

# Hertford 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:  
JAMES C. GARDNER

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COMMISSIONERS:  
JOEL L. KEITH  
Wake Forest

KEVIN M. GREEN  
Greensboro

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ADMINISTRATOR:  
MICHAEL C. HERRING

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LOCATION:  
400 East Tryon Road  
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February 11, 2013

Hertford County ABC Board  
Ms. Lillie Owens-White, Chairperson  
US 13 South Memorial Drive  
Ahoskie, NC 27910

Dear Chairperson Owens-White,

We are pleased to submit this performance audit report on the Hertford 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 efforts your Board has made to comply with the new performance standards along with the steps being taken to increase operating efficiencies at your ABC store.

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 Hertford County ABC Board submitted a response to the performance audit recommendations and is continuing to implement steps to increase profits while reducing costs. Policies and procedures have been established to maintain compliance with statutes and ensure efficient operations.

## **BACKGROUND INFORMATION**

Chapter 493 of the 1935 Pasquotank Act authorized Hertford County to hold an election. The referendum was held on July 10, 1965 and passed 1,403 to 990. A mixed beverage election held on May 5, 1992 passed 432 to 325.

Upon election of an ABC store, Hertford County Commissioners were authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. The county has since increased the number of board members from three to five. Current board members include Lillie White, chairperson, Karen Rowe, Hazel Pierce, Lonnie Simmons, and Winfred Hardy, board members.

The Hertford County ABC Board operates three retail stores. The board staffs nine employees from six full-time to three part-time employees. The general manager is responsible for the overall operations of the stores. Each store has a store manager whose responsibilities include inventory management, customer service, personnel functions, and store upkeep. All clerks' duties primarily consist of store upkeep, inventory maintenance, and attending to customer needs. The board has hired a CPA, Jonathan Edwards, to serve as finance officer; his primary duties involve financial documentation and accounts payable.

# **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 Hertford County ABC Board receives deliveries twice a month: the inventory rate is 5.4 and has met the goal set by the Commission.

### *Recommendations:*

- To further improve inventory turnover, consider the following:
  - Exploring alternative marketing strategies for eliminating slow-moving products by increasing transfers between stores that may have a greater demand and creating more displays within stores to encourage impulse shopping,
  - Encouraging sales staff to acquire more product knowledge to assist with sales;
  - Analyzing sales history reports carefully to avoid overstocking.

## **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 Hertford County ABC Board operates three retail stores with mixed beverage sales and has an operating cost ratio of 0.84; it does not meet the goal set by the Commission. The board owns all locations which indicate overhead expenses are low compared to other similar size boards. An analysis of fiscal year 2012 data shows that sales have increased 5.5% and expenses have increased 4.36%. To meet the cost ratio and remain at current expense levels of \$419,484, revenues must be increased to approximately \$2,600,000, a twenty-seven percent increase over last year's revenues. To meet the cost ratio and remain at current revenue levels of \$2,039,618, expenses must be reduced to \$335,000, a twenty-five percent decrease over last year. *Refer to charts in Appendix A for an analysis of expense trends and common expense comparisons of similar size boards.*

*Recommendations:*

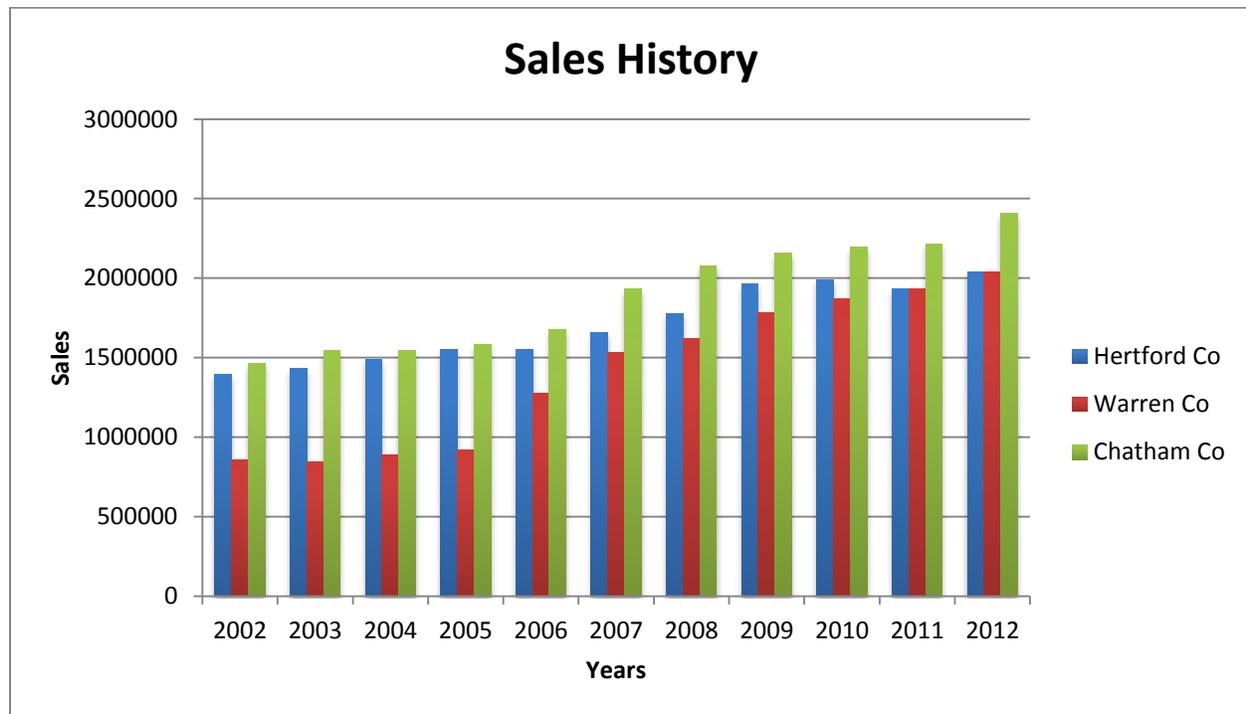
- Monitor budget frequently and more closely to ensure that actual expenses do not exceed budgeted amounts. Provide year-to-date reports to board members detailing how much has been spent.
- Request bids annually from various vendors to get the best rates possible on financial audits, specific utilities, maintenance contracts, and credit card processing fees.
- 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.
- Reduce travel expenses by sending just one board member to annual conferences on a rotating basis and having that person report back to board on topics covered; stay at a alternate location where room rates are closer to the state per diem.

## 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 Hertford County ABC Board had gross sales of \$2,039,618; income from operations was \$72,744, a 3.6% profit percentage to sales which does not meet the target rate set by the Commission. Below is a sales history analysis of similar size boards. The analysis shows a steady increase since 2006, which tapered off in 2011, and has begun to increase in 2012.



Factors affecting sales and profitability:

- US Census Bureau reports a population of 24,658 in Hertford County in 2010;
- Overall population has decreased 0.9% from April 2010 to July 2011;
- Individuals below poverty levels is 24.1% to the state's 15.5%;
- 11.2% unemployment rate for Hertford County in August 2012;
- Sales have increased 5.5% over the previous fiscal year and by 46% over a ten-year period.

*Recommendations:*

- Improve sales strategies by developing new marketing techniques and continue to upgrade stores to present a more modern, appealing look. Refer to recommendations addressed under inventory turnover.

## **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

The Hertford County ABC Board had a working capital of \$600,741 in FY2012. The working capital retained has exceeded the maximum working capital allowed by \$206,390. The board has obtained approval from the appointing authority to set aside \$280,000 for capital improvements to the Ahoskie ABC store for FY2012.

### *Recommendations:*

- Have a specific capital improvements plan that specifies the projects that will be completed on a yearly basis using the funds set aside. *Refer to Appendix C (1) for statute.*

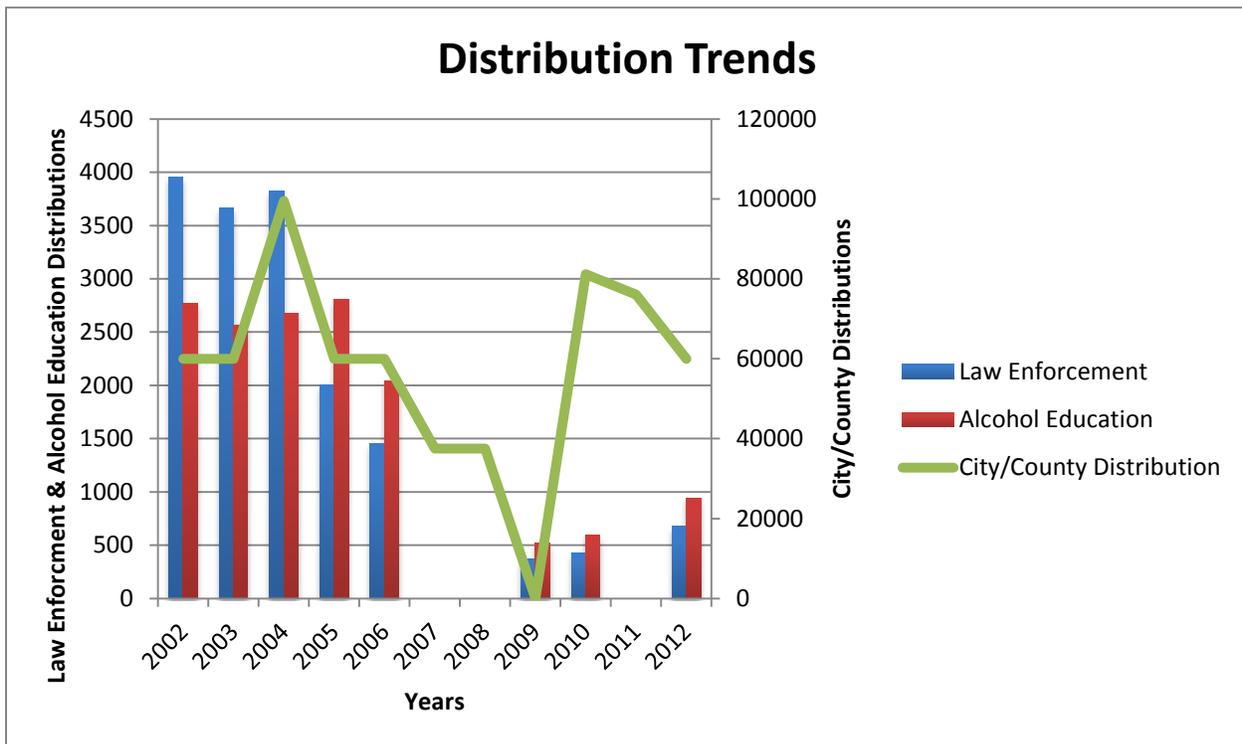
## Distributions

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

- 40% to municipalities based on population
- 60% to Hertford County General Fund

In FY2012, the board made distributions totaling \$61,595; \$675 to law enforcement, \$945 for alcohol education, and \$59,975 to city and county general funds.

Below is a historical trend analysis of Hertford County ABC's distributions. Since 2004, the board has shown a significant decrease in city/county distributions and law enforcement: alcohol education has shown a decrease since 2005. Distributions increased in 2009 but began to show a decline in city and county distributions.



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

On September 6, 2012, ABC Commission Board Auditor, Moniqua S. McLean visited the Hertford County ABC Board office complex and interviewed the following: Clarence Jordan, general manager, Lonnie Simmons, Karen Rowe, board members, and Jonathan Edwards, finance officer. The following are the findings, observations, and recommendations relating to the performance audit.

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

The Hertford County ABC Board operates three stores ranging in size from approximately 700 to 800 linear feet of shelf space and carries an average of 650 product codes in each store.

- All stores displayed the required Fetal Alcohol Syndrome poster.
- All stores, while dated, were clean and well-maintained. Bottles were dusted and fronted.
- Two out of three stores are counter stores; a shelf management system would not apply in this case. The shelf management system in the self-service location was inconsistent. Due to the limited amount of shelf space, brands from one category were displayed with brands from another category.
- The price book and monthly sales list were available to customers upon request.
- 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, one board member has since been reappointed and must now take the online ethics training.
- Training is provided as new information becomes available to current staff. Management has implemented store meetings to keep staff abreast in new information. Other training opportunities, such as the RASP class, have not been provided.
- Cross training opportunities have been extended to key employees in the event the general manager was suddenly unavailable.

*Recommendations:*

- Provide additional training that will include alcohol education, customer service, and product knowledge. Contact the Commission for RASP training and other boards that have a training program in other areas.

## **Policies and Procedures**

- Policies adopted and submitted to the Commission include:
  - Code of Ethics
  - State Travel Policy
  - Mixed Beverage Policy
  - Employee Handbook
  - FY2013 Budget
- A written price discrepancy policy has not been adopted; however employees do understand how to handle pricing differences between the shelf and the register.
- The board has not signed a law enforcement contract.
- The board has numerous credit cards issued to all board members and the general manager. However, a written credit card usage policy has not been adopted.
- All employees maintain their own cash drawer. Cash drawers are counted at the beginning of each shift. Deposits are made nightly by whomever is scheduled to work. Deposit reconciliations against the register receipts are performed by the finance officer. Although employees understand how to handle cash drawer overages/shortages, written policy/procedures have not been adopted.
- Physical inventory counts are performed monthly by store managers and scheduled staff. 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. Spot checks are not regular performed throughout the month.

### *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 (2) for rule.*
- Have an agreed upon law enforcement contract and submit to the Commission. All local boards are required to have an agreement, even if the agreement results in no enforcement activity without pay. *Refer to Appendix C (3) for statute.*
- Consider reducing the number of credit cards in circulation by having the general manager make travel arrangements for board members on official board business.
- 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.

- To have stronger inventory controls, consider performing frequent spot checks throughout the month.

### **Administrative Compliance Findings and Observations**

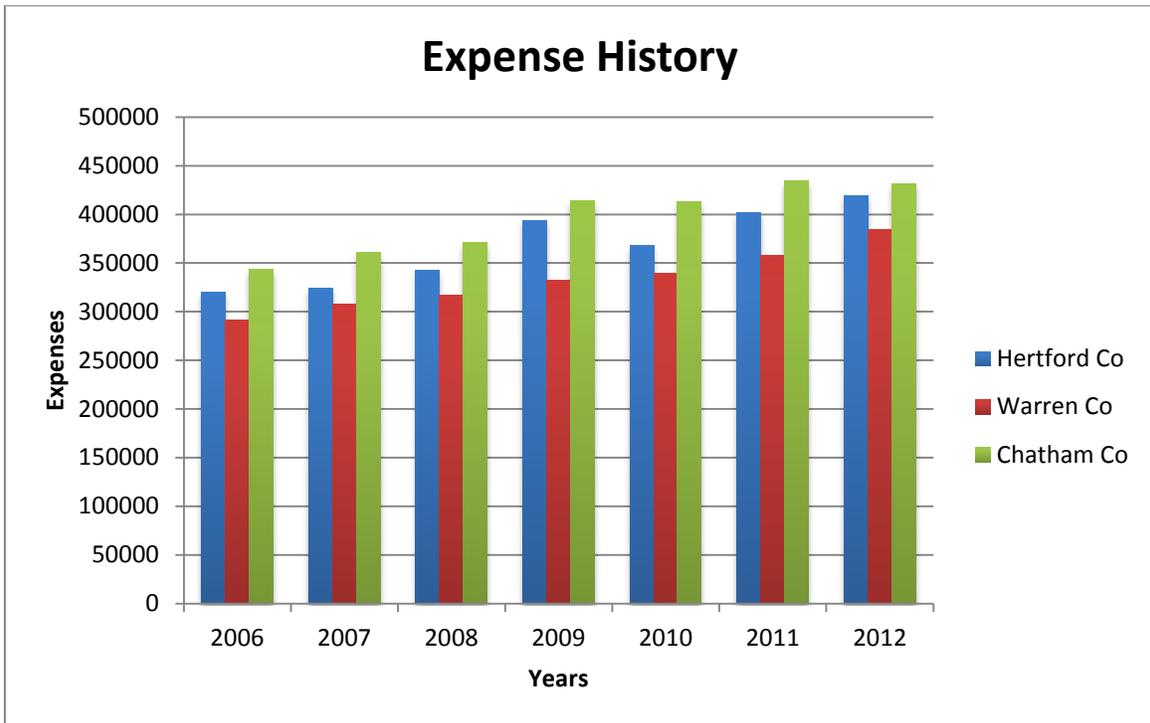
- Board meeting minutes were viewed and followed the order of proceedings for conducting business meeting. However, the conflict of interest statement was not referenced.
- Board member information and general manager information on the Commission internal website reflected current appointment dates and salary information.
- Board member and general manager compensation is in compliance with G.S. 18B-700 (g) and (g1). However, board members are reimbursed mileage for special meetings. A written policy on mileage reimbursement is not in place.
- An audit of travel expenses to the summer conference and general managers' conference found that expenses were over the maximum allowed for reimbursements. However, the board obtained a written approval from the appointing authority's finance officer to allow the board to attend the conferences. Expenses for non-employees were prepaid as required by the law.
- 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).
- Board members are bonded in the amount of \$5,000. Employees who have access to funds are bonded in the amount of \$50,000.
- Liquor orders are not pre-audited and signed by the finance officer as required by G.S. 18B-702(m).
- All checks bear the approved certificate and are signed by the finance officer as required by G.S. 18B-702(q).
- Out of an average of 650 products in each store, approximately 142 were sampled and two did not reflect the correct price set by the Commission and two had a different product code. 43-017, Tanqueray .375L (Ahoskie location) price incorrect. Chivas Regal (Ahoskie location) had an incorrect product code. 29-872, Gold Crown .375L (Windsor location) price incorrect. Kessler .375L (Murfreesboro location) had an incorrect product code.

#### *Recommendations:*

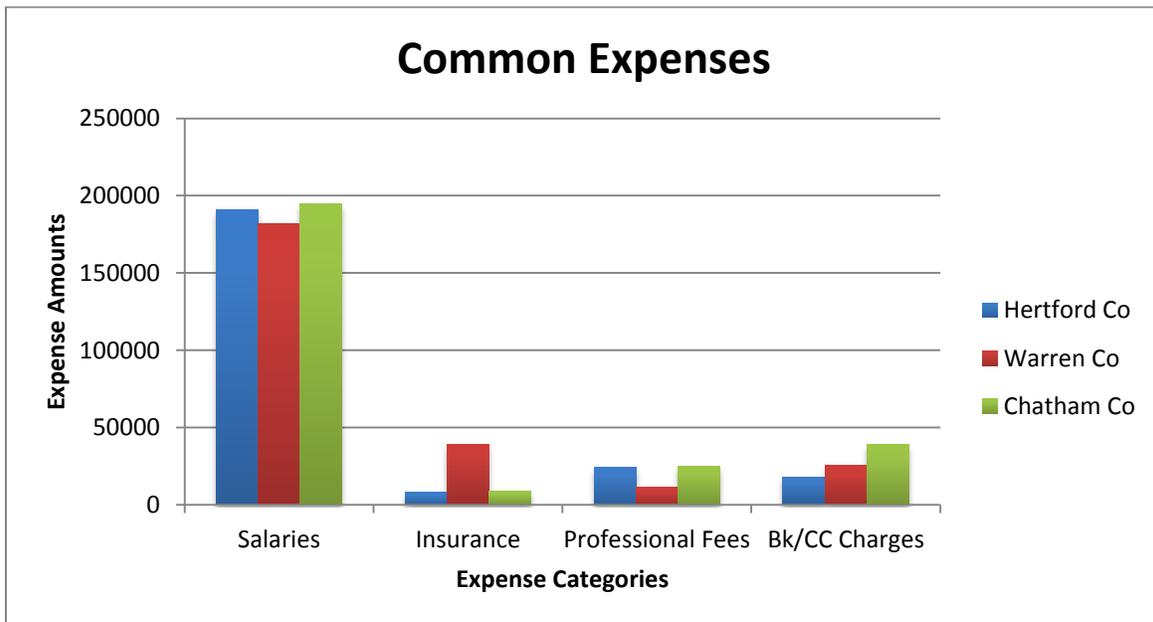
- Have the board chairman read the conflict of interest statement to all board members at the start of each meeting. *Refer to Appendix C (4) for rule.*
- If board members are going to accept mileage reimbursement for attending special meetings, formally adopt a policy and record in minutes of meeting.
- Update bonding insurance policy to have the general manager, all board members, and finance officer covered under a blanked bond for \$50,000. *Refer to Appendix C (5) for statute.*

- 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 (6) for statute.*
- Audit all shelf tags in the stores and the cash register for correct pricing on a regular basis. To ensure accurate pricing in the future, incorporate a shelf tag audit (by section) into a weekly inventory count.

## APPENDIX A

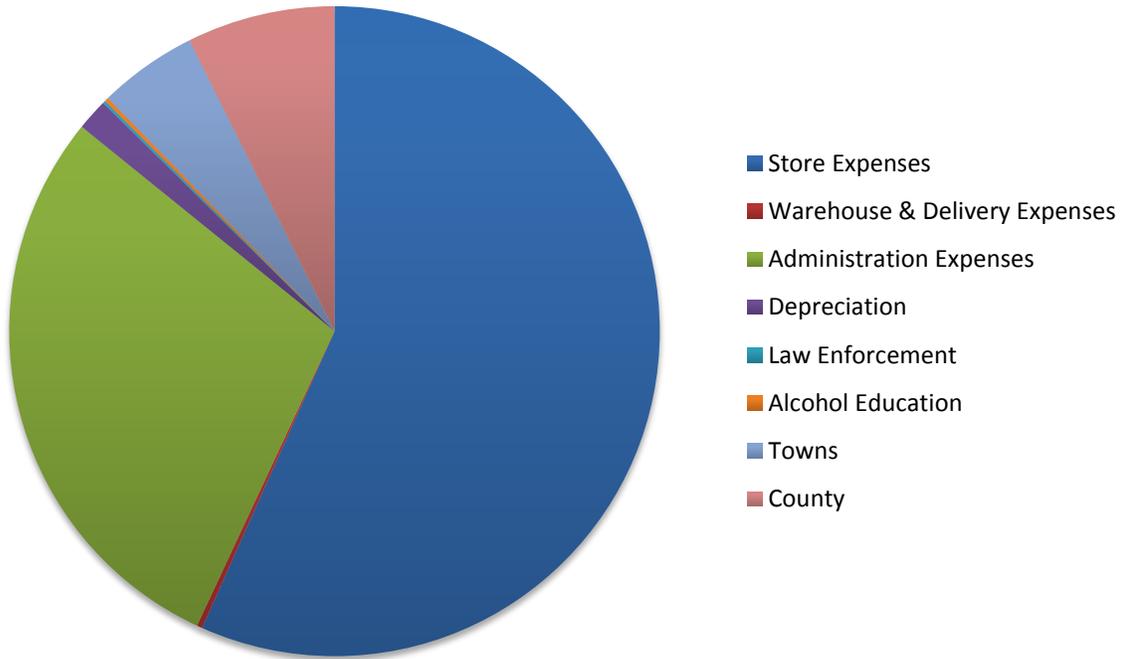


*The expense history data indicates that Hertford County ABC Board's overall expenses have increased 31% over the past seven years. Sales have increased 31.5% over the same time period. Compared to other boards' expenses, Hertford County's expenses are not out of line.*



*Common expenses for Hertford County ABC Board are relatively lower than other similar size boards. Note; Warren County's insurance expenses include general and group health insurance.*

## Expense & Distribution Allocations



*This chart analyzes the breakdown of expenses and distributions of the Hertford County ABC Board.*

## APPENDIX B



*Counter view of Ahoskie location.*



*Exterior view of Murfreesboro location.*

## APPENDIX C

- (1) *G.S. 18B-805(d) states, "With the approval of the appointing authority for the board, the local board may also set aside a portion of the remaining gross receipts as a fund for specific capital improvements.*
- (2) *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."*
- (3) *18B-203 (f) states, "Instead of hiring local ABC officers, a local board may contract to pay its enforcement funds to a sheriff's department, city police department, or other local law enforcement agency for enforcement of the ABC laws within the law enforcement agency's territorial jurisdiction. Enforcement agreements may be made with more than one agency at the same time."*
- (4) *OP 4.19.4 states, "In an effort to avoid possible conflicts of interest it is recommended at the beginning of each meeting the Chairman ask fellow board members if there are any potential conflicts of interest. This can be done by reading the following ethics reminder:"*

*In accordance with GS 18B-201, it is the duty of every Board member to avoid both conflicts of interest and appearances of conflicts. Does any member have any known conflict of interest or appearance of conflict with respect to any matters coming before the Board today?*

- (5) *18B-700 (i) states, "Each local board member and the employees designated as the general manager and finance officer of the local board shall be bonded in an amount not less than fifty thousand dollars secured by a corporate surety, for the faithful performance of his duties.*
- (6) *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)*

January 18, 2013

FROM: Hertford County ABC Board  
Post Office Box 374  
Ahoskie, N.C. 27910

TO: North Carolina Alcoholic Beverage Control Commission  
400 East Tryon Road  
Raleigh, North Carolina 27610

SUBJECT: Performance Audit Response

The Hertford County ABC Board and its Management expresses its appreciation for the positive and professional attitude shown by the ABC Commission's Board Auditor, Moniqua S. McLean.

In response to the Commission's Findings and recommendation:

1. Inventory Turnover

The Hertford County ABC Board has implemented the first recommendation by transferring slow-moving products from its counter stores to its self-serve store in Ahoskie. This has been quite successful. We will also continue to implement your recommendations on

encouraging our sales staff to acquire more product knowledge to assist in moving such items.

## 2. Operating Cost

Currently, the Finance Officer is providing reports to help the Board to monitor the budget closely. These reports are provided at the Board's regularly scheduled meetings. The Board and management will continue to look for ways to reduce its expenses. Hertford County's ABC stores are currently experiencing an increase in revenues each month, so its main challenge will be to strive to reduce expenses.

## 3. Profit Percentage to Sales

Improvement of the stores' appearance has been the main focus of the Hertford County ABC Board. Its two counter stores (Murfreesboro and Winton) were painted. This was a relatively inexpensive improvement to the stores' outside appearance. The Board decided to tear down its only self-serve store and build a new store on the same site. The new store will be larger than the existing store (in Ahoskie) and will give the Board an opportunity to provide a more modern, more appealing, and profitable business.

## 4. Personnel and Training

We will implement your recommendations for training.

## 5. Policies and Procedures

A written price discrepancy policy has been adopted. Each employee has been provided with a copy for their personnel manual and the procedure for handling the price discrepancy has been explained to them.

The Sheriff of Hertford County has been contacted and presented the contract. The Board is awaiting the return of the signed contract.

Two of the credit cards has been destroyed and two Board members have been removed from the list of signers. The board will implement further recommendations of the Commission.

Management is currently performing spot checks on the inventory of each of its stores.

6. Administrative Compliance

Chairperson Lillie Owens-White reads the conflict of interest statement at each meeting of the ABC Board in compliance with OP4.194 .

The Board's bonding insurance policy covers under a blanket bond: the general manager, all board members, and the finance officer in compliance with 18B-700(I).

Conclusion:

The Hertford County ABC Board sincerely thanks the ABC Commission auditor, Moniqua McLean, for her support and insightful suggestions on how we can improve our profitability. Please be assured that the Board will do all that it can to implement the suggestions and recommendations of the Commission in order to increase its profitability and operate in an efficient and responsible manner. However, we realize that we serve a community that is economically depressed, and what we can do is limited to some degree by that factor. We welcome further suggestions as to practical remedies in addition to those that we have already implemented.

Lillie Owens – White  
Chairperson, Hertford County ABC Board

Clarence M. Jordan  
General Manager

RECEIVED

JAN 22 2013

NC ABC COMMISSION

## HERTFORD COUNTY ALCOHOL BEVERAGE CONTROL BOARD

### Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Policies and Procedures:</b> **Adopt written policies for price discrepancies and board credit card</p> <p>Have a law enforcement contract.</p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p> <p>**Note: Required by rule</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input checked="" type="checkbox"/> Partially implemented 25% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The board has only adopted a price discrepancy policy but has not submitted a copy to the Commission. The board is currently negotiating law enforcement contract with Hertford County Sheriff's office.</p>
<p><b>Administrative Compliance:</b> **Read the conflict of interest statement at all meetings.</p> <p>Update bonding insurance policy to reflect the required rates for the designated persons.</p> <p>Affix the pre-audit certificate on all liquor orders.</p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></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 chair is currently reading the conflict of interest statement before all meetings. The bonding insurance policy has been updated. Management places the required certificate with the finance officer's signature on all liquor orders before they are placed.</p>