

# Cumberland 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/>

**Your Name**  
Director  
Permit Division  
(this is editable)

September 30, 2013

Cumberland County ABC Board  
Mr. Johnson Chestnutt, Chairman  
1705 Owen Drive  
Fayetteville, NC 28304

Dear Chairman Chestnutt,

We are pleased to submit this performance audit report on the Cumberland 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 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 efficient manner in which your ABC system is operated and the steps taken to modernize and operate customer friendly ABC stores.

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

Respectfully,

Michael C. Herring  
Administrator

CC. North Carolina Association of ABC Boards

**TABLE OF CONTENTS**

Financial Analysis.....6

Operational Observations, Findings, and Recommendations.....10

Cumberland County ABC Board Response.....17

## **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 store annual audit for the fiscal year 2012;
- Visited all stores;
- Interviewed key ABC board personnel.

The Cumberland County ABC Board has responded to the performance audit recommendations and has implemented standards and goals to obtain more profits while maintain current expenses. Policies and procedures have been established to maintain compliance with statutes and ABC Commission rules and to ensure efficient operations.

## **BACKGROUND INFORMATION**

The 1937 Act authorized Cumberland County to hold an election by referendum. The referendum was held on July 20, 1937 and passed 3,217 to 2,214. The first retail sale occurred on September 7, 1937. A mixed beverage election was held on June 19, 1979 and passed 13,121 to 7,769. The first mixed beverage sale occurred on August 1, 1979.

Upon election of an ABC store, an ABC board was created consisting of a chairman and two members to serve for three year terms. The board expanded from three to five members in 1982. Current board members are Johnson Chestnutt, board chairman, Alice Stephenson, Bob Lewis, Terri Thomas, and Wade Hardin, board members.

The Cumberland County ABC Board operates ten retail stores including nine that are also mixed beverage outlets and a central warehouse. The board staffs seventy-four full and part time employees which include administrative office personnel, law enforcement officers, and warehouse personnel. The administrative office consists of the director, assistant director, supervisor, IT director, human resources director, finance officer, assistant finance officer and accounts payable technician. Duties of the director consist of overseeing all operations of the system including forecasting, planning, and policy enforcement. The assistant director supervises all employees including warehouse, law enforcement, maintenance, and the supervisor. The supervisor is responsible for scheduling part-time employees and the stores' upkeep. The IT director handles all systems, registers, website, and cameras troubleshooting problems should they occur. The human resources director is responsible for all personnel documentation and hiring procedures for potential candidates including benefits for full-time employees and all training. The finance officer is responsible for all financial operations of the board including financial statement preparations, financial analyses as well as other duties required by the ABC statutes. The assistant finance officer is responsible for all bank reconciliations, inventory adjustments, and tax payments. The accounting technician handles all payrolls, limited inventory management, and all check writing.

## **FINANCIAL ANALYSIS**

### **Inventory Turnover**

The inventory turnover is calculated by dividing the cost of liquor by the average inventory in the system (Cost of Liquor/Average Inventory).

The Cumberland County ABC Board receives deliveries from the Commission weekly. The warehouse co-manager generates store orders based on each store's sales history. The inventory turnover rate is 5.9.

#### *Recommendations:*

- Continue with the following strategies already in place:
  - Analyzing sales and history reports to determine the bestselling products needed and to avoid overstock;
  - Watching customer shopping patterns and using the information to optimize product placement.

### **Operating Cost Ratio**

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 (MXB):

- Boards with 3 or more stores with MXB – cost ratio 0.67 or less
- Boards with 3 or more stores without MXB – cost ratio 0.94 or less
- Boards with 2 stores (with and without MXB) – cost ratio 0.83 or less
- Single store boards with MXB – cost ratio 0.77 or less
- Single store boards without MXB – cost ratio 0.93 or less

The Cumberland County ABC Board operates ten retail stores with mixed beverage sales: the operating cost ratio is 0.55. Mixed beverage sales make up 23.1% of total gross sales. In fiscal year 2012, sales increased 5.2% over the previous year while expenses increased 2% over the same time period. *An expense analysis is found in Appendix A.*

*No Recommendations.*

### **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 FY2012, Cumberland County ABC had a working capital of \$2,600,000 which is equivalent to less than 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 the total income before distributions by the total liquor sales (Total Income before Distribution/Total Liquor Sales). The Commission has set goals based on the following breakdown:

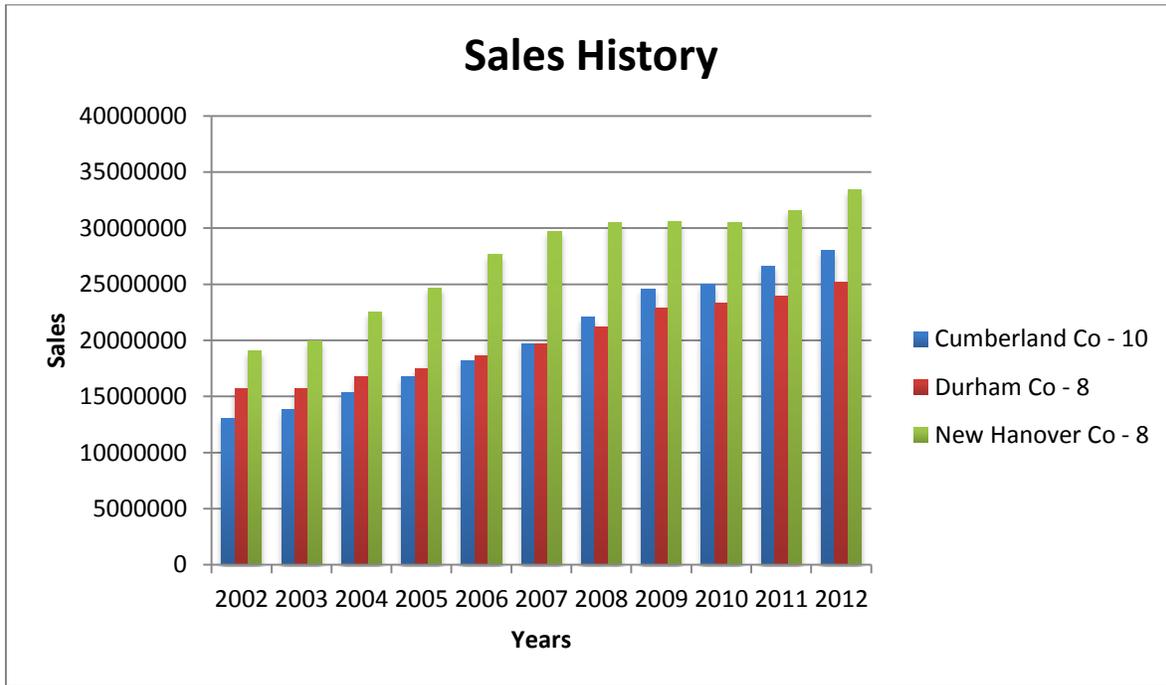
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Cumberland County ABC Board had gross sales of \$28,032,941; income from operations was \$2,893,186, a 10.32% profit percentage to sales.

Factors affecting sales and profitability:

- US Census Bureau reports an estimated total population of 324,049 in 2012, an estimated 1.4% increase from April 2010 to July 2012;
- Surrounding counties and townships with ABC stores include: Moore County, Hoke County, Newton Grove, Dunn, Sanford, and Elizabethtown.

Below is a sales history analysis of similar size boards compared with Cumberland County ABC Board. This chart analyzes the sales trend for the past ten years.



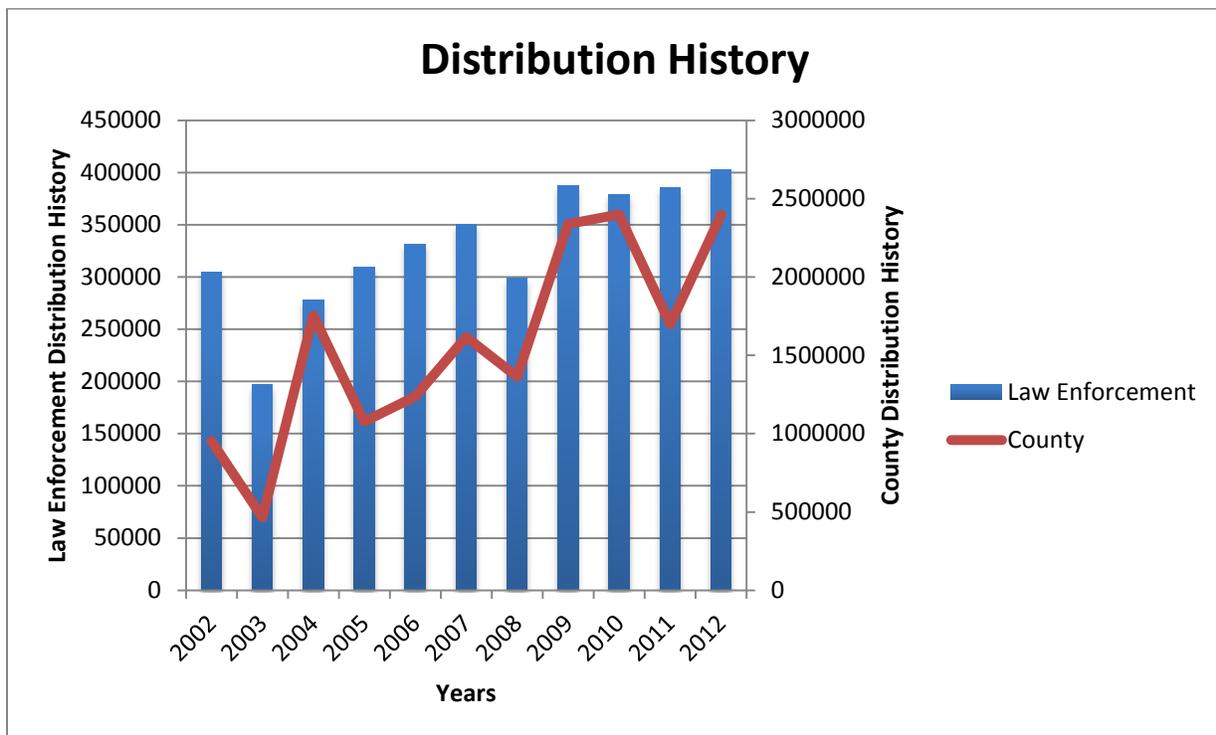
*No Recommendations.*

## Distributions

G.S. 18B-805 (c) requires the board to distribute at least five percent (5%) of profits to law enforcement. Alcohol education distributions are not required by the board's enabling act. The remaining profits are to be distributed to the Cumberland County General Fund of which up to \$25,000 can be spent on education of alcoholism and up to \$65,000 for commissioners' discretion.

In FY2012, the Cumberland County ABC Board made the required minimum distributions to the county totaling \$785,475 plus additional distribution of \$2,399,656. \$6,685,620 in Excise and other taxes were paid to the county and NC Department of Revenue and \$402,291 was distributed to law enforcement.

Below is a distribution chart analyzing the high-low trend of the Cumberland County ABC Board.



## **OPERATIONAL FINDINGS, OBSERVATIONS, AND RECOMMENDATIONS**

On May 15, 2013, ABC Board Auditor, Moniqua S. McLean, visited the Cumberland County Board and interviewed Gene Webb, general manager, and Carolyn Parker, finance officer. The following are the operational findings, observations, and recommendation related to the performance audit.

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

The Cumberland County ABC Board operates ten retail stores ranging from approximately 900 to 2100 feet of shelf space and carries a range of approximately 800 to 1900 product codes.

- All stores were clean, well-lit, and well-dusted. Counter areas were free of clutter having supplies easily accessible. No televisions were evident.
- In many stores the visual appeal has been enhanced through custom built cabinetry used to display particular products.
- The Fetal Alcohol Syndrome poster was displayed in all stores.
- Security systems are in place and functional. As part of their routine and when occurrences arise, law enforcement occasionally views security footage.
- All stores displayed a consistent shelf management plan that exhibits a vertical flow of like product within its category. To make use of empty shelving within the aisles, a product display is presented with the bestselling products. *Refer to Appendix B for pictures.*
- The state price book along with monthly sales lists is available in all locations.
- Sales clerks' interaction with customers is attentive, courteous, and all are eager to meet the needs of the customers.
- Uniforms are provided to all employees.

*No Recommendations.*

### **Personnel and Training**

- All board members, general manager, and finance officer have attended the initial mandatory ethics class.
- Training is provided as new information becomes available to current staff. Occasionally, employee meetings are scheduled for additional product knowledge and other information. Law enforcement informs new mixed beverage permit holders on current laws and the mixed beverage policy.
- A sampling of personnel files were viewed and contained the applicable tax information and documentation. To ensure receipt of employee handbook, employees sign an acknowledgement of receipt letter.

*No Recommendations.*

## **ABC Board Policies**

- Policies adopted and submitted to the Commission include:
  - Code of Ethics
  - Travel Policy (Cumberland County Approval Included)
  - FY2012 Annual Audit
  - Employee Handbook (Includes Price Discrepancy and Cash Overage/Shortage Policies)
  - FY2013 Budget (Proposed and Adopted)
  - Mixed Beverage Policy (On website)

*No Recommendations.*

## **Internal Control Procedures and Observations**

- All employees use time clocks accessed by fingerprint. Time entries are verified by the accounts payable technician for inaccuracies. A payroll system is responsible for tax and other withholdings. A master payroll report is verified by the human resources director and general manager.
- Store physical inventory counts are performed monthly by all scheduled staff. Once completed, counts are downloaded in the system to be calculated and verified with the master system in the office. If variances occur, the store managers and warehouse personnel will investigate and recounted before the process is repeated. If the same variances occur, the assistant financier will adjust the master system to match the actual store count. Warehouse inventory counts are performed monthly. If variances occur, the assistant finance officer will investigate with the stores and LB&B.
- Cash drawers are counted daily. All clerks are responsible for their own cash drawer. Management has implemented procedures and guidelines for safeguarding assets. Employees are not required to make up shortages should they occur.
- Bank deposits are made daily by whomever is scheduled to work, usually store management. All reconciliations are done weekly by the assistant finance officer.

*No Recommendations.*

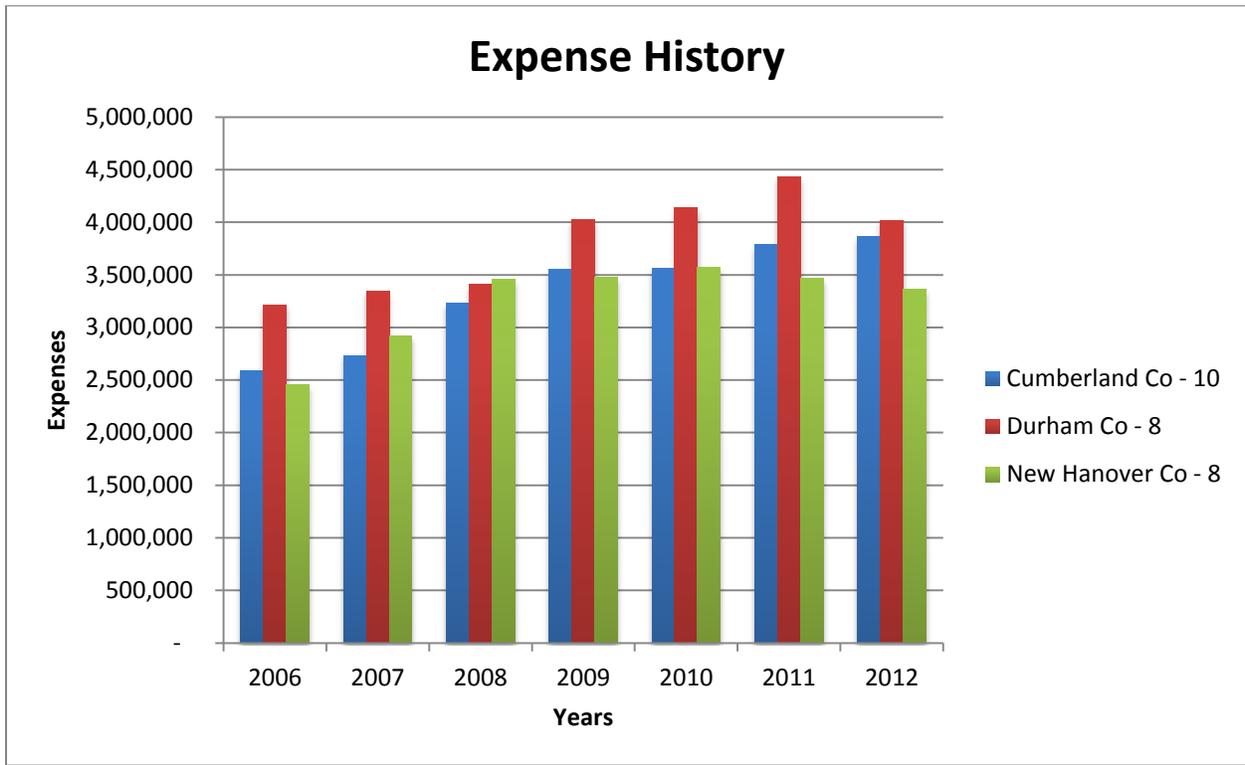
## **Administrative Compliance Findings and Observations**

- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting and referenced the conflict of interest statement.
- Board member compensation is over the maximum allowed as stated in G.S. 18B-700 (g). An approval from the appointing authority has been submitted to the Commission. The general manager compensation is over the maximum allowed as stated in G.S. 18B-700 (g1) but has been grandfathered in because of the timing of new legislation.
- Law enforcement activity reports have been submitted to the Commission as required by G.S. 18B-501 (f1).
- Nepotism – The board is in compliance with G.S. 18B-700 (k).
- All board members, general manager, and finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- Initial liquor orders and other common orders bear the pre-audit certificate as required by G.S. 18B-702 (m).
- All checks bear the approved certificate as required by G.S. 18B-702 9q) and are signed by the finance officer and the board chairman. In the absence of the finance officer and the board chairman, the general manager and the assistant manager can sign checks.
- Out of an approximate range of 800 to 1900 product codes, approximately 900 product codes were sampled and nine were incorrect.

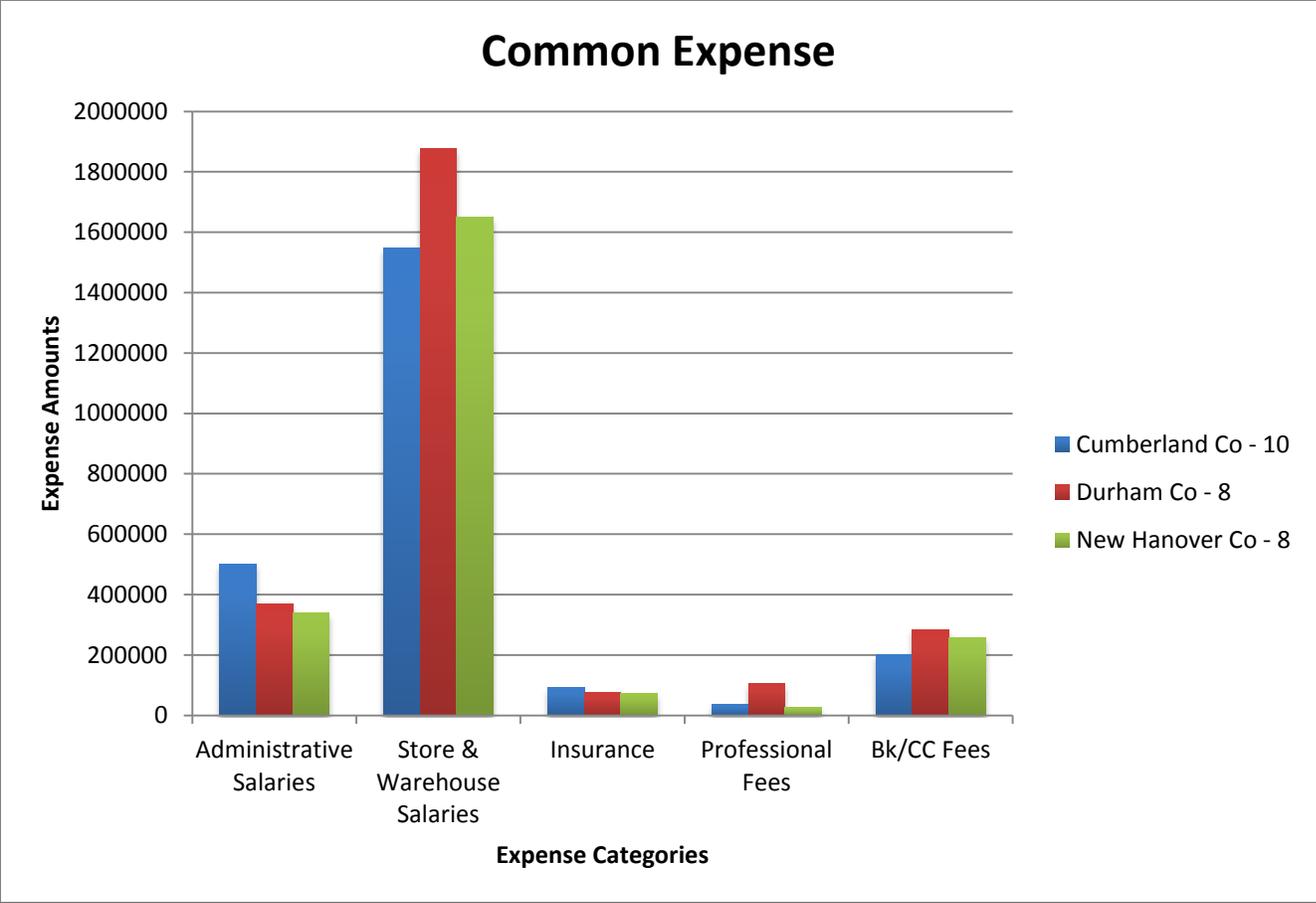
### *Recommendations:*

- Audit shelf tags more frequently. Incorporate such practices within spot check time periods.

## APPENDIX A



*The expense history data indicates that Cumberland County ABC Board's total expenses have although increased by 2% but are still comparable with similar size boards. Since FY2006 expenses have increased 49.30% while sales have increased 53.8% over the same time period.*



*With the exception of administrative salaries and general insurance, Cumberland County ABC's common expenses are relatively lower compared with other similar size boards. Total personnel for Cumberland County are 74, Durham County 78, and New Hanover County 39. Administrative personnel for Cumberland County is 8, Durham County is 6, and New Hanover County is 6.*

## APPENDIX B



*Exterior view of Raeford Road location.*



*Counter view of Raeford Rd. location*



*Interior view.*



*Shelf management display.*

CUMBERLAND COUNTY ABC BOARD OF ALCOHOLIC CONTROL  
1705 Owen Drive, Fayetteville, North Carolina, 28304  
910-484-8167

JOHNSON CHESTNUTT, Chairman  
ALICE SEPHENSON, Vice Chair  
TERRI THOMAS, Member  
BOB LEWIS, Member  
WADE HARDIN, Member  
GENE WEBB, General Manager

August 12, 2013

Ms. Moniqua Mclean, ABC Board Auditor  
N. C. State ABC Commission  
4307 Mail Service Center  
Raleigh, N. C. 27699-4307

Dear Ms. McLean:

The Board thanks you for attending our meeting on July 8, 2013 to present your performance audit report, findings, and recommendations. Our Board will use your recommendations to continue improving our system.

The Cumberland County ABC Board is pleased with the audit conducted by you; the Board thought the results were factual and very positive.

The Board has only two comments:

1. A correction on page 7, Internal Control Procedures and Observations, 3<sup>rd</sup> bullet. "Employees are required to makeup shortages should they occur" should read "are not required to makeup shortages".
2. Although the Cumberland County ABC Board was within one tenth of a percent to reach the suggested goal for turnover, we would like to have the Commission revisit and possibly reevaluate the recommended requirements for obtaining the goal for this category.

Our Board always strives to improve our stores appearance, operations, customer service and environment for our customers. Our Board also strives to make our system more efficient and to maximize profits to our local appointing authority.

The Cumberland County ABC Board of Alcoholic Control appreciates the time and effort that was required of you to prepare and present this performance audit.

Sincerely,



Johnson Chestnutt  
Chairman