

Angier 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:
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April 5, 2012

Town of Angier ABC Board
Mr. Jerry E. Hockaday, Chairman
PO Box 788
Angier, NC 27501

Dear Chairman Hockaday,

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

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 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 Angier ABC Board has responded to the performance audit recommendations detailing plans for improving profit margins through analyzing and reducing current costs. Policies and procedures have been established to maintain compliance with statutes and to ensure efficient operations.

BACKGROUND INFORMATION

Angier, NC is located in Harnett County and is best known for its crepe myrtle trees. The US Census Bureau reports a population of 4,350 in 2010.

Chapter 626 of the 1969 Session Law authorized the town of Angier to hold an election upon a petition signed by fifteen percent of the registered voters. The referendum was held on September 20, 1969. The vote for an ABC store passed 139 to 104. The date of the first retail sales was on December 6, 1969. A mixed beverage election held on November 6, 2007 passed 266 to 185.

Upon election of an ABC store, the town of Angier was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. House Bill 1599 of the 2002 Session Law authorized the town of Angier to increase the number of board members from three to five. Current board members are Jerry Hockaday, board chairman, Philip Allen, Randy Collins, Steve Adams, and Thomas Taylor, board members.

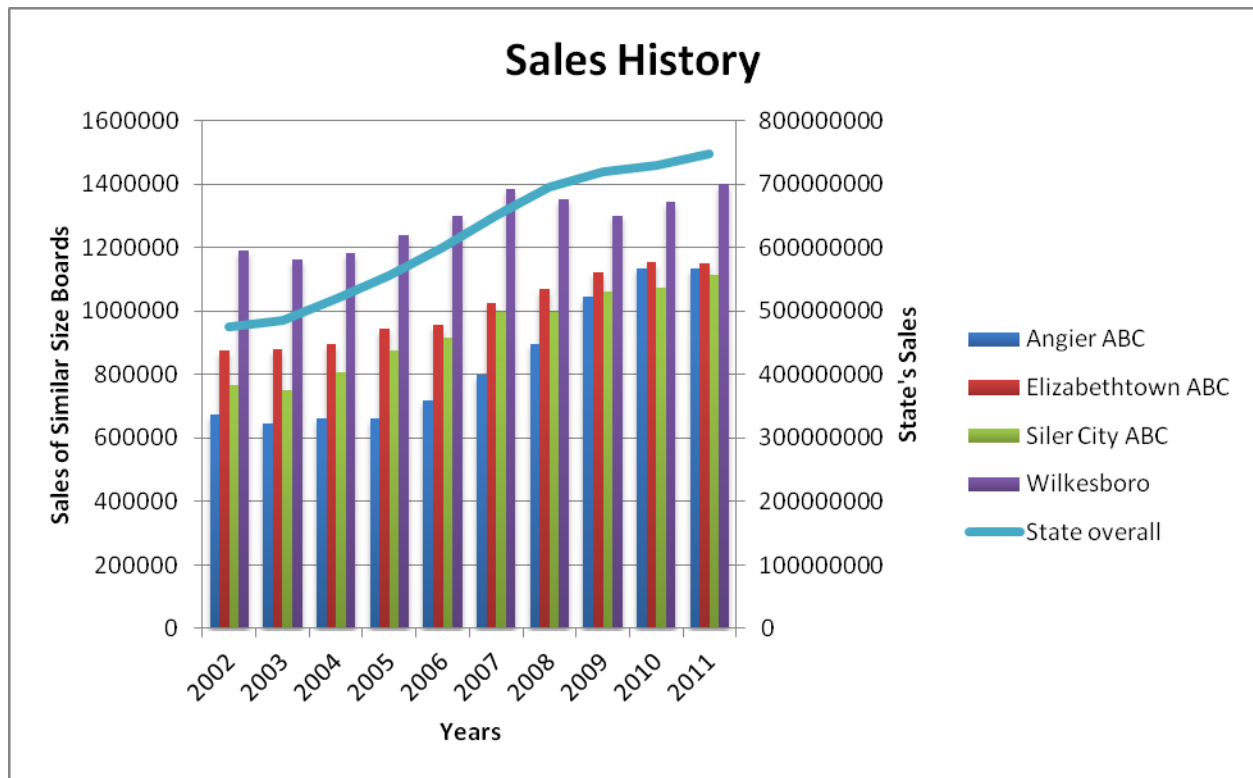
The Angier ABC Board operates one retail store. Including the general manager, the board staffs two full-time and three part-time employees. The general manager/finance officer is responsible for the daily operations of the store including supervising personnel, retail operations, and administrative functions. The full-time clerk/warehouse manager is responsible for inventory control, daily stocking, and retail operations. Clerk duties involve various retail functions including selling and stocking shelves.

Profitability

For fiscal year 2011, the board showed a profit; gross sales were \$1,135,621, income from operations was \$1,585, resulting in a profit percentage to sales of 0.14%. In comparing sales with similar size boards over the past ten years, Angier ABC sales have continue to increase following the state's 56% ten year increase. Current year sales have increased 2.58% over last year. *See chart below.*

Factors affecting sales and profitability:

- Total population for the town of Angier has increase 22% over the past ten years,
- Population twenty-five years and older has increased 22% over the past ten years,
- Adult working population has increased 24% over the past ten years
- 10.9% unemployment rate in Harnett County in October which resulted in a .40% decrease from the previous month

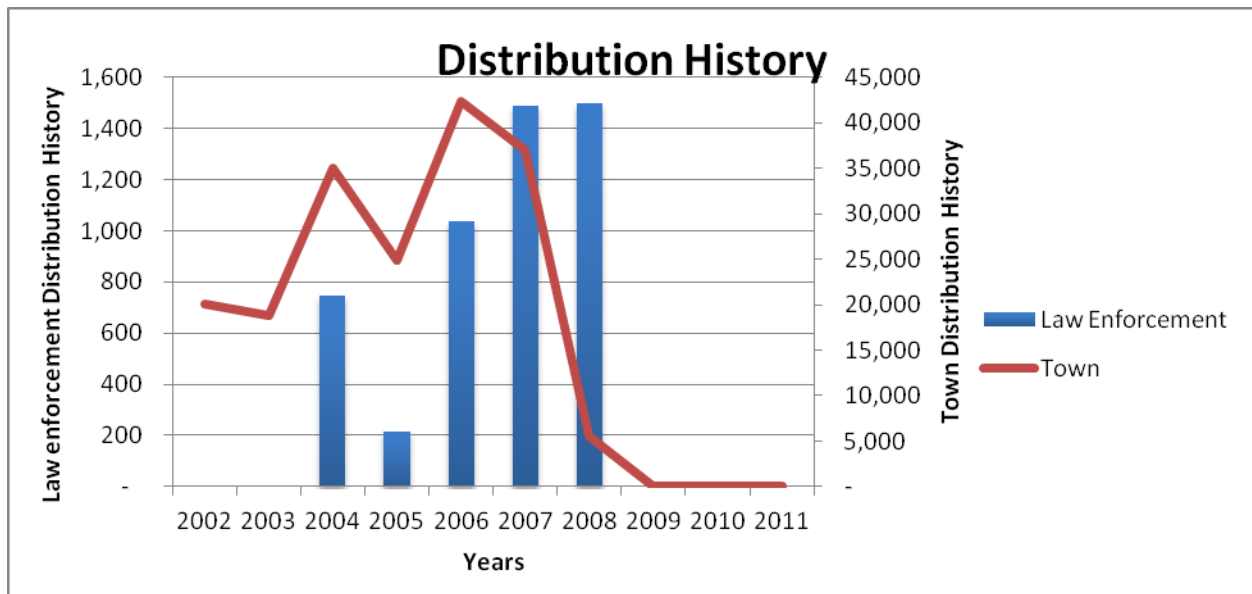


Distribution

G.S. 18B-805 (c) (2) requires the board to expend quarterly at least five percent of profits for law enforcement. The remaining profits are to be expended quarterly as follows:

- 10% to Angier Community Library
- 10% may be used for educational programs
- Remainder to Angier General Fund of which 25% may be used for recreational programs

In 2011, the Angier ABC Board did not make distributions to law enforcement or to the appointing authority. Distributions were made in 2008 totaling \$7,111. *See chart below.*



Note: The Angier ABC board open a new store in 2007. The distributions decreased at that time period due to debt repayment

FINDINGS AND RECOMMENDATIONS

On December 12, 2011, ABC Commission Board Auditor, Moniqua S. McLean, visited the Angier ABC store and interviewed Shirley Brinkley, general manager, and Jerry Hockaday, board chairman. 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:

- 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 Angier ABC Board has a bi-weekly delivery schedule. The inventory turnover rate for Angier ABC is 4.9 which is slightly below the target rate set by the Commission. Therefore, it takes 63.3 days for inventory turnover.

Recommendations:

- Analyze the selling and ordering techniques of boards that exceed their target rate.
- Continue requesting permission from the Commission for a price reduction to sell off slow moving products.
- Continue using recipe cards, monthly newsletter, displays, and other proven marketing techniques to increase sales.

2. Operating costs

Operating costs are calculated by dividing total operating expenses less depreciation by 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 Angier ABC Board has an operating cost ratio of .88 and does not meet the goal set by the Commission. The board built a new store in 2007 that has used much of the board's reserves for payments on debt. Overhead expenses are higher compared to other boards because of this reason. To meet the goal of .77 and remain at current expenses levels, revenues must be approximately \$1,400,000. To meet the goal and remain at current revenue levels, expenses must be reduced to approximately \$200,000. *Refer to Appendix A for breakdown of operating expenses and common expenses comparisons.*

Recommendations:

- Monitor budget monthly to ensure that expenses do not exceed budgeted amounts.
- Because salaries and benefits are the largest segment of operating expenses, analyze personnel hours to assess efficient personnel usage. Determine when your slowest hours and consider adjusting the number of personnel needed for those time periods.
- Request bids annually from various vendors to get the best rates possible on audit fees, 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 Angier ABC Board has a profit percentage of 0.14% and did not meet the targeted rate set by the Commission.

Recommendations:

- Analyze and reduce operating expenses to increase profits by monitoring budget. Continue providing year-to-date reports to board members detailing how much has been spent. *Refer to recommendations under operating cost.*
- Increase sales using the strategies recommended under inventory turnover.

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:

- 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

For FY2011, the Angier ABC Board had a working capital of -\$9,126 and did not meet the minimum requirements set by the Commission. The board has utilized much of their resources to pay off the debt acquired in building the new store.

Recommendations:

- Increase working capital by accumulating savings while at the same time reducing payables.

5. Store Appearance

The linear footage for the Angier ABC store is approximately 1170 feet of shelf space. The store has approximately 1000 product codes. *Refer to Appendix B for photos.*

- Both interior and exterior areas of the store were clean, well-lit, and inviting. Countertops were free of clutter.
- The shelf management system was clearly defined, consistent, and easily understood.
- The required Fetal Alcohol Syndrome poster was displayed.
- Upon entering the store, the employees greeted customers in a professional manner exhibiting good customer service

6. Policies and Procedures

- The board continues to make amendments where necessary to the employee handbook. Copies of amendments were submitted to the Commission.
- Policies not adopted include
 - Credit card
 - Mixed beverage
 - Price discrepancy
 - Travel

Recommendations:

- Update the employee handbook to include amendments and submit a copy to the Commission. *Refer to Appendix C (1) for rule.*
- Adopt a written credit card use policy. Include a maximum limit allowed on purchases before a board member is notified for approval. The board is to be notified of all purchases over the limit. Once adopted, submit a copy to the Commission. Have procedures for the usage of the credit card including:
 - Who has authority to use the card,
 - What types of items the card may be used for,
 - Personal usage is not allowed,
 - A detailed receipt for every transaction is required,
 - A purchase order must accompany each receipt.
- Adopt a written mixed beverage policy. The Commission prefers an open mixed beverage policy that reflects good customer service and allows customers to order and pickup Monday through Saturday.
- Adopt a written price discrepancy policy in the event a shelf tag does not agree with the cash register. The Commission will provide a sample policy upon request. *Refer to Appendix C (2) for rule.*
- Adopt a travel policy that conforms to either the Town's or the State's policy. *Refer to Appendix C (3) for statute.*

7. Administrative Compliance

- Board meeting minutes were available to view. However, board meeting minutes did not reference the conflict of interest statement.
- Board member information on the Commission website does not reflect board members' latest appointment dates. Board member compensation meets the current statutory requirements.
- Nepotism – The board does not employ immediate family members.
- Purchase orders are not used for store and office supplies.
- Orders to LB&B do not bear the pre-audit certificate as required by G.S. 18B-702(m).
- Distributions have been withheld; however, there is no written confirmation of the appointing authority's approval on file either with the ABC board or the Commission.
- Out of approximately 1,000 product codes in the store, approximately 120 codes were sampled and one shelf tag was found that did not reflect the price set by the Commission. 46-804 Vox .75L showed May 2010 prices on shelf.
- The old store location does not display a for sale sign.

Recommendations:

- In an effort to avoid possible conflicts of interest, it is recommended that at the beginning of each board meeting the Chairman ask fellow board members if there are any potential conflicts of interest. *Refer to Appendix C (4).*
- Use purchase orders when ordering all store and office supplies. Purchase orders are required to have the pre-audit certificate signed by the finance officer. *Refer to Appendix C (5) for statute.*
- Orders to LB&B for liquors must have a pre-audit certificate signed by the finance officer.
- Ask the appointing authority to provide an approval to hold distributions.
- North Carolina statutes require uniform pricing in all ABC stores. Immediately audit all shelf tags in the store and the cash register system for correct pricing.
- Place a "For Sale" sign in the old store location for potential buyers.

8. Personnel/Training Compliance

- Board members, general manager, and finance officer have attended the mandatory ethics class.
- Training is provided twice a year in order to keep employees abreast of new information.

Recommendations:

- Continue providing training, such as the Responsible Alcohol Seller Program, offered by the Commission and other approved venues.

- Continue cross training 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.

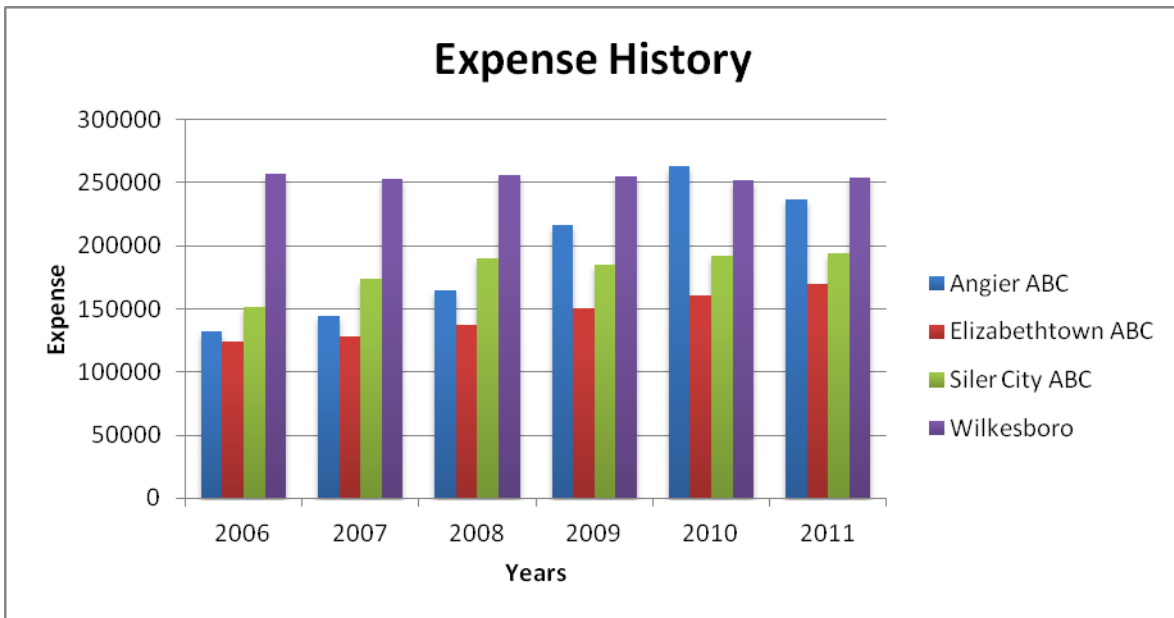
9. Internal Control

- Physical inventory counts are performed monthly by all scheduled staff with frequent spot checks.
- Currently, the general manager performs the finance officer duties. The general manager and one of the board members sign checks which are kept with the corresponding invoices until signed.
- A deputy finance officer has not been appointed to fill in if the finance officer or board chairman is absent.
- All employees maintain their own cash drawer/till. The cash drawer is counted before and after each shift. The general manager re-counts the deposit.
- Deposits are made in the morning by the general manager, employees, or board chairman.
- The general manager maintains and reconciles the change fund for store operations.

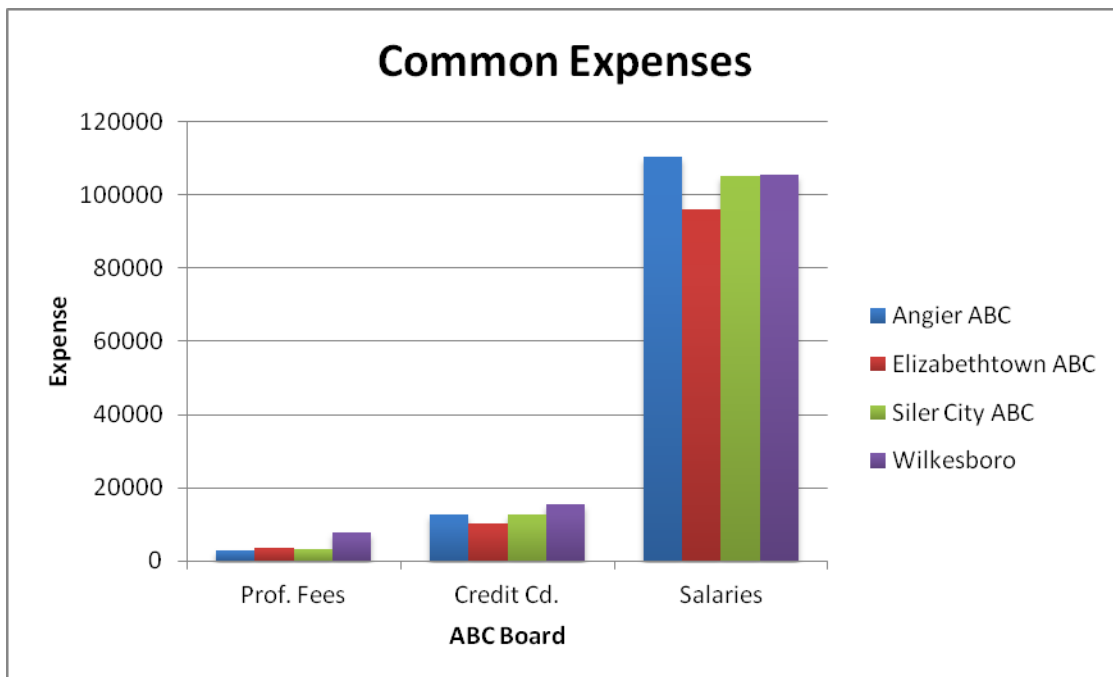
Recommendations:

- Work toward appointing a finance officer other than the general manager. *Refer to Appendix C (6) for statute.*
- Appoint a deputy finance officer to aid in the duties of the finance officer when he/she is absent. *Refer to Appendix C (7) for statute.*
- To ensure stronger internal controls on cash management, have someone other than the persons responsible for cash deposits, change fund withdrawals, and credit card purchases reconcile these transactions for proper checks and balances.

APPENDIX A



The expense history comparison indicates that Angier ABC's expenses are higher compared to other similar size boards. Steps have been taken in 2011 to reduce those expenses.



Other than salaries, the common expense comparison shows that Angier ABC's expenses are not out of line.

APPENDIX B

Picture 1



View from the counter area

Picture 2



Incorrect price on Vox .75L.

APPENDIX C

(1) NCAC 02R .1009 states "(a) Each local board shall establish policies and rules governing each of the following:

- (1) Initial employment of employees, including qualifications and requirements for new employees
- (2) Compensation and benefits;
- (3) Hours and days of work, holidays, vacation, sick leave and other matters pertaining to the conditions of employment;
- (4) Promotion, transfer, demotion and suspension of employees;
- (5) Separation or termination of employees;
- (6) Granting of salary increases;
- (7) Employee grievance procedures; and
- (8) Any other programs or procedures as may be necessary to promote efficiency and to provide for a fair and reasonable system of personnel administration.

(b) A local board is encouraged to model its personnel policies and procedures after those adopted by the county or municipality in which it operates."

NCAC 02R .1102 states "(a) A copy of all rules or amendments thereto that may be adopted by a local board to govern the operation of ABC stores or the enforcement of the ABC laws shall be submitted.

(2) NCAC 02R.1706 (b) states "If a local board has a price discrepancy between the price on the shelf or bottle and the cash register, and the price on the shelf or bottle is lower, the local board shall sell the item at the shelf or bottle price and correct the shelf or bottle price to match the Commission's published uniform price."

(3) 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.

(4) OP 4.19.4 states, "In an effort to avoid possible conflicts of interest it is recommended at the beginning of each meeting the Chairman ask fellow board members if there are any potential conflicts of interest. This can be done by reading the following ethics reminder:"

In accordance with GS 18B-201, it is the duty of every Board member to avoid both conflicts of interest and appearances of conflicts. Does any member have any known conflict of interest or appearance of conflict with respect to any matters coming before the Board today?

(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) GS 18B-702 (j) states "...the local board shall designate (i) a part-time or full-time employee of the board other than the general manager or (ii) the finance officer of the appointing authority with consent of the appointing authority to be the finance officer for the local board."

(7) GS 18B-702 (p) states "...all checks or drafts on an official depository shall be signed by the finance officer or a properly designated deputy finance officer."

TOWN OF ANGIER ABC BOARD

**P.O. Box 788
Angier, N. C. 27501
(919) 639-4881**

Jerry Hockaday, Board Chairman

**Thomas Taylor, Board Member
Colin R. Collins, Board Member
Steve Adams, Board Member
Philip Allen, Board Member**

Shirley Brinkley, General Manager

March 2, 2012

Moniqua McLean, MAFM
ABC Board Auditor
4307 Mail Service Center
Raleigh, NC 27699-4307

Dear Ms. McLean:

This letter is in response to the Angier ABC Board Performance Audit Report. The audit report contained performance findings and recommendations for the board from your visit on December 12, 2011.

While we accept your findings and recommendations, we are complying with the policies and procedures set forth by the NC ABC Commission and GS18B. We are putting forth the effort in selling our old ABC Store and property with confidence that the sell should put us back into a better financial position in meeting the requirements of your findings.

In an effort to improve inventory turnover, we are ordering at a minimum. For new products coming in and offering mini bottles at promotional prices, we are starting with those mini bottles before bringing in the larger size in order to receive interest from our customers. We have received permission from the Commission on reducing costs for delisted items and have had success with doing so.

We are continuing to reduce operating costs in every way possible. Due to continuing bank payments for the new store built in 2007, overhead expenses may continue to run higher. With a budget now in place, we feel will help monitor operating cost spending.

In our best attempt to keep inventory and operating costs at a minimum, while increasing sales and the sale of our old property, our profit percentage and working capital should be improved to meet the requirements set forth.

Our store appearance and customer service remains to be good with all employees putting forth efforts in good customer service, the cleanliness of the store, and shelf management.

Policies not adopted at the time of the audit have been put into place and copies submitted to the Commission. All recommendations made for administrative compliance has been met.

Internal control recommendations are met with the exception of a finance officer and deputy finance officer. Until all efforts are met in improving operating costs, it is not feasible to employ for those positions. However, cross training has and continues to take place on key functions necessary to maintain daily and monthly operation requirements.

We will continue to strive in meeting the recommendations and requirements by compliance set forth to us.

Sincerely,

Jerry Hockaday, Board Chairman

RECEIVED

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NC ABC COMMISSION

ANGIER ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Policies and Procedures - **Update the employee handbook.</p> <p>Adopt the following policies:</p> <ul style="list-style-type: none"> • Credit card policy • Mixed beverage policy • Price discrepancy policy** • Travel policy 	<p><input checked="" type="checkbox"/> Yes</p> <p><input 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>The Board has implemented all policies and submitted copies to the Commission.</p>
<p>Administrative Compliance - **Have the conflicts of interest statement read in each board meeting.</p> <p>Use purchase orders when ordering all store and office supplies.</p> <p>Affix the pre-audit certificate on all orders to LB&B.</p> <p>Ask the appointing authority to provide an approval to hold distributions.</p> <p>Audit all shelf tags with the cash register system to ensure correct pricing.</p> <p>Place a "For Sale" sign at the old store location.</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 implemented all recommendations within the audit report. A follow up will ensure verification of the pre-audit certificate on LB&B orders. A copy of the appointing authority's approval has been submitted to the Commission.</p>

ANGIER 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>Appoint a deputy 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 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 Commission has extended the approval of the general manager to remain as the finance officer for a period of 24 months. A deputy finance officer has not been appointed.</p>