

# Wake 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

---

ADMINISTRATOR:  
MICHAEL C. HERRING

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LOCATION:  
400 East Tryon Road  
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**Your Name**  
Director  
Permit Division  
(this is editable)

June 19, 2013

Wake County ABC Board  
Mr. John C. Converse, Chairman  
1212 Wicker Drive  
Raleigh, NC 27604

Dear Chairman Converse,

We are pleased to submit this performance audit report on the Wake 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 general manager's response to our recommendations. This report will be posted on the Commission's public web site.

We would like to thank you, the ABC Board and your staff for the assistance and cooperation provided to us during the audit. Additionally, we appreciate the efficient manner in which your ABC system is operated, the steps being taken to modernize and operate customer friendly ABC stores and the extra funding support your Board provides for the treatment of alcoholism and substance abuse in Wake County.

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 Findings, Observations, and Recommendations.....	10
Wake County Board Response.....	16

## **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 Wake County ABC Board has responded to the performance audit recommendations and has implemented standards and goals to obtain more profits while retaining 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 Wake County to hold an election by referendum. The referendum was held on June 22, 1937 and passed 7,921 to 6,565. The first retail sale occurred on August 4, 1937. A mixed beverage election was held on January 12, 1979 and passed 35,242 to 11,962. The first mixed beverage sale occurred on February 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 on August 6, 1984. Current board members are John Converse, board chairman, Cynthia Sheldon, Joel Keith, Ken Kirby, and Paul White, board members. Since initial audit fieldwork, Joel Keith has resigned and been replaced by Ricky Wright.

The Wake County ABC Board operates twenty-four retail stores including eleven that are also mixed beverage outlets and a central warehouse. The board staffs 120 full and part-time employees which include administrative office personnel, law enforcement officers, and warehouse personnel. The administrative office consists of the general manager, assistant general manager, manager in training, finance officer, accounting clerk, human resources director, and office assistant. Duties of the general manager consist of overseeing all operations of the system including forecasting, planning, and policy enforcement. The assistant general manager handles all store operations including scheduling employees for all stores and liquor orders. The manager in training assists the assistant general manager with supervising personnel and the ordering processes. The finance officer is responsible for all financial operations of the board including payroll, budget maintenance, monthly reports, and inventory management. The accountant assists the finance officer with other financial related duties and maintains store reports and truck shipments. The human resources director is responsible for all personnel documentation and hiring procedures for potential candidates. Each store has a store manager and an assistant store manager that is responsible for supervising employees, general store upkeep, customer service, and stock maintenance. All clerks are tasked with meeting customer needs, store upkeep, and stock maintenance.

## **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 Wake County ABC Board receives deliveries weekly to the board's warehouse. Certain stores receive direct shipments from the Commission at various intervals: the inventory turnover rate is 7.1.

#### *Recommendations:*

- Continue with inventory turnover strategies already in place.

### **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 Wake County ABC Board operates twenty-four retail stores with mixed beverage sales: the operating cost ratio is 0.34. Mixed beverage sales make up 25.5% of total gross sales. In fiscal year 2012, sales increased 9.1% over the previous year and expenses increased 2.7% over the same time period.

*No Recommendations.*

## 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:

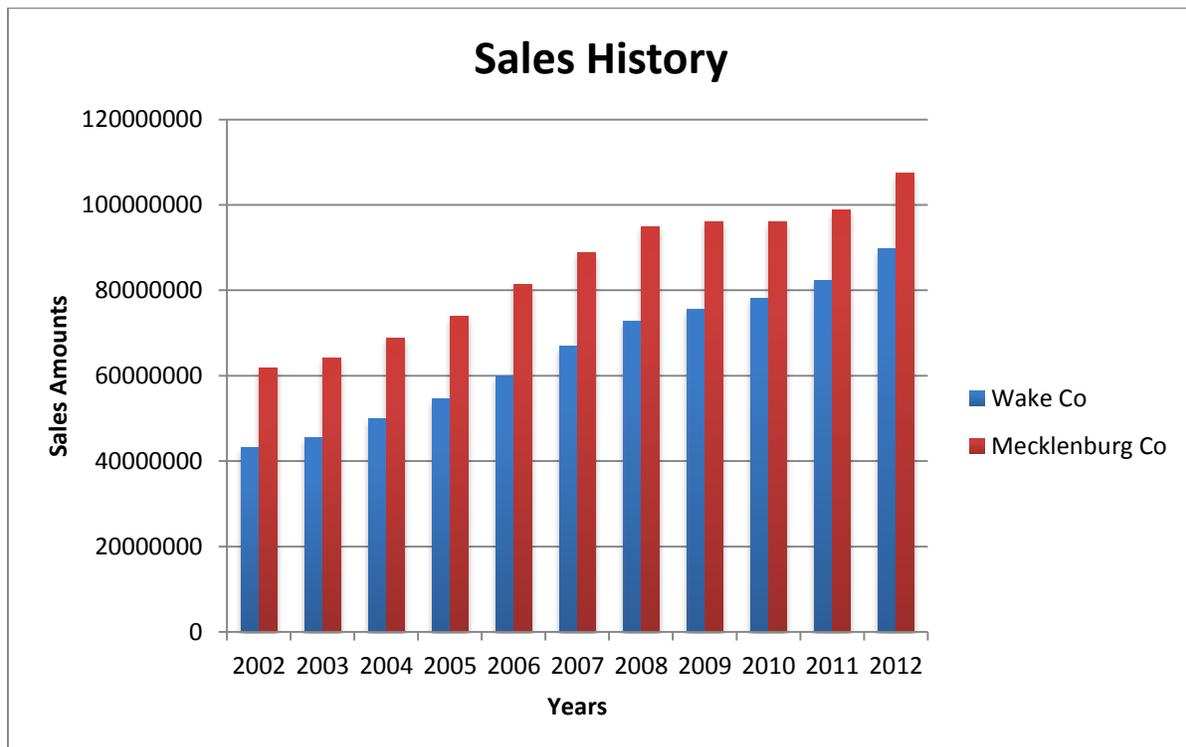
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Wake County ABC Board had gross sales of \$89,746,548; income from operations was \$14,345,431, a 15.98% profit percentage to sales.

Factors affecting sales and profitability:

- US Census Bureau reports an estimated total population of 952,151 in 2012;
- The population increased 5.7% from April 2010 to July 2012;
- Surrounding counties with ABC stores include Durham, Johnston, Chatham, and Granville counties.

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



*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

Wake County had a working capital of \$11,615,845, \$246,657 in excess of the maximum amount allowed. The audit revealed the excess will be distributed to the County at the end of FY2013.

### **Distributions**

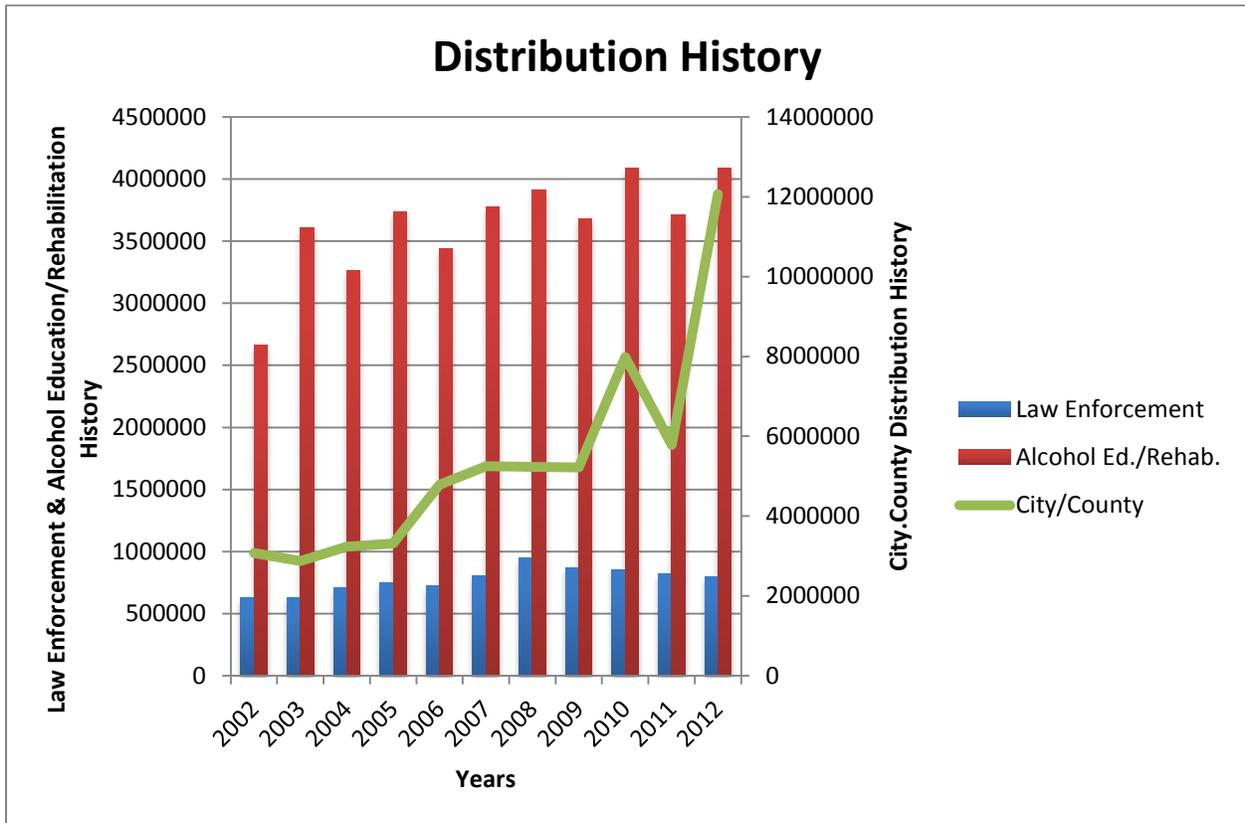
G.S. 18B-805 (c) requires the board to distribute at least five percent (5%) of profits to law enforcement. The board follows the local enabling act for alcohol education distributions of at least seven percent (7%).

The remaining profits are to be distributed as follows:

- Twenty-seven percent (27%) to Apex, Cary, Fuquay-Varina, Garner, Holly Springs, Knightsdale, Raleigh, Morrisville, Rolesville, Wake Forest, Wendell and Zebulon in proportion to ad valorem taxes to whole
- Remainder to Wake County General Fund of which \$100,000 may be spent for water and sewer lines and manufacturing advantages of the area.

In FY2012, the Wake County ABC Board made the required minimum distributions totaling \$2,474,716 and \$21,531,428 in Excise and other taxes to the NC Department of Revenue. Other distributions totaled \$16,951,030; \$798,378 for law enforcement, \$4,090,520 for alcohol education, and \$12,062,132 in city/county distributions. Additional distributions are made to Angier and Clayton since the city limits are extended into Wake County.

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



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

On January 23, 2013, ABC Board Auditor, Moniqua S. McLean visited the Wake County ABC Board and interviewed Craig Pleasants, general manager, Isaac Wheeler, assistant general manager, and Danielle Brigman, finance officer. The following are the operational findings, observations, and recommendations related to the performance audit.

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

The Wake County ABC Board operates twenty-four retail stores ranging from approximately 750 to 2400 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.
- 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.
- A consistent and easily understood shelf management system is in place conforming to the latest industry and marketing strategies while catering to customer interests. A shelf management policy has been submitted to the Commission.
- The state price book along with monthly sales lists is available in all locations.
- Sales clerks' interaction with customers is attentive, courteous, and eager to meet the needs of the customers.
- The board provides red smocks as uniforms for employees.

*No Recommendations.*

### **Personnel and Training**

- All board members, general manager, and finance officer have attended the initial mandatory ethics class. Since the initial audit, a new board member has been appointed and is making plans to attend the next class.
- Training is provided as new information becomes available to current staff. Store manager's meetings occur to discuss policies, procedures, and product knowledge. 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.
- The employee handbook on file with the Commission is dated 1989. The board has updated the handbook and will submit a copy to the Commission.
- A sample 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 (Wake County Approval Included)
  - FY2012 Annual Audit
  - Employee Handbook (Includes Price Discrepancy and Cash Overage/Shortage Policies)
  - FY2013 Budget (Proposed and Adopted)
  - Mixed Beverage Policy

*No Recommendations.*

## **Internal Control Procedures and Observations**

- All employees use time sheets for time entry. All time sheets are verified and signed by the clerk and store manager. A payroll system is responsible for direct payments. A master payroll report is verified by the assistant manager, accountant, and finance officer.
- 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 will recount and the process is repeated. If the same variances occur, the finance officer and accountant will adjust the master system to match the actual store count. Warehouse inventory counts are performed weekly. If variances occur, the finance officer and accountant will investigate with the stores and LB&B.
- Cash drawers are counted by the clerks at the end of their shift. The store manager or the person in charge for the day verifies for accuracies of deposits and all store monies. All clerks are responsible for their own cash drawer. An allowance of shortage is provided based on sales volume of each store. Employees are required to makeup shortages in excess of the allowance amount.
- Bank deposits are made daily by whomever is scheduled to work. All reconciliations are done monthly by the accountant and finance director.

*No Recommendations.*

## **Administrative Compliance Findings and Observations**

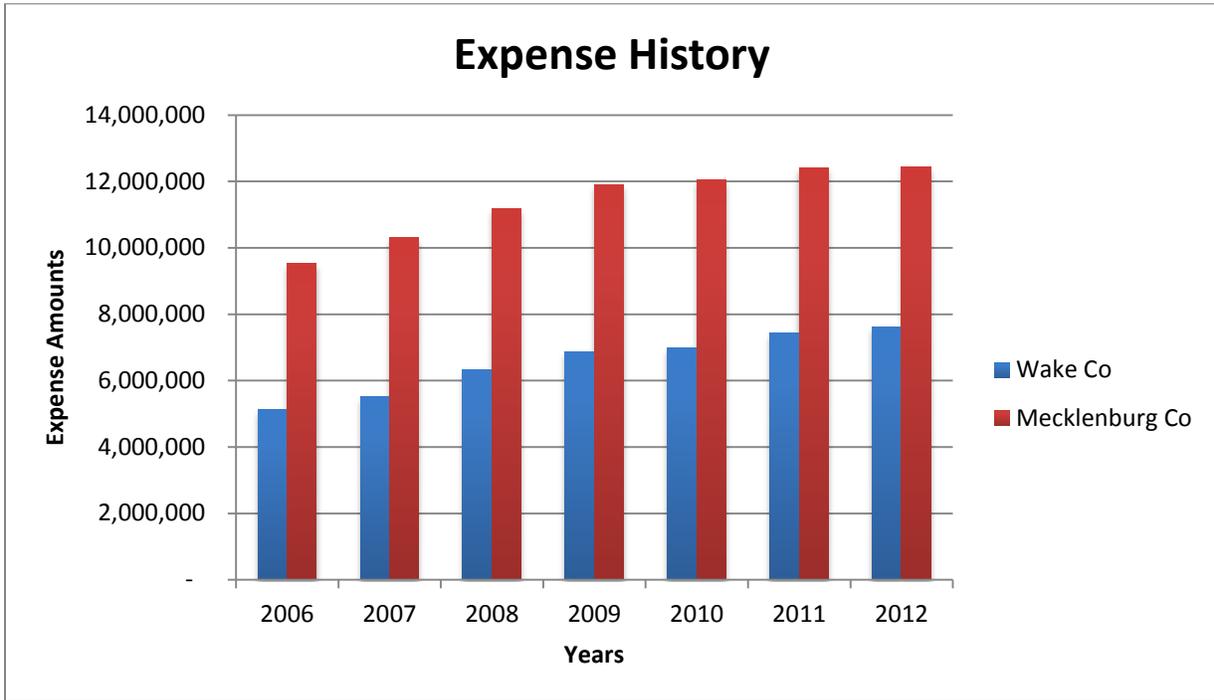
- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting and referenced the conflict of interest statement.
- Board member compensation is over the maximum allowed as stated in G.S. 18b-700 (g). An approval from the appointing authority has been submitted 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 general manager. The assistant general manager is authorized to sign checks in the absence of the general manager and the accountant is the deputy finance officer in the event the finance officer is absent.
- Out of an approximate range of 800 to 1900 product codes, approximately 600 product codes were sampled and all were correct.

*No Recommendations.*

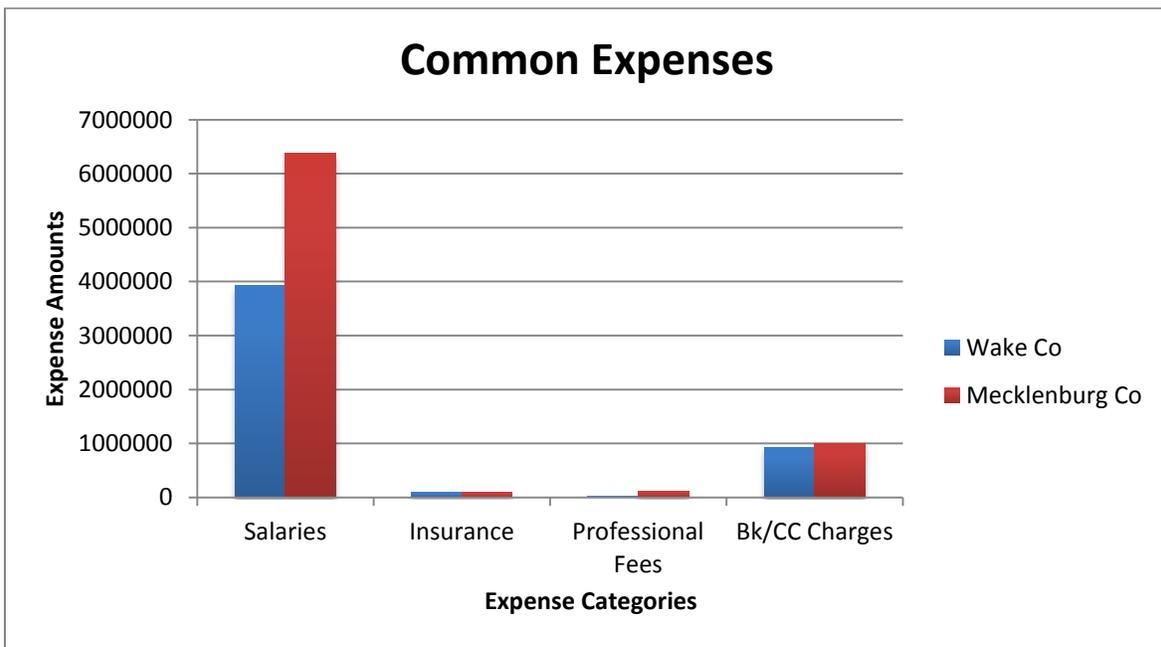
## Other

- Wake County ABC offers grant funding for alcohol education and rehabilitation programs. To obtain funding, programs are required to apply and provide financial statements for consideration. The following programs receive funding:
  - Wake County ATC/Wake Brook
  - Healing Place
  - Southlight
  - Raleigh Rescue Mission
  - NC State Student Service
  - Interact
  - Emmaus Houses
  - Boys-n-Girls Club (Smartmoves program)
  - Town of Wendell
  - Neighbor to Neighbor
  - Triangle Family Services
  - MADD
  - Alice Aycock Poe Center
  - Boy Scouts of America
  - Women's Center
  - Fuquay-Varina
  - Oxford House of Wake County

## APPENDIX A



*The expense history data indicates that Wake County ABC Board's total expenses have increased 48.93% overall since FY2006 while sales have increased 49.8% over the same time period.*



*Wake County ABC's common expenses are lower compared to other similar size boards.*

## APPENDIX B



*Sandy Forks location.*



*Interior view of Olympia Drive location.*



*Interior view of Sandy Forks location.*

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WAKE COUNTY BOARD OF ALCOHOLIC CONTROL  
1212 Wicker Dr., Raleigh, North Carolina, 27604

JOHN C. CONVERSE, Chairman  
W. PAUL WHITE, Vice-Chairman  
KENNETH A. KIRBY, JR., Member  
CINDY Y. SHELDON, Member  
RICKY WRIGHT, Member  
E. CRAIG PLEASANTS, Gen. Manager

June 3, 2013

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

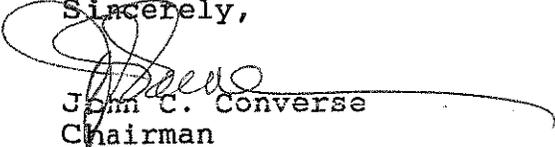
Dear Ms. McLean:

The Board thanks you for attending our meeting on May 22, 2013 to present your performance audit report and findings. Our Board will use your recommendations and comments to continue improving our local ABC system.

Our Board continually strives to improve our stores and shopping environment for our customers. We also want our funding to benefit our county, municipalities, and organizations providing substance abuse treatment and education.

The Wake County Board of Alcoholic Control appreciates the time and effort required of you to prepare this performance audit.

Sincerely,

  
John C. Converse  
Chairman

RECEIVED

JUN 10 2013

NC ABC COMMISSION