

# Washington County ABC Board

Performance Audit Report



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



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NORTH CAROLINA

**Alcoholic Beverage Control**

CHAIRMAN:  
A.D. "ZANDER" GUY, JR.

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COMMISSIONER:  
DANIEL L. BRIGGS  
Lexington

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ADMINISTRATOR:  
MICHAEL C. HERRING

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April 24, 2012

Washington County ABC Board  
Mr. Jack Faulk, Chairman  
696 US Hwy 64E  
Plymouth, NC 27962

Dear Chairman Faulk,

We are pleased to submit this performance audit report of the Washington 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 in accordance with new legislative mandates.

The report consists of an executive summary, background information and operational findings and recommendations along with your General Manager's response to our recommendations. This report will be posted on the Commission's public web site.

We would like to thank you, the ABC Board and your staff for the assistance and cooperation provided to us during the audit. Additionally, we appreciate the efforts your Board has made to comply with the new performance standards.

If we can be of assistance in the future, please advise.

Respectfully,

Michael C. Herring  
Administrator

CC: North Carolina Association of ABC Boards

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## **EXECUTIVE SUMMARY**

By state law, the ABC Commission shall ensure that all local ABC Boards comply with established performance standards by conducting regular audits or performance evaluations. Performance standards shall include, but are not limited to, standards that address enforcement of ABC laws, store appearance, operating efficiency, solvency, and customer service. Performance audits are examinations of existing operating policies, practices, controls, and activities to determine those areas in which there may be a need for improvements. This audit was conducted in accordance with Government Auditing Standards. This report details findings and recommendations with regard to organizational and operational issues.

To achieve the objectives of the audit, ABC Commission staff

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

The Washington County ABC Board has responded to the performance audit recommendations and has begun to take steps toward becoming more profitable through analyzing and reducing current costs. Internal controls have been improved to maintain proper segregation of duties. Policies and procedures have been implemented to maintain compliance with statutes and to ensure efficient operations.

## **BACKGROUND INFORMATION**

Washington County is located in northeastern North Carolina approximately 120 miles east of Raleigh and eighty miles west of Nags Head and the Outer Banks. Surrounding counties with ABC stores include Tyrrell, Bertie, Martin, Beaufort, and Hyde. The US Census Bureau reports a population of 13,228 in 2010.

Chapter 49 of the 1937 Act authorized Washington County to hold an election for an ABC store. The referendum was held in May 1937. The vote for an ABC store passed with 80% favor and 20% against. The date of the first retail sales was July 1, 1937.

Upon election of an ABC store, Washington County was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members are Jack Faulk, chairman, Ronald Barnes and Wilbur Sessoms, board members.

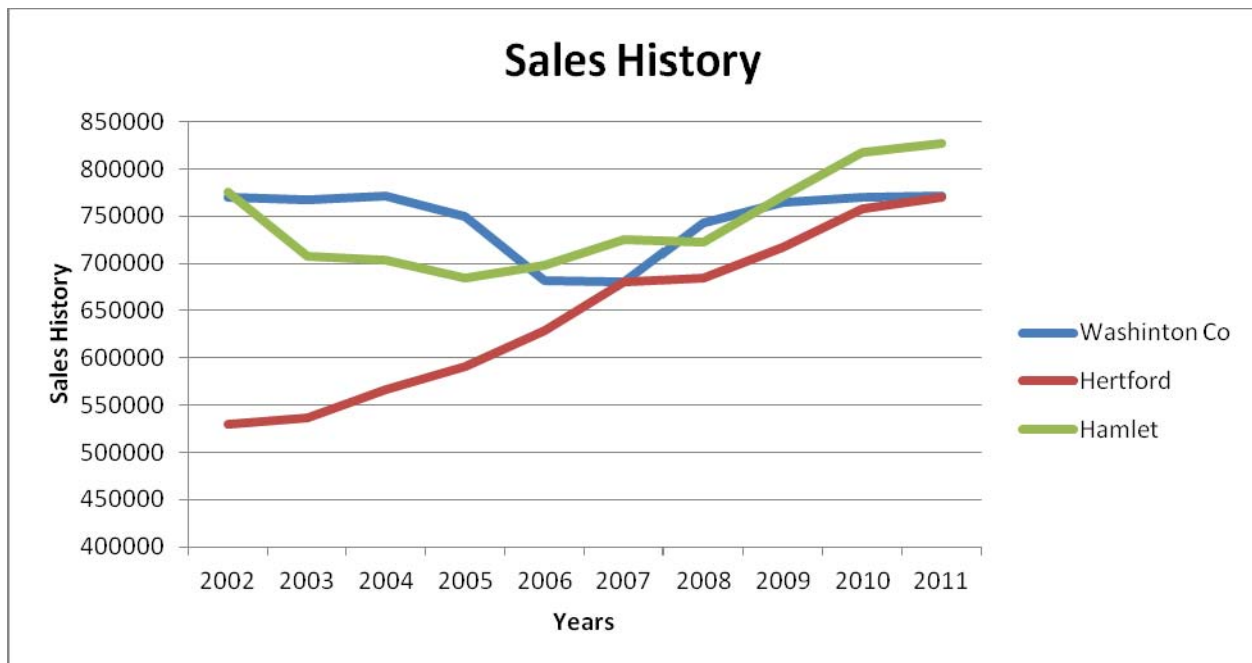
The Washington County ABC Board operates one retail store and staffs two full-time employees, including the general manager, and five part-time employees. The general manager is responsible for the daily operations including supervising personnel, inventory management, and administrative functions of the store. The full-time clerk is primarily responsible for mixed beverage orders and inventory. The remaining clerk positions are responsible for daily stocking, floor upkeep, and retail functions including selling products. The board has employed an outside bookkeeper to serve as the finance officer.

## Profitability

For fiscal year 2011, the board showed a loss; gross sales were \$771,438, income from operations was -\$1,041, resulting in a profit percentage to sales of -0.13%. In comparing Washington County ABC and other similar size boards over the past ten years, sales have remained relatively steady while other boards have shown an increase following the state's 56% increase. Current year sales increased 9.24% over last year. *See chart below.*

Factors affecting sales and profitability:

- Overall population has decreased 3.6% over the past ten years
- Poverty levels have increased 24.8% since 2006
- 12.6% unemployment rate in Washington County in December which increased by .5% since November
- Closing of the Creswell store in 2005



## Distributions

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

- 10% to Plymouth and Creswell General Funds
- Remainder to the Washington County General Fund

In 2011, the Washington County ABC Board made distributions to the city municipalities, \$159, and to the county, \$1434. Distributions to law enforcement were not made in FY2011.

## **FINDINGS AND RECOMMENDATIONS**

On January 31, 2012, ABC Commission Board Auditor, Moniqua S. McLean, visited the Washington County ABC store and interviewed Todd Moore, general manager. 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 goods sold by the average inventory in the system. The Commission has set goals for determining an effective rate based on the frequency of deliveries. Below are the turnover rates based on the delivery schedule:

- Once a week deliveries target at 6 times or more per year
- Twice a month deliveries target at 5 times or more per year
- Monthly deliveries target at 4.5 times or more per year

The Washington County ABC Board has a monthly delivery schedule. The inventory turnover rate for the Washington County ABC is 4.3 and is just under the target rate set by the Commission.

#### *Recommendations:*

- Continue analyzing sales history reports carefully to avoid overstocking slow moving inventory and to increase the amount of bestselling products available
- Pursue more creative uses for end caps
- Explore different strategies for eliminating slow moving products by:
  - Moving stock within the store to increase visibility; using recipe cards, displays, and other marketing techniques to increase sales
  - Initiating new marketing strategies to encourage impulse shopping
  - Identifying slow moving products within store to transfer to other boards which have a greater demand
- 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
- Take advantage of SPA's and quarterly price reductions whenever possible
- Contact general managers whose inventory turnover rate exceeds the target for new ideas that may be implemented in your store

### **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 Washington County ABC Board has an operating cost ratio of .98 and does not meet the goal set by the Commission. To meet the goal and remain at current expense levels, revenues must be approximately \$990,000. To meet the goal and remain at current revenue levels, expenses must be reduced to approximately \$142,500. *An analysis of historical data on operating expenses and common expenses is found in Appendix A.*

*Recommendations:*

- Monitor budget monthly to ensure that expenses do not exceed budgeted amounts. Provide board members monthly reports showing budgeted expenses vs. actual.
- Because salaries and benefits are the largest segment of operating expenses, analyze personnel hours to assess efficient personnel usage. Determine when your slowest hours are and consider adjusting the number of personnel needed for those time periods.
- Request bids annually from various vendors to get the best rates possible on audit fees, credit card processing fees, and insurance and bonding rates.
- 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.

**Profit percentage to sales**

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

- Gross sales greater than \$10M – target rate at 9%
- Gross sales \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

The Washington County ABC Board has a profit percentage of -0.13% and did not meet the targeted rate set by the Commission.

*Recommendation:*

- Analyze and reduce operating expenses to increase profits by monitoring budget. Refer to recommendation under operating costs.
- Continue taking advantage of every selling day possible; do not close the store except when required by law. If sales warrant, keep store open on all other holidays (Martin Luther King Jr. Birthday, Good Friday/Monday, Memorial Day, and Veteran’s Day) and announce in advance that the store will be open by displaying a sign in the store and possibly with an ad in the local newspaper.



- If sales are continuing to fall, consider merging with another ABC board to reduce overhead and share in expenses.

### **Working Capital**

Working capital is total cash, investments, and inventory less all unsecured liabilities. Gross sales mean 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 working capital limits 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 Washington County ABC Board had a working capital of \$198,384. The working capital retained has met the maximum working capital allowed.

### **Store Appearance**

The Washington County ABC Board has approximately 716 linear feet of shelf space and currently carries approximately 779 product codes. *Refer to Appendix B for photos.*

- The store was clean, smoke-free, well-lit, and free of clutter in the counter area. The exterior areas were clean and free of trash, however, as a result of the recent hurricane, the awning has been damaged.
- The shelf management system is clearly defined displaying higher priced products on the top shelf and lower priced products on the bottom. Products were faced and shelves were full.
- The required Fetal Alcohol Syndrome poster was displayed. The Commission Auditor supplied the store with updated posters.
- Located at the counter, the price book and monthly sale items listings are available to all customers.

### **Customer Service**

- Each employee exhibited good customer service skills by greeting every customer upon entering. When not waiting on customers, employees were stocking shelves and performing general store upkeep duties.

### **Policies and Procedures**

- If there is a price discrepancy between a shelf price and the register price, the board does not have a written policy for handling these occurrences.
- Although a travel policy has been adopted, it is not in conformity with the appointing authority's or the State's policy.

- The following policies and/or contracts have not been adopted:
  - Mixed beverage
  - Law enforcement
  - Credit card
  - Refund policy
- Deposits are made daily by whomever is working.
- Employees rely on calendar scheduled by the store manager. Once hours are worked, the general manager will document on a time sheet
- All employees maintain their own cash drawer/till. The cash drawer is counted before and after each shift.

*Recommendations:*

- To exhibit good customer service, have a written price discrepancy policy and include in the employee handbook so that all employees will know what to do if a customer has a discrepancy. The Commission will provide a sample policy upon request. *Refer to Appendix C (1) for rule.*
- Adopt a travel policy that meets requirements of 18B-700 (g) and file a copy with the Commission (2R.0909 (c)). *Refer to Appendix C (2) for statute.* If the board decides to adopt the travel policy of the appointing authority, a copy of the appointing authority's travel policy along with the board's travel policy is required for submission. If the board decides to adopt the State's travel policy, a copy of the minutes approving the adopting of the travel policy must be provided.
- Adopt a written mixed beverage policy. The Commission prefers a flexible mixed beverage policy that reflects good customer service and allows customers to order and pickup Monday through Saturday.
- 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 and funds are unavailable. *Refer to Appendix C (3) for statute.*
- Adopt a written credit card use policy. Include a maximum limit allowed on purchases before a board member is notified for approval. The board is to be notified of all purchases over the limit. Once adopted, submit a copy to the Commission. Have procedures for the usage of the credit card including:
  - Who has authority to use the card,
  - What types of items the card may be used for,
  - Personal usage is not allowed,
  - A detailed receipt for every transaction is required,
  - A purchase order must accompany each receipt.
- Adopt a policy specifying what necessitates and who is able to issue a refund.

## **Personnel/Training Compliance**

- Training is provided to new and existing employees as new information is available.
- All board members, the finance officer, and the general manger have attended the mandatory ethics class.

### *Recommendations:*

- Continue cross training employees on key functions that include ordering liquor, closing the end of the month, paying bills, and filing taxes in the event the general manager were suddenly unavailable.
- Attend free annual training, such as the Responsible Alcohol Seller Program, offered by the Commission and other approved venues. Document training opportunities and place in employee's personnel file

## **Administrative Compliance**

- Board meeting minutes were available to view and followed the order of proceedings for conducting a business meeting. However, they did not reference the conflict of interest statement.
- Board information on the Commission website does not reflect the board members' latest appointment dates and compensation amounts. The Commission auditor updated this information once provided.
- Board member compensation met the current statutory requirements. However, board members receive mileage to and from board meetings. The Commission auditor updated this information once provided.
- Nepotism – The board does not employ any immediate family members.
- Orders to LB&B do not bear the pre-audit certificate as required by G.S. 18B-702(m).
- Purchase orders are not used when ordering store and office supplies.

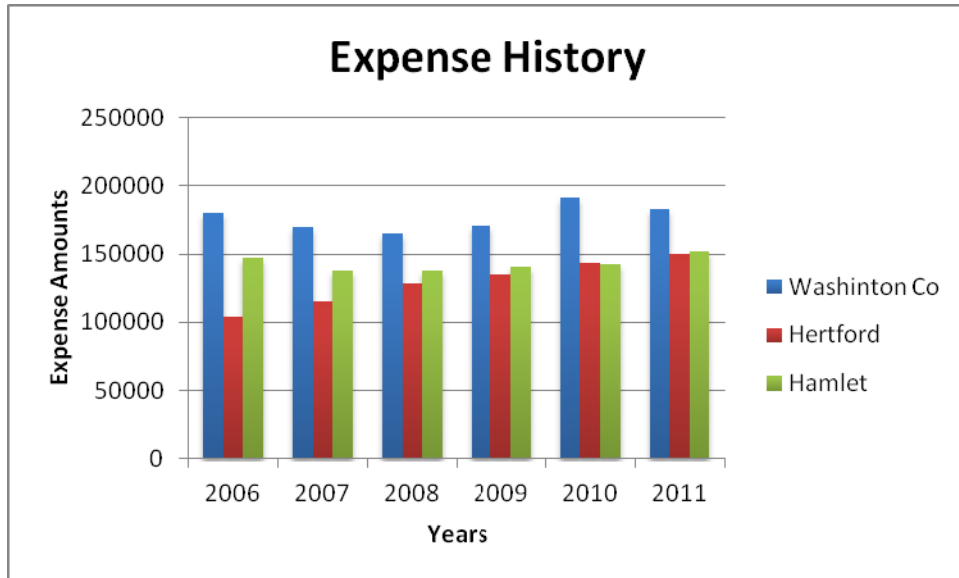
### *Recommendations:*

- In an effort to avoid possible conflicts of interest, it is recommended that at the beginning of each board meeting the chairman ask fellow board members if there are any potential conflicts of interest. *Refer to Appendix C (4).*
- Adopt a written policy for board member mileage to and from board meetings. Once adopted, submit a copy of the minutes to the Commission.
- Have the pre-audit certificate affixed and signed by the finance officer before all orders are placed.
- Use purchase orders when ordering all store and office supplies. Purchase orders are required to have the pre-audit certificate signed by the finance officer. *Refer to Appendix C (5)*

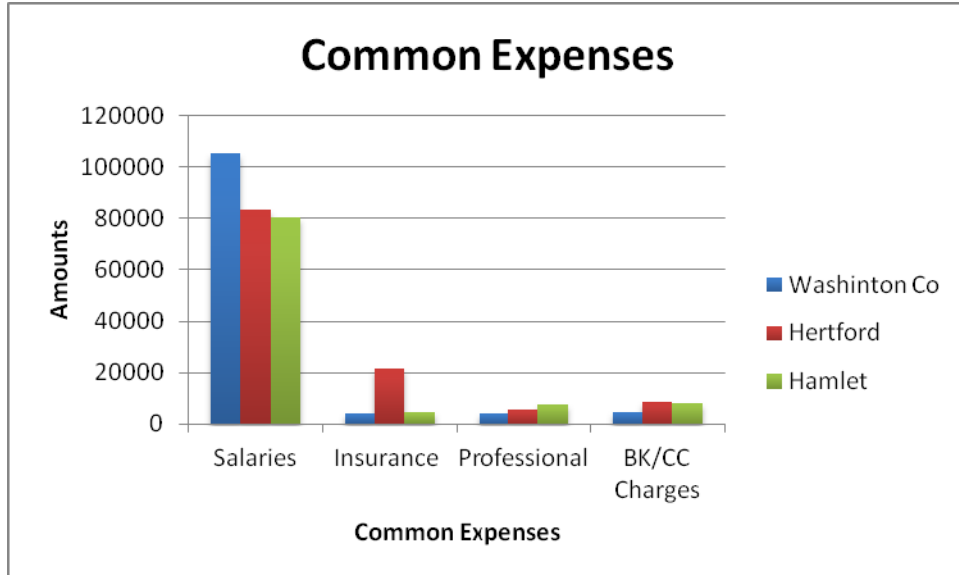
### **Internal Control**

- Physical inventory counts are usually performed monthly. Occasionally, inventory counts may be performed twice a month. Counts are performed by all scheduled staff. Any discrepancies are checked by the general manager and the store manager.

## APPENDIX A Operating Expense Analysis



*The expense history comparisons of similar size boards reveals that Washington County ABC expenses are above other similar size boards.*



*Common expense comparisons of similar size boards reveals that other than salaries, Washington County's common expenses are lower than other similar size boards.*

## APPENDIX B



*Counter area of the store.*



*Front view of the store.*

## APPENDIX C

(1) 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.”

(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].”

*NCAC02R.0909 (c) Rules to be filed with Commission. Each local board shall file a certified copy of its travel policies and procedures, and any amendments thereto, with the Commission within 10 days of the adoption, or amendment, of the policies by the local board.*

(3) 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.”

(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)*

Washington County ABC Board  
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April 10, 2012

Mrs. Moniqua McLean, MAFM  
ABC Board Auditor  
4307 Mail Service Center  
Raleigh, NC 27699-46307

Dear Mrs. McLean,

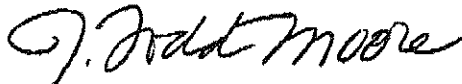
This letter is the written response to the Performance Audit conducted on January 31, 2012 as requested by McLean. The audit was received by email at the store on February 2, 2012 and all board members received a copy, either by mail or in person. Mclean was present at the April 3, 2012 board meeting to present the report. At that time, the board members were able to ask questions and make comments.

The Washington County ABC Board takes the Performance Audit very serious. It is our goal to provide a service to the citizens of Washington County and all other customers. We aim to provide alcoholic beverages in a clean and safe environment with the best possible customer service. We aim to be profitable and to be in compliance with the ABC Commission.

The Washington County ABC Board will be taking each recommendation made by McLean in consideration. The board is working toward meeting all the mandated requirements, for example; updating the travel policy. The board is also cutting part-time hours again to be more profitable. The board will be addressing each recommendation, one at a time, to be in compliance.

The board would like to thank McLean for her guidance, patience, and support during this audit period. The board also would like McLean to contact the board if more information is needed to make this audit a success.

J. Todd Moore



General Manager  
Washington County ABC Board

RECEIVED

APR 10 2012

NC ABC COMMISSION



# WASHINGTON COUNTY ALCOHOL BEVERAGE CONTROL BOARD

## Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Policies and Procedures:</b> Adopt the following policies and/or contracts:</p> <ul style="list-style-type: none"> <li>• Travel Policy</li> <li>• **Mixed Beverage Policies</li> <li>• Law Enforcement Contract</li> <li>• **Credit Card Usage Policy</li> <li>• **Refund Policy</li> </ul>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p> <p>Note: Not required by Rule.</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 is working toward implementing policies.</p>
<p><b>Administrative Compliance:</b> **Adopt a policy for board member mileage to and from board meetings.</p> <p>Affix the pre-audit certificate on all liquor orders and purchase orders.</p> <p>Use purchase orders when ordering supplies.</p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p> <p>Note: Not 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 implementing these strategies.</p>