

Northampton 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

COMMISSION
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/>

January 24, 2012

Rev. James Hester, Chairman
Northampton County Board of Commissioners
PO Box 808
Jackson, NC 27845-0808

Dear Reverend Hester,

We are pleased to submit this performance audit report of the Northampton 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,

A handwritten signature in black ink, appearing to read "Michael C. Herring".

Michael C. Herring
Administrator

Cc: Wayne Jenkins, County Manager
Northampton County ABC Board

TABLE OF CONTENTS

Findings and Recommendations.....7

Northampton County Response.....21

Recommendation Follow Up.....24

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 2011;
- Visited the stores;
- Interviewed key ABC store personnel.

The Northampton County ABC Board has submitted a response to the performance audit recommendations detailing plans of implementation as well as making steps toward improving profitability margins. Since our visit, the board has reduced costs, improved inventory turnover rates, and modified internal controls to improve segregation of duties.

BACKGROUND INFORMATION

Northampton County sits on the Virginia and North Carolina border between Hertford and Halifax counties. The closest metropolitan area is Roanoke Rapids in Halifax County. Northampton County has a rural landscape with no large urban centers. The 2010 US Census reported the population at 22,099.

Chapter 493 of the 1935 Pasquotank Act authorized Northampton County to hold an election. The referendum was held on August 14, 1965. The vote for an ABC store passed 2,922 to 2,092. 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 Teddy Sumner, board chairman, Thomas Vincent and Aussie Broadnax, board members.

The Northampton County ABC Board operates four retail stores located in Gaston, Jackson, Rich Square and Conway, NC. The administrative office staffs one full-time general manager and three part-time positions consisting of finance officer, warehouse manager, and warehouse assistant. The stores are staffed with seven part-time employees consisting of co-managers and clerks. The general manager is responsible for the daily operations including supervising personnel, retail operations, and administrative functions of the stores. Duties and responsibilities of clerks include daily stocking, upkeep of the store, assisting with inventory and selling products. The finance officer maintains the budget and handles the cash disbursements.

Profitability

For fiscal year 2011, the board showed a profit; gross sales were \$984,179, income from operations was \$3,851, resulting in a profit percentage to sales of 0.39%. While the Gaston and Rich Square stores showed a profit, the Jackson and Conway stores operated at a loss. Current year sales have increased by 8.64% over last year's sales. In comparing sales over the past ten years of similar size boards, Northampton County ABC sales have dropped following other similar size boards while the state continues to maintain a 56% ten year increase. *Refer to Charts 1 and 2.*

Factors affecting sales and profitability:

- Total population for Northampton County has increased 7% over the past ten years
- Adult working population has decreased 4% over the past ten years
- Poverty levels within the county have increased 5%
- 12% unemployment rate in Northampton County in September 2011
- Much of the sales are generated because the county's close proximity to Lake Gaston

Distribution

G.S. 18B-805 (c) (2) requires the board expend quarterly at least five percent of profits for law enforcement. Chapter 1004 of the 1987 Session Law requires the board to expend quarterly as follows:

- 25% to the incorporated municipalities based on population
- Remaining to the Northampton County General Fund

In 2011, the Northampton County ABC Board did not make distributions. Distributions to law enforcement have not been made since 2008. Distributions to the municipalities and county have not been made since 2007. *Refer to Chart 3.*

FINDINGS AND RECOMMENDATIONS

On September 20, 2011, ABC Commission Board Auditor, Moniqua S. McLean, visited the Northampton County stores and interviewed Kathy Gephart, general manager, Elsie Hilliard, finance officer, and Teddy Sumner, 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 week deliveries target at 5 times or more per year
- Monthly deliveries target at 4.5 times or more per year

The Northampton County ABC Board has a bi-weekly delivery schedule. The inventory turnover rate for Northampton County is 4.2 and does not meet the target rate set by the Commission.

Recommendations:

- Identify unsold inventory for transfers to another board which has demand.
- Analyze and adjust ordering to minimize overstocking.
- Request permission from the Commission for a price reduction to sell off slow moving products. Use proceeds for distribution or for more saleable inventory.
- Take advantage of SPA's and quarterly price reductions whenever possible.
- Borrow selling/ordering techniques from boards that exceed their target rate.

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 Northampton County ABC Board has an operating cost ratio of .98 and does not meet the goal set by the Commission. In comparison with other multiple store boards without MXB sales, Northampton County's expenses have decreased making them in line with similar size boards. To meet the goal of .94 and remain at current revenue levels, operating expenses must be reduced to \$220,000. To meet the goal and remain at current operating expense levels, sales must be increased to \$1,000,000. *Refer to Charts for operating expense comparisons.*

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, credit card processing fees, and insurance and bonding rates.
- Because salaries and benefits are largest segment of operating expenses, analyze personnel hours to assess efficient personnel usage.
- OPEB expenses will continue to rise. Discuss long-term expense implication with CPA and if the board has not already done so, consider cancelling this benefit for future employees.
- Close the Conway store. The net loss at this location for fiscal year 2011 was \$14,473. Also, there is another ABC store within seven miles of this one.
- Open up the wall between the office and store in Jackson. This would allow office personnel to also staff the store during the least busy hours.

3. Store Appearance

- All stores were clean, well-lit, and smoke-free. Countertops were free of clutter but bottles were dusty.
- The exterior areas in Jackson and Conway were neat and free of trash; there is no defined parking area at the Gaston store. As a result of the recent hurricane, signs at two of the stores were either damaged or knocked down completely.
- The shelving is dated and prices hand-written on colored paper are being used as shelf tags.
- All stores within Northampton County are counter stores. 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 required Fetal Alcohol Syndrome poster was displayed in each store. The Commission Auditor supplied the administrative office with updated posters.

Recommendations:

- Place a locked cabinet in the foyer to display monthly sale and discontinued items.
- Make a list of monthly sale items available to customers.
- Use office computer to print shelf tags for a more professional look.

- 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.
- Convert as many stores as possible to self-service, particularly the Gaston store which sells to tourists as well as local residents. It is proven that self service stores generate 10% more in profits.
- Update stores by purchasing used, more modern shelving from another ABC board.
- Remove and repair damaged signs.

4. Profit percentage to sales

The profit percentage to sales 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 and \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

The Northampton County ABC Board has a profit percentage to sales of 0.39% and does not meet the targeted rate set by the Commission.

Recommendations:

- Analyze and reduce operating expenses to increase profits by continuous monitoring of budget.
- Increase sales using the strategies recommended under inventory turnover and store appearance.
- Borrow and utilize merchandising techniques of other similar boards to increase interest and sales.
- Since the Gaston and Rich Square stores generate 64% of the profit, closely monitor revenues and expenses for Conway and Jackson 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 Northampton County ABC Board had a working capital of \$121,755 and met the minimum goal set by the Commission.

6. Policies and Procedures

- Law enforcement contract has not been adopted.
- The employee handbook was last updated in 1999. As a result, certain policies and procedures have been omitted or modified.
- The board does not have a price discrepancy policy.

Recommendations:

- Adopt a law enforcement contract and submit to the Commission. All local boards are required to have an agreement, even if the agreement results in no enforcement activity without pay. *Refer to Appendix B (1) for statute.*
- Update employee manual and send a copy to the Commission. *Refer to Appendix B (2) for rule.*
- Adopt a price discrepancy policy. While it is true that the State has uniform pricing requirements, if a shelf tag is incorrect and shows a lower price than the register, it is good customer relations to honor it and just book the difference to cash over/short. The Commission will provide a sample policy upon request. *Refer to Appendix B (3) for rule.*

7. Administrative Compliance

- Board meetings are scheduled quarterly.
- Board meeting 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 members' latest appointment dates.
- Nepotism – The board currently employs two immediate family members who were grandfathered in when the law changed.
- No clear job descriptions for finance officer and general manager.
- Purchase orders are not used for store and office supplies.
- Current shelf prices do not reflect the price set by the Commission. Pinnacle Gin, 42-965, was on sale in September and did not reflect sale price. Gordon Vodka, 43-622 showed May prices on shelf. At Conway store, product code displayed incorrectly for Johnnie Walker; it should be 34-140.
- Shelf prices at Rich Square location showed prices including sales tax.

Recommendations:

- Hold regularly scheduled ABC Board meetings. Board meetings should be conducted monthly. All board meetings are open to the general public.
- 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. *See Appendix B (4) for statement reference.*
- Update board information on the Commission website to reflect current appointment dates.
- Have clear job descriptions for all employees to eliminate any misunderstandings of expectations. Once presented, have each employee sign upon receipt. Maintain acknowledgement in the personnel files. The updated job descriptions can also be included within the employee handbook.
- Use purchase orders for ordering all store and office supplies. Purchase orders are required to have the pre-audit certificate signed by the finance officer. *Refer to Appendix B (5) for statute.*
- North Carolina requires uniform pricing; display the correct listed price on all products. Price tags may show sales tax as presented in other locations. However, the list price should be clearly displayed. Immediately audit all shelf tags in the store and the cash register system for correct pricing.

8. Personnel/Training Compliance

- All board members have attended the mandatory ethics class.
- Due to limited staffing, a formal training program has not been established for employees.

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 office 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

- Monthly inventory counts are performed by the store managers and scheduled staff. The general manager checks discrepancies against inventory counts of store managers and the inventory management system. Frequent spot checks are also performed by the general manager.
- All employees share a single cash drawer for the entire sales day. The cash drawer is counted by each shift before the start of business. Normally, the same clerk works open to close. A policy is enforced for overages and shortages.
- The finance officer and general manager are authorized to sign checks. A deputy finance officer has not been appointed to fill in if the finance officer is absent.
- Employees refer to a calendar made by the general manager for scheduling purposes. The procedure is for all employees to fill out time sheets and send to the general manager for verification. Often times, employees do not submit time sheets to the general manager for verification.

Recommendations:

- To ensure strong internal controls on inventory management, have board members spot check inventory on a regular basis and review all monthly inventory adjustments.
- Have a written policy for the cash drawer overages/shortages and include it in the personnel manual.
- Appoint a deputy finance officer to aid in the duties of the finance officer when he/she is absent. *Refer to Appendix B (6) for statute.*
- Require all employees to send time sheets for verification of hours worked. To ensure better internal controls on payroll, have the employee and manager sign the time sheets. To ensure that the general manager's hours are verified, have a board member verify and sign off on the hours worked by the general manager.

This page intentionally left blank.

Chart 1

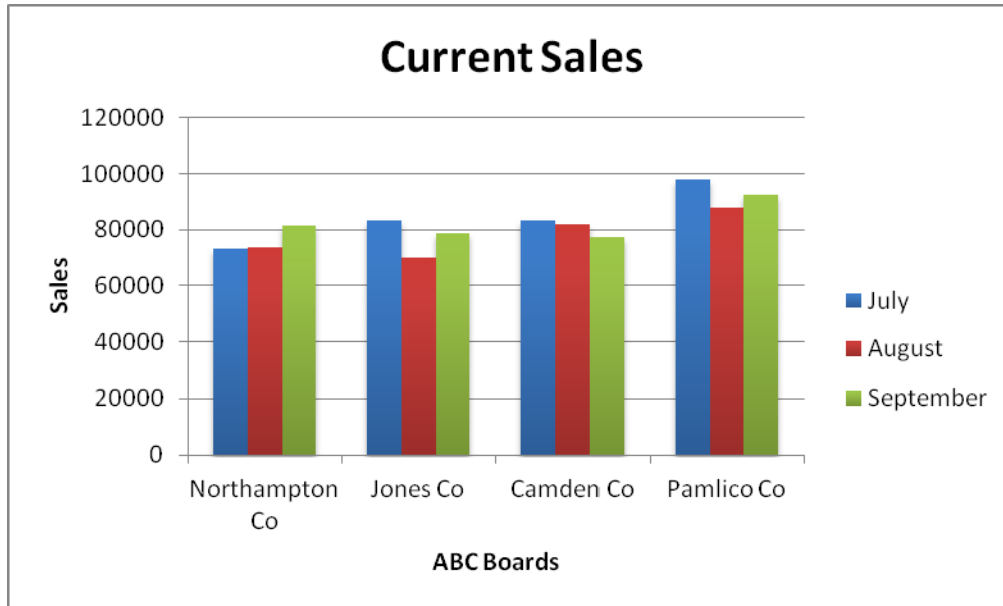


Chart 1 reflects the current year sales comparisons of similar size boards. Note: Pamlico County has MXB sales included.

Chart 2

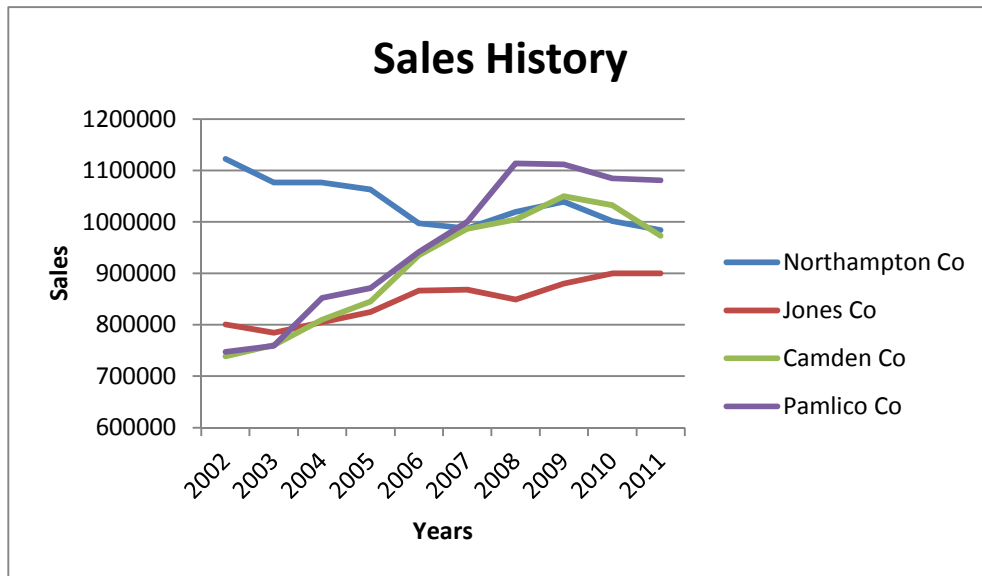


Chart 2 reflects the sales history comparisons of similar size boards. Note: Jones County has 3 stores, Camden County and Pamlico County have 2 stores.

Chart 3

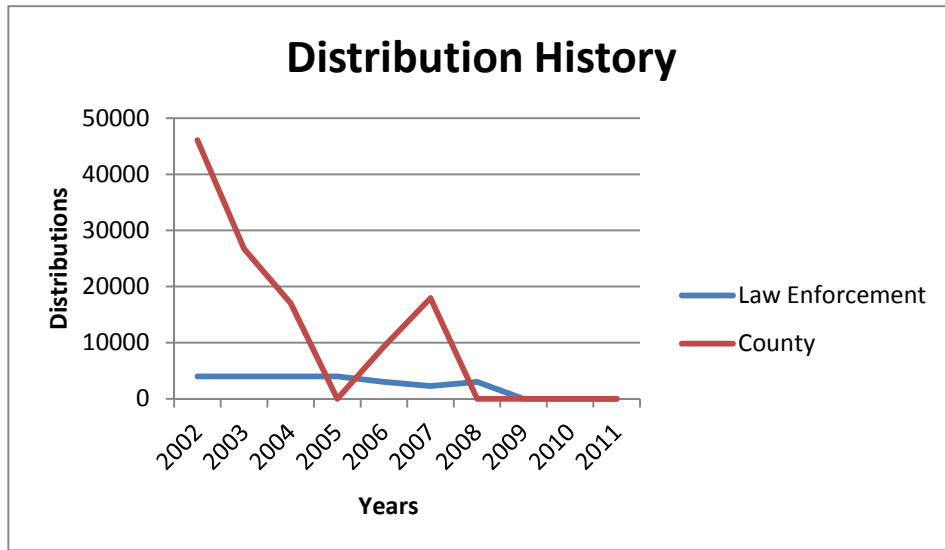


Chart 3 reflects the distribution history for the past ten years.

Chart 4

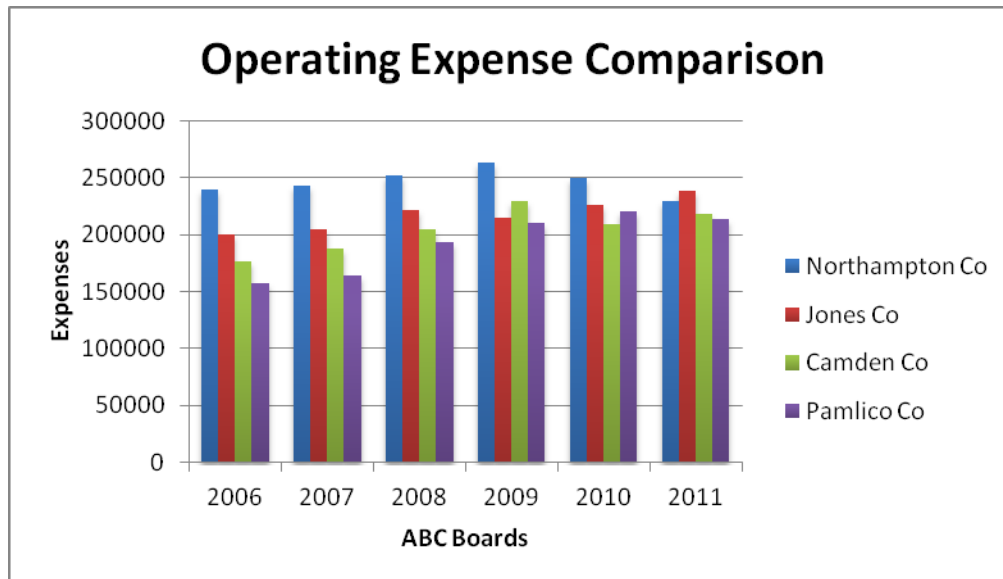


Chart 4 reflects operating expense comparison of similar size boards.

Chart 5

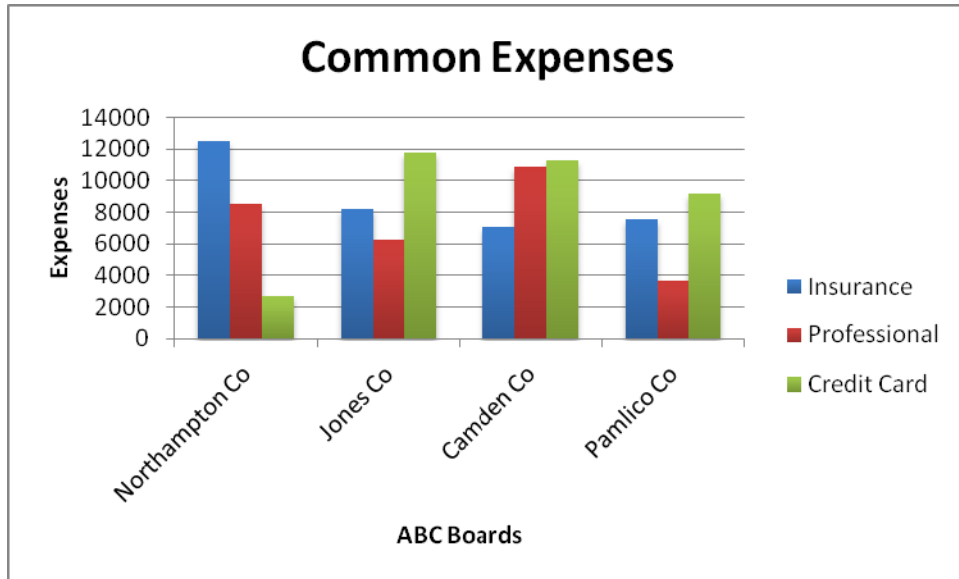


Chart 5 reflects common expense comparison of similar size boards. Note: Northampton County accepts credit cards only at the Lake Gaston store.

APPENDIX A

Picture 1



Parking area at the Gaston store.

Picture 2



Sign at the Gaston store.

Picture 3



Picture 4



Both pictures displayed incorrect prices.

Picture 5



Counter view of Jackson store.

APPENDIX B

- (1) 18B-203(f) states, "Instead of hiring local ABC officers, a local board may contract to pay its enforcement funds to a sheriff's department, city police department, or other local law enforcement agency for enforcement of the ABC laws within the law enforcement agency's territorial jurisdiction. Enforcement agreements may be made with more than one agency at the same time."
- (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) 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."
- (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 (p) states *““...all checks or drafts on an official depository shall be signed by the finance officer or a properly designated deputy finance officer.”*

January 10, 2012

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

Dear Ms. McLean:

Enclosed is the information you requested within 60 days of our Performance Audit Report mailed to us on November 11, 2011. We were pleased to have you join us for the board meeting on December 20, 2011. Hope this information is all you need. If not please contact me at (252) 534-2011 or email me at nhamptoncoabc@embarqmail.com.

Sincerely,

NORTHAMPTON COUNTY ABC BOARD

Kathy H. Gephart
Kathy H. Gephart
General Manager

RECEIVED

JAN 13 2012

NC ABC COMMISSION

Under Recommendations:

2. Operating costs

- * Changed Credit Card Company in May 2011 at lower rates.
- * One employee per store with the exception of Holidays.
- * Do not offer OPEB for new employees.
- * Conway Store hours and personnel has changed as of September 2011.
- * Do not feel suggestion for Jackson store would benefit us; for it is not always someone In the main office to assist customers.

3. Store Appearance

- * Will enforce cleaning bottles; price stickers to be neater - all the same color for regular prices and a different color to display **Sale** prices for the month.
- * All signs have been fixed and new windows signs are in place.
- * Office sends out SPA poster for each store to display on counter for the month.
- * Will be checking on converting one or two stores to self-service.

6. Policies and Procedures

- * We have adopted Law enforcement contracts in the past but will update and a copy will be mailed to the Commission.
- * Will be working to update employee handbook and a copy will be mailed to Commission.
- *
Price discrepancy policy will be set and included in employee handbook.

7. Administrative Compliance

- * Regular board meeting are held every other month, beginning with February.
- * Board minutes now reflect “conflict of interest” statement.
- * board members information has been updated to show latest appointment date.
- * Job descriptions for all employees will be worked on.
- * Purchased order have been used since middle of October 2011.
- * Shelf pricing will be checked more often at all stores. Rich Square has added the state price on shelf price.

8. Personnel/Training Compliance

- * Signature page is signed by all employees within 30 days of hire date stating they have read the Memorandums, policies, and procedures of the Northampton County ABC Board.

9. Internal Control

- * Overage and Shortage policy will be included in employees handbook.
- * General manager will serve as deputy finance officer and Board member will sign checks in the absence of the finance officer.
- * All employees fill out monthly time sheet and they will be verified by the general manager and authorized. The board chairman will be verifying and authorizing the finance officer and the general manager time sheet.

NORTHAMPTON COUNTY ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

| RECOMMENDATION | REQUIRED BY STATUTE | IMPLEMENTATION STATUS |
|--|--|---|
| <p>Policies and Procedures: Adopt a law enforcement contract.</p> <p>**Update employee handbook, price discrepancy policy and overage/shortage policies. Once adopted, have all employees sign an acknowledgement stating they have received the handbook and place in personnel file.</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 30% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The law enforcement contract is currently being updated. The Board is currently updating the employee handbook which will include a price discrepancy policy, the overage/shortage policies, . Once adopted a copy will be sent to the Commission and an acknowledgement of receipt will be place in all employees personnel files.</p> |
| <p>Administrative Compliance: Use purchase orders when ordering all store and office supplies.</p> <p>Audit all shelf tags with the register for correct pricing.</p> <p>**Update the Commission website to reflect current board members latest appointment dates.</p> <p>**Have clear job descriptions for all employees.</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 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management is currently utilizing purchase orders when ordering store and office supplies. All shelf tags have been audited to verify pricing with the register. Board member appointment dates have been updated on the Commission website. Management is currently updating job descriptions for all employees.</p> |

NORTHAMPTON COUNTY ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

| RECOMMENDATION | REQUIRED BY STATUTE | IMPLEMENTATION STATUS |
|--|---|--|
| <p>Internal Control: **Appoint a deputy finance officer to aide in duties if the finance officer or general manager is absent.</p> <p>Have the general manager verify all employee time sheets. Have the board chairman verify the general manager.</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 appointed the general manager as the deputy finance officer. The general manager verifies the hours worked of all employees. The board chairman verifies the general manager and finance officer's hours worked.</p> |
| | | |