

# Camden County ABC Board

## Performance Audit Report



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

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**Alcoholic Beverage Control**

CHAIRMAN:  
JAMES C. GARDNER

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Wake Forest

KEVIN M. GREEN  
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**Moniqua S. McLean**  
**ABC Board Auditor**

November 12, 2014

Camden County ABC Board  
Mr. Wayne Walston, Chairman  
PO Box 22  
Camden, NC. 27921

Dear Chairman Walston,

We are pleased to submit this performance audit report on the Camden 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. This report will be posted on the Commission's public web site.

We would like to thank your staff for the assistance and cooperation provided to us during the audit. Additionally, we appreciate the continuing efforts of your Board 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

## **EXECUTIVE SUMMARY**

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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 2013;
- Visited both stores;
- Interviewed key ABC board personnel.

## **BACKGROUND INFORMATION**

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Chapter 49 of the 1937 Session Law authorized Camden County to hold an election for an ABC store. The referendum was held on August 1, 1970 and passed 425 to 363. The first sale occurred on April 1, 1972.

Upon election of an ABC store, the county was authorized to create an ABC board consisting of a chairman and two board members to serve for three year terms. Current board members include Wayne Walston, board chairman, Michael McLain and Sandra Duckwall, board members.

The Camden County ABC Board operates two retail stores. The board staffs one full-time general manager and ten part-time employees, consisting of store managers and clerks. The general manager oversees all daily operations of both stores including supervising personnel, inventory control, administrative functions, and assists with cashier functions. The board has hired a finance officer within the system to provide checks and balances and perform duties as required by the Commission rules. Store managers and clerks extend friendly service to customers, assist with routine store upkeep, and stocking shelves.

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

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On February 24, 2014, ABC Board Auditor, Moniqua S. McLean, visited the Camden County ABC store and interviewed Durward Medlin, general manager, and Josh Scialdone, finance officer. Below is a financial analysis followed by operational observations, findings, and recommendations related to the performance audit.

### **FINANCIAL ANALYSIS**

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#### **PROFIT PERCENTAGE TO SALES**

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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 2013, the Camden County ABC Board had gross sales of \$1,068,010; income from operations was \$51,363, a 4.81% profit percentage to sales.

Factors affecting sales and profitability:

- Sales increased 5.68% over the previous fiscal year, however age and condition of Camden store does not encourage impulse shopping;
- Surrounding counties with ABC stores within a twenty-mile radius include Currituck County, and Pasquotank County;
- Virginia border is within 10 miles of the South Mills store location;
- County population is estimated to be 10,090 in 2012;
- Growth and development in surrounding, more heavily populated areas has led to a shift in shopping patterns away from small towns.

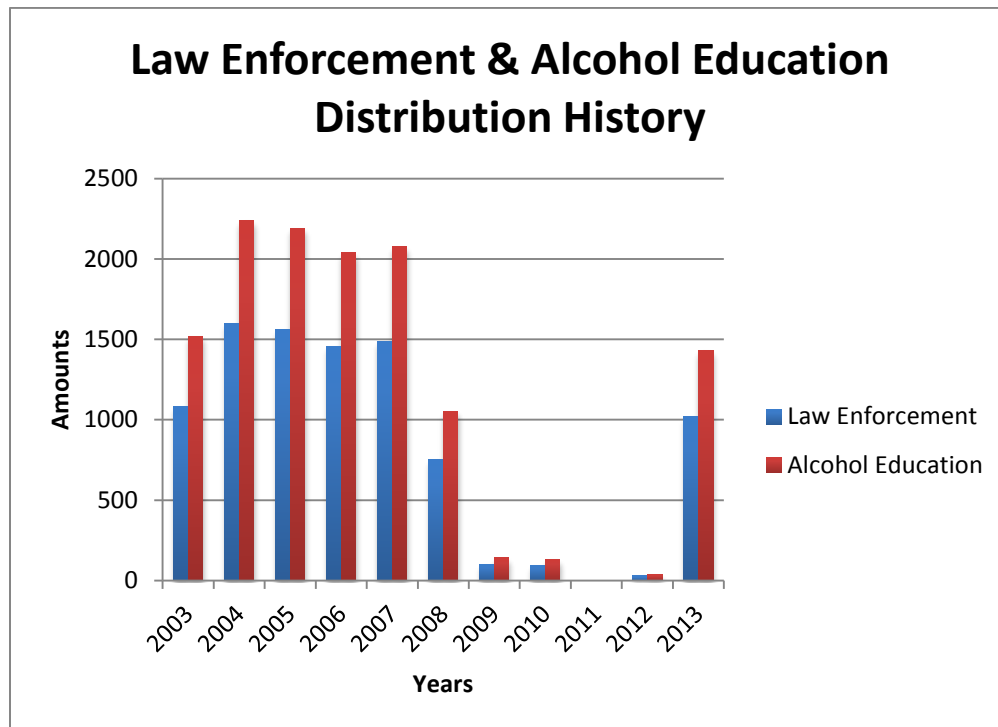
## DISTRIBUTIONS

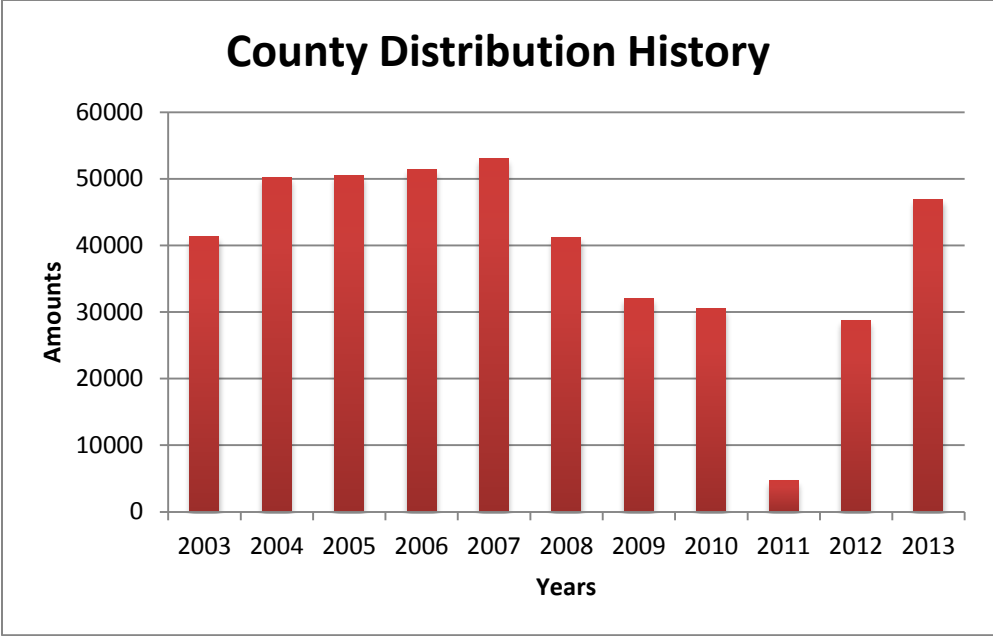
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G.S. 18B-805 (c) (2) requires the board to distribute at least five percent (5%) of profits to law enforcement. The board follows the local enabling act for alcohol education distributions, whereas alcohol distributions are not required but funds have been distributed. The remaining profits are to the Camden County General Fund.

In FY2013, Camden County ABC made the required minimum distribution to the county totaling \$20,433, plus additional distribution of \$26,444. \$240837 in state excise and other taxes were paid to the NC Department of Revenue and the county. A total of \$1022 was paid to law enforcement and \$1,430 for alcohol education.

Below is a distribution chart analyzing the high-low trend of Camden County ABC Board for the past ten years. Note: the distributions declined to the recent renovations to the second location in South Mills.







## **WORKING CAPITAL**

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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 FY2013, Camden County ABC had a working capital of \$150,729, which is less than four months gross sales and is within the limits of NCAC 02R .0902.

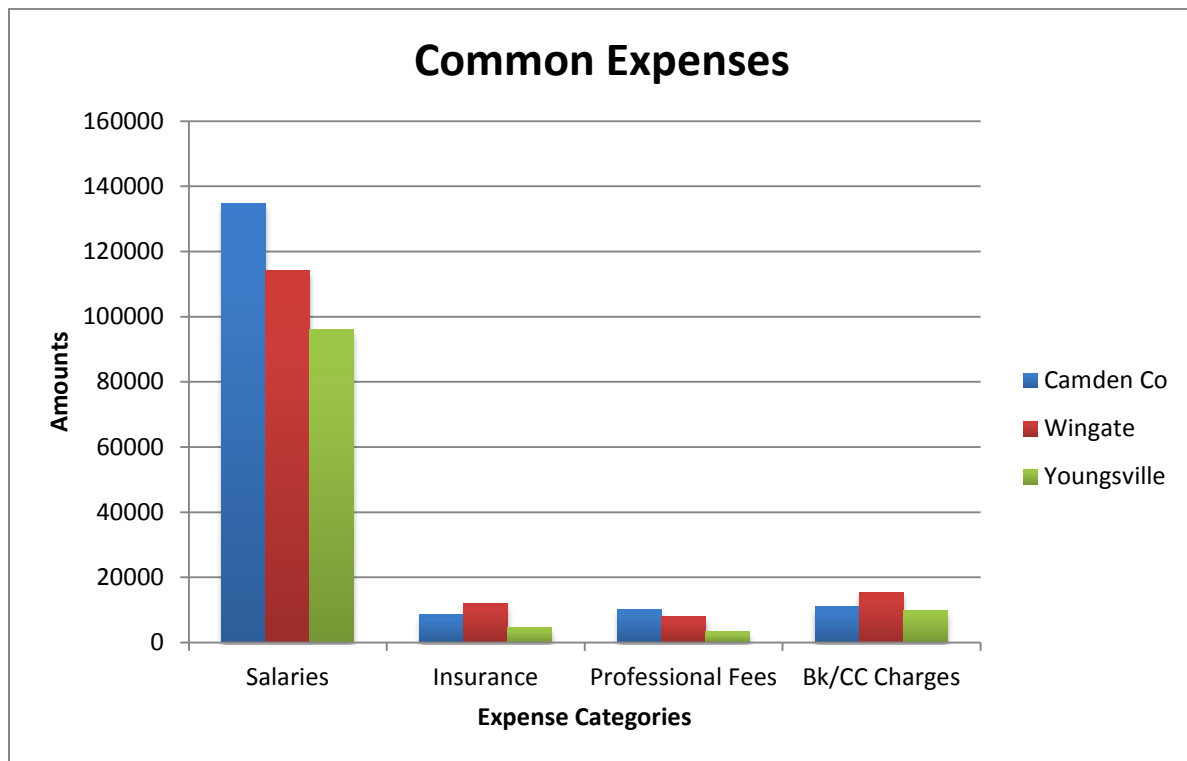
## OPERATING COST RATIO

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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):

- Single store boards with MXB sales that are equal to or greater than 25% of gross sales – cost ratio 0.75
- Single store boards with MXB sales less than 25% of gross sales – cost ratio 0.85
- Single store boards without MXB sales – cost ratio 0.85
- Boards with 2 stores with and without MXB sales – cost ratio 0.74
- Boards with 3 or more stores with and without MXB sales – cost ratio 0.64

The Camden County ABC Board operates two retail stores without mixed beverage sales; the operating cost ratio is 0.78. In fiscal year 2013, sales increased 5.68% over fiscal year 2012, as expenses declined 4.01% over the same time period. The board contributes to significant savings in overhead expenses as a result of owning the stores. To meet the goal and remain at current expense levels of \$200,626, revenues must be increased to \$1,125,000, a 5.3% increase. To meet the goal and remain at current revenues of \$1,068,010, expenses must be reduced to \$195,000, a 2.8% decrease.



*Note: Wingate ABC and Youngsville ABC have one store compared with Camden County ABC having two stores. Although expenses may be slightly higher than the other boards, expenses are reflected for the additional store and personnel expenses.*

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## **INVENTORY TURNOVER**

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

The Camden County ABC Board receives deliveries two times a month: the inventory turnover rate is 4.8. The average inventory turnover rate for similar boards with the same delivery schedule is 5.6.

## **RECOMMENDATIONS**

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1. Consider the following to increase inventory turns:
  - Utilizing end caps and shelf space as much as possible to highlight slow moving and new products;
  - Incorporating a shelf management plan that analyzes sales data to target shopping patterns;
  - Moving stock within store and between stores to increase visibility and to encourage more impulse shopping.

## **STORE APPEARANCE AND CUSTOMER SERVICE**

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The Camden County ABC Board operates two retail stores with a range of approximately 400 to 500 feet of shelf space and carrying a range of approximately 800 product codes in each store.

- Both stores were clean and well-dusted. However, carpet at the Camden location is old and needs replacing.
- Bottles were fronted and dusted. Counter areas were free of clutter and supplies were easily accessible. Lighting was dim at the Camden location but well-illuminated at the South Mills location.
- Exterior signage and landscaping around the stores is clean, free of trash, and visible. The South Mills store exterior signage is faded.
- The commuter parking lot at the front of the South Mills store creates more traffic not related to the store. The board has contacted the appropriate departments to assist in alternative measures with the problem.
- The parking areas for both locations are limited due to the position of the stores.
- Interior signage is neat and visible. The Fetal Alcohol Syndrome poster is displayed and visible to the public.
- A shelf management plan is in use that exhibits a strategy following the highest priced-product on the top shelves and lowest priced product on the bottom shelves. Product placement is consistent with sizes going from largest size to the right and the smallest size to the left. End caps are used for spotlighting bestselling or newest items. However, some shelves are empty. *See pictures on page 13.*
- The state price book is available should customers ask for specific product. Sales clerks' often refer to the price book for verification of product and pricing.
- Sales clerk's interaction with customers is attentive, courteous, and all are eager to meet the needs of the customers.

## **RECOMMENDATIONS**

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1. If you are planning to stay at current Camden location, consider renovating the entire store.
2. Replace all faded signs as clear visible signage is more appealing to customers.
3. Consider replacing old style plastic numbers with more modern looking shelf tags.
4. Consider these alternative product placement strategies:
  - Brand blocking products with bottles with mid-price at eye level and premium products on top shelf and lower priced items on lower shelf
  - Increasing cross merchandising by placing products that mix together on the shelves
  - Reallocating shelf space from declining categories to those showing growth
  - Aligning cordials by flavor profile rather than code number.

## **PERSONNEL AND TRAINING**

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- All board members, general manager, and finance officer have completed the initial ethics training.
- Cross training opportunities are being extended to key employees in the event the general manager was suddenly unavailable.
- Training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities on a continual basis. Management has implemented quarterly meetings to employees to incorporate product knowledge and other information related to job performance. Management often attends the NC Association of ABC Board General Manager conferences for training opportunities on these specific areas.
- Personnel files were available and displayed documentation for tax withholdings and other personnel information.

## **NO RECOMMENDATIONS**

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## **ABC BOARD POLICIES**

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- Policies adopted and submitted to the Commission include:
  - Code of Ethics
  - Law Enforcement Contract
  - Travel Policy (Camden County Commissioner Approval FY2011)
  - FY2013 Annual Audit
  - FY2014 Budget (Proposed and Adopted)
  - Price Discrepancy Policy
  
- Policies not adopted and submitted to the Commission include:
  - Employee Manual

## **RECOMMENDATIONS**

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1. As a reminder, request approval annually from appointing authority to adopt the county's travel policy. *Refer to Appendix B (1) for statute.*
2. Update the employee manual to include current practices and policies. Once adopted, distribute to all employees so that they will know what has been implemented. Have an acknowledgement of receipt signed by all employees and place in personnel files.

## **INTERNAL CONTROL PROCEDURES**

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- Timesheets are used by all clerks to record hours worked and are signed by the general manager and clerks. Two signatures are placed on the time sheets, that of the general manager and employee. The general manager verifies all hours reported for accuracy. The accounting software calculates the tax and other withholdings and creates payroll checks. The accounting software is backed up at every use.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures in handling shortages, whereas all shortages and overages are recorded in a daily log.
- Bank deposits are made regularly as required by the ABC Commission rule. Bank notification is received and matched with corresponding daily register reports. Bank reconciliations are completed monthly by the finance officer.
- Physical inventory counts are completed quarterly by all staff. Spot checks are conducted frequently. If discrepancies occur, the general manager investigates and recounts for accuracy and verification. Once completed, only the general manager will adjust the system to match with the actual store counts. Unsalable items are deducted from the inventory system when known.
- A credit card is issued to the board with the general manager as the only authorized user. The finance officer reconciles all transactions purchased with the card. The credit card is specifically used for travel expenses and store/office supplies. A written policy has not been implemented.

## **RECOMMENDATIONS**

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1. To ensure strong internal controls credit card purchases, 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 prohibited;
  - An itemized receipt for every transaction is required,
  - Maximum limit allowed on purchases before approval is needed from the finance officer,
  - Receipts are to be submitted within 15 days of the purchase;
  - Have someone other than the persons authorized to make purchases reconcile the credit card statements.

## **ADMINISTRATIVE COMPLIANCE**

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- Board meeting minutes were viewed and followed the order of proceedings, providing sufficient detail that a reasonable person would be able to follow what transpired.
- Board member appointment dates are current on the Commission website. However, compensation amounts were not current.
- Board member and general manager compensation is in compliance with G.S. 18B-700 (g0 and (g1).
- 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) whereas there are no immediate family members employed.
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- Orders for liquor and other miscellaneous orders do not bear the pre-audit certificate as required by G.S. 18B-702 (m).
- All checks bear the approved certificate indicating that the item has been approved by the finance officer for payment. Three signatures are located on all checks, that of the finance officer, general manager, and a board member.
- Out of approximately 800 product codes in each store, approximately 120 product codes were sampled and all pricing was correct.

## **RECOMMENDATIONS**

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1. Update the Commission website to reflect current information on board members and the general manager. The Commission relies on information provided by boards to create reports.
2. Place the pre-audit certificate with the finance officer's signature on the order to LB&B. When ordering supplies, have a purchase order or order confirmation that will have authorization from the finance officer before the transaction takes place. *Refer to Appendix B (2) for statute.*



## **AUDITOR'S SUMMARY**

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ABC Board Auditor, Moniqua S. McLean, presented the performance audit recommendations to the board on May 29, 2014. The board has not responded as to whether the recommendations have been implemented. Therefore, this audit is being submitted without a response from the board. A follow up visit will be conducted within six months of the final audit submission to determine whether the recommendations have been addressed and implemented.

## APPENDIX A

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*Illustration 1*



*Counter area*

*Illustration 2*



*Interior view*

*Illustration 3*



*Exterior view*

*Illustration 4*



*Counter view*

*Illustration 5*



*Interior view*

## APPENDIX B

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(1) *G.S. 18B-700 (g2) states, "...The local board shall annually provide the appointing authority's written confirmation of such approval to the Commission and a copy of the travel policy authorized by the appointing authority."*

(2) *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."*

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*(Signature of finance officer)*

## APPENDIX C

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>ABC Board Policies:</b></p> <p>Adopt the following policies and forward to the Commission:</p> <ul style="list-style-type: none"> <li>• Travel Policy Approval</li> <li>• **Employee Manual</li> <li>• ABC Board Credit Card Usage Policy</li> </ul>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p> <p>**Note: Required by Commission 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>It is unknown whether the Board has implemented recommendations as a response was not submitted.</p>
<p><b>Administrative Compliance:</b></p> <p>**Update the Commission website with current board member reappointment dates and compensation amounts.</p> <p>Affix the pre-audit certificate to all common orders and liquor orders.</p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p> <p>**Note: Required by Commission 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>It is unknown whether the Board has implemented recommendations as a response was not submitted.</p>