

# Vance County ABC Board

## Performance Audit Report



Alcoholic Beverage Control Commission  
400 East Tryon Road, Raleigh, NC 27610  
p: 919-779-0700 | f: 919-661-5927 | <http://abc.nc.gov>



**ABC**  
COMMISSION  
NORTH CAROLINA

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**ABC**  
COMMISSION  
NORTH CAROLINA

**Alcoholic Beverage Control**

May 12, 2014

CHAIRMAN:  
JAMES C. GARDNER

Vance County ABC Board  
Ms. Nancy Wilson, Chairperson  
PO Box 1417  
Henderson, NC 27536

COMMISSIONERS:  
JOEL L. KEITH  
Wake Forest

KEVIN M. GREEN  
Greensboro

ADMINISTRATOR:  
MICHAEL C. HERRING

Dear Chair Wilson,

We are pleased to submit this performance audit report on the Vance 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.

LOCATION:  
400 East Tryon Road  
Raleigh NC 27610

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.

MAILING:  
4307 Mail Service Center  
Raleigh, NC 27699-4307

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 your efforts to increase profits.

PHONE: (919) 779-0700  
FAX: (919) 661-5927  
<http://abc.nc.gov/>

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

**Moniqua S. McLean**  
ABC Board Auditor

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 the store;
- Interviewed key ABC board personnel.

## **BACKGROUND INFORMATION**

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Chapter 493 of the 1935 Pasquotank Act authorized Vance County to hold an election for an ABC store. The referendum was held on June 29, 1935 and passed 2,483 to 545. The first retail sale occurred on July 15, 1935. A county-wide mixed beverage election occurred on September 20, 1980 and did not pass. A second mixed beverage election for Henderson city limits occurred on May 8, 1984 and passed 2,196 to 1,631.

Upon election of an ABC store, an ABC board was created consisting of a chairman and two members to serve for three year terms. Current board members are Nancy Wilson, board chairperson, D. Tom Hannon, Henrietta Clark, John E. Fogg, and Paul Stainback, board members.

The Vance County ABC Board operates one retail store. The board staffs seven full-time employees including the general manager, and one part-time employee. The general manager's duties consist of overseeing and managing daily operations of the store including supervising personnel, inventory control, budget maintenance, and providing customer service. All store employees are responsible for providing friendly customer service, store upkeep, and stock maintenance. The board has hired an external accountant to assist in preparing financial statements and payroll activities.

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

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On January 21, 2014, ABC Board Auditor, Moniqua S. McLean, visited the Vance County ABC board and interviewed David Parham, general manager. The following are the 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 Vance County ABC Board had gross sales of \$3,211,156; income before distributions was \$158,136, a 6.09% profit percentage to sales.

Factors affecting sales and profitability:

- Surrounding ABC boards include Franklinton, Warren and Granville counties;
- Sales increased 1.2% over the previous fiscal year;
- Population of Vance County is estimated to be 45,132 in 2012;
- The board consolidated two stores into one new store in August 2009;
- Growth and development in surrounding, more heavily populated areas led to a shift in shopping patterns away from small towns which affects sales and profitability.

## DISTRIBUTIONS

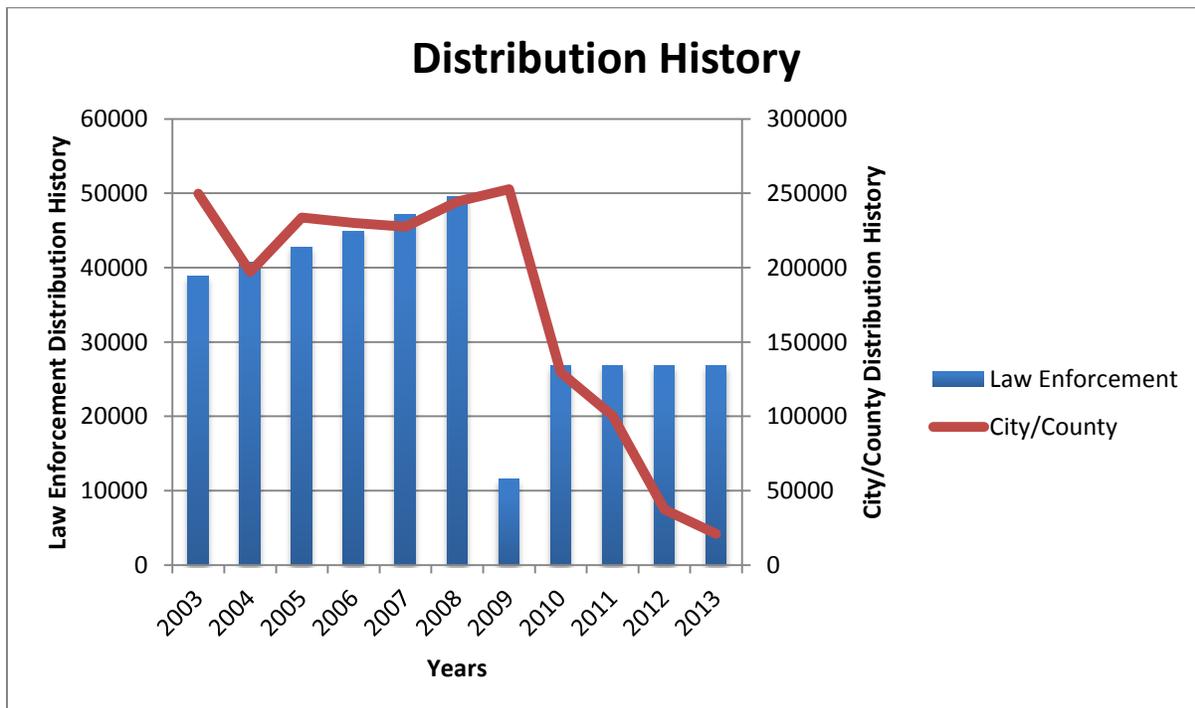
G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, mixed beverage, and bottle tax. G. S. 18B-805 (c) (1) requires the board to make a minimum quarterly distribution of the 3½% markup rate to the county. In FY2013, the Vance County ABC board made the required minimum distribution to the county totaling \$94,301, plus additional distribution of \$21,116 to the city and county. \$735,154 in Excise and other taxes were paid to the NC Department of Revenue, the city of Henderson, and Vance County.

G.S. 18B-805 (c) (2) and (3) requires the board to distribute at least five percent (5%) of profits to law enforcement and at least seven percent (7%) for alcohol education. The local board follows the local enabling act that does not require alcohol education distributions. The remaining profits for Vance County are to be distributed as follows:

- 15% to the City of Henderson General Fund used for debt service
- 85% to the Vance County General Fund

The Vance County ABC Board has distributed \$26,800 to local law enforcement. The appointing authority has approved distributions above the required distributions are to be paid towards the loan.

Below is a distribution chart analyzing the high-low trend of the Vance County ABC Board in the past ten years.



## **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, Vance County ABC Board had a working capital of \$305,680, which is equivalent to less than three months gross sales and is within the limits of NCAC 02R .0902.

## OPERATING COST RATIO

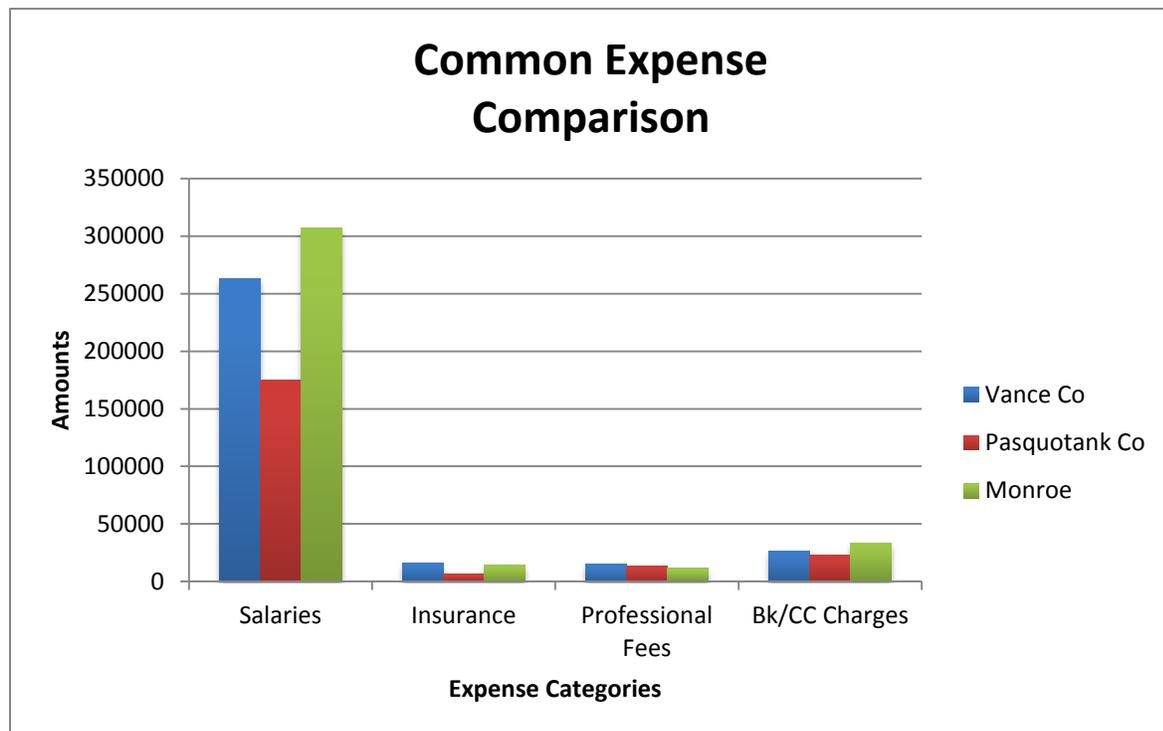
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Operating costs are calculated by dividing total operating expenses less depreciation by the gross profit on sales (Total Operating Expenses less Depreciation/Gross Profit). Below are the average cost ratios for boards with and without mixed beverage 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 Vance County ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.68. Mixed beverage sales make up 5.3% of total gross sales. In fiscal year 2013, sales increased 1.2% from fiscal year 2012 as expenses increased 0.62% over the same time period. Since the opening of the new store, the board has acquired a 15-year note.

A common expense analysis shows that Vance County ABC Board expenses compared with other similar size boards are consistent.



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**NO RECOMMENDATIONS**

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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 Vance County ABC Board receives deliveries twice a month: the inventory turnover rate is 8.5. This rate compares favorably to the benchmark of 5.0 for boards with the same delivery schedule.

## **NO RECOMMENDATIONS**

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## **STORE APPEARANCE AND CUSTOMER SERVICE**

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The Vance County ABC Board operates one retail store with approximately 1,500 linear feet of shelf space and carries approximately 1,000 product codes. *Pictures are found in Appendix A.*

- The store was clean, well-dusted, and maintained. Bottles were fronted and neat. Counter areas were free of clutter and supplies were easily accessible.
- Exterior signage and landscaping around the store was clean and free of trash. Interior signage was neat and visible. The Fetal Alcohol Syndrome poster was displayed.
- Security systems are in place and functional in all designated areas.
- Shelf management follows a marketing plan applying the highest priced product on the top shelves and the lowest priced product on the bottom shelves. In instances where a particular product had multiple flavors, vertical blocking is used to keep similar products together. Multiple facings are used for bestselling items with heavy demand. However, some shelves are empty or are used for overflow.
- The state price book is available should customers inquire about specific product. Sales clerks' often refer to the price book for verification of product listing and pricing.
- Sales clerk's interaction with customers is attentive, courteous, and eager to meet the needs of the customers.

## **RECOMMENDATIONS**

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1. Consider more efficient ways to improve shelf management or product placement, such as the following:
  - Cross-merchandising by placing products that mix together on the same shelves. Intermingle North Carolina products within their specific category as well as having a designated area;
  - Reallocating shelf space from declining categories to those showing growth;
  - Optimize the floor space and end caps to incorporate valuable displays;
  - Allow more space for your more popular brands and re-allocating space when eliminating underperforming brands.

## **PERSONNEL AND TRAINING**

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- All board members, the general manager, and the finance officer have completed ethics training. Board members who have been reappointed have completed the reappointment ethics training.
- Cross training opportunities have been extended to key employees in the event the general manager is suddenly unavailable. The general manager serves as the backup for the finance officer and is currently training another employee to take on those duties.
- Training is provided continuously to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities.
- Personnel files are not available for employees.

## **RECOMMENDATIONS**

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1. Create personnel files for all employees and board members. Include in the files employment information, tax withholding documentation, and federal I-9 forms.

## **ABC BOARD POLICIES**

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- Policies adopted and submitted to the Commission include:
  - Code of Ethics
  - Law Enforcement Contract
  - Travel Policy (State Travel Policy)
  - FY2013 Annual Audit
  - Employee Manual (Revised 2009)
  - FY2014 Budget (Proposed and Adopted)
  - Shelf Management Policy
- Policies not adopted include:
  - Mixed Beverage Policy
  - Price Discrepancy Policy

## **RECOMMENDATIONS**

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1. Adopt a mixed beverage policy that details customer friendly and flexible ordering and pickup guidelines. Once adopted, distributed to all mixed beverage accounts of any changes and submit a copy to the Commission.
2. Adopt a price discrepancy policy that incorporates customer friendly practices. *Refer to Appendix B (1) for rule.*

## **INTERNAL CONTROL PROCEDURES**

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- Time sheets are used for all clerks, shift managers, and the general manager. During payroll, the shift manager and the general manager verify all time sheets. Time sheets are forwarded to the accountant to conduct payroll activities through accounting software. A payroll activity report is generated and forwarded to the general manager for review and for records retention.
- Cash drawers are counted by the general manager or the finance officer trainee. Management has incorporated procedures to handle cash drawer overages/shortages.
- Bank deposits are made regularly as required by the ABC Commission rule. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed monthly by the general manager. The accountant reviews and matches daily logs and deposits each month.
- Physical inventory counts are completed every month. Spot checks are conducted more frequently throughout the month. If discrepancies occur, the general manager will investigate and recount for accuracy and verification. Once completed, the general manager will adjust the inventory system to match with the actual store counts.

## **NO RECOMMENDATIONS**

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## **ADMINISTRATIVE COMPLIANCE FINDINGS AND OBSERVATIONS**

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- Board meeting minutes were viewed and followed the order of proceedings providing information that a reasonable person would be able to follow. At every meeting, each board member signs a certificate of accountability statement.
- Board member and general manager information, appointment dates and compensation amounts, are current on the Commission website.
- The board chairperson's compensation is over the maximum allowed by G.S. 18B-700 (g). However, an approval from the appointing authority allowing a different compensation has been forwarded to the Commission. Other board members' and the general manager's compensation are in compliance with G.S. 18B-700 (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).
- 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). However, all orders are approved by either the general manager or finance officer.
- All checks bear the approved certificate and are signed by the board chairperson. In the absence of the finance officer, the board vice-chairman. Other board members are authorized to sign checks. The general manager does not sign checks.
- Out of approximately 1,000 product codes, approximately 110 product codes were sampled, and all were correct.

## **RECOMMENDATIONS**

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1. 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 to the board the performance audit recommendations on March 11, 2014. The board has since responded to the performance audit recommendations and strives to implement different strategies to maintaining profitability while reducing costs and meeting budget appropriations. Policies and procedures have been implemented to ensure compliance with statutes and Commission rules and to ensure efficient operations while maintaining sufficient checks and balances. *See Appendix C for recommendation follow up verifications.*

# VANCE COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD

P.O. BOX 1417

HENDERSON, NC 27536

MRS. NANCY F. WILSON  
Chairman

DAVID W. PARHAM  
Supervisor

MEMBERS

MRS. HENRIETTA C. CLARK  
PAUL J. STAINBACK  
JOHN E. FOGG  
DANIEL T. HANNON, III

March 12, 2014

ABC Board Auditor, Moniqua McLean, presented her Performance Audit Report to the Vance County ABC Board at its regular monthly meeting, March 11, 2014. The Vance County ABC Board accepts and appreciates the report. The deficiencies mentioned have been corrected. We look forward to continue working with the N.C. ABC Commission for the betterment of our system.



Nancy F. Wilson, Chairperson  
Vance County ABC Board

**RECEIVED**

MAR 17 2014

**NC ABC COMMISSION**

## APPENDIX A

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*Illustration 1*



*Exterior signage*

*Illustration 2*



*Exterior view*

*Illustration 3*



*Interior view*

*Illustration 4*



*Shelf management view*

## APPENDIX B

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(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-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 FOLLOW UP

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>ABC Board Policies:</b></p> <p>Adopt the following policies:</p> <ul style="list-style-type: none"> <li>• Mixed Beverage Policy</li> <li>• Price Discrepancy Policy</li> </ul>	<input type="checkbox"/> <b>Yes</b> <input checked="" type="checkbox"/> <b>No</b>	<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 the following policies and submitted copies to the Commission.</p>
<p><b>Administrative Compliance:</b></p> <p>Affix the pre-audit certificate on orders before the transaction occurs.</p>	<input checked="" type="checkbox"/> <b>Yes</b> <input type="checkbox"/> <b>No</b>	<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>Management has implemented procedures to comply with the statute.</p>