

Granville County ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

CHAIRMAN:
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COMMISSIONERS:
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Your Name
Director
Permit Division
(this is editable)

May 9, 2013

Granville County ABC Board
Mr. Allen T. Nelson Chairman
PO Box 876
Oxford, NC 27565

Dear Chairman Nelson,

We are pleased to submit this performance audit report on the Granville 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 Board is operated and for the efforts you have recently made to comply with the new performance standards.

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

Respectfully,

Michael C. Herring
Administrator

CC. North Carolina Association of ABC Boards

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EXECUTIVE SUMMARY

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

To achieve the objectives of the audit, ABC Commission staff

- Reviewed applicable General Statutes, ABC Commission Rules, and administrative policies;
- Reviewed applicable reports and studies of ABC boards with similar size and geography;
- Verified compliance with Commission and Board policies;
- Reviewed organizational chart and job descriptions;
- Reviewed ABC store annual audit for the fiscal year 2012;
- Visited all store locations;
- Interviewed key ABC board personnel.

The Granville County ABC Board submitted a response to the performance audit recommendations and has implemented standards and goals to obtain more profits while reducing 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 Granville County to hold an election by referendum. The referendum was held on February 16, 1963 and passed 1,898 to 1,749. The first retail sale was on July 19, 1963. A mixed beverage election was held on November 8, 2005 and passed 2,804 to 1,406.

Upon election of an ABC store, Granville County was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members include Robert Rogers, chairman, Allen Nelson and Robert Willisford, board members.

The Granville County ABC Board operates two retail stores. The board staffs thirteen employees consisting of six full-time and seven part-time employees. The general manager is responsible for the overall operations of the stores. In order to have efficient separation of duties, the board has elected to appoint a finance officer from within the organization and a bookkeeper. The finance officer is responsible for verification and signing the checks. The bookkeeper is responsible for all financial activities for the system. All clerks' duties involve various retail functions including selling products and stock maintenance.

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 Commission has set goals for determining an effective rate based on the frequency of deliveries. Below are the turnover rates based upon 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 Granville County ABC Board receives deliveries twice a month: the inventory rate is 12.44.

Recommendations:

- Continue with the following:
 - Analyzing sales and history reports to determine the bestselling products needed in each store and to avoid overstock;
 - Transferring slow movers between stores;
 - 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 Granville County ABC Board operates two retail stores with mixed beverage sales: the operating cost ratio is 0.56. The board owns both locations which indicate that overhead expenses are relatively lower. As sales have increased by 4.87% over last fiscal year, overall operating expenses have decreased by 0.88% over the same time period. Mixed beverage sales make up 3.2% of total gross sales.

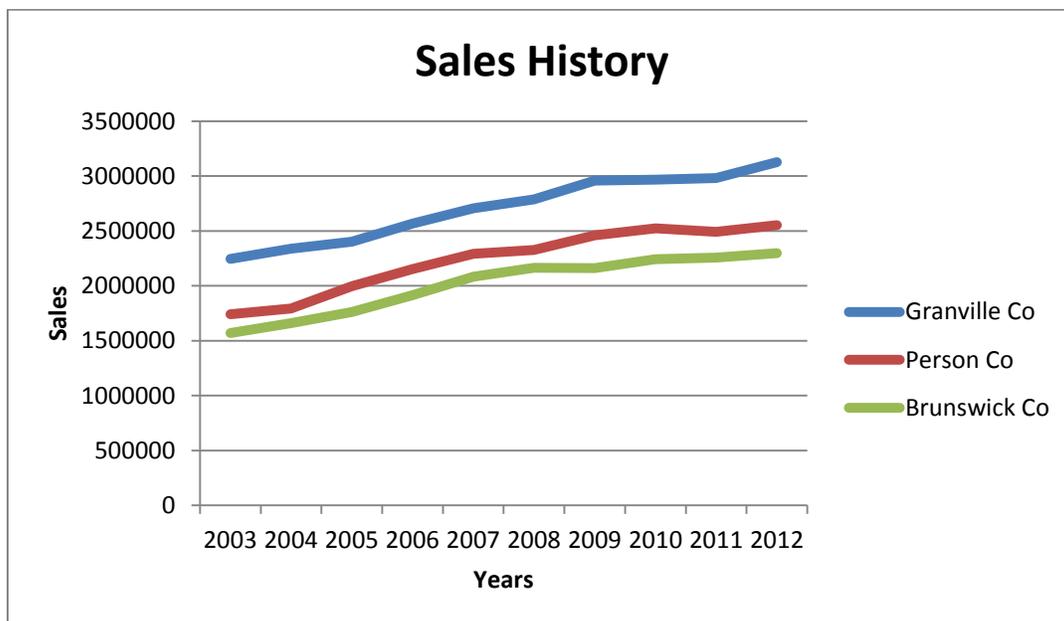
No Recommendations.

Profit percentage to sales

The profit percentage to sales is calculated by dividing the total profit before distributions by the total liquor sales (Total Income before Distributions/Gross Sales). The Commission has set efficiency goals based upon 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 Granville County ABC Board had gross sales of \$3,127,344; income from operations was \$318,781, a 10.2% profit percentage to sales. The Granville County ABC Board has exceeded the targeted goal. Below is a sales history analysis of similar size boards. The analysis shows a steady increase since 2003 following the state's increase.



Factors affecting sales and profitability:

- US Census Bureau reports a population of 59,919 in Granville County in 2010;
- Overall population has increased by approximately 0.1% from April 2010 to July 2011;
- Individuals below poverty levels is 11.9% to the state's 15.5%
- 10.0% unemployment rate for Granville County in August 2012, a net change of -0.2% since the previous month
- Sales have increased 4.87% over the previous fiscal year and by 39.28% over a ten-year time period.

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, Granville County ABC Board had a working capital of \$632,930 which is equivalent to less than three months gross sales and is within the limits of NCAC 02R .0902.

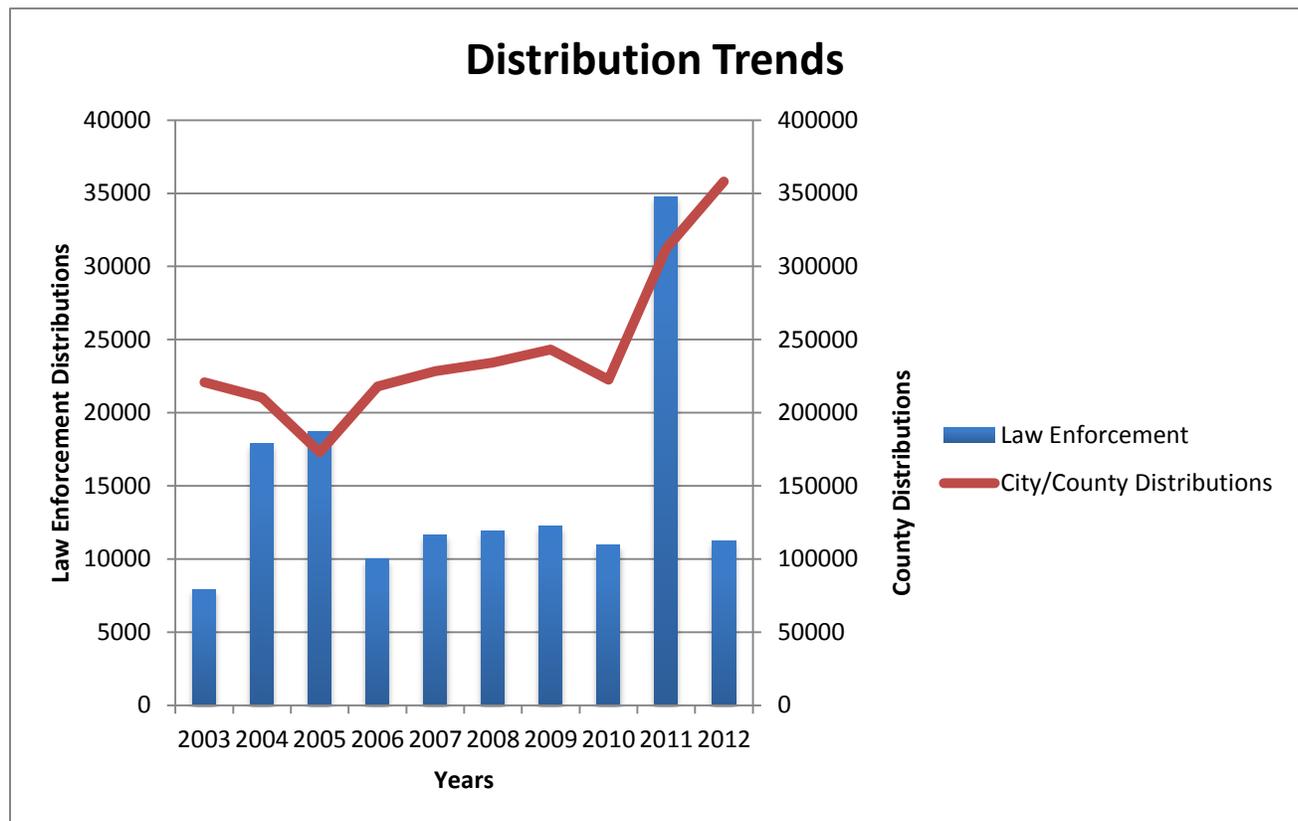
Distributions

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

- 64.86% to Granville County General Fund
- 14.12% to Oxford General Fund
- 12.67% to Butner General Fund
- 6.88% to Creedmoor General Fund
- .77% to Stovall General Fund
- .70% to Stem General Fund

In FY2012, Granville County made the minimum distribution to the town totaling \$92,389, plus additional distribution of \$358,114. A total of \$708,153 in Excise and other taxes were paid to the NC Department of Revenue and \$11,212 to law enforcement.

Below is a historical trend of Granville County's distributions. The analysis indicates that a significant increase in law enforcement distributions occurred in 2011 and tapered off in 2012 while city and county distributions have continued to increase since 2010.



OPERATIONAL FINDINGS, OBSERVATIONS, AND RECOMMENDATIONS

On September 13, 2012, ABC Commission Board Auditor, Moniqua S. McLean visited the Granville County ABC board office complex and interviewed Graham Russell Murray, general manager, and Ruth Carraway, bookkeeper. The following are the findings, observations, and recommendations relating to the performance audit.

Store Appearance and Customer Service Observations

The Granville County ABC Board have two stores ranging in size from approximately 700 to 750 linear feet of shelf space and carries an average of 650 product codes in each store.

- Both stores displayed the required Fetal Alcohol Syndrome poster.
- All stores were clean and well-maintained. Bottles were dusted and fronted.
- A consistent and easily understood shelf management system was present in all locations, conforming to the latest industry and marketing strategies.
- 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 initial mandatory ethics class. However, a board member has since been reappointed and has not taken the online ethics training.
- Training is provided as new information becomes available to current staff.
- Cross training opportunities have been extended to key employees in the event the general manager was suddenly unavailable.
- An updated employee handbook has been adopted and submitted to the Commission auditor; however, all employees have not viewed the handbook.

Recommendations:

- Continue providing additional training that will include alcohol education, customer service, and product knowledge.
- Provide each employee a copy of the employee handbook and have all employees sign a acknowledgement stating they have received and reviewed the current handbook.

ABC Board Policies

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement contract
 - Mixed Beverage Policy
 - Employee Handbook
- Policies not adopted include:
 - Price Discrepancy
 - Travel Policy

Recommendations:

- Although understood by all employees, have a written price discrepancy policy. Having written procedures will allow future employees to be knowledgeable about current practices. *Refer to Appendix C (1) for rule.*
- Adopt a travel policy that conforms to either the appointing authority's or the State's policy. If the county's travel policy is adopted, submit a copy of the town's travel policy and a copy of the county's minutes stating they have approved the ABC board to adopt the policy. If the State's travel policy is adopted, submit a copy of the ABC board's minutes stating the travel policy was adopted. *Refer to Appendix C (2) for statute.*

Internal Control Procedures

- The board has a business credit card used for office supplies. The general manager is the only authorized user. A credit card policy has not been adopted.
- All employees maintain their own cash drawer. Cash drawers are counted daily, depending on location, is verified by the general manager and/or the assistant general manager. Deposits are made daily. Deposit reconciliations against the register receipts are made by the bookkeeper.
- Physical inventory counts are performed monthly by scheduled staff in both stores. Once completed, the counts are forwarded to the general manager to investigate discrepancies and to make adjustments in the main system. Unsalable items are adjusted from inventory on a monthly basis.

Recommendations:

- Have and adopt a written credit card usage policy. Include a maximum limit allowed for purchases before a board member is notified for approval. A board member is to be notified of all purchases over the limit. Once adopted, submit a copy to the Commission. Document procedures for the usage of the credit card including:
 - Who has the 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.

Administrative Compliance Findings and Observations

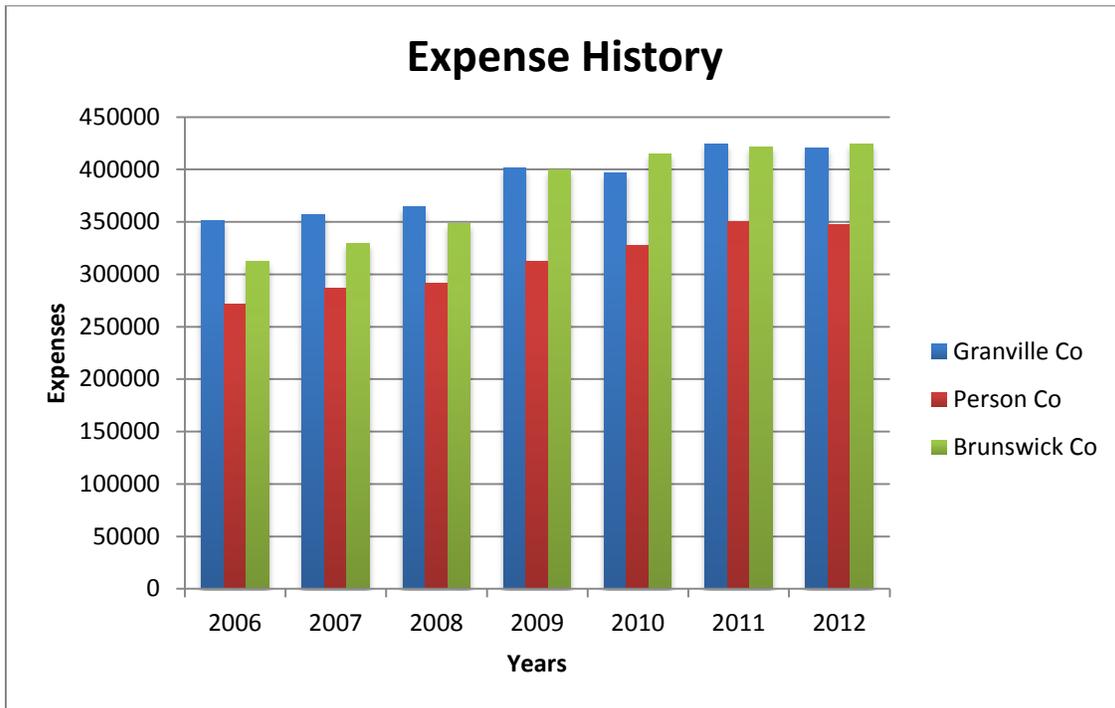
- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting. However, the conflict of interest statement was not referenced.
- Board member appointing dates and compensation amounts is current on the Commission website.
- Board member and general manager compensation is in compliance with G.S.18B-700 (g) and (g1). However, board members are reimbursed for mileage for attending board meetings. A written policy of mileage reimbursement is not in place.
- 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).
- The general manager, finance officer, and all board members are bonded for \$50,000 as required by G.S.18B-700 (i).
- Travel expenses do not conform to a travel policy. An audit of the travel expenses to the summer conference found that expenses for non-employees were prepaid as required by the law.
- Liquor orders are not pre-audited and signed by the finance officer as required by G.S.18B-702(m).
- Checks do not bear the approved certificate. However the finance officer and general manager sign all checks.
- Out of an average of 650 product codes in each store, approximately one hundred thirty-four were sampled and three were not correct price.

Recommendations:

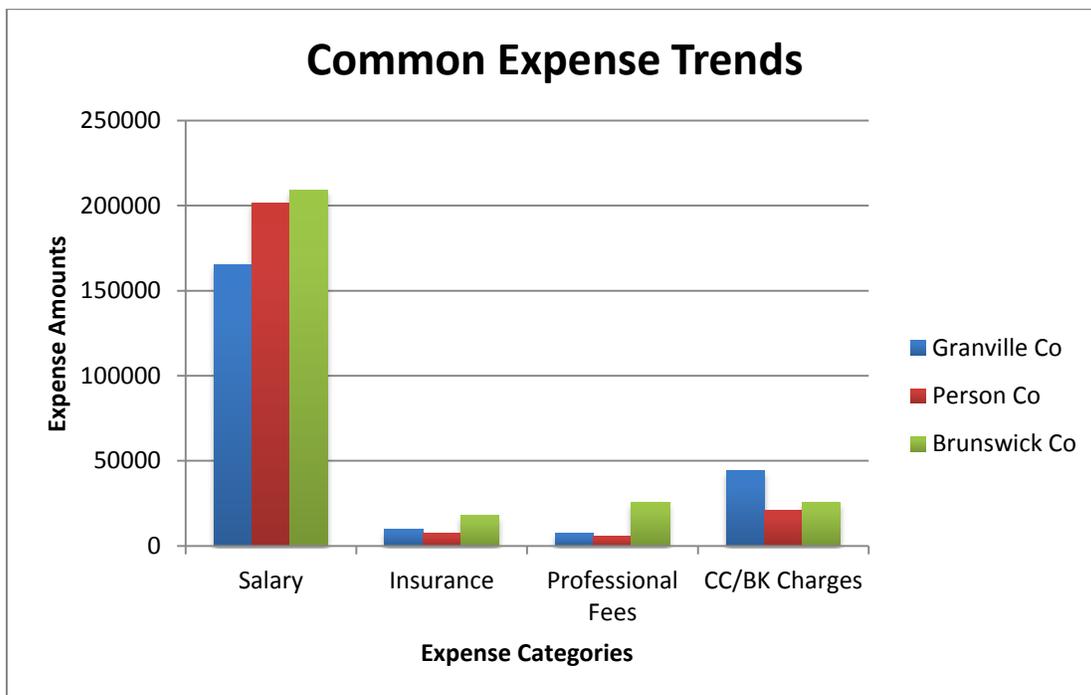
- Have the board chairman read the conflict of interest statement to all board members at the start of each meeting. *Refer to Appendix C (3) for statute.*
- If board members are going to accept mileage reimbursement for attending meetings, formally adopt a policy and record in minutes of meeting.
- While the Commission recognizes that the board does not travel frequently, put a travel policy in place in case the need arises.
- Place the pre-audit certificate with the finance officer's signature on the order to LB&B. Authorization should occur before the transaction takes place. *Refer to Appendix C (4) for statute.*
- Place the approved certificate on all checks. *Refer to Appendix C (5) for statute.*

- Audit all shelf tags on a rotating schedule to ensure accuracy.

APPENDIX A



The expense history data indicates that Granville County ABC Board's overall expenses have increased 19.82% over the past seven years but have decreased .88% from the previous year.



Excluding credit card and bank charge fees, common expenses for the Granville County ABC Board are lower than other similar size boards. Credit card fees have increased due to an increase of credit card transactions.

APPENDIX B



Exterior view of the Oxford location.



Counter view.



Exterior view of the Butner location.

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) 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? If so, please identify the conflict or appearance of conflict and refrain from any undue participation in the particular matter involved.'"

(4) 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)"

(5) 18B-702(q) states "...each check or draft on an official depository shall bear on its face a certificate signed by the finance officer or a deputy finance officer approved for this purpose by the local board. The certificate shall take substantially the following form:

'This disbursement has been approved in the manner required by G.S. 18B-702.'

(Signature of finance officer)"

GRANVILLE COUNTY BOARD OF ALCOHOLIC CONTROL

P.O. Box 876
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ROBERT R. ROGERS, CHAIRMAN
ALLEN T. NELSON
ROB WILLIFORD, II

G. RUSSELL MURRAY,
SUPERVISOR

March 22, 2013

Moniqua McLean
ABC Board Auditor
4307 Mail Service Center
Raleigh, N. C. 27699-4307

Dear Moniqua,

Thank you for meeting with the Board at our monthly meeting. Our response was delayed until we heard from you concerning excess working capital due to Granville County for fiscal year ending June 30, 2012 on page five(5). Per our telephone call on March 11, 2013, we understand that no excess working capital payment is due.

The Boards opinion is we need four(4) months of working capital so we can purchase extra liquor before price increases take effect to increase our profit.

The Board agrees with your recommendations in the performance audit report. We will send the policies required after our April Board meeting.

The Granville County ABC Board wants to thank the ABC Commission staff and especially Moniqua McLean for their service to our Board.

Sincerely,



Robert R. Rogers, Chairman
Granville County ABC Board

RECEIVED

MAR 25 2013

NC ABC COMMISSION

GRANVILLE COUNTY ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>ABC Board Policies Adopt the following policies:</p> <ul style="list-style-type: none"> • **Price Discrepancy Policy • Travel Policy • Credit Card Policy 	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>**Note: Required by rule.</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 adopted all policies recommended and has submitted to the Commission.</p>
<p>Administrative Compliance Have additional mileage reimbursement to and from board meetings documented in the board minutes.</p> <p>Affix the pre-audit certificate on liquor order and common orders and affix the approve certificate on all checks.</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>Mileage reimbursement to and from board meetings by board members is documented in the board minutes. Management has implemented procedures to ensure accountability of budget items.</p>