

Gates County ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
400 East Tryon Road, Raleigh, NC 27610
p: 919-779-0700 | f: 919-661-5927 | <http://abc.nc.gov>



ABC
COMMISSION
NORTH CAROLINA



ABC

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NORTH CAROLINA

Alcoholic Beverage Control

COMMISSIONERS:

A. D. "ZANDER" GUY, JR.
Surf City

DANIEL L. BRIGGS
Lexington

ADMINISTRATOR:
MICHAEL C. HERRING

LOCATION:
400 East Tryon Road
Raleigh NC 27610

MAILING:
4307 Mail Service Center
Raleigh, NC 27699-4307

PHONE: (919) 779-0700
FAX: (919) 662-3583
<http://abc.nc.gov/>

February 9, 2012

The Honorable Graham L. Twine, Chairman
Gates County Board of Commissioners
PO Box 148
Gatesville, NC 27938

Dear Chairman Twine,

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

This report consists of an executive summary, background information and operational findings and recommendations. The ABC Board reviewed a draft copy of this report and their written proposals to our recommendations 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 fellow County Commissioners will find the report informative.

Respectfully,

Michael C. Herring
Administrator

Cc: Toby Chappell, County Manager
Gates County 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 both stores;
- Interviewed key ABC store personnel.

The Gates County ABC Board has submitted a response to the performance audit recommendations detailing plans of implementation as well as taking steps toward improving profit margins. Policies were adopted ensuring compliance with the statutes as well as maintaining efficient operations.

BACKGROUND INFORMATION

Formed in 1779 from Chowan, Hertford, and Perquiman counties, Gates County is home to the Merchant's Millpond State Park and the Great Dismal Swamp. Surrounding counties are Camden, Pasquotank, Perquimans, Chowan, and Hertford. It is approximately thirty-five miles in either direction to the beach or to the closest metropolitan city. The US Census Bureau reported in 2010 the population at 12,197 which resulted in a sixteen percent increase over the past ten years.

Chapter 493 of the 1935 Pasquotank Act authorized Gates County to hold an election. The referendum was held on April 20, 1965. The vote for an ABC store passed 882 to 425. The date of the first retail sales was October 1, 1965.

Upon election of an ABC store, the county was authorized to create an ABC Board consisting of a chairman and two members. Current board members are G. P. Kittrell, Jr, board chairman, Thomas Eure and William Seldon, board members.

The Gates County ABC Board operates two retail stores located in Sunbury and Gatesville, NC. The board staffs five employees consisting of a full-time general manager and four part-time employees. The general manager is responsible for the daily operations including supervising personnel, retail operations, and administrative functions of the stores. The clerk duties and responsibilities include daily stocking, upkeep of the store, and assisting with inventory and selling products. The board has appointed an existing employee to serve as the finance officer.

Profitability

For fiscal year 2011, the board showed a loss, gross sales were \$546,239, income from operations was -\$17,527, resulting in a profit percentage to sales of -3.21%. Current sales have increase 8.45% over last year's sales. In comparing sales over the past ten years of similar size boards, Gates County ABC sales have increased following the state's 56% ten year increase. *Refer to Charts 1 and 2.*

Factors affecting sales and profitability:

- Total population for Gates County has increased 16% over the past ten years
- Population twenty-five years and older has increased 9% over the past ten years
- Adult working population has increased 15% over the past ten years
- Poverty levels have increased 6% over the past ten years
- 7.8% unemployment rate in Gates County in September which resulted in a -6% decreased from the previous month
- Store #2 was destroyed due to a fire in 2009 and reopened for business in April 2010
- Store #2, Sunbury, serves customers traveling Hwy 32, a heavily trafficked route to the Outer Banks

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 go toward the Gates County General Fund.

In 2011, the Gates County ABC Board distributed \$600 to law enforcement and \$1,000 to Gates County General Fund. *Refer to Chart 3.*

FINDINGS AND RECOMMENDATIONS

On September 27, 2011, ABC Commission Board Auditor, Moniqua S. McLean, visited both ABC stores in Gates County and interviewed Mark Goodman, general manager, and G. P. Kittrell, Jr, 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:

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

The Gates County ABC Board has a monthly delivery schedule. The inventory turnover rate for Gates County is 3.1 and does not meet the target rate set by the Commission.

Recommendations:

- Explore alternative methods for eliminating slow moving or discontinued products by:
 - Analyzing sales history reports carefully to avoid overstocking
 - Moving stock within the store and between stores to increase visibility and to initiate more impulse shopping
 - Utilize shelf space as much as possible for slow moving and new item products
 - Using recipe cards, displays, and other marketing techniques to increase sales
 - Sell slow moving inventory to another board which has demand
- Take advantage of SPA's and quarterly price reductions whenever possible.
- Contact boards whose inventory turnover rate exceeds the target for new ideas that may be implemented in your store

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 Gates County ABC Board has an operating cost ratio of .99 and does not meet the target set by the Commission. In comparison with other boards, Gates County's expenses are not out of line. To meet the goal of .83 or less and remain at current revenue levels, operating expenses must be reduced to \$105,000. To meet the goal and remain at current expense levels, sales must be increased to \$650,000. *See Charts for breakdown of operating expenses of similar size boards.*

Recommendations:

- Monitor budget monthly to ensure that expenses do not exceed budgeted amounts.
- Request bids annually from various vendors to get the best rates possible on audit, utilities, maintenance contracts, and credit card processing fees.
- If the Gatesville store is to remain open, consider converting to self service store or at a minimum, remove glass partition. This has been proven to increase sales.

3. Store Appearance

- Both stores were clean and well-lit. Countertops were free of clutter. However, the Gatesville store smelled of smoke.
- The exterior areas in both locations were neat and free of trash; there is no defined parking area at the Gatesville store.
- The Gatesville store is a counter store. A typical shelf management plan would not apply in this case. However, there are still things that can be done to increase customer interest.
- The shelf management system at the Sunbury location is clearly defined, consistent, and easily understood.
- The required Fetal Alcohol Syndrome poster was displayed in each store. The Commission Auditor supplied each store with updated posters.

Recommendations:

- Prohibit staff from smoking in storage and warehouse areas. *Refer to Appendix B (1) for rule.*
- Improve parking area by defining parking spaces.
- Place a locked cabinet in the foyer of the Gatesville store to display monthly sale and discontinued items.
- Make a list of monthly sale items available to customers.
- Develop relationships with nearby ABC boards to take advantage of the following:
 - Split cases of higher end products when appropriate to increase variety while keeping costs to a minimum.
 - Share resources to avoid out of stocks.

4. Profit percentage to sales

The profit percentage to sale is calculated by dividing the total profit before distributions by gross sales. The Commission has set efficiency 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%

The Gates County ABC Board has a profit percentage to sales of -3.21% and does not meet the targeted rate set by the Commission.

Recommendations:

- Increase sales using the strategies recommended under inventory turnover and store appearance.
- Utilize merchandising techniques of other similar boards to increase interest and sales.
- Since the Sunbury store is more profitable, closely monitor revenues and expenses of the Gatesville store where the profit margins are low.

5. 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 distribution 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 Gates County ABC Board had a working capital of \$47,635 and met the minimum goal set by the Commission.

6. Policies and Procedures

- A law enforcement contract had not been submitted to the Commission. The contract was sent to the Commission by the auditor.
- The employee handbook was last updated in 1997. Since then certain policies and procedures have been updated.
- The board has adopted a price discrepancy policy. The policy was given to the auditor.

Recommendations:

- Update employee manual and send a copy to the Commission. *Refer to Appendix B (2) for rule.*

7. Administrative Compliance

- Board meetings minutes were available and followed the order of proceedings for conducting business meetings. However, the minutes did not reference the conflict of interest statement.
- Board information on the Commission website does not reflect the board member current appointment dates.
- Nepotism – The board does not employ immediate family members.
- Purchase orders are not used for store and office supplies.
- Order acknowledgements from LB&B do not bear the pre-audit certificate required by G.S. 18B-702(m).
- Although prices were correct on shelves, many of the product codes displayed two sets of prices
- Public notifications of board meetings are not posted in accordance with GS143-318.12

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 B (3) for rule.*
- Update board information on the Commission website to reflect current appointment dates.
- Use purchase orders for ordering all store and office supplies. Effective immediately, all purchase orders and contracts must bear the pre-audit certificate. *Refer to Appendix B (4) for statute.*
- North Carolina requires uniform pricing; display the correct listed price on all products.
- Post with the County office and the store a notice of all ABC Board meetings. *Refer to Appendix B (5) for statute.*

8. Personnel/Training Compliance

- All board members have attended the mandatory ethics class.
- Employee training is conducted whenever the need arises and whenever new information is available.

Recommendations:

- 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 once training is complete.

- Have regular training for employees on customer service, policy changes, and store functions.
- Continue cross training employees on inventory management and store functions but also include training on ordering liquor, paying bills, and filing taxes in the event the general manager were suddenly unavailable.

9. Internal control

- Monthly inventory counts are performed by all scheduled store personnel. The general manager checks discrepancies against inventory counts. Breakage items are deleted monthly from inventory system. Frequent spot checks are also performed by management and store personnel. Although the board does not perform the physical counts, they review all overages and shortages pertaining to inventory and financial operations.
- Each store maintains one cash drawer. Whoever logs into the system on the shift is responsible for the cash drawer.
- The finance officer and two board members are authorized to sign checks. The general manager has been appointed as deputy finance officer in the event the finance officer is absent.

Recommendations:

- Have a written policy for the cash drawer overages/shortages and include it in the personnel manual.

Chart 1

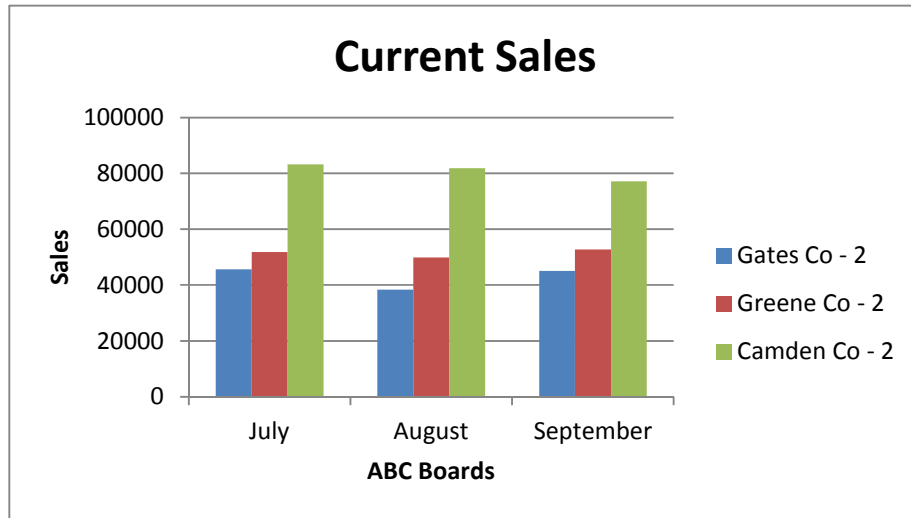


Chart 1 reflects current sales comparison of similar boards.

Chart 2

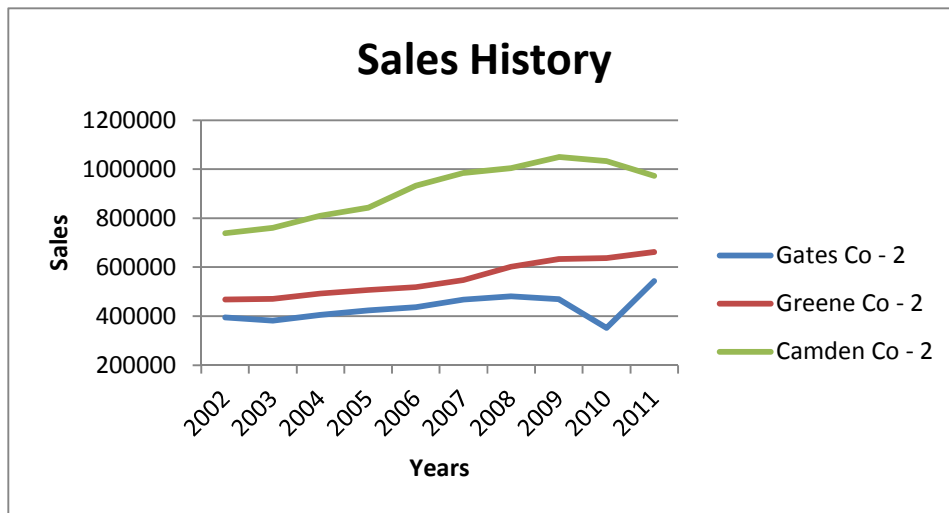


Chart 2 reflects the sales history comparison of similar size boards. Note: In 2010, Gates County operated with one store as a result of a fire destroying the other.

Chart 3

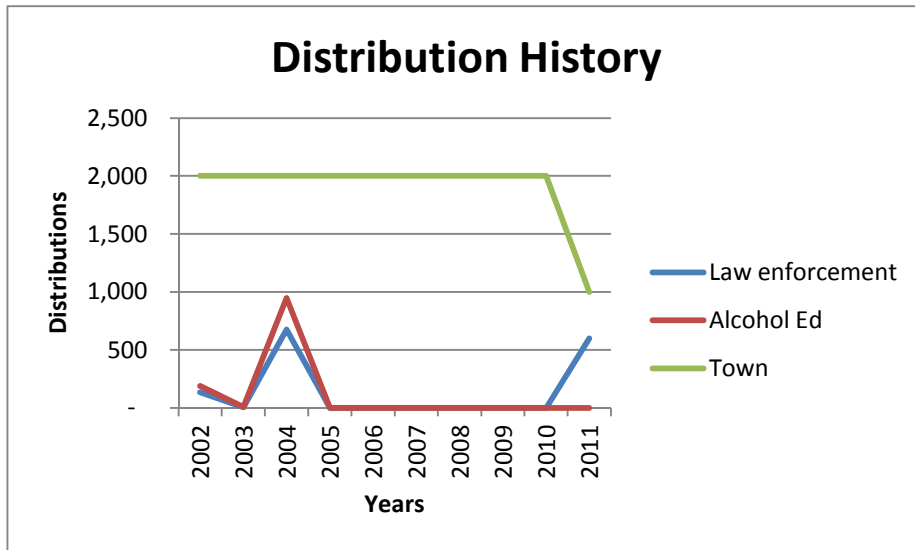


Chart 3 reflects the distribution history of Gates County ABC Board.

Chart 4

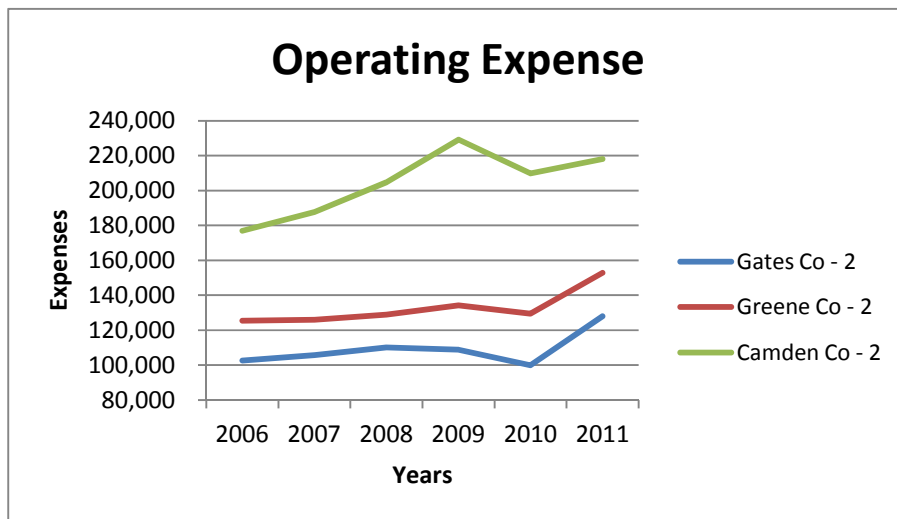


Chart 4 reflects the operating expense comparison of similar size boards.

Chart 5

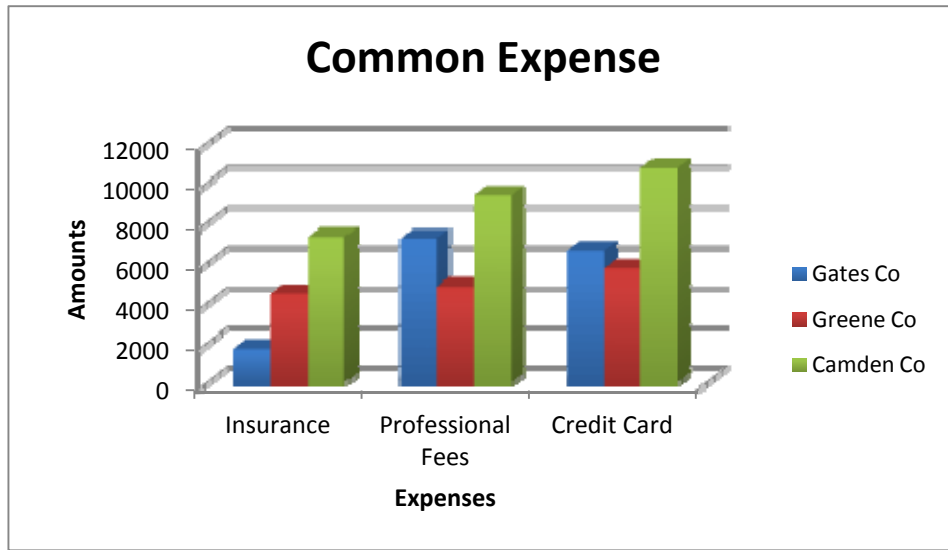


Chart 5 reflects common expenses comparisons of boards.

Chart 6

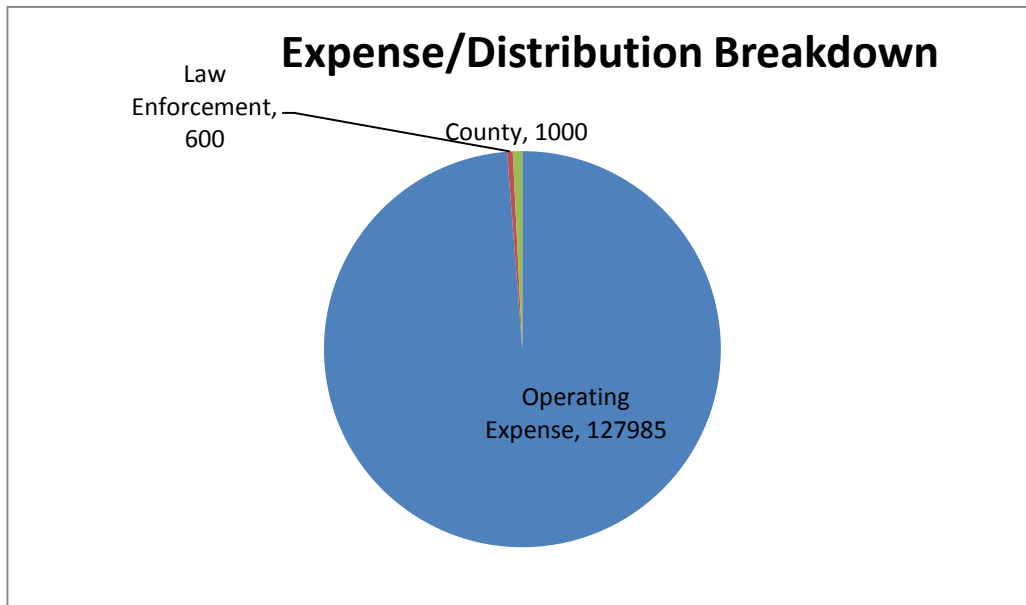


Chart 6 reflects the expense and distribution breakdown of Gates County.

APPENDIX A

Picture 1



View from counter of Store #2 in Sunbury, NC

Picture 2



View from parking area of Store #1, Gatesville, NC

Picture 3



View from counter of Store #1.

Picture 4



Two different prices for one code at Gatesville store.

APPENDIX B

- (1) NCAC 02R .1703 (a) (6) states, "Smoking shall not be permitted in any stores, warehouses or storage areas."
- (2) 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.

- (3) 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?

- (4) 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)

- (5) 143-318.12. states, "(a) If a public body has established, by ordinance, resolution, or otherwise, a schedule of regular meetings, it shall cause a current copy of that schedule, showing the time and place of regular meetings, to be kept on file as follows:

(1) For public bodies that are part of State government, with the Secretary of State;

(2) For the governing board and each other public body that is part of a county government, with the clerk to the board of county commissioners;

(3) For the governing board and each other public body that is part of a city government, with the city clerk;

(4) For each other public body, with its clerk or secretary, or, if the public body does not have a clerk or secretary, with the clerk to the board of county commissioners in the county in which the public body normally holds its meetings.

If a public body changes its schedule of regular meetings, it shall cause the revised schedule to be filed as provided in subdivisions (1) through (4) of this subsection at least seven calendar days before the day of the first meeting held pursuant to the revised schedule.

(b) If a public body holds an official meeting at any time or place other than a time or place shown on the schedule filed pursuant to subsection (a) of this section, it shall give public notice of the time and place of that meeting as provided in this subsection.

(1) If a public body recesses a regular, special, or emergency meeting held pursuant to public notice given in compliance with this subsection, and the time and place at which the meeting is to be continued is announced in open session, no further notice shall be required.

(2) For any other meeting, except an emergency meeting, the public body shall cause written notice of the meeting stating its purpose (i) to be posted on the principal bulletin board of the public body or, if the public body has no such bulletin board, at the door of its usual meeting room, and (ii) to be mailed or delivered to each newspaper, wire service, radio station, and television station, which has filed a written request for notice with the clerk or secretary of the public body or with some other person designated by the public body. The public body shall also cause notice to be mailed or delivered to any person, in addition to the representatives of the media listed above, who has filed a written request with the clerk, secretary, or other person designated by the public body. This notice shall be posted and mailed or delivered at least 48 hours before the time of the meeting. The public body may require each newspaper, wire service, radio station, and television station submitting a written request for notice to renew the request annually. The public body shall charge a fee to persons other than the media, who request notice, of ten dollars (\$10.00) per calendar year, and may require them to renew their requests quarterly.

(3) For an emergency meeting, the public body shall cause notice of the meeting to be given to each local newspaper, local wire service, local radio station, and local television station that has filed a written request, which includes the newspaper's, wire service's, or station's telephone number, for emergency notice with the clerk or secretary of the public body or with some other person designated by the public body. This notice shall be given either by telephone or by the same method used to notify the members of the public body and shall be given immediately after notice has been given to those members. This notice shall be given at the expense of the party notified. An "emergency meeting" is one called because of generally unexpected circumstances that require immediate consideration by the public body. Only business connected with the emergency may be considered at a meeting to which notice is given pursuant to this paragraph.

January 10, 2012

FROM: Gates County ABC Board
P.O. Box 71, Sunbury NC, 27979

RECEIVED

JAN 30 2012

NC ABC COMMISSION

TO: Alcoholic Beverage Control Commission
400 East Tryon Road
Raleigh, North Carolina 27610

SUBJECT: Performance Audit

The Gates County ABC Board and Management appreciate the positive attitude and professionalism exhibited by ABC Commission Board Auditor, Moniqua S. McLean. The "hands on" personal critique by Ms. McLean was significantly beneficial.

In response to findings and recommendation:

1. Inventory Turnover

Gates County is on a monthly shipment which limits flexibility. We estimate approximately 36 percent of store sales is from transit customers motoring through the county. Much of Store #2 trade is beach traffic. In an effort to satisfy the varied taste of this transit trade we have stocked items that move slow due to seasonal demand, we will implement your recommendations in an effort to increase turnover.

2. Operating Cost

Management is constantly looking for ways to reduce cost.

3. Store Appearance

Store #1 is definitely going to be displaced by NC DOT's four-laning of Hwy 13/158.

4. Profit Percentage to Sale

All suggestions that would increase sales are greatly appreciated.

5. Working Capital

Gates County's ABC System is going to be greatly impacted by the loss of Store #1 this year when it is displaced by NCDOT'S project to widen Hwy 13/158. The settlement reached with NC DOT will

determine if the store will be replaced or not.

6. Policies and Procedures

We are in the process of updating the employee handbook.

7. Administrative Compliance

Every effort is being made to comply with all recommendations. All items are now marked with the current price and the old price has been removed.

8. Personnel Training Compliance

The finance officer is being cross-trained in the duties of management.

9. Internal Control

A written policy for the cash drawer overage/shortage will be included in the updated personnel manual.

Conclusion:

A definite way to increase profit is to increase the number of customers through the door. Gates County's location in Northeastern North Carolina, only 35 miles from Metropolitan Tidewater Virginia, has made it very attractive to individuals working in the Hampton Roads Virginia area. Many of our residents maintain a home in Gates County but work and shop in Virginia. An estimated 22 percent of Gates County's workforce are government employees. Many of these are military or employed so they have government commissary privileges, competition we cannot compete with.

Gates County's entire northern border, approximately 20.8 miles, is the Virginia-North Carolina state line. The counties western and southern boundary follows the center of the Chowan River for approximately 27 1/2 miles, with the Hwy 13/158 bridge being the only crossing. To the east lies the Great Dismal Swamp with Hwy 158 being the only crossing for approximately 15 1/2 miles. These geographical features have historically encouraged citizens of the area to travel north for employment, trade, and entertainment.

Gates County has no central retail area, there is one stop light, one grocery store (privately owned), one hardware store (privately owned), no jail, and no dog pound.

Any suggestions to get more customers to our stores would be greatly appreciated.

George P. Kittrell
Chair. Gates County ABC Board

Mark Goodman
Manager

GATES COUNTY ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Policies and Procedures: **Update the employee manual and submit a copy to the Commission.</p> <p>Adopt a price discrepancy policy.</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 type="checkbox"/> Fully Implemented</p> <p><input checked="" type="checkbox"/> Partially implemented 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The Board is currently updating the employee manual. A price discrepancy policy has been adopted and submitted to the Commission.</p>
<p>Administrative Compliance: **State the conflict of interest statement at all board meetings.</p> <p>**Update board member and store information on the Commission website.</p> <p>Use purchase orders when ordering store and office supplies.</p> <p>Notify the public in advance of future board meetings.</p>	<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 type="checkbox"/> Fully Implemented</p> <p><input checked="" type="checkbox"/> Partially implemented 95% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The Board currently states the conflict of interest statement at all board meetings. Current board member re-appointment dates have not been updated on the Commission website. Management currently uses purchase orders when ordering store and office supplies. The ABC Commission will follow up regarding public notification of board meetings.</p>

GATES COUNTY ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
Personnel/Training Compliance: Cross train employees on key administrative functions in the event the general manager is absent	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	(Please provide documentation supporting implementation status.) <input checked="" type="checkbox"/> Fully Implemented <input type="checkbox"/> Partially implemented ____% complete. (Explain below.) <input type="checkbox"/> Not implemented (Explain below.) Management is currently cross training the finance officer in performing administrative duties in the event the he is unavailable.
Internal Controls: Adopt a written policy for cash drawer overages/shortages.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	(Please provide documentation supporting implementation status.) <input type="checkbox"/> Fully Implemented <input checked="" type="checkbox"/> Partially implemented 25% complete. (Explain below.) <input type="checkbox"/> Not implemented (Explain below.) The Board will adopt a written policy to be added to the employee manual once updated.