

Kenansville ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
400 East Tryon Road, Raleigh, NC 27610
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ABC
COMMISSION
NORTH CAROLINA



Alcoholic Beverage Control

COMMISSIONERS:

September 14, 2011

JONATHAN S. WILLIAMS
Chairman, Raleigh

The Honorable Betty Long, Mayor
Town of Kenansville
PO Box 370
Kenansville, NC 28349-0370

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

DANIEL L. BRIGGS
Lexington

ADMINISTRATOR:
MICHAEL C. HERRING

Dear Mayor Long,

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

LOCATION:
400 East Tryon Road
Raleigh NC 27610

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

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

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

PHONE: (919) 779-0700
FAX: (919) 662-3583
contactus@abc.nc.gov

Respectfully,

Michael C. Herring
Administrator

CC: Eric Coman, Town Manager

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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 financial audit for the fiscal year 2010;
- Visited the store;
- Interviewed key ABC store personnel.

The Kenansville ABC Board has responded to the performance audit recommendations and has made efforts toward becoming profitable. Since our visit, training opportunities have been extended with possible opportunities to partner with surrounding boards to host training classes. Internal controls have been modified to maintain proper segregation of duties and to adhere to statute regulation.

BACKGROUND INFORMATION

Kenansville, located in the center of Duplin County, is in the fertile Coastal Plains of southeastern North Carolina. It was first settled in 1735 and named by pioneers as “Golden Grove.” It became the present town of Kenansville in 1818. The current population is 1,165.

Chapter 1004 of the 1965 Session law authorized the Town of Kenansville to hold an election upon receipt of a petition signed by fifteen percent of the voters. The referendum was held on November 9, 1965. The votes for ABC store passed 119 to 97. The ABC store opened on April 15, 1966. Gross sales for the first year were \$120,187. A mixed beverage election was held on August 31, 1982 and passed 135 to 113.

The Kenansville ABC store staff includes one full-time general manager/store manager and two part-time store clerks. The store manager is responsible for both overseeing and performing general management duties associated with the ABC retail store. The store clerks are responsible for performing customer service duties and minimal inventory duties as authorized by management. An outside finance officer is responsible for bookkeeping duties involving the store’s operation.

Profitability

For fiscal year 2010, the board showed a loss; total liquor sales were \$430,919, total expenses were \$108,810 which resulted in a profit percentage to sales of -0.90%. Sales through April 2011 are up by 1.12% since the previous year. In comparing sales with similar boards for the past ten years, Kenansville has experienced an increase following other similar boards as well as the state’s 56% increase in overall sales. *See Chart 1 and 2.*

Factors affecting sales and profitability:

- Total population has decreased 22% over the past ten years
- Adult working population has decreased 10% over the past ten years
- 8.2% unemployment rate in Duplin County

Distributions

G.S. 18B-805 (c) (2) (3) requires that the Board expend quarterly at least 5% of profits for law enforcement and at least 7% of the same profits for alcohol education and rehabilitation purposes. The local enabling act exempts the Board from expending the 7% of profits for alcohol education and rehabilitation purposes.

S.L. 1965-1004 requires the Kenansville ABC Board to make the following distributions quarterly:

- 10% to Duplin County General Fund for drainage control
- 35% to Duplin County General Fund
- 50% to Kenansville General Fund

In 2010, Kenansville made distributions to the town totaling \$2,200. Over the past ten years, distributions have trended down. *See Chart 3.*

FINDINGS AND RECOMMENDATIONS

On May 17, 2011, ABC Commission Auditor, Moniqua S. McLean, visited the Kenansville ABC store and interviewed Carla Drinkwater, manager, Willie Steele, Board Chairman, and Amanda Murphy, finance officer. The following are the findings and recommendations relating to the performance audit:

1. Inventory Turnover

The inventory turnover rate is calculated by dividing the cost of goods sold by the average inventory in the system. The Commission has set goals for determining an effective rate based on the frequency of deliveries. Below are the turnover rates based on the delivery schedule:

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

The Kenansville store has a bi-weekly delivery schedule. The inventory turnover rate for the Kenansville ABC board is 6.1 and exceeds the target rate set by the Commission.

Recommendations:

- Identify unsold inventory for transfer to another board which has demand
- Request permission from the Commission for a price reduction to sell off dead stock. Use proceeds for distribution or for more saleable inventory
- Take advantage of SPA's and quarterly price reductions whenever possible
- Use recipe cards, displays, and other marketing techniques to increase sales

2. Operating Cost

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

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

The Kenansville ABC board has an operating cost ratio of 1.03 while the average for similar size boards is .77. In comparison with other single store boards with MXB sales, Kenansville's operating expenses are not out of line, however, sales are not sufficient to absorb all expenses. Overhead expenses are kept relatively low in this case because the board owns their building. To meet the goal at current revenue levels, the operating expenses must be reduced to less than \$100,000. To

Kenansville ABC Board

meet the goal with current expense levels, gross sales will need to increase to approximately \$660,000.

Recommendations:

- Because salaries are the largest segment of operating expenses, analyze personnel hours to assess efficient personnel usage
- Request bids annually from various vendors to get the best rates possible on audit, credit card processing fees, and insurance and bonding rates

3. Profit percentage to sales

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

- Gross sales > \$10M – target rate at 9%
- Gross sales > \$2M – target rate at 6.5%
- Gross sales < \$2M – target rate at 5%

The Kenansville ABC board has a profit percentage of -0.90% and does not meet the targeted goal set by the Commission.

Recommendations:

- Change to self service store. This has been proven to increase sales.
- In the short term, removing the window will allow customers to see new and existing products and potentially buy more products
- Analyze and reduce operating expenses to increase profits. Refer to above recommendations.

4. Working Capital

Working capital is total cash, investments and inventory less all unsecured liabilities. Gross sales means gross receipts from the sale of alcoholic beverages less distributions as defined in G.S. 18B-805(b)(2),(3), and (4). The Commission has set efficiency goals based on the following breakdown:

- 4 months for boards with gross sales < 1.5M
- 3 months for boards with gross sales 50M > 1.5M
- 2 months for boards with gross sales > 50M

In 2010, Kenansville ABC Board has a working capital of \$68,777.14 and meets the targeted goal set by the Commission.

5. Store Appearance

The Kenansville store is one of the last remaining counter stores in North Carolina. The parking area is free of clutter and well manicured. A typical shelf management system would not apply in this case. However, there are still things that can be done to increase customer interest.

Recommendations:

- Place a locked cabinet in the foyer to display monthly sale and discontinued items
- Convert to self-service or at a minimum, remove glass partition

6. Policies and Procedures

- Board meeting minutes from 1968 to current year were misplaced and not available for review. Current fiscal year board meeting minutes were viewed and followed the order of proceedings.
- The board meeting minutes do not include a conflict of interest statement as referenced in the Operations Manual.
- The travel policy on file does not meet current statutory requirements. However, expense reimbursements for the current fiscal year do conform to the current policy.
- A mixed beverage policy has not been adopted.
- A current employee manual is not on file with the Commission. A copy was submitted before the arrival of the auditor.
- Law enforcement reporting required by the Commission was not submitted for months March and April; however was submitted upon auditor's visit.
- Board member compensation information on the Commission website is not up to date. Currently, board members' compensation meets the statutory requirements.

Recommendations:

- Board meeting minutes are to be kept permanently in a binder and available in the store.
- 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 (1) for statement reference.*
- Adopt a travel policy that meets the requirements of 18B-700(g2) and file a copy with the Commission (2R.0909(c)). *Refer to Appendix B (2) for statute and rule.*
- Adopt a flexible mixed beverage policy. The Commission recommends an open mixed beverage policy that reflects good customer service and allows customers to order and pickup Monday through Saturday. This discourages permit holders from breaking the law by purchasing at retail.
- Update the Commission website to reflect the current board member compensation amounts. Each ABC board is responsible for maintaining up-to-date, accurate information.

Kenansville ABC Board

7. *Personnel/Training Compliance*

- Employee training is conducted when need arises and whenever new information is available. The Kenansville ABC Board hosted a training class in February; all staff has attended.
- Employees refer to a calendar for scheduling purposes. The finance officer and general manager rely on the calendar to determine when employees have signed in or out for work. The procedure for verifying time entries is for all employees to sign the calendar. Often times, the employees do not sign.

Recommendations:

- Attend annual training, such as the Responsible Alcohol Seller Program, offered by the Commission and other approved venues.
- Review and sign all time records to verify accurate time worked. The signature of employee, manager, and finance officer is required to ensure that all is correct.

8. Administrative Compliance

- Orders to LB&B and purchase orders do not bear the pre-audit certificate required by GS 18B-702(m). Effective May 1, all order acknowledgements to LB&B and purchase orders must bear the certificate.
- Checks are currently signed by both finance officer and general manager. However, checks do not bear the certificate which is required by GS 18B-702(q). Effective May 1, all checks must include the certificate.
- Physical inventory counts and adjustments were not retained. Inventory records were presented for the past two counts only.
- The Kenansville ABC Board makes distributions annually. An approval from the appointing authority regarding annual distributions is not on file with the Commission.

Recommendations:

- Orders to LB&B for liquor must have a pre-audit certificate signed by the finance officer.
- When ordering store supplies, have all purchase orders bear the pre-audit certificate as required by 18B-702(m). *Refer to Appendix B (3).*
- All checks shall bear the certificate as required by 18B-702(q). *Refer to Appendix B (4).* The certificate can be placed above or beside the signature lines to show that this check has been approved by the finance officer. The text may be shortened to accommodate space constraints.
- Retain all records pursuant to the records retention schedule. A records retention schedule is available on the Commission website.

Kenansville ABC Board

- Distributions must be made quarterly, unless the board has approval for a different distribution schedule from the appointing authority *GS 18B-805(e)*. Submit a copy of the appointing authority's approval to the Commission. *Refer to Appendix B (5)*.

9. Internal Controls

- The procedure for counting inventory is performed monthly by store personnel. The general manager re-counts the inventory if discrepancies arise. However, in the past, adjustments were made without investigating discrepancies. (1) A counter store should not experience any loss of inventory. (2) Every discrepancy should have an explanation.
- Breakage forms are not being sent quarterly to the Commission and do not reflect cost at the time the breakage occurs.
- A deputy finance officer has not been appointed to fill in if the finance officer or general manager is absent.

Recommendations:

- Analyze inventory discrepancies to prevent unexplained adjustments in the future. Have board members review all monthly inventory adjustments. Have someone other than the person(s) handling the inventory assist with physical counts quarterly.
- Make an inventory adjustment for breakage at the time it occurs. This will create a more accurate inventory and will distinguish breakage from other inventory adjustments. Destruction of Unsaleable Merchandise forms are found on the ABC Commission website.
- Submit breakage forms according to the schedule in the Operations Manual. Use the computer-generated form rather than hand-writing forms. The forms should accurately reflect the cost at the time the breakage occurs. *Refer to Appendix B (6) for breakage submission schedule.*
- Appoint a deputy officer to aid in the duties of the finance officer when he/she is absent. *Refer to Appendix B (7).*

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Chart 1

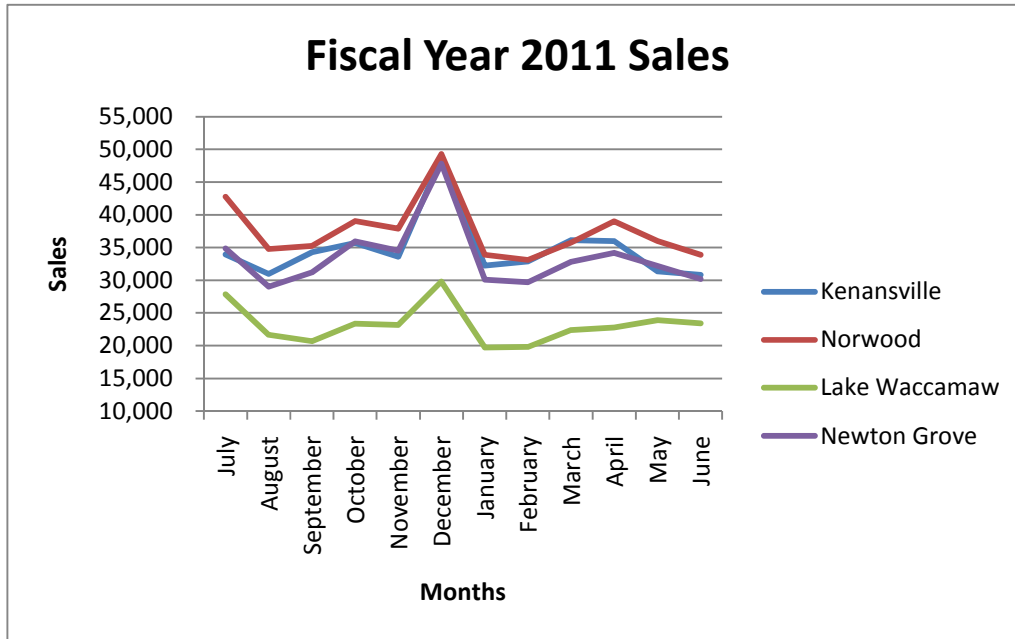


Chart 1 shows FY 2011 sales for similar size boards.

Chart 2

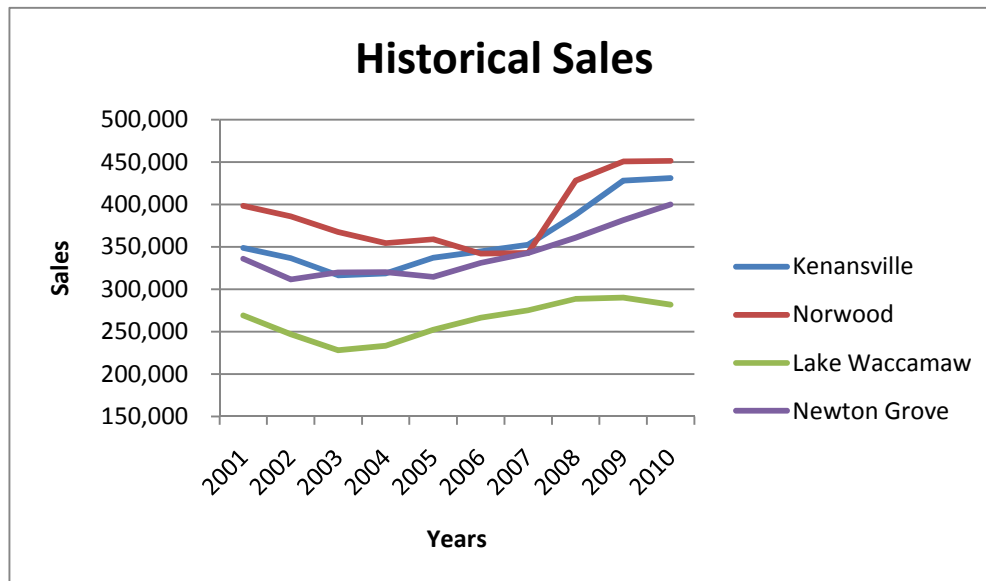


Chart 2 reflects the historical sales growth for similar boards for the past ten years

Chart 3

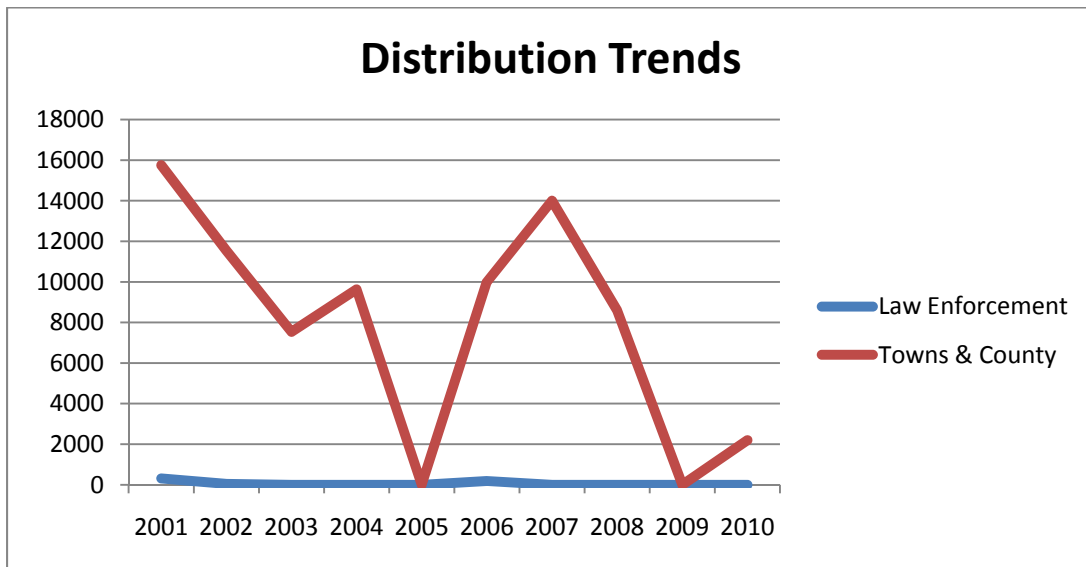


Chart 3 shows the downward trend in profit distributions to the appointing authority over the past ten years. Distributions to law enforcement have remained constant over the past ten years.

Chart 4

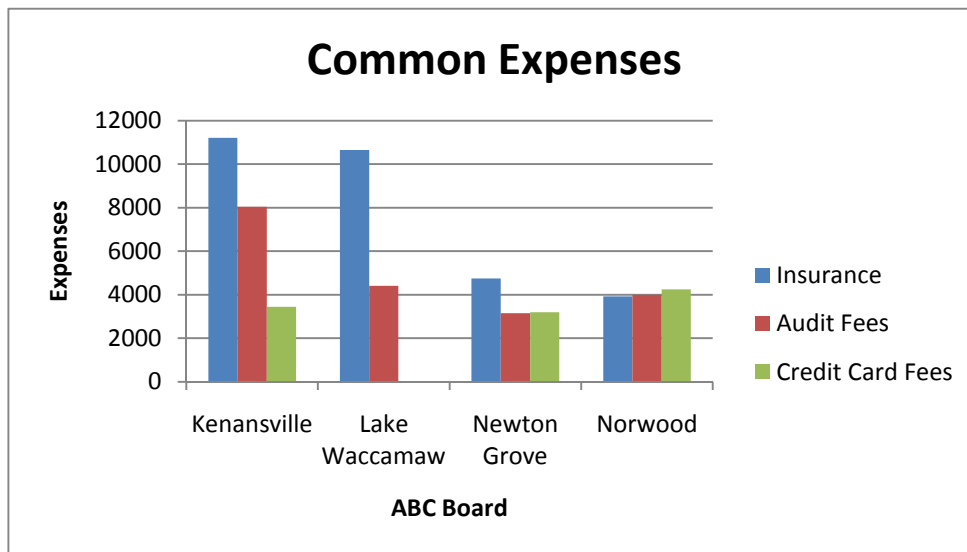


Chart 4 shows costs of common expenses for similar size boards. Data is based on FY 2010 audit. Note: Audit fees for Kenansville include monthly bookkeeping.

Chart 5

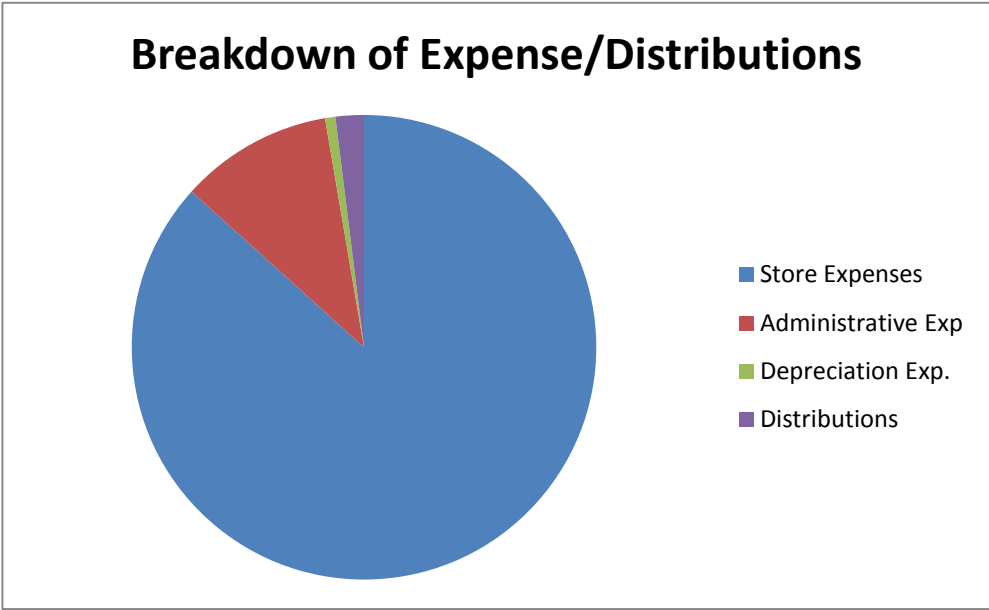
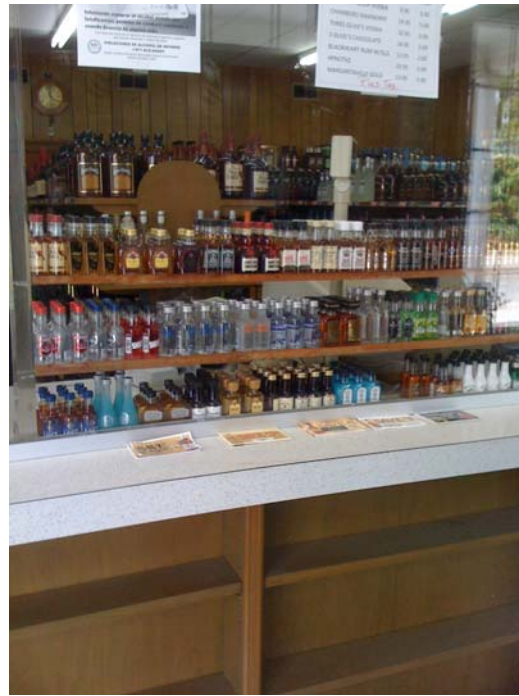
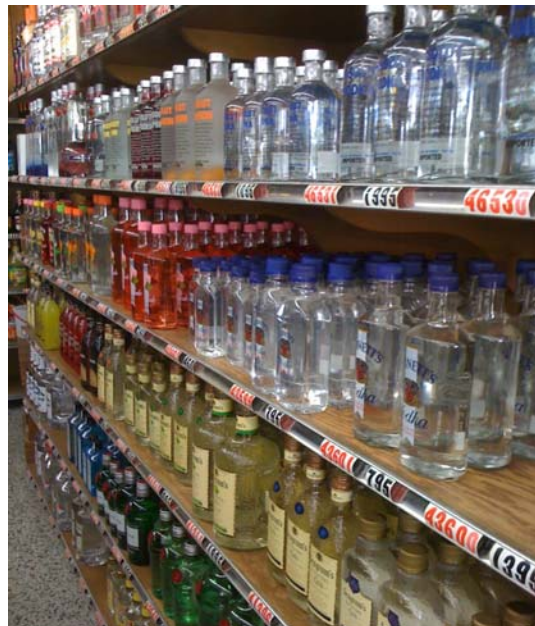


Chart 5 reflects the breakdown of gross profit between expenses and distributions to the appointing authority.

APPENDIX A



View from where customer stands.



Shelf view.

APPENDIX B

- (1) 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?'

- (2) 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]."

NCAC 02R.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.

- (3) 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)*

- (4) 18B-702(q) states "...each check or draft on an official depository shall bear on its face a certificate signed by the finance officer or a deputy finance officer approved for this purpose by the local board. The certificate shall take substantially the following form:"

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

*_____
(Signature of finance officer).*

- (5) 18B-805(e) states "...the local board shall pay each quarter the remaining gross receipts to the general fund of the city or county for which the board is established, unless some other distribution or some other schedule is provided for by law.

- (6) Operations Manual 5.10.8 (b) The following schedule should be followed when sending the Unsalable Merchandise Reports:

<u>Forms signed</u>	<u>Due</u>
July - September	October 15
October - September	February 15
January - March	April 15
April - June	July 15

(7) 18B-702(p) "...all checks or drafts on an official depository shall be signed by the finance officer or a properly designated deputy finance officer. The chairman of the local board or general manager of the local board shall countersign these checks and drafts."

KENANSVILLE ABC BOARD

July 29, 2011

KENANSVILLE, NC 28349

910)296-0939

Ms. Moniqua McLean

ABC Board Auditor

I am writing this letter in response to the board audit you performed on May 17, 2011. I also like to thank you for the help and information you gave me and will probably be contacting you again. I will be implementing a plan of action the recommendations you have suggested in your audit report.

- At this time I have already asked for reduction of prices of dead stock to make room for new products for customers to try.
- Will be rearranging products on self's to make more interesting.
- Will be making recipes and signs for customers to view and to increase sales.
- Will searching for lower insurance and audit fees to reduce expenses.
- Interested in putting a locked cabinet in foyer for sale and discontinued items.
- Have adopted various policies mixed beverage, inventory control and have also revised a store policy and state travel policy.
- Personnel are signing time sheets and are reviewed to be accurate.
- Invoices and checks are now bearing GS18B-702.
- Inventory is now being counted using the stock value report. Also discrepancies are investigated
- Mr. Steele was appointed Deputy Finance officer.
- Appointing authority is taking care of distribution form to make distributions yearly instead of quarterly.
- Board members compensations were updated on the ABC Commission website.
- Law enforcement activity reports are now being sent correctly.
- Board minutes are now reflecting the conflicts of interest statement.
- Employee manual is now on file at the ABC Commission.
- Board minutes are kept available in store.

**Because that the ABC Board does not want the partition down at this time, I will be looking into adding shelf's to front of aisles for the customers to have a better view of products.

Thank You,
Carla Drinkwater, Kenansville ABC Store Manager

KENANSVILLE ALCOHOL BEVERAGE CONTROL BOARD
Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><u>Store Appearance</u> - Convert to self-service or remove glass partition</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" 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 Board does not want the glass partition down at this time but is currently looking to add shelving to front of aisles for a better view for customers. The board is also looking to place a locked cabinet in foyer area to allow customers to view sale and discontinued items.</p>
<p><u>Policies and Procedures</u>- Adopt a travel policy that conforms with the appointing authority or the State.</p> <p>Submit an employee manual to the Commission.</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 adopted the State's travel policy and was verified by the board meeting minutes. An employee manual is on file with the Commission</p>

KENANSVILLE ALCOHOL BEVERAGE CONTROL BOARD
Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Adopt a mixed beverage policy that allows flexible pickup and ordering of permit holders.</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><u>Administrative</u> - Acquire approval from the appointing authority of a different distribution schedule.</p> <p>To comply with GS 18B-702(m), order acknowledgements from LB&B and purchase orders for store supplies must bear the pre-audit certificate and signed by the finance officer.</p> <p>To comply with GS 18B-702(q), all checks must have an approved certificate and signed by the finance officer.</p> <p>Have board meeting minutes available in the store. All minutes must acknowledge the conflict of interest statement.</p> <p>Update board member compensation information on the Commission website.</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 appointing authority has approved an annual distribution schedule.</p> <p>All invoices, purchase orders, and checks are bearing the required certificate and signed by the finance officer.</p> <p>All minutes are kept in the store and all minutes reflect the conflict of interest statement.</p> <p>Board member compensation has been updated on the website.</p>

KENANSVILLE ALCOHOL BEVERAGE CONTROL BOARD
Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><u>Internal Control</u> - Appoint a deputy finance officer.</p> <p>Adopt an inventory control procedure.</p> <p>Have employees, store manager, and finance officer sign all time sheets.</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>The Chairman has been appointed as the deputy finance officer.</p> <p>An inventory control procedure has been implemented.</p> <p>Employees sign all time sheets and are verified by the store manager.</p>