

Durham 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

CHAIRMAN:
JAMES C. GARDNER

COMMISSIONERS:
JOEL L. KEITH
Wake Forest

KEVIN M. GREEN
Greensboro

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) 661-5927
<http://abc.nc.gov/>

Moniqua S McLean
919-779-8365

October 4, 2013

Durham County ABC Board
Mr. Wayland H. Burton, Chairman
3620 Durham Chapel Hill Blvd.
Durham, NC 27707

Dear Chairman Burton,

We are pleased to submit this performance audit report on the Durham 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, operational findings and recommendations along with your Board'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 along with the extra funding support your Board provides to promote alcohol awareness and substance abuse education for youth in Durham County.

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 performance audit 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 board annual audit for the fiscal year 2011;
- Visited all store locations;
- Interviewed key ABC board personnel.

The Durham County ABC Board responded to the performance audit recommendations and is continuing to implement steps toward becoming more profitable while reducing expenses. Policies and procedures have been established to maintain compliance with statutes and to ensure efficient operations.

BACKGROUND INFORMATION

The 1937 Act authorized Durham County to hold an election by referendum. The referendum was held on April 28, 1937 and passed 7,784 to 3,308. The first retail sale was on June 21, 1937. A county-wide vote was held for the sale of mixed beverages on January 12, 1979 and passed 12,324 to 6,083. The date of the first mixed beverage sale was February 2, 1979.

Upon election of an ABC store, Durham County was authorized to create an ABC Board consisting of a chairman and two members to serve for three-year terms. House Bill 906 authorized Durham County Board of Commissioners to appoint five board members to serve for three-year terms. During the initial audit fieldwork, current board members included Kimberly Shaw, board chair, Erroll Reese, Dr. Deidre Guion, Michael Nelson, and Wayland Burton, board members. Since the initial audit fieldwork, new board members have been appointed by the Durham County Commissioners.

The Durham County ABC Board operated eight retail stores during FY2011, including four mixed beverage outlets. The board staffs six administrative employees, three law enforcement officers, and forty-three store employees. Key administrative staff consists of general manager, fiscal services director, support services director, law enforcement chief, and two operations managers. The general manager is responsible for the overall operations of the system including forecasting, planning, and policy enforcement. The finance services director is responsible for all financial operations and budget maintenance. The support services director is responsible for the informational technology within the system. The law enforcement chief enforces all ABC laws county-wide and provides training to restaurant establishments. The operations managers' responsibilities include general oversight of retail and mixed-beverage stores consisting of routine inventory maintenance and various payroll duties. All store managers' and clerks' responsibilities include selling products, daily stocking, and floor upkeep.

FINANCIAL ANALYSIS

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 Durham County ABC Board receives deliveries weekly: the inventory rate is 6.5 and therefore meets the goal set by the Commission.

No recommendations.

Operating Cost

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

- 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 (with and without MXB), 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 Durham County ABC Board operated nine retail stores in FY2011 but have since closed one and relocate another bringing the total number of retail stores to eight, having an operating cost ratio of 0.71. Durham County leases three out of seven stores with one lease expiring in 2011 and others in 2012 and 2016. Rent expenses total \$128,232. The board leased a vehicle until 2014. Vehicle rental expense totals \$5,149. In comparing expenses with similar size boards, except for insurance fees, Durham ABC's salary expenses are high. Expenses may vary from board to board due to geographical location, number of stores, population, and percentage of MXB sales to retail. Durham County has a policy of using local vendors whenever possible. *Refer to charts in Appendix A for analyses of expense history and common expenses of similar size boards.*

Recommendations:

- Other post-employment benefits (OPEB) expenses will continue to rise. It may be beneficial to contact CPA for advice on the benefits vs. cost implication of continuing this incentive program.
- 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, continue to analyze personnel hours to assess efficient personnel usage by determining when the slowest hours occur and consider adjusting the number of personnel needed for those time periods.

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

In FY2011, Durham County ABC had a working capital of \$1,570,741, which is equivalent to approximately three months gross sales and is within the limits of NCAC 02R .0902.

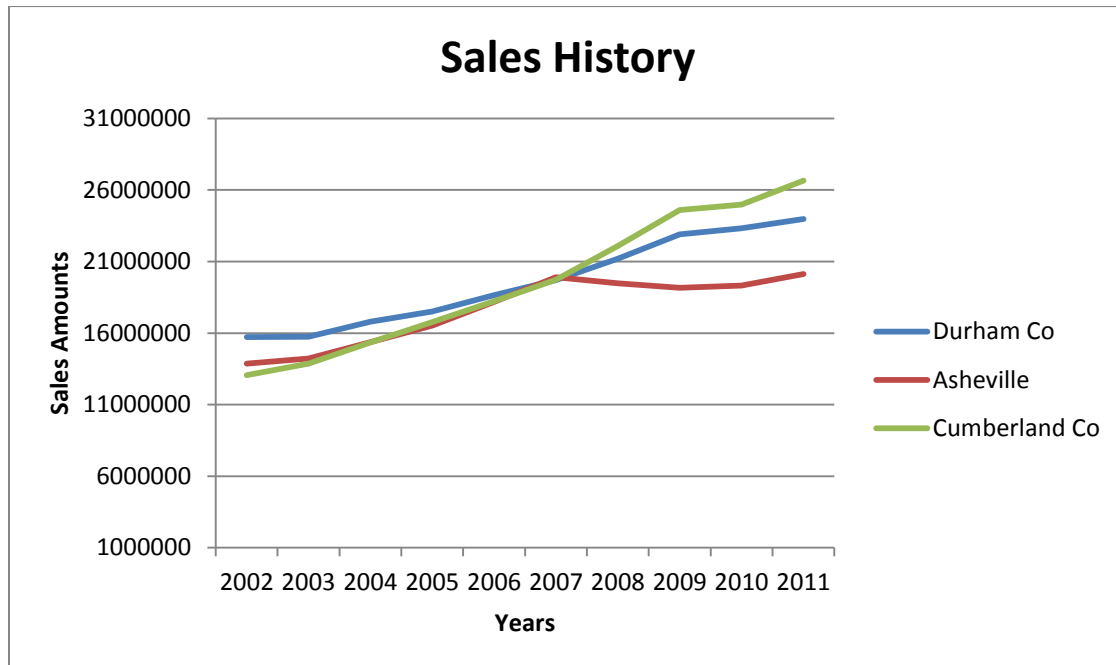
Profit percentage to sales

The profit percentage to sales is calculated by dividing income from operations by the total liquor sales (Income from Operations/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%

In fiscal year 2011, the Durham County ABC Board had gross sales of \$23,967,592; income from operations was \$1,512,621, a 6.13% profit percentage to sales.

Below is a sales history analysis of similar size boards. The analysis shows a steady increase for the past ten years.



Factors affecting sales and profitability:

- US Census Bureau reports a population of 267,587 in 2010,
- Surrounding counties with ABC stores include Chatham, Granville, Orange, Person and Wake;
- Closing of one store and two store relocations for a total of eight retail locations.

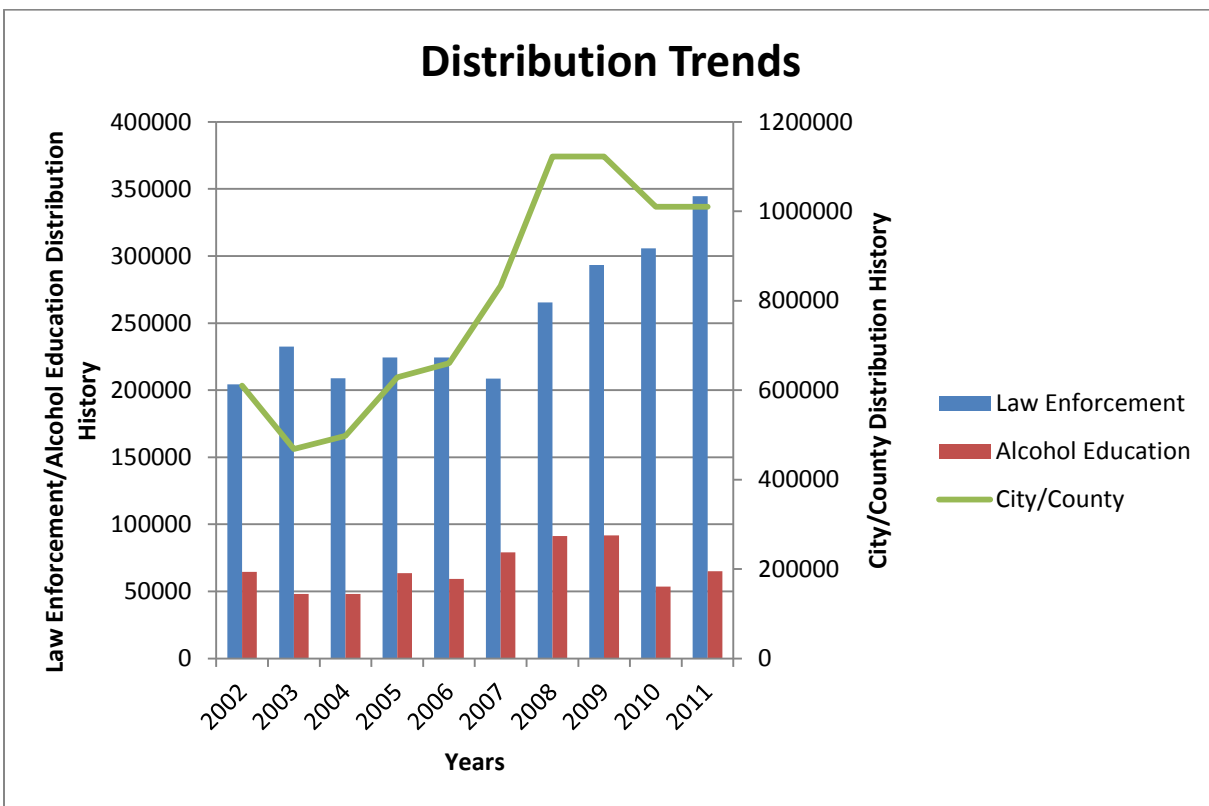
Distributions

G.S. 18B-805 (c) (2) requires the board to distribute quarterly at least five percent of profits for law enforcement. The enabling act requires the board to distribute up to seven percent for alcohol education. The remaining profits are to be distributed to the following:

- 10% to City of Durham General Fund
- 90% to County of Durham General Fund

In FY2011, Durham County ABC made the required minimum distributions to the county totaling \$675,594, plus additional distribution of \$334,406. A total of \$5,663,100 in Excise and other taxes were paid to the NC Department of Revenue and Durham County. The Durham County ABC Board distributed forty-three percent (43%) of profits for law enforcement, \$344,547, and eight percent (8%) of profits toward alcohol education, \$65,101.

Below is a history of Durham County’s distributions. The analysis indicates that while law enforcement and alcohol education distributions have increased the distributions for the city and county have tapered off.



Note: Durham County distributes 20% for law enforcement.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On May 22, 2012, ABC Commission Board Auditor, Moniqua S. McLean visited the Durham County ABC board office and interviewed Emily Page, general manager, Lee Keatts, fiscal services director, Jackie Woody, accountant, Perlie Davis, support services director, Terence Wright, warehouse manager, and Mike Gilmer, operations manager. The following are the findings, observations, and recommendations relating to the performance audit.

Store Appearance and Customer Service Observations

The Durham County ABC Board closed two older stores and relocated them for a current total of seven retail stores, plus one mixed beverage only. The stores range from approximately 700 to 1,100 linear feet of shelf space and carry an average of 700 product codes in each store.

- The required Fetal Alcohol Syndrome poster was displayed in all locations.
- The price book and monthly sales list are available to customers via website and in each store.
- A consistent and easily understood shelf management system was present in all locations, conforming to the latest industry and marketing strategies.
- All locations were clean and well-maintained. Bottles were dusted and fronted.
- Upon entering each store, employees greeted customers in a professional manner and were attentive to customer needs exhibiting good customer service.

No Recommendations.

Personnel and Training

- All board members, general manager, and finance officer have attended the mandatory ethics class. Since the initial audit fieldwork, a new board member has been appointed to fill the seat of a board member whose term expired. The board member has not taken the mandatory ethics class.
- Training is provided as new information becomes available to current staff. Management has implemented monthly store managers' meetings for product knowledge, policy implementation, and other information. Law enforcement provide training opportunities to mixed beverage permit holders.

Recommendations:

- Have all new board members take the mandatory ethics class as required by G.S. 18B-706(b). Refer to Appendix C (1) for statute.

ABC Board Policies

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Durham County Travel Policy FY2011 (Approval Submitted from Durham County)
 - FY2011 Annual Audit
 - FY2012 Budget (Proposed and Adopted)
 - Employee Handbook
 - Price Discrepancy Policy
 - Mixed Beverage Policy

No Recommendations.

Internal Control Procedures

- Thirteen credit cards are issued to the board. When a board member/employee needs a credit card, it is common practice to have the credit card user sign out a card and return when the transaction is completed. However, not all credit cards are returned when not in use. Many cardholders make similar transactions. A written credit card usage policy has not been adopted detailing usage and current practices.
- Cash drawers are counted daily. All clerks are responsible for their own cash drawer. Management has implemented procedures and guidelines for safeguarding assets.
- Bank deposits are made regularly as required by the ABC Commission rule. Bank notification is received and matched with corresponding daily register and store reports. Bank reconciliations are completed monthly by the accountant.
- Physical inventory counts are performed monthly by the store manager and scheduled clerks. Once completed, the counts are forwarded to the warehouse manager for comparison with the main inventory system and then to the main office. After the warehouse and main office polls the sales and imports the counts into the master system, a variance report is created for each store detailing discrepancies. The discrepancy list is forwarded to the particular store for a re-count.

Recommendations:

- To eliminate potential misuse and to minimize similar transactions, consider reducing the number of credit cards in circulation by consolidating purchases/spending.
- To implement consistent internal controls, adopt a written credit card usage policy that states current practices of signing in/out credit cards. Document procedures for the usage including:
 - Who has authority to use the card,
 - What types of items the card may be used for,
 - Personal usage is prohibited,
 - An itemized receipt for every transaction is required indicating purposes of purchase if not readily evident,
 - Receipts are to be submitted within a reasonable time period before credit card reconciliation.

Administrative Compliance Findings and Observations

- Board meeting minutes were viewed, followed the order of proceedings for conducting a business meeting, and referenced the conflict of interest statement.
- While reviewing the minutes, management accepted gifts from a vendor in order to make plans for an employee event.
- Board member appointment dates and compensation amounts are current on the Commission website.
- Board members receive a higher level of compensation approved by the appointing authority as required by GS 18B-700(g). The general manager compensation is in compliance with G.S. 18B-700 (g1).
- Nepotism – The board is in compliance with G.S. 18B-700 (k).
- Law enforcement activity reports have been submitted to the Commission.
- Travel expenses do not conform to the current travel policy. In reviewing a sample of travel expenses, unauthorized travel expenses were reimbursed. Various instances occurred in which receipts were not submitted.
- All liquor orders and purchase orders bear the pre-audit certificate and are signed by the finance officer.
- All checks bear the approved certificate and are signed by the fiscal services director and general manager and/or the board chairperson. In the event the fiscal services director is unable to approve and sign checks, the accountant will sign in his absence. An approval from the appointing authority has been submitted to the Commission allowing the remaining board members to sign checks in the event the general manager or board chairperson is unavailable.
- Out of an average of 700 product codes in each store, approximately 1,153 were sampled and two product codes did not reflect the correct price set by the Commission.

Recommendations:

- Comply with the law prohibiting accepting any gifts from business vendors. *Refer to Appendix C (2) for statute.*
- Adhere to the current adopted travel policy when issuing travel expense reimbursements.
- Audit all shelf tags on a rotating schedule to ensure accuracy. Incorporate a shelf tag audit (by section) into the weekly inventory count.

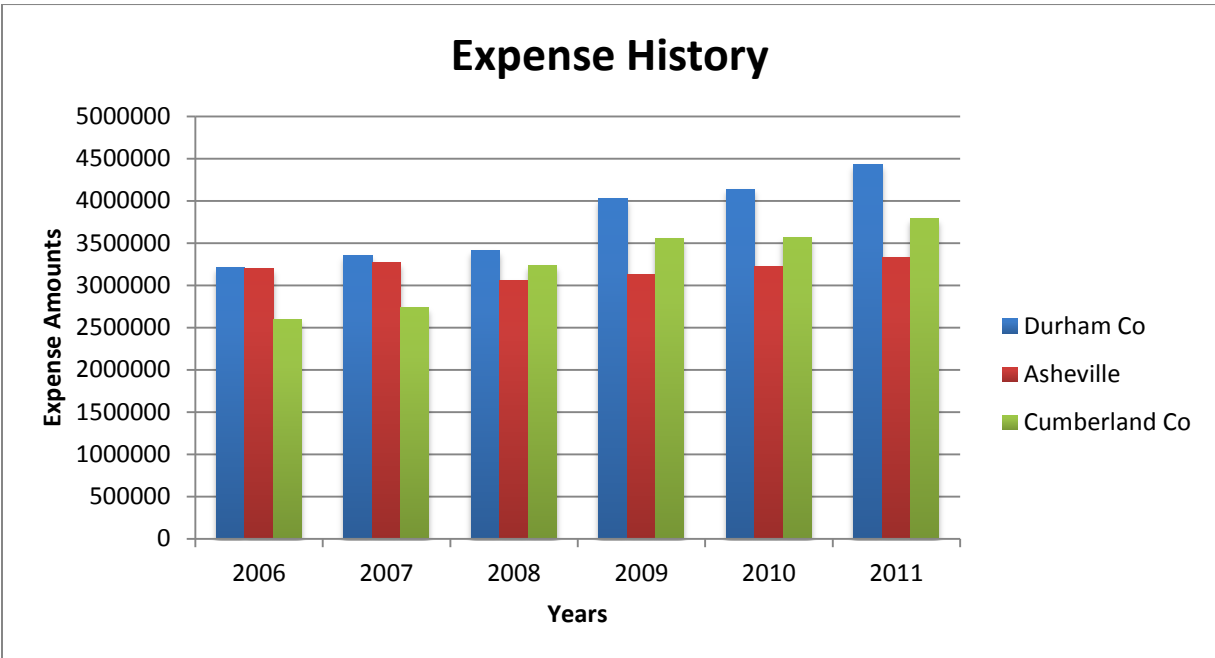
Other

- Durham County provides funding for alcohol education programs with North Carolina Central University, Durham Public Schools, and John Avery Boys Club to promote education for alcohol awareness and substance abuse to youth while providing training to counselors and teachers.

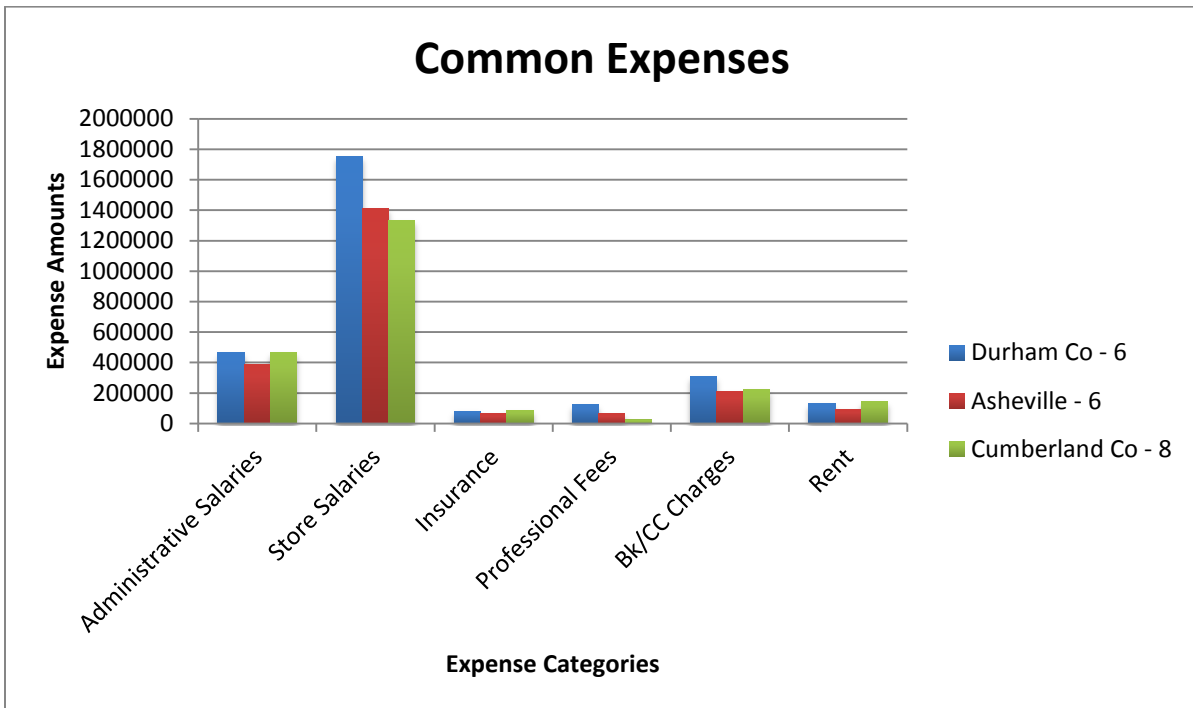
Recommendations:

- Ask all recipients of alcohol education funding to provide annual reports detailing how the funds were spent. *Refer to Appendix C (3) for statute.*

APPENDIX A



The expense history data indicates that Durham County ABC's expenses have increased approximately 38% over the past five years. Comparing expenses of similar size boards, Durham County's expenses are higher.



The comparison of common expenses of similar size boards indicates that some expenses are slightly higher for Durham County than other boards.

APPENDIX B



Durham County Administrative Office Building



Interior view of Hillsborough Road location.



Interior view of N. Roxboro Road location.



Interior view of Hwy 55 location.

APPENDIX C

(1) *G.S. 18B-706(b) states, "Each member of a local board shall receive a minimum of two hours of ethics education within 12 months after initial appointment to the office and again within 12 months after each subsequent appointment to the office."*

(2) *G.S. 133-32 states, "It is unlawful for any officer or employee of a governmental agency willfully to receive or accept any such gift or favor."*

G.S. 18B-201 (d) states, "The provisions of G.S. 133-32 shall apply to the Commission and local boards."

(3) *G.S. 18B-805(h) states, "Any agency or person receiving funds from the county commissioners or local board under this subsection shall submit an annual report to the board of county commissioners or local board from which funds were received, describing how the funds were spent."*



Board Chair

Kimberly D. Shaw

Board Members

Deirdre Guion

Michael "Kevin" Nelson

Erroll Reese

Connie J. White

General Manager

Emily A. Page

May 22, 2012

Ms. Moniqua McLean
NC ABC Commission
4307 Mail Service Center
Raleigh, NC 27699-4307

Dear Moniqua:

We welcome you to Durham County ABC for our performance audit. I anticipate that you will find our system to be high performing and we all look forward to hearing your recommendations on how we can improve to perform even more effectively.

We have conducted internal reviews to ensure that we are performing according to ABC Commission expectations. During this process, we recognized that our profitability ratio is not quite at the standard set for the size of our board. Even before reviewing the Commission's standards though, be assured that the leadership of Durham ABC has been conscious of the importance of our profitability and we are constantly searching for opportunities to improve.

There are number of measures that have already been implemented to help increase our profitability. I anticipate that Durham ABC will soon reach profitability expectations though some of the measures will have a longer term impact:

Strategic Actions - Longer -term Impact Expected:

- **Technology System Improvement**

Our current technology system is much more costly to operate and maintain than it should be. The system has not demonstrated the stability and performance that was expected when it was implemented. In order to improve the performance and stability of the system and reduce the cost of maintaining our technological processes, Durham ABC has engaged a technology expert to help us select a system that is more stable and high performing and that will reduce operating expenses in the long term.

The initial investment for changing our system may have a near-term adverse impact on our capital expenditures; however, our expectation is that we will experience significant long-term operating savings and efficiency as a result of a change.

- **Management Skills Development**

Store managers are being trained to understand profit and loss rather than revenue only. Store managers now receive monthly profit and loss statements for their stores so that they can recognize how costs impact their bottom-line performance and they can make better decisions that will improve their store-level profit performance.

Operational Actions - Immediate and Ongoing Impact Realized and/or Expected:

- **Part-time Staff Cost Reductions**

We have reduced part-time staffing and created revenue-generating standards as the basis for using part-time staff during peak hours. Also, the hourly salaries of part-time employees have been aligned to the labor market. Between the two actions, so far in the first ten pay periods of 2012, we have realized a cost savings of \$20,404 in part-time salaries expense.

- **Purchasing Savings**

The sales tax expense we have been paying for our packaging (i.e. paper bags) is being eliminated now that we have learned that this purchase is tax exempt for our business. We are also recovering sales taxes paid for the past three years which will return approximately \$10K to Durham County ABC.

Additionally, all employees are now required to conduct comparative price research on major purchases including printing, paper, ink, professional services, office supplies, etc.

- **Unprofitable Store Closings/Relocations**

We closed Store 5 as of May 12, 2012. This store failed to reach profitability over the three years since opening. Its closing will result in operating expense savings and we anticipate that we will recoup most of the lost sales from this store at our new, larger, self-service Store 1 which is opening soon just 4.5 miles away.

Store 14 was underperforming and we are relocating it to a much higher traffic area with great visibility. Rather than continue to operate unprofitably, we closed the underperforming location in January to save operating expenses. We anticipate the new Store 14 opening by the end of June.

- **Sales Opportunity Increases**

We are adding product displays to our stores to attract greater attention to new items and items of special interest during the year (e.g. holidays, events, etc.)

Additionally, product training manuals have been developed to enhance our sales staff's knowledge of product categories and recipes so that they can better assist customers with the product selections that will meet their needs, tastes and interests.

Managers also received training in consumer buying behavior for alcoholic beverages. This training is intended to help managers better recognize diversity in customer shopping styles and needs so that they can prepare their staffs to serve each type of customer most effectively.

As shared before, the leadership of Durham County ABC is very mindful of our need to operate as efficiently, effectively and profitably as possible while still maintaining our high standards for the control of the sale of alcoholic beverages. We are committed to continuing to discover opportunities to perform even more profitably so that we can provide as much financial contribution to our community as possible.

Our entire staff looks forward to continuing to operate a great ABC system and to reaching our greatest performance potential. Again, your suggestions for how we can improve even further on this important performance standard as well as others are eagerly anticipated and welcomed.

Sincerely,



Emily Page

Durham County Alcoholic Beverage Control Board

3620 Durham Chapel Hill Blvd, Durham, NC 27707



Board Chair

Kimberly D. Shaw

Board Members

Wayland Burton

Deirdre Guion

Michael "Kevin" Nelson

Erroll Reese

General Manager

Emily A. Page

October 26, 2012

Moniqua McLean
ABC Board Auditor
NC Alcoholic Beverage Control Commission
4307 Mail Service Center
Raleigh, NC 27699-4307

Dear Ms. McLean:

The Durham County ABC Board is pleased to present our response to your draft audit report resulting from the performance audit conducted in May – August, 2012. The draft report was provided to our board on August 29, 2012 and you subsequently presented your findings on September 17 at our regular board meeting. Our board was given until October 28, 2012 to respond to the draft report.

Prior to your audit, Durham County ABC conducted an internal pre-audit of our performance based on the stated criteria that was provided by the NC ABC Commission. Our internal results indicated the areas where we could anticipate that changes needed to be made. Since FY2011, the period for which we were reviewed during the audit, Durham County ABC had already begun internal efforts designed to improve our performance in a number of the audit areas as well as in our operating efficiency and financial performance overall.

Our response to your draft report includes the following:

- Pages 2 - 5: Responses to the recommendations in the draft audit report
- Pages 5 - 6: Performance areas that we would like to highlight
- Pages 7 - 8: Other responses to the draft audit report

We want to ensure that Durham County ABC is always improving to become as effective as possible. To that end, we are very interested in learning more about the ABC Commission's standards for some of the areas where recommendations were offered. Also, we welcome your feedback as to whether the two boards used for comparison in the audit, Asheville ABC and Cumberland County ABC, should be our consistent comparison points for evaluating our operations on an ongoing basis. Please share the standard for selecting these two boards such as number of stores, annual sales volume, etc. and your perspective on whether these boards should remain as benchmarks against which we can compare our operations.

We look forward to your final report with our response included. If you have any questions regarding our response, please contact Emily Page, General Manager, or any member of our board.

Sincerely,

The Durham County ABC Board

cc: Mike Herring

Phone: (919) 419-6217

Fax: (919) 489-0933

www.durhamabc.com

Responses to the Recommendations in the Draft Audit Report

Operating Cost Recommendations

- **Recommendation:**
OPEB Expenses will continue to rise. It may be beneficial to contact CPA for advice on the benefits vs. cost implication of continuing this incentive program.

Response:

This recommendation does not take into account that the OPEB expenses that we are incurring are being eliminated over a 12-year plan that began in 2007. Our expenses will actually decrease over time.

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

Response:

As we shared in our welcome letter upon your arrival (see Appendix A), Durham County ABC has implemented a number of new measures to improve our cost efficiency. Among those new measures is a requirement that competitive price research be conducted on major purchases including printing, paper, ink, professional services, office supplies, etc.

In some cases, annual bidding is not practical such as in the case of audit or legal services because there is greater efficiency in establishing a multi-year contract to eliminate internal staff time costs involved in the continuous start up of these types of services. However, for significant purchases of commodities, we have established a cost comparison process. We are recognizing significant cost reductions already and anticipate further reductions in the cost of goods and services purchased as a result of this requirement.

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

Response:

Several measures had proactively been implemented to decrease salaries expense at Durham ABC since FY2011. These measures include:

- Bringing all part time salaries into alignment with the labor market
- Tracking hourly and daily sales transactions and proceeds so that part time staffing can be used more judiciously and only as needed based on minimum sales volume thresholds

The result of these efforts was a greater than \$45,000 reduction in part time staffing costs between January and June of 2012 compared to the same period in 2011. In the first quarter of FY2013 (July – September 2012), this trend continued with a \$23,500 reduction in part time staffing costs versus the same period in 2011. In addition to the above staffing/salaries costs reductions, the position of Chief Operating Officer was eliminated as of December 31, 2011 which reduced our overall personnel expenses by approximately \$102,000 for this position.

Durham County ABC has a practice of using a minimum of two employees at all times. This practice is intended for the safety of our staff. Not all ABC systems follow this same practice therefore our overall salaries expense may be higher because we experience a higher fixed cost for salaries.

The ABC Commission chose to compare our salaries expense to Asheville ABC and Cumberland County ABC based on our “similar size”. In researching the practices of these two boards, it could be expected that our salaries expense would be higher because of differences in our staffing practices in one case and in cost of living/regional salaries in the other.

Durham County ABC will remain vigilant in seizing staffing cost savings opportunities while still effectively operating the organization and maintaining our standards for the safety and well being of our employees.

Findings, Observations and Recommendations

Policy and Procedures Recommendations

- **Recommendation:**
Consider reducing the number of credit cards in circulation by consolidating purchases/spending.

Response:

Measures being considered include:

- Eliminating some cards that are issued to individual staff members and keeping a single card for similar types of purchases such as office expenses which will be “checked out” and returned
- Consider whether a card should be “checked out” by board members for travel or if the organization should move to the use of prepayments and travel advances for larger expenses when travel is anticipated

This is another area for which we welcome more information on the standards against which we can measure our performance. For example, what is the appropriate number of credit cards for a board of our size and how has that standard been determined?

- **Recommendation:**

Adopt a written credit card usage policy. Document procedures for the usage including:

- Who has authority to use the card
- What types of items the card may be used for
- Personal usage is not allowed
- An itemized receipt for every transaction is required
- Maximum limit allowed on purchases before approval is needed from finance officer
- Receipts are to be submitted within 15 days of the purchase

Response:

A credit card policy is being drafted for consideration by the board. A draft policy will be reviewed by December 31, 2012.

Administrative Compliance Findings and Observations Recommendations

- **Recommendation:**

Adhere to the adopted travel policy when issuing reimbursements for travel expenses.

Response:

Durham County ABC does adhere to its adopted travel policy with respect to reimbursements for expenses. Reimbursements are made for approved expenditures after the presentation of a receipt and explanation of the expense as it relates to Durham County ABC.

Reimbursement requests for normal commuting travel are to be submitted monthly per the travel policy. In cases in which the practicality of paying for multiple months' mileage in one check provides greater operating efficiency than the cutting of monthly checks, board members are allowed to submit their mileage reimbursement requests beyond the monthly requirement. However, the travel policy stipulates that expense reports that are greater than 90 days old will not be paid and this policy is followed.

- **Recommendation:**

All credit card purchases should be accompanied by a detailed receipt indicating the purposes of purchase if not readily evident.

Response:

Durham County ABC's travel policy mirrors that of our appointing authority, the County of Durham. Durham County ABC has obtained the required approval to use this policy each year since this requirement has been legislated. This travel policy makes no requirement about the details that must be included on the receipts that must be provided in order to be in compliance.

Durham County ABC makes great effort to ensure that all expenses are properly accounted for and, only in limited cases, have there been instances in which receipts were not available. Even in such cases, expenses had to be substantiated with documented expense reports stating the date and the Durham County ABC related purpose of the expense.

- **Recommendation:**

Audit all shelf tags in the store and cash register for correct pricing. To ensure accurate pricing in the future, incorporate a shelf tag audit (by section) into the weekly inventory count.

Response:

Durham County ABC has an effective shelf tag audit measures in place as evidenced by your audit results. The store staff carefully follows procedures to ensure that pricing is accurate and that all price changes are reflected on our shelves at the time that they become effective.

Your audit indicated that 1151/1153 codes reflected the correct price. This represents a 99.8% accuracy rate which is about as close to perfect as can be achieved in such a tedious process. This high rate reflects the very close attention and effort that our store staff puts forth to ensure that our customers experience price accuracy in the shopping experience with us.

Other Recommendations

- **Recommendation:**

Ask all recipients of alcohol education funding to provide annual reports detailing how the funds were spent.

Response:

Durham County ABC has always required recipients of our grant funds to provide reports on the use of the funds in addition to reporting the measures of the effectiveness that are used to evaluate their funded program/project. We have reports on file from our FY2011 and FY2012 Major Grant Partner. We also have notarized affidavits certifying that our FY2012 Ambassador Grant recipients will use their grant funds as stated in their applications and that they are required to provide reports within six months of the grant receipt detailing the use and measurement of the effectiveness of their funding.

Durham County ABC will continue to uphold our requirements for program evaluation and reporting as grant funds are distributed in the future.

Performance Areas that We Would Like to Highlight

Improvement in Operating Cost Ratio

Durham County ABC has improved our operating cost ratio since the period reviewed in the performance audit. The Commission's established goal is 0.67 or less. The draft audit report indicated that our ratio was 0.71 based on FY2011 performance. Based on our FY2012 audited financial reports, our ratio has already lowered to 0.64 which exceeds the Commission's goal.

Improvement in Profit Percentage to Sales

We have also improved our profit percentage to sales from 6.32 to 8.03 since the period of the audit review. Though we are not quite at the Commission's standard of 9% for the size of our board, we have made significant headway and anticipate an even greater increase in the future. This significant step in the right direction is attributable to the changes in organizational structure, operating norms and cost efficiency efforts that have been made.

Durham County ABC has incurred some substantial, unanticipated expenses for the maintenance of our point of sale system over the past 3 years which has impacted our profit percentage. These expenses will be drastically reduced in future years after our investment in a proven, more efficient system during FY2013.

With continued cost efficiency efforts and reduction in technology costs, we anticipate that our profit percentage will be at or above the Commission's standards in the near future.

Durham County ABC would like additional clarification as to how the 9% standard was established so that we may be proactive in the future toward meeting this standard.

Distributions to County and City of Durham

We are proud that our FY2012 distributions to the County and City of Durham in FY2012 reached their highest levels in the past 10 years. We distributed \$1,015,000 to the general funds of the County of Durham and \$112,782 to the City totaling \$1,127,782. Our alcohol abuse awareness and education funding for FY2012 of \$84,626 was provided to the Durham Public Schools and to several community organizations that target our current focus area of the prevention of underage drinking.

Our distributions to the County and City general funds and to the community are part of our core mission therefore careful attention is always given to ensuring that we maximize the funding we make available while still maintaining the operating capital needed to support the organization's financial stability for future growth. Leading up to FY2011, the board anticipated investments in capital expenditures for the purchase and renovation of our newest stores at Holloway Street and at Hope Valley Road. Both of these stores were relocations of smaller, less financially viable operations. Each of these new stores is showing a substantial increase in sales over their previous locations. We view these investments in our growth as important choices in supporting our ability to give greater distributions in the future.

With the exception of periods in which significant capital expenditures are foreseeable, the sales growth that Durham County ABC is experiencing from our improved locations, general sales growth in the industry and continued cost efficiency efforts are expected to lead to an upward trend in our future contributions to the County, City and community grant funding as the organization's bottom line financial performance continues to grow.

Other Responses to the Draft Audit Report

- Page 2, Background Information: In the second to last sentence of 3rd paragraph, the word “routing” should be deleted before “inventory maintenance”
- Page 2, Background Information and Page 3, Operating Cost: Depending on the time frame that is intended to be reflected, the number of stores may need to be corrected. On page 2, Background Information, if it is intended to reflect Durham County ABC’s status as of the time of the draft audit report, August 29, 2012, then it should reflect that we operate eight retail stores, one central mixed beverage only operation and five satellite mixed beverage locations. On Page 3, Operating Cost, if the report is intended to match the time period of the financial information that has been analyzed, then it should reflect that at the end of FY2011 we had nine retail stores, one central mixed beverage only operation and four satellite mixed beverage locations. Our store #11 is located in the same facility as our central mixed beverage only operation, however, the two operate as separate entities and Store #11 is also a satellite mixed beverage location that fills emergency orders when central mixed beverage is closed.
- Page 3, Operating Cost, the draft report states that our leases expire in 2011, 2012 and 2016. Two of our leases expired in 2012, one in January and the other in May. Our remaining lease on one of our facilities expires in 2015.
- Page 3, Operating Cost, under “Recommendations”: The draft report states that our OPEB expenses will continue to rise, etc. In January 2007, the Board terminated the OPEB plan (Retiree Health Insurance Benefit) and is currently in year 5 of a 12-year transition plan that will result in a complete elimination of this benefit. OPEB will not continue to rise since it is actually going down and headed toward complete elimination.
- Page 4, Profit Percentage to Sales: The draft report calculations seem to exclude \$2,374 of “Other Operating Income” which is reflected in our audited FY2011 financial reports. The inclusion of this income brings our profit percentage to sales to 6.32 rather than 6.13 as stated.
- Page 5, Working Capital: Our working capital as reflected in our FY2011 audited financial statement was \$1,570,741
- Page 7, Findings, Observations and Recommendations: In the opening paragraph, two name corrections are needed - Lee Keatts (vs. Lee Keats) and Terence Wright (vs. Terrence White).
- Page 8, Findings, Observations and Recommendations: In the Policy and Procedures section, we suggest the following description of the inventory physical count process:
“Physical inventory counts are performed monthly by the store manager and scheduled clerks. Once completed, the counts/variance reports are forwarded (faxed) to the warehouse manager who reviews the variances and also verifies the Main Warehouse quantities to investigate and possibly resolve differences between the Physical Counts versus the System On Hand Calculated Quantities. The warehouse manager then requests a re-count by the store for selected codes (determined by the warehouse manager). This process is followed by a second review by the warehouse manager and then, the actual posting of Inventory Shortage or Overage Adjustments.”

Rather than as stated:

“Physical inventory counts are performed monthly by the store manager and scheduled clerks. Once completed, the counts are forwarded to the warehouse manager for comparison with main inventory system and then to the main office. After the warehouse and main office polls the sales and imports the counts into the master system, a variance report is created for each store detailing discrepancies. The discrepancy list is forwarded to the particular store for a recount.”

- Page 10, under the Common Expenses chart: The first word should be “The” versus “Tthe”.

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OCT 30 2012

NC ABC COMMISSION

DURHAM COUNTY ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Policies and Procedures:</p> <p>Adopt a written credit card policy.</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 is investigating various measures on reducing credit cards issued. However, a credit card policy is currently being drafted for consideration by the board.</p>
<p>Administrative Compliance Findings and Observations:</p> <p>Adhere to the adopted travel policy.</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 implemented procedures to ensure policies are enforced and mirrors current policies.</p>