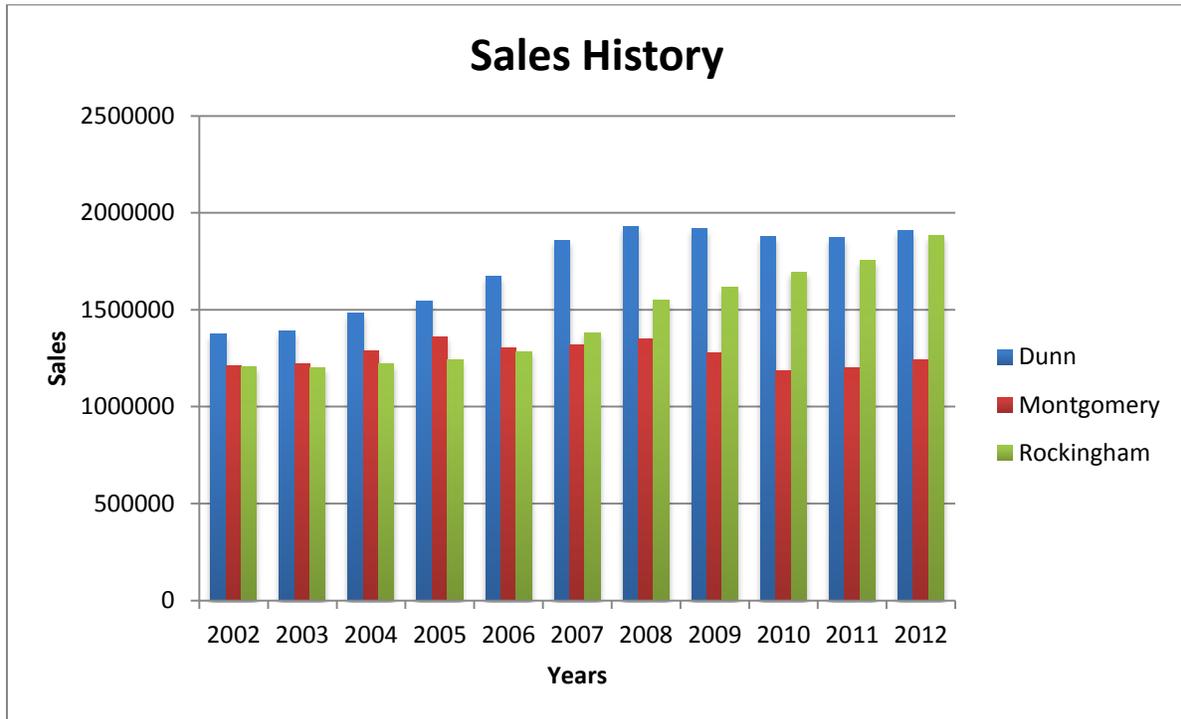
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Dunn ABC Board had gross sales of \$1,908,810; income from operations was \$137,415, a 7.20% profit percentage to sales.

Factors affecting sales and profitability:

- US Census Bureau reports an estimated population of 9,584 in 2012, a 3.5% change from April 2010 to July 2012;
- Surrounding counties and towns with ABC stores include Angier, Lillington, Newton Grove, Cumberland County, Wake County, and Johnston County;
- Working population in the surrounding urban area contributes to increased sales in the rural area.

Below is an historical analysis of similar size board compared with Dunn ABC. This analyzes the sales trends for the past ten years.

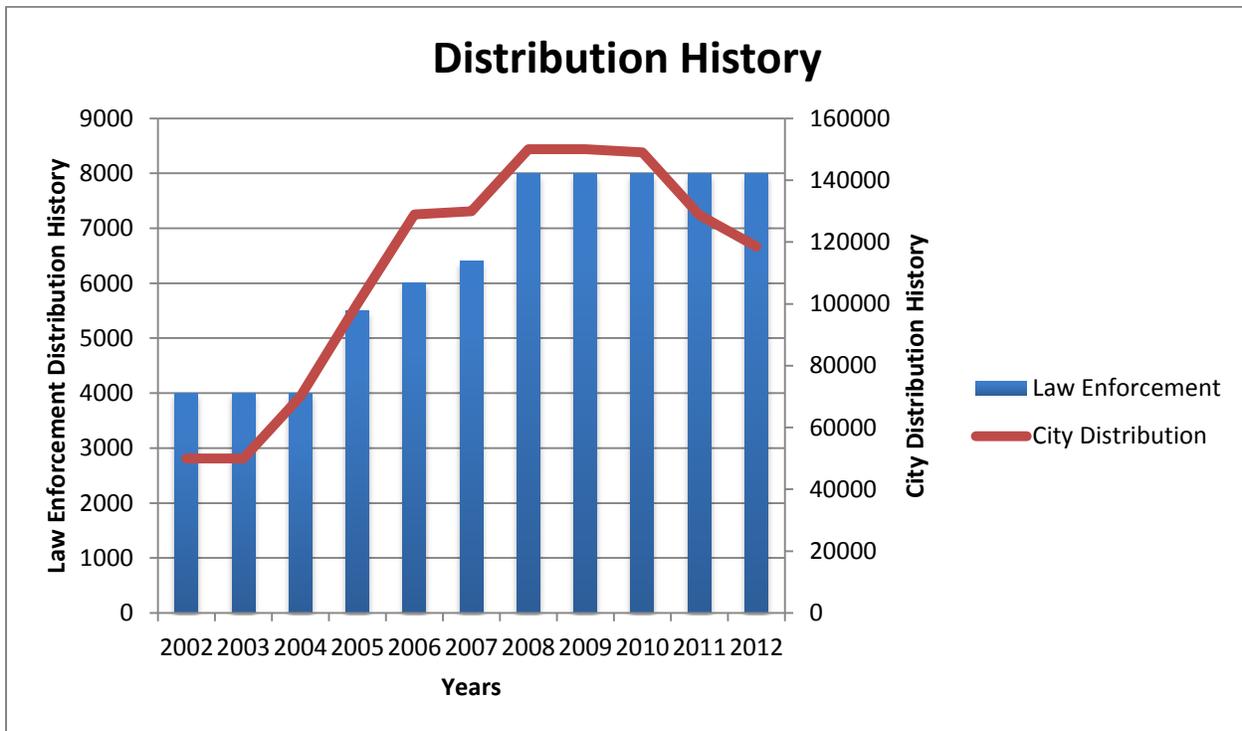


Distributions

G.S. 18B-805 (c) (2) requires the board to distribute at least five percent of profits to law enforcement. Although alcohol education distributions are not required by the board's enabling act, the Dunn ABC Board distributes for alcohol rehabilitation. The remaining profits are to be distributed to the Dunn General Fund of which 10-25% goes to Betsy Johnson Memorial Hospital.

In FY2012, Dunn ABC made the required minimum distribution to the town totaling \$56,469, plus additional distribution of \$53,531. To increase alcohol education awareness, the Town of Dunn gives a portion of the minimum distribution back to ABC Board to fund alcohol education. \$435,161 in Excise and other taxes were paid to the NC Department of Revenue and the City of Dunn; \$8,000 was distributed for law enforcement.

Below is a distribution chart analyzing high-low trends of the Dunn ABC Board.



OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On May 6, 2013, ABC Board Auditor, Moniqua S. McLean, visited the Dunn ABC store and interviewed Robert Parker, general manager, and Vince Marshall, finance officer. The following are the findings, observations, and recommendations related to the performance audit.

Store Appearance and Customer Service Observations

The Dunn ABC Board operates two retail stores with shelf space ranging approximately 500 to 700 linear feet and carries an average of 550 product codes. *Refer to pictures in Appendix B.*

- Both stores were clean and well-lit. 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. The Fetal Alcohol Syndrome poster is displayed.
- Some shelves were empty giving the impression that there were not enough products available. Front display cases were under-utilized. *See picture on page 11.*
- Security systems are in place and functional.
- The state price book and monthly sales lists are available.
- Sales clerks' interaction with customers was attentive, courteous, and eager to meet the needs of customers.

Recommendations:

- Consider renovating the store for a more modern appearance or make improvements to the store to include updated shelving and other improvements where needed.
- Utilize front display case and end caps to highlight new, on sale or discontinued items.

Personnel and Training

- All board members, general manager, and finance officer have attended the initial mandatory ethics class. One board member has since been reappointed and has not yet taken the online ethics training.
- Formal training has not been provided as new information becomes available to current staff.
- Cross training opportunities have been extended to key employees in the event the general manager was suddenly unavailable.

Recommendations:

- Bring all board members into compliance with state ethics requirement. All reappointed board members must receive ethics education within 12 months of the reappointment date. *Refer to Appendix C (1) for statute.*

- Provide additional training that will include alcohol education, customer service, and product knowledge. Contact other boards that have a training module(s) in these areas and take advantage of RASP classes offered by the Commission.

ABC Board Policies

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

No Recommendations.

Internal Control Procedures

- Physical inventory counts are performed monthly by two persons (one at each store) other than the general manager and finance officer. Spot checks are conducted daily. If discrepancies occur, the general manager and finance officer will investigate and recount for accuracy and verification. Once completed, only the general manager will adjust the system to match with the actual store count. Unsalable items are adjusted immediately.
- Cash drawers are counted by clerks. All clerks are responsible for their own cash drawer. Bank deposits are made regularly as required by the ABC Commission. Although understood, a cash drawer overage and shortage policy has not been adopted should instances occur.
- Bank notification is received and matched with corresponding daily register reports. Bank reconciliations are completed at the end of the month.
- The master payroll activity report is verified by the general manager. Payroll software calculates tax and other withholdings. The software is backed up monthly or as needed.

Recommendations:

- Adopt a written cash shortage and overage policy. While this is understood, it is good business practice to have written procedures in place for current and future employees. Once adopted, submit a copy to the Commission and include in the employee personnel manual.

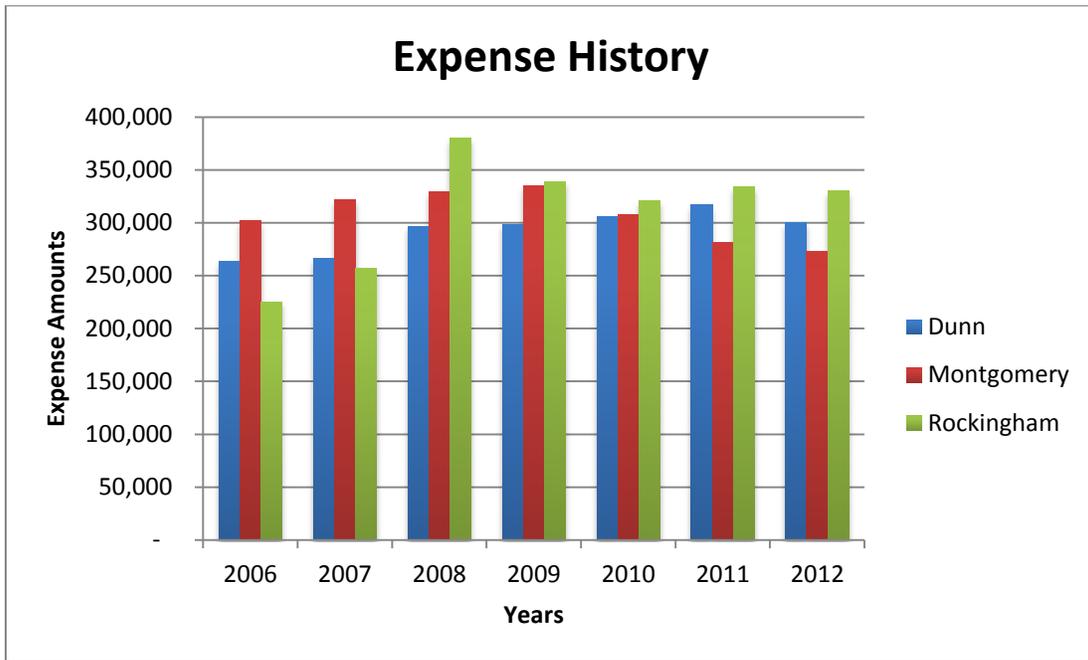
Administrative Compliance Findings and Observations

- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting referencing 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 two immediate family members who were grandfathered in when the law changed.
- All board members, general manager, and finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- A review of travel reimbursements confirmed that expense forms follow the travel policy adopted with documentation attached.
- Although liquor orders do not bear the pre-audit certificate, each individual vendor invoice has the pre-audit certificate and is signed by the finance officer. Other common orders are accompanied with a purchase order and are signed by the finance officer.
- All checks bear the approved certificate and are signed by the finance officer and the general manager.
- Out of an average of 550 product codes in each store, approximately 150 codes were sampled and all reflected the correct price.

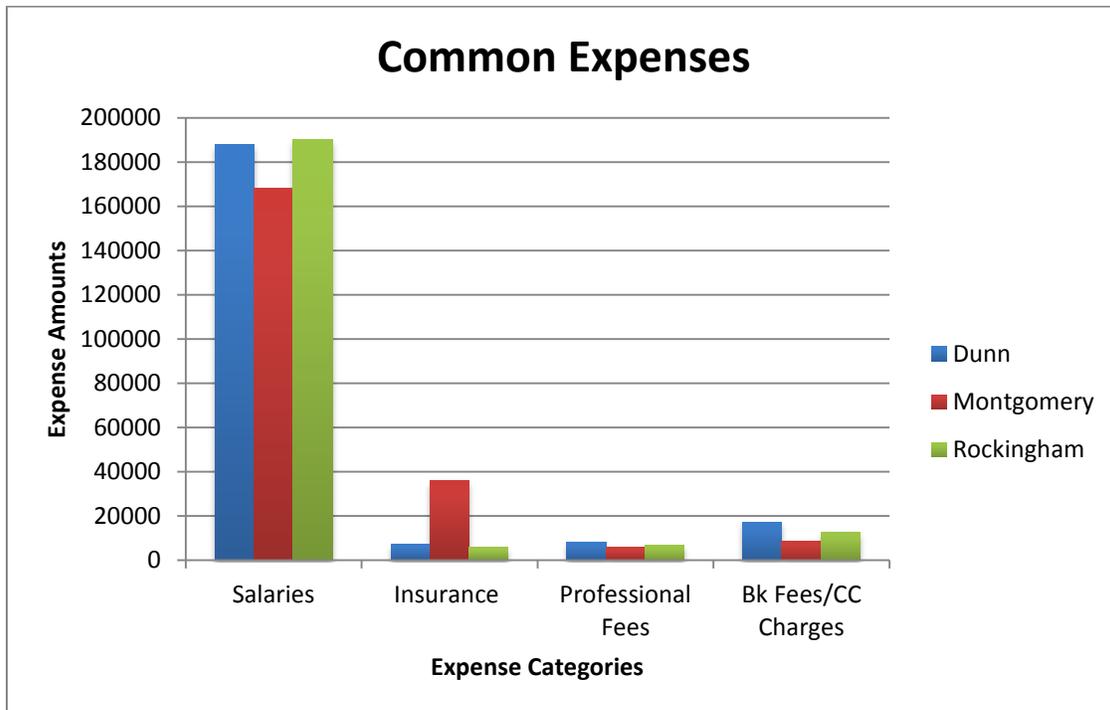
Recommendations:

- 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 historical data indicates that Dunn ABC's total expenses have decreased 5.22% since FY2011. Compared with other similar size boards, Dunn ABC's expenses are not out of line.



Common expense analysis indicates that Dunn ABC's expenses are relatively lower compared with other similar size boards. Bank fees/credit card charges increase as sales increase.

APPENDIX B



Counter area of Store #1



Interior view of Store #1



Empty display case in Store #2



Interior view of Store #2

APPENDIX C

(1) G.S. 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."

CITY OF DUNN ABC BOARD

AUDIT RESPONSE

July 15, 2013

Recommendation:

Continue with the following strategies already in place:

Analyzing sales and history reports to determine the bestselling products needed and to avoid overstock;

Transferring stock between stores;

Watching customer shopping patterns and using information to optimize product placement;

Contact other boards for additional ideas that may be implemented in areas of shelf management and marketing techniques.

Response:

The Board will continue the above strategies already in place and try to improve our shelf management techniques.

Recommendation:

To increase profitability, consider testing different marketing strategies such as cross-merchandising and modernizing store to increase shelf space and encourage impulse shopping;

Continue to monitor monthly overhead and business expenses;

Invite the Association's Efficiency Committee to visit the stores with possibility of making additional recommendations to improve store appearance and profitability.

Response:

The Board will continue to monitor expenses and consider cross-merchandising to increase shelf space and any other ways to improve store appearance and profitability.

Recommendation:

Consider renovating the store for a more modern appearance or make improvements to the store to include updated shelving and other improvements where needed.

Utilize front display case and end caps to highlight new, on sale or discontinued items.

Response:

The Board will consider making changes to modernize the store depending on the funding available to be used. We already use display case and end caps for displays.

Recommendation:

Bring all board members into compliance with state ethics requirement.

Response:

The Board will get all board members into compliance and continue to get ethics education as required by law.

Recommendation:

Adopt a written cash shortage and overage policy.

Response:

The Board has updated our cash and overage policy and a copy will be sent with this audit response.

Recommendation:

To save time, eliminate stamping and signing each invoice; place the pre-audit certificate on the order to LB&B.

Response:

The Board will comply as stated above.

Approved by the Dunn ABC Board this 16th day of July, 2013.

DUNN ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Personnel and Training: Have all newly appointed and re-appointed board members complete the 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>Since the audit, a new board member has been appointed to the board. The board chairman has not completed training to date. The Commission will follow up to ensure that all board members have completed training as required.</p>
<p>Internal Control Procedures/ABC Board Policies:</p> <p>Adopt a cash management policy when discrepancies occur.</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" 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>A cash overage/shortage policy has been adopted and submitted to the Commission.</p>