

# Reidsville ABC Board

## Performance Audit Report



Alcoholic Beverage Control Commission  
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**ABC**  
COMMISSION  
NORTH CAROLINA



# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

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June 21, 2012

Reidsville ABC Board  
Mr. Jimmy Setliff, Chairman  
102 Durwood Court  
Reidsville, NC 27320

Dear Chairman Setliff,

We are pleased to submit this performance audit report on the Reidsville 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 excellent service the ABC Board offers to the citizens of Reidsville and the efforts 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 audit or performance evaluations. Performance standards shall include, but are not limited to, standards that address enforcement of ABC laws, store appearance, operating efficiency, solvency, and customer service. Performance audits are examinations of existing operating policies, practices, controls, and activities to determine those areas in which there may be a need for improvements. This audit was conducted in accordance with Government Auditing Standards. This report details findings and recommendations with regard to organizational and operational issues.

To achieve the objectives of the audit, ABC Commission staff

- Reviewed applicable General Statutes, ABC Commission Rules, and administrative policies;
- Reviewed applicable reports and studies of ABC boards with similar size and geography;
- Verified compliance with Commission and Board policies;
- Reviewed organizational chart and job descriptions;
- Reviewed ABC store annual audit for the fiscal year 2011;
- Visited the store;
- Interviewed key ABC board personnel.

The Reidsville ABC Board has responded to the performance audit recommendations and has begun to take additional steps to maintain and increase profits while analyzing and reducing current costs. Policies and procedures have been adopted and implemented to maintain compliance with statutes and Commission rules while applying an internal control structure to ensure stronger segregation of duties.

## **BACKGROUND INFORMATION**

Reidsville is located in Rockingham County and approximately twenty-three miles from the Virginia border. Surrounding areas with ABC stores include, Eden, Madison, and Caswell county. The US Census Bureau reported a population of 14,520 in 2010. The closest ABC store is approximately ten miles away.

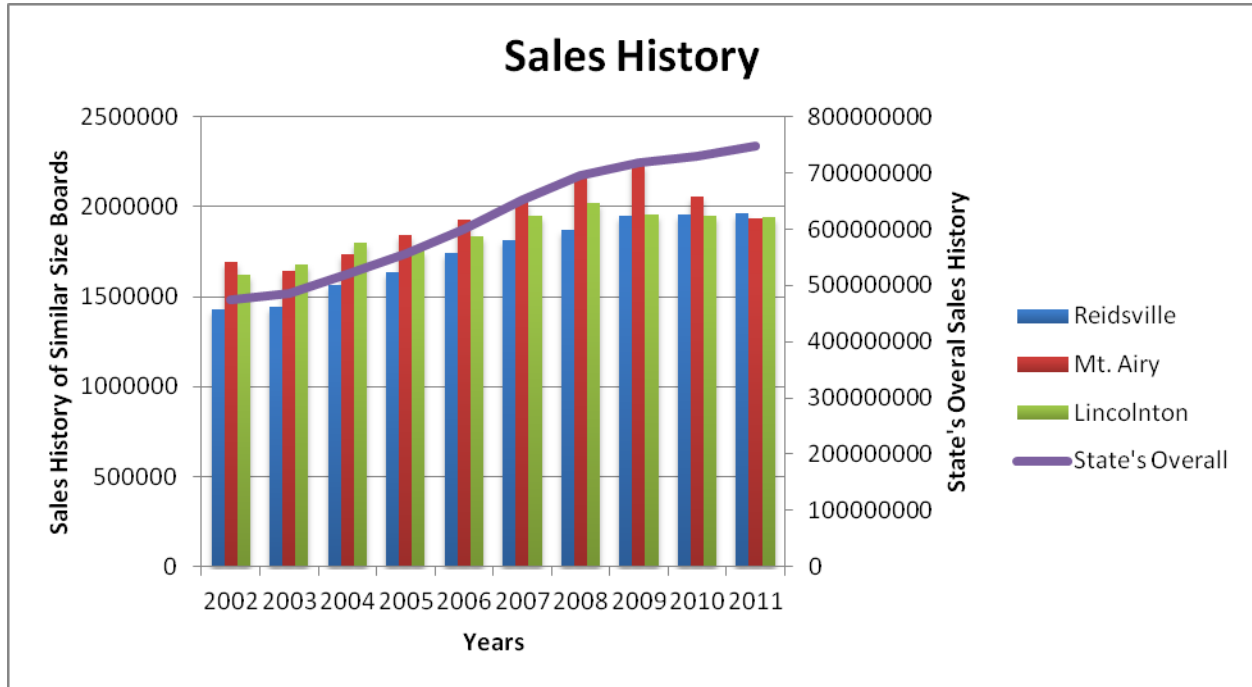
Chapter 650 of the 1965 Session Law authorized the Town of Reidsville to hold an election for an ABC store upon a written petition signed by at least fifteen percent of voters. The referendum was held on October 23, 1965 and passed 1,659 to 1,628. The first retail sales occurred on November 11, 1965.

Upon election of an ABC store, the Town of Reidsville was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members are Jimmy Setliff, chairman, Denise Brady and George Rucker, board members.

The Reidsville ABC Board operates one retail store and staffs five full-time employees including the general manager and two part-time employees. The general manager is responsible for the overall operations of the store including supervising personnel, inventory management, and administrative functions. The board has appointed from within a finance officer who is responsible for cash disbursements, other than payroll, and inventory maintenance. Primary duties for all clerks are customer service, daily stock activities, and floor upkeep.

## Profitability

For fiscal year 2011, the board showed a profit; gross sales were \$1,966,258, income from operations was \$88,677, resulting in a profit percentage to sales of 4.51%. Current sales have increased 12.91% over fiscal year 2011; a 4.65% increase since the previous month. In comparing Reidsville with other similar size boards, sales over the past ten years have continued to increase following the state's increase while some other boards have declined. *See chart below.*



Factors affecting sales and profitability:

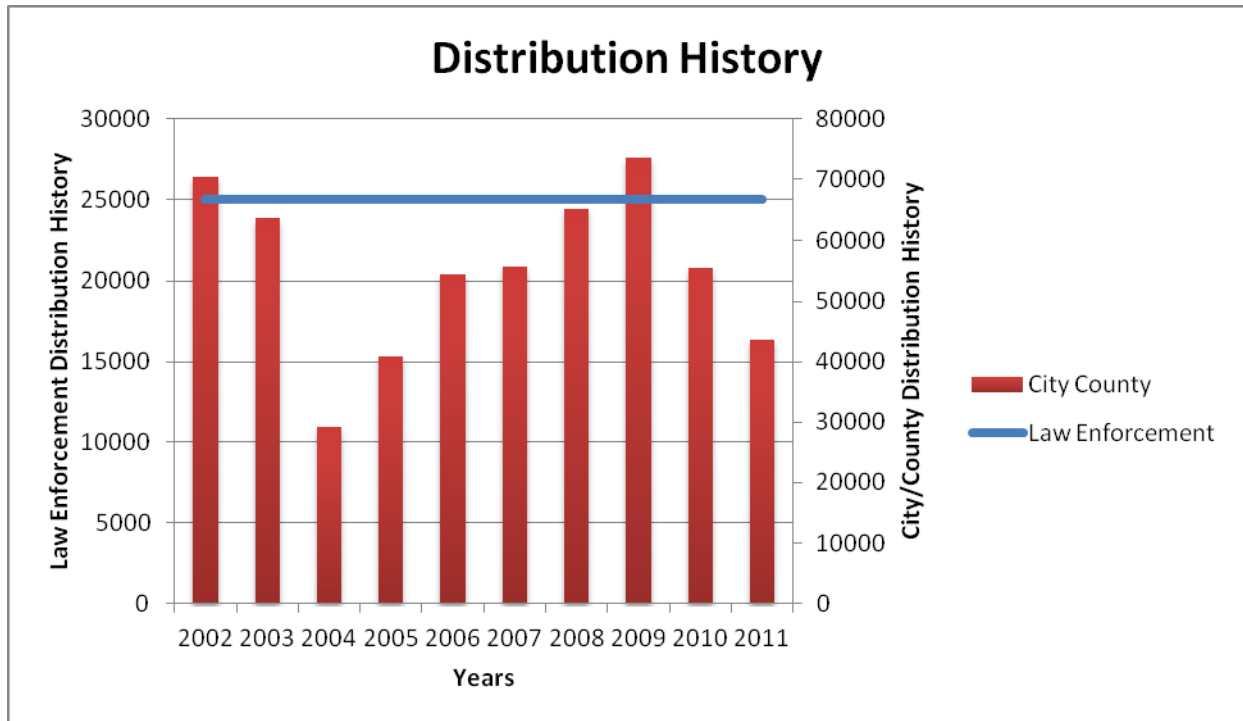
- Overall population has increased slightly by .2% over the past ten years
- Individuals below poverty levels have increased 20.6% over the past five years
- 11.2% unemployment rate for Rockingham County, a decrease of .7% over the previous month
- Relocated store to new site in 2003.

## Distributions

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

- 5% to Annie Penn Hospital
- 5% to Rockingham Library
- 7% to Rockingham County General Fund
- 83% to Reidsville General Fund

In 2011, the Reidsville ABC Board made a total distribution of \$68,536; \$25,000 to law enforcement and \$43,536 to the city and county general funds. The Reidsville ABC Board has entered into a contract with the City of Reidsville Police for a distribution of \$25,000 made in quarterly installments since 1993. Over the past three years, city and county distributions have dropped. *See chart below.*



## **FINDINGS AND RECOMMENDATIONS**

On April 13, 2012, ABC Commission Board Auditor, Moniqua S. McLean, visited the Reidsville ABC store and interviewed Jodi Langel, general manager, Wendy Moss, finance officer, and Jimmy Setliff, board chairman. The following are the findings and recommendations relating to the performance audit.

### **Inventory Turnover**

The inventory turnover rate is calculated by dividing the cost of liquor by the average inventory in the system (Cost of Liquor/Average Inventory). 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 Reidsville ABC Board has a bi-weekly delivery schedule. The inventory turnover rate for the Reidsville ABC Board is 9.4 and exceeds the target set by the Commission.

#### *Recommendations:*

- Continue to maximize inventory turnover using the following methods already in practice:
  - Analyzing sales data to plan orders
  - Identifying dead stock by moving to a more visible location until sold through
  - Taking advantage of SPA's as often as possible

### **Operating Cost**

Operating costs are calculated by dividing total operating expenses less depreciation by the gross profit on sales (Total Operating Expenses less Depreciation/Gross Profit). Below are the average cost ratios for boards with and without mixed beverage sales:

- 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 Reidsville ABC Board has an operating cost ratio of .77 and has met the goal set by the Commission. *Refer to Appendix A for chart analysis of operating expense history and common expense analysis of similar size boards.*

#### *Recommendations:*

- Request bids annually from various vendors to get the best rates possible on audit, utilities, maintenance contracts, and credit card processing fees.



- Because salaries are the largest segment of operating expenses, analyze personnel hours to assess efficient personnel usage by determining when the lowest hours occur and consider adjusting the number of personnel needed for those time periods.

### **Profit percentage to sales**

The profit percentage to sales is calculated by dividing the total income before distributions by gross sales (Income before Distributions/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 Reidsville ABC Board has a profit percentage of 4.65% and has missed the target by .35%.

#### *Recommendations:*

- Analyze and reduce operating expenses to increase profits by monitoring budget. Provide year-to-date reports to board members detailing how much has been spent. Refer to recommendations under operating costs.

### **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

Under the new guidelines, the Reidsville ABC Board had a working capital of \$90,296 in FY2011 and is within the limits set by the Commission.

### **Store Appearance and Customer Service**

The Reidsville ABC store has approximately 828 linear feet of shelf space. The store holds approximately 1,190 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. Bottles were dusted, fronted, and well-stocked.
- The required Fetal Alcohol Syndrome poster was displayed.
- Upon entering the store, the employees greeted customers in a professional manner exhibiting good customer service. Employees expressed a high level of product knowledge when called upon by customers.

## **Policies and Procedures**

- The law enforcement contract was not filed with the Commission. A copy was submitted to the auditor upon visit. The law enforcement activity reports are current.
- All employees maintain their own cash drawer. The cash drawers are counted at the beginning and end of each shift and are signed off by two individuals. Deposits are made daily by whoever is scheduled to work.
- Scheduled staff counts a section or category of product on a weekly basis resulting in a full inventory count by month end. Unsaleable items are taken out of inventory immediately. When discrepancies arise, the general manager will investigate the occurrences.
- The general manager maintains a work schedule applying vacation and/or sick hours used, if applicable, for all full-time employees.

## **Personnel and Training**

- Two board members, the finance officer and the general manager have attended the mandatory ethics class. A third board member has recently been appointed and plans to attend the next scheduled class.
- The general manager is cross training key employees on administrative duties such as ordering liquor and closing the end of the month.

### *Recommendations:*

- Continue cross training employees to back up the general manager should she be suddenly unavailable.

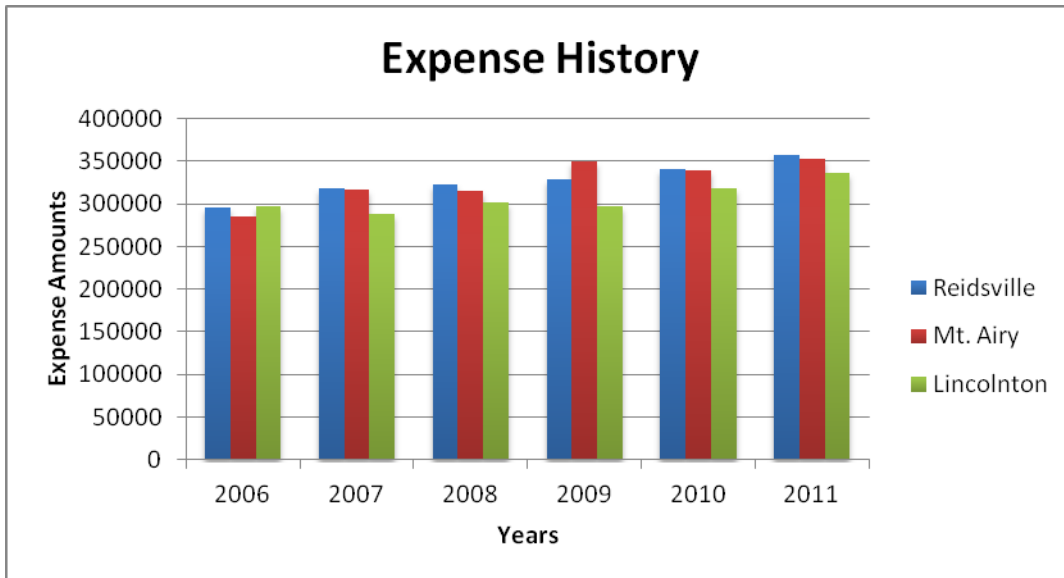
## **Administrative Compliance**

- Board meeting minutes were viewed, followed the order of proceedings for conducting a business meeting, and referenced the conflict of interest statement.
- Board member information on the Commission website does not reflect board members' latest appointment dates. The auditor has updated the website since the visit.
- Nepotism – The board is in compliance with G.S. 18B-700(k).
- Purchase orders are used and signed by the finance officer when ordering store and office supplies.
- All checks have the approved certificate and are signed by the finance officer as required by G.S. 18B-702 (q). The board chairman is the second signature on all checks.
- Out of approximately 1,190 product codes, approximately 77 codes were sampled and one shelf tag was found that did not reflect the price set by the Commission. 51-218 Hennessy VSOP .75L showed the August 2011 price on shelf.

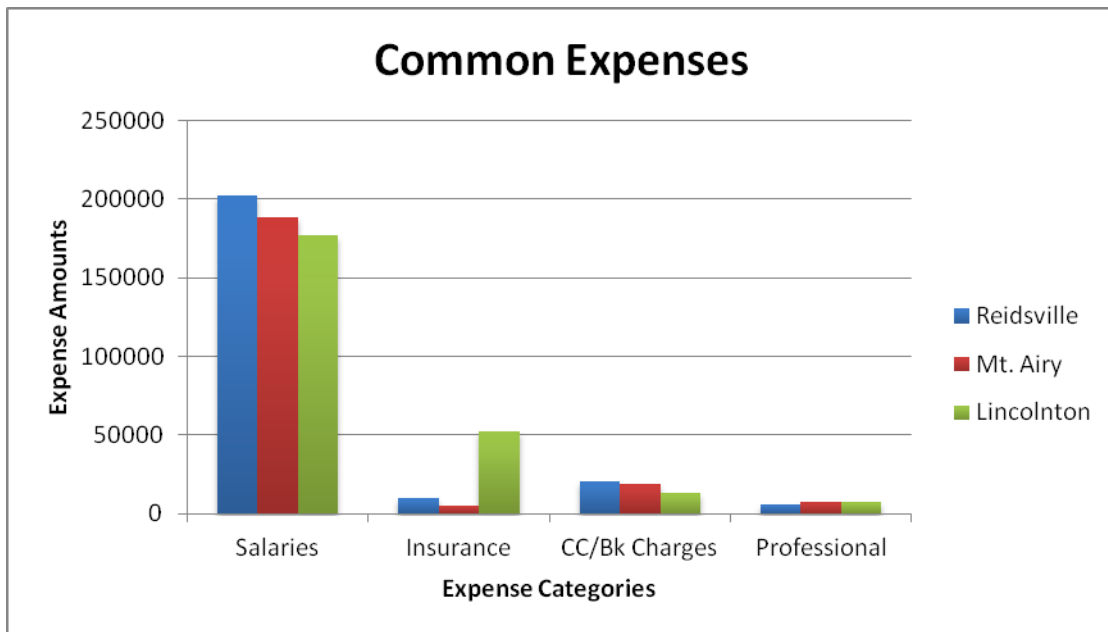
*Recommendations:*

- North Carolina statutes require uniform pricing in all ABC stores. Audit all shelf tags in the store and the cash register for correct pricing. To ensure accurate pricing in the future, incorporate a shelf tag audit (by section) into the weekly inventory count.
- To ensure stronger internal controls and implementing checks and balances, the board may want to appoint a deputy finance officer to fill in if the finance officer is unable to work.

## APPENDIX A



*The expense history comparison determines that Reidsville ABC's expenses have slightly increased over the past five years.*



*Outside of salaries, the common expenses analysis of Reidsville ABC and other similar size boards reveals that these expenses are not out of line.*

## APPENDIX B



*Exterior view*



*Counter view*



Incorrect shelf price.

# REIDSVILLE ABC BOARD

## Reidsville ABC Board Response to Performance Audit

June 7, 2012

### Inventory Turnover:

#### Recommendation:

Continue using methods already in practice.

#### Response:

None

### Operating Costs:

#### Recommendation:

Request bids annually from various vendors.

#### Response:

The Reidsville ABC Board is committed to employing local vendors whenever possible. While slightly better rates may be available elsewhere, the Board is committed to utilizing local vendors for services and contracts whenever possible.

#### Recommendation:

Analyze personnel hours.

#### Response:

The Board is committed to providing a safe place for employees to work and customers to shop. To aid in the fulfillment of this commitment, at least two employees are on duty at all times. Part-time employees are scheduled on an as needed basis and hours are monitored. In the future, as full-time employees retire, the Board plans to replace a minimum of two of full-time positions with part-time.

### Profit Percentage to Sales

#### Recommendation:

Analyze and reduce operating cost; monitor budget.

#### Response:

The Board projects at least two full-time employees to retire within five years. These positions will be filled with part-time employees, thus reducing salaries and related expenses. This was the first year for the Board's budget process and the Board projects that operating within budget guidelines in the future will aid in meeting or exceeding the efficiency goals set forth by the Commission. Profit percentage to sales at March 31, 2012 was 5.64%, .64% over the target of 5%.

### Personnel and Training:

#### Recommendation:

Continue to cross train employees.

#### Response:

None.

### Administrative Compliance:

#### Recommendation:

Audit shelf tags in the store.

#### Response:

The incorrect shelf tag was a very isolated incident. Shelf/price tag audit procedures are already in place and in practice. With hundreds of price changes to comply with, the change process is lengthy and confusing at best, unfortunately resulting in the occasional error.



Recommendation:

Appoint deputy finance officer.

Response:

The Board appointed a deputy finance officer at the March 2012 meeting of the Board.

ON FILE

Jodi M Langel  
General Manager  
Reidsville ABC Board

Approved ONFILE  
James Setliff, Chairman

Approved ON FILE  
Denise Brady

Approved ON FILE  
George Rucker

**RECEIVED**

JUN 07 2012

NC ABC COMMISSION

## REIDSVILLE ALCOHOL BEVERAGE CONTROL BOARD

### Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Personnel and Training:</b> Continue to cross train key employees in the event the general manager was unavailable.</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>Management is currently cross training employees in various administrative functions.</p>
<p>Administrative Compliance – Audit shelf tags on a regular basis or incorporate into clerk’s daily duties.</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>Management has incorporated these duties into clerk’s daily responsibilities. When discrepancies arise, management and other employees investigate the occurrences.</p>