Gibsonville ABC Board

Performance Audit Report

Alcoholic Beverage Control Commission
400 East Tryon Road, Raleigh, NC 27610
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ABC COMMISSION NORTH CAROLINA

ABC
COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

CHAIRMAN:
JAMES C. GARDNER

COMMISSIONERS:
JOEL L. KEITH
Wake Forest

KEVIN M. GREEN
Greensboro

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Your Name
Director
Permit Division
(this is editable)

April 1, 2013

Gibsonville ABC Board
Mr. Paul Koonts, Chairman
112 Piedmont Avenue
Gibsonville, NC 27249

Dear Chairman Koonts,

We are pleased to submit this performance audit report on the Gibsonville 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,

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 the store;
- Interviewed key ABC board personnel.

The Gibsonville ABC Board submitted a response to the performance audit recommendations and is striving to continue to improve profitability through analyzing and reducing current costs while continuing to meet the demands of customers. Policies and procedures have been adopted and implemented to maintain compliance with statutes and Commission rules and to maintain stronger segregation of duties.

BACKGROUND INFORMATION

G.S. 18B-601 authorized the Town of Gibsonville to hold an election upon either a written request for an election from the city governing body or a petition signed by at least thirty-five percent of voters. The referendum was held on October 4, 1988 and passed 207 to 184. The first retail sale occurred on June 1, 1989.

Upon election of an ABC store, the Town of Gibsonville was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members include Paul Koonts, chairman, Ethel Younger and Joel Isley, board members.

The Gibsonville ABC Board operates one retail store. The board staffs one full-time and five part-time employees. The general manager's duties consist of the overall operations of the store including supervising personnel, inventory management, and customer service. All clerks' are responsible for routine store upkeep, stock maintenance, and customer service.

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 Commission has set goals for determining an effective rate based on the frequency of deliveries. Below are the turnover rates:

- 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 Gibsonville ABC Board receives deliveries twice a month: the inventory turnover rate is 5.9.

Recommendations:

- Continue with the following that are already being used effectively:
  - Analyzing sales and history reports to determine the bestselling products needed and to avoid overstock;
  - Splitting cases with other boards to increase variety;

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 Gibsonville ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.70 and meets the goal set by the Commission. In fiscal year 2012, sales increased by 6.9% and expenses slightly increased by 0.72%.

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:

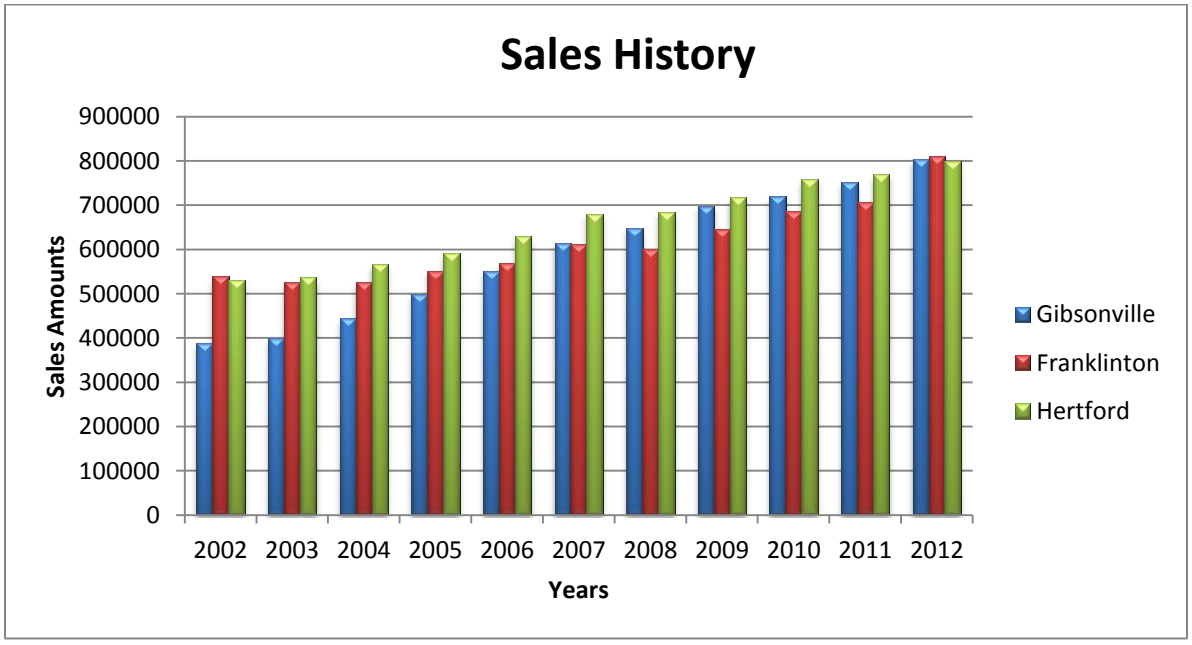
- Gross sales greater than $10M – target rate at 9%
- Gross sales between $2M to $10M – target rate at 6.5%
- Gross sales less than $2M – target rate at 5%

In fiscal year 2012, the Gibsonville ABC Board had gross sales of $801,739; income from operations was $56,896, a 6.77% profit percentage to sales and meets the goal.

Factors affecting sales and profitability:

- US Census Bureau estimates population 6.515 in 2011;
- Overall population increased 1.5% from April 2010 to July 2011;
- Individuals below poverty level 10.5% to the State's 15.5%;
- 9.1% unemployment rate for Guilford County in October 2012, a decrease of 0.2% from the previous month and a decrease of 1.6% over the previous year;
- October sales increased 6.69% over the previous year and increased 5.44% since the previous month;
- Surrounding towns with ABC stores within a thirty mile radius are stores within Greensboro and Alamance County;
- 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.

Below is a sales historical analysis of similar size boards. The chart analyzes the sales trends for the past ten years.



Recommendations:

- To further increase profitability, consider re-locating the store to a more visible location.

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

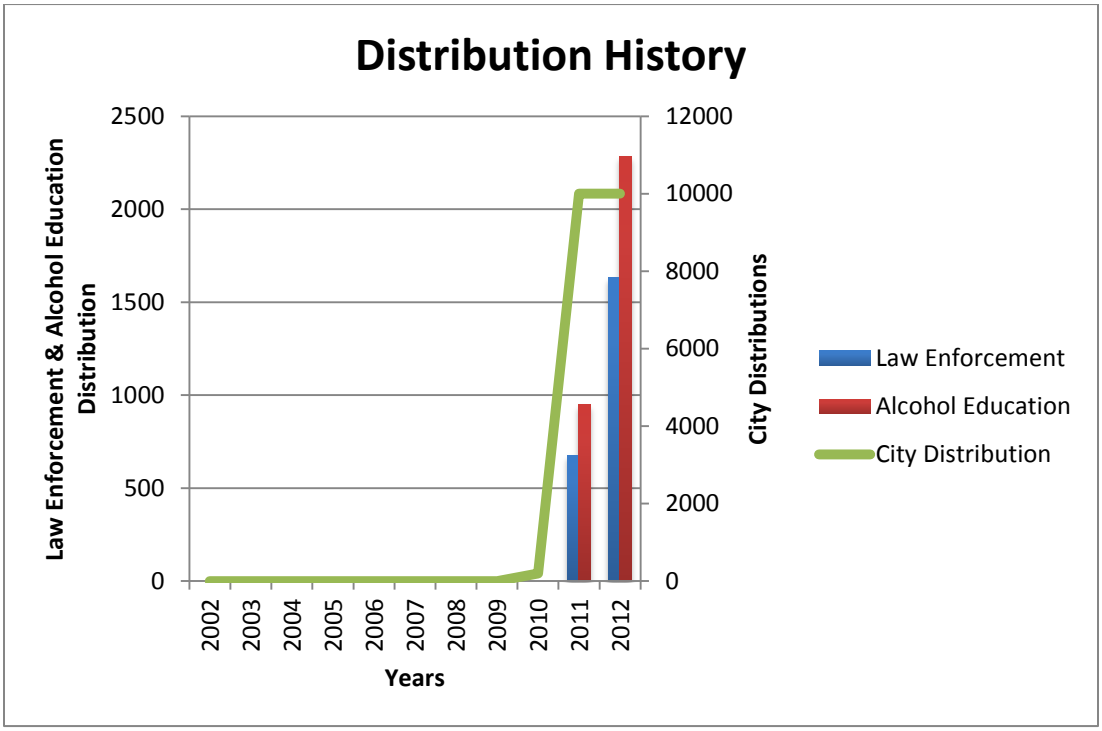
Gibsonville ABC Board had a working capital of $144,922 in FY2012 which is equivalent to less than four months gross sales and is within the limits of NCAC 02R .0902.

Distributions

G.S. 18B-805 (c) (2) and (3) requires the board to distribute quarterly at least five percent of profits for law enforcement and at least seven percent of profits for alcohol education. The remaining profits are to be distributed to the Town of Gibsonville General Fund.

In FY2012, Gibsonville ABC made the required minimum distributions totaling $23,668 to the Town of Gibsonville and $182,269 in Excise and other taxes to the NC Department of Revenue. Other distributions totaled $13,917; $1,632 for law enforcement, $2,285 for alcohol education, and $10,000 to the town.

Below is a chart analyzing the high-low trend of the Gibsonville ABC Board's distribution.



OPERATIONAL FINDINGS, OBSERVATIONS, AND RECOMMENDATIONS

On December 3, 2012, ABC Commission Board Auditor, Moniqua S. McLean, visited the Gibsonville ABC store and interviewed Janice Wyrick, general manager. The following are the findings, observations, and recommendations relating to the performance audit.

Store Appearance and Customer Service Observations

The Gibsonville ABC Board operates one retail store with approximately 656 linear feet of shelf space and carries approximately 788 product codes.

- The Fetal Alcohol Syndrome poster was displayed.
- The store was clean and well-maintained. Although bottles were fronted, some appeared dusty.
- A consistent and easily understood shelf management system was present conforming to the latest industry and marketing strategies while catering to customer interests.
- Upon entering the store, employees greeted customers in a professional manner and were attentive to customer needs exhibiting good customer service.
- The price book and monthly sales lists were available to customers should they inquired about specific product.

No Recommendations.

Personnel and Training

- All board members and general manager have attended the initial mandatory ethics class. Since the initial class, some board members have been reappointed and have completed the online reappointment ethics class.

- Training is provided as new information becomes available to new and current staff. Other training opportunities, such as the RASP class, have not been provided to staff.

- 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.

ABC Board Policies

- Policies adopted and submitted to the Commission include:
    - Code of Ethics
    - Law Enforcement Contract
    - Employee Handbook
    - FY2013 Budget
    - FY2012 Annual Audit
    - State Travel Policy

- Although understood by employees on how to handle specific instances, the following policies have not been adopted:
    - Mixed Beverage Policy
    - Price Discrepancy Policy
    - Overages/Shortages Policy

- The board has a business debit card used for office supplies. The general manager is the only authorized user. A debit/credit card policy has not been adopted.

Recommendations:

- Adopt a written mixed beverage policy. The Commission prefers a flexible mixed beverage policy that reflects good customer service and allows customers to order and pickup Monday through Saturday.

- 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 written cash shortage and overage policy. While this is understood, it is good business practice to have written procedures in place for future employees. Once adopted, submit a copy to the Commission and include in the employee personnel manual.

- Adopt a written debit/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.

Internal Control Procedures

- All employees maintain their own lockboxes. Each lockbox is counted at the end of each shift. Deposits are made nightly by evening clerks and police escort. If no escort is available, deposits are made the following morning. Deposit reconciliations against register receipts are made by the general manager.

- Category inventory counts are performed weekly by all clerks resulting in a full inventory count each month. Adjustments are made by the general manager whenever discrepancies are thoroughly investigated. Unsalable items are adjusted whenever suppliers have signed off on the claim form.

Recommendations:

- Consider swapping the debit card for a credit card. This would improve control and increase fraud protection.

Administrative Compliance Findings and Observations

- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting. The conflict of interest statement was referenced in the board minutes.

- Board meetings are not held regularly.

- Board member appointment dates and compensation amounts are current on the Commission internal website.

- Board member and general manager compensation is in compliance with G.S. 18B-700 (g) 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).

- All board members, general manager, and finance officer are bonded in the amount of $50,000 as required by G.S. 18B-700 (i).

- The board has officially appointed a finance officer to begin duties in January 2013.

- Individual liquor invoices and recurring utility bills have the pre-audit certificate and are stamped by the finance officer as required by G.S.18B-702(m).

- A recent review of paid liquor invoices revealed that payments were more than 30 days past due.

- All checks bear the approved certificate and are signed by the general manager and a board member as required by G.S. 18B-702(q).

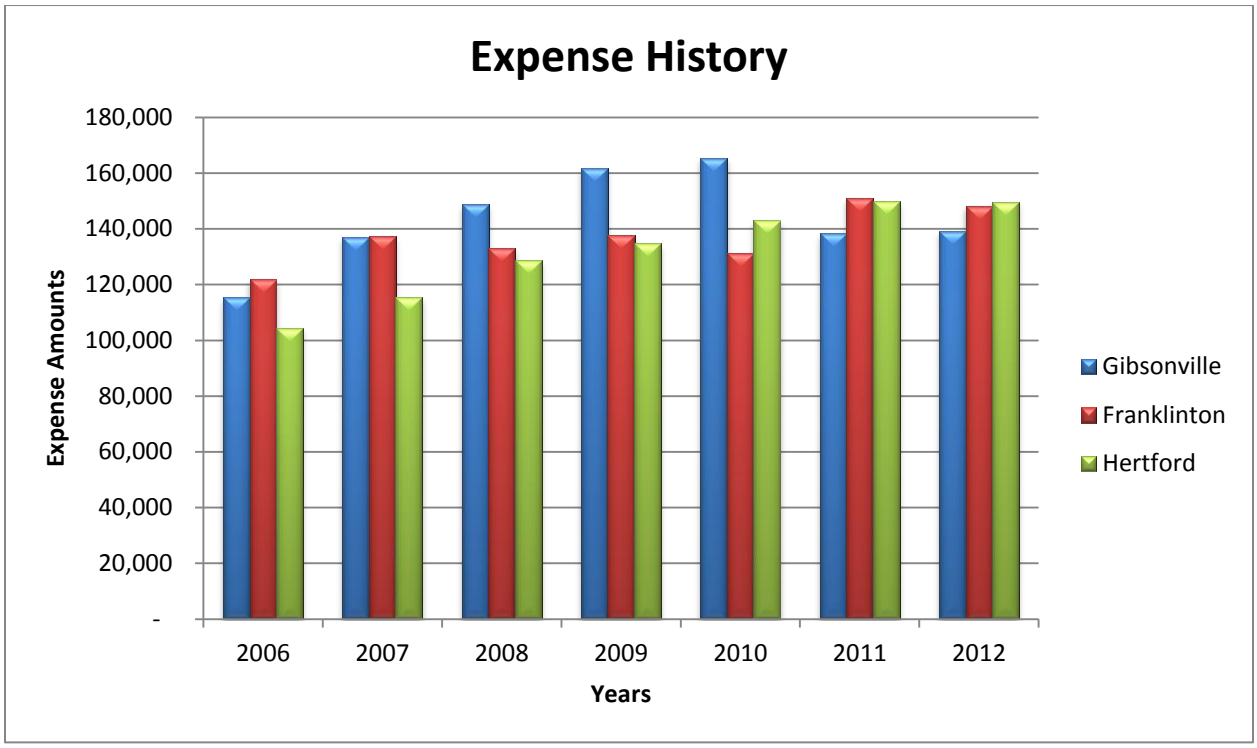
- Out of approximately 788 product codes, approximately twenty-five codes were sampled and all reflected the correct price set by the Commission.

Recommendations:

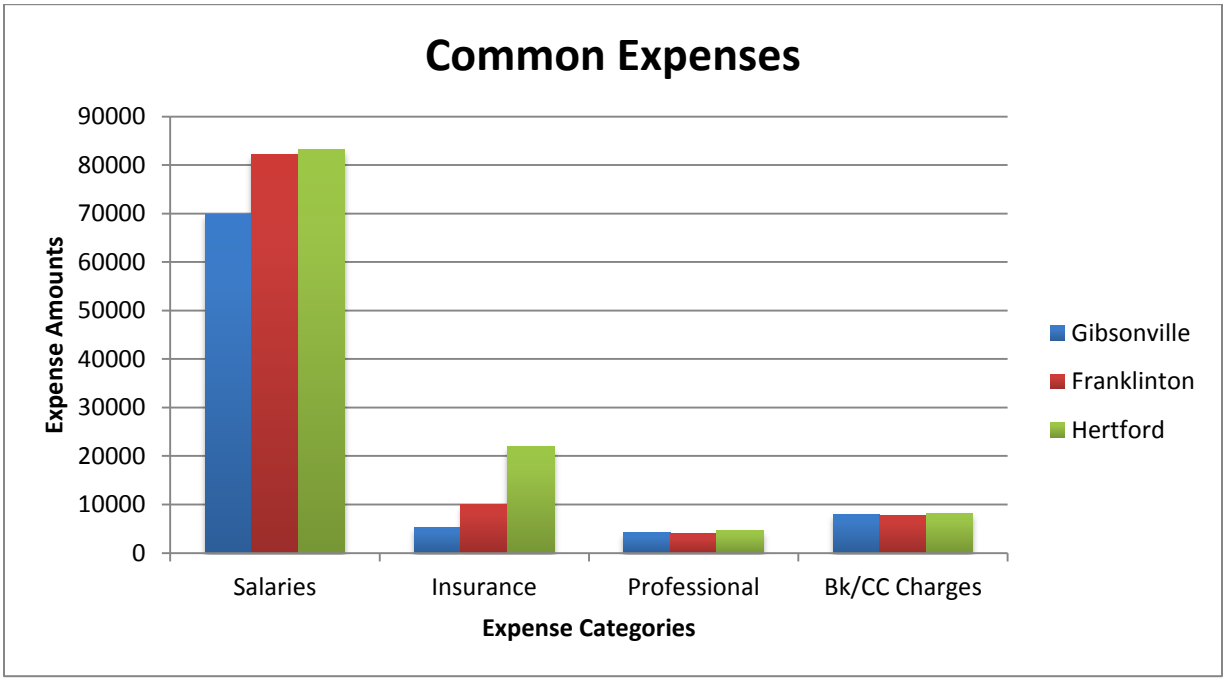
- Hold regularly scheduled ABC Board meetings. Board meetings should be conducted monthly. All board meetings are open to the general public. Post a sign stating when, where, and the time the meeting will take place at the store and at town hall.

- Pay all liquor bills within thirty days of receipt of liquor. It is the Commission's policy to stop liquor shipments when liquor invoices become delinquent. *Refer to Appendix C (2) for rule.*

APPENDIX A



The expense history data indicates that Gibsonville ABC Board's overall expenses have slightly increased 0.72% since FY2011 but have decreased 6.41% for the past five years.



Common expense date for similar size boards indicates that Gibsonville ABC's expenses are relatively lower than other boards.

APPENDIX B

Counter view.

Exterior view. Parking is along the side of the building.

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) *NCAC 02R .1407 (c) states, "Local boards shall remit full payment of the distiller's invoice within <u>thirty</u> days of delivery of the liquor."*

GIBSONVILLE ABC BOARD
112 PIEDMONT AVENUE
GIBSONVILLE, NORTH CAROLINA 27249

FEBRUARY 15, 2013

NC ABC COMMISSION
4307 MAIL SERVICE CENTER
RALEIGH, NORTH CAROLINA 27699

ATTENTION: MONIQUA MCLEAN

MS. MCLEAN:

IN RESPONSE TO THE PERFORMANCE AUDIT THE FOLLOWING RECOMMENDATIONS HAVE BEEN DISCUSSED AND FOLLOWED UP AT THE GIBSONVILLE ABC BOARD MEETINGS ON DECEMBER 18, 2012 AND FEBRUARY 15, 2013:

1. THE GIBSONVILLE ABC BOARD HAS DISCUSSED AT LENGTH ABOUT RELOCATING THE ABC STORE WHEN WE MAINTAIN A MAXIMUM WORKING CAPITAL. A BURLINGTON ROAD LOCATION IS VERY FAVORABLE.

2. EMPLOYEES WILL HAVE FOLLOWUP RASP TRAINING WITH JANE HUMBLE AS SOON AS HER SCHEDULE PERMITS. THE GENERAL MANAGER HAS CONTACTED GREENSBORO ABC, PITT COUNTY ABC, CUMBERLAND COUNTY, AND WAKE COUNTY FOR ADDITIONAL TRAINING MODULES.

3. THE FOLLOWING POLICIES HAVE BEEN ADOPTED AND WILL BE PLACED IN THE EMPLOYEE HANDBOOK:
   A. MIXED BEVERAGE POLICY
   B. PRICE DISCREPANCY POLICY
   C. OVERAGE AND SHORTAGE POLICY
   D. CREDIT CARD USAGE
   E. ZERO TOLERANCE FOR UNDERAGE SALE AND INTOXICATED PATRONS

4. THE GIBSONVILLE ABC BOARD WILL MEET AT A MINIMUM OF ONCE PER QUARTER. THE GENERAL MANAGER HAS CONTACT WITH BOARD MEMBERS ON A ROUTINE BASIS. SIGNS ARE POSTED IN THE ABC STORE AND GIBSONVILLE TOWN HALL FOR ALL MEETINGS.

5. ALL LIQUOR INVOICES WILL BE WRITTEN, SIGNED, AND MAILED PRIOR TO THE NET 30 TERM.

WE WOULD ALSO LIKE TO THANK YOU PERSONNALLY FOR ALL THE ASSISTANCE WITH THIS PERFORMANCE AUDIT. THE INFORMATION YOU SHARED WITH US OUTSIDE OF THE AUDIT WILL BE INVALUABLE TO FUTURE DECISIONS FOR THE GIBSONVILLE ABC BOARD.

SINCERELY,

PAUL KOONTS, CHAIRMAN

RECEIVED
FEB 23 2013
NC ABC COMMISSION

GIBSONVILLE ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
Policies and Procedures: Adopt the following policies: ○ Mixed Beverage Policy ** ○ Price Discrepancy Policy ** ○ Overage and Shortage Policy ○ Credit card usage Policy ○ Zero Tolerance for Underage Sale	☐ **Yes** ☑ **No** ** Note: Required by Rule	(Please provide documentation supporting implementation status.) ☑ Fully Implemented ☐ Partially implemented ___% complete. (Explain below.) ☐ Not implemented (Explain below.) The board has adopted the following policies and copies have been submitted to the Commission.
Administrative Compliance: Set a schedule for board meetings regularly. Post schedule with the appointing authority and at the store. Pay liquor bills within 30 days of receipt.	☑ **Yes** ☐ **No**	(Please provide documentation supporting implementation status.) ☑ Fully Implemented ☐ Partially implemented _____% complete. (Explain below.) ☐ Not implemented (Explain below.) The board has implemented a board meeting schedule and posts with the Town and the store. The board has implemented stronger procedures to pay liquor invoices within 30 days of receipt.