

Orange County ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA



Alcoholic Beverage Control

COMMISSIONERS:

October 3, 2011

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The Honorable Bernadette Pelissier, Chair
Orange County Board of County Commissioners
4516 Mystic Lane
Hillsborough, North Carolina, 27278

Dear Ms. Pelissier,

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

This report consists of an executive summary, background information and operational findings and recommendations. The General Manager of the Orange County ABC Board reviewed a draft copy of this report and his written comments are included.

We would like to thank the ABC Board and their staff for the assistance and cooperation provided to us during the audit and we hope you and the Orange County Board of Commissioners will find the report informative.

Respectfully,

Michael C. Herring
Administrator

CC: Frank Clifton, County Manager
Orange County ABC Board

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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 audits 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 financial audit for the fiscal year 2010;
- Visited the stores;
- Interviewed key ABC store personnel.

The Orange County ABC Board has responded to the performance audit recommendations and made efforts to improve profitability. Since our visit, the board has taken steps to minimize costs, improve inventory turnover rates, and provide training opportunities to employees. Internal controls have been modified to improve segregation of duties and to adhere to statutes. Fiscal year 2011 financial audit reflects a profit before distributions of \$928,766 and distributions totaling \$641,500.

BACKGROUND INFORMATION

Orange County is located on the edge of the Research Triangle Park with current population approximately 129,083. The County is approximately 400 square miles of farms and forests, urban centers, and small towns. It includes the historic Hillsborough, Chapel Hill, towns of Carrboro and Mebane. It was founded in 1752 by William Churton who laid out the boundaries of Hillsborough where the Great Indian Trading Path crossed the Eno River.

The 1937 Act authorized Orange County to hold an election by referendum. The referendum was held on February 3, 1959. The vote for the ABC store passed 3,322 to 2,489. A county-wide vote on September 12, 1978 authorized the sale of mixed beverages.

Upon election, the Orange County Board of Commissioners, Orange County Board of Education, and the Orange County Board of Health appointed three persons to serve on the Orange County ABC Board. S.L. 1979-385 of the NC General Assembly authorized the Orange County ABC Board to expand its members from three to five. The statute also determined that the members would be appointed by the Board of Orange County Commissioners.

The Orange County Board operates eight retail sites, a mixed beverage only location, and a warehouse. The administrative office staff consists of a general manager, assistant general manager, finance director, administrative manager, and buyer/warehouse manager. The general manager is responsible for all operations of the board. The assistant general manager is responsible for all operations of retail and mixed beverage stores. The finance director is responsible for all financial management processes for the board. The administrative manager is responsible for the daily operations for the office and maintaining personnel and board records. The buyer and warehouse manager is responsible for ordering, receiving, and shipping products to stores and maintaining the inventory database.

Profitability Analysis

For fiscal year 2010, the board showed a profit; total liquor sales were \$13,592,640, profit before distributions was \$767,261 resulting in a profit percentage to sales of 5.63%, Sales through April were up by 7.85% over the previous year. In comparing sales over the past ten years of similar boards, sales for the Orange County ABC board have also increased following the state's 56% ten year increase. *Refer to Chart 1 and 2.*

Distribution Schedule

G.S. 18B-805 (c) (2) (3) requires that the Board expend quarterly at least 5% of profits for law enforcement and at least 7% of the same profits for alcohol education and rehabilitation purposes. The statute also requires the Board to expend quarterly the remaining gross receipts to Orange County General Fund.

In 2010, Orange County made distributions to the county totaling \$400,000. Law enforcement and alcohol education distributions totaled \$242,741. Over the past ten years, alcohol education distributions have increased whereas law enforcement and county distributions have decreased. *Refer to Chart 3.*

FINDINGS AND RECOMMENDATIONS

On May 26, 2011, ABC Commission Auditor, Moniqua S. McLean, visited the Orange County ABC board administrative office and stores, and interviewed Tony DuBois, General Manager, Ron McCoy, Finance Director, Angel Neighbours, Administrative Manager, and Barry Roberts, Buyer and Warehouse Manager. Following are the findings relating to the performance audit:

1. Inventory Turnover

The inventory turnover rate is calculated by dividing the cost of goods sold by the average inventory in the system. The Commission has set goals for determining an effective rate based on the frequency of deliveries. Below are the target turnover rates based on a delivery schedule:

- Weekly deliveries target at 6 times per year
- Bi-weekly deliveries target at 5 times per year
- Monthly deliveries target at 4.5 times per year

The Orange County stores have a weekly delivery schedule. The inventory turnover rate for the Orange Co ABC stores is 5.3 and does not meet the target rate set by the Commission.

Recommendations:

- Explore different strategies for eliminating slow movers.
- Ask for price reductions for discontinued product.
- Monitor store inventories to avoid overstocking at the store level.
- Use recipe cards, displays, and other marketing techniques to adhere to customer demand.

2. Operating Cost

Operating costs are calculated by dividing total operating expenses less depreciation by the gross profit on sales. Below are the average cost ratios for boards with and without mixed beverage sales:

- Boards with 3 or more stores with MXB – cost ratio .67 or less
- Boards with 3 or more stores without MXB – cost ratio .94 or less
- Boards with 2 stores – cost ratio .83 or less
- Single store boards with MXB – cost ratio .77 or less
- Single store boards without MXB – cost ratio .93 or less.

The Orange County ABC board has an operating cost ratio of .72 while the average for similar size boards is .67. To meet the goal of .67 or less and remain at current revenue levels, operating expenses must be reduced to less than \$2 million. To meet the goal with current expense levels, gross sales will need to exceed \$20 million.

Orange Co ABC Board

Recommendations:

- Request bids annually from various vendors to get the best rates possible on audit, credit card processing fees, and insurance and bonding rates.
- Salaries and benefits being the largest segment of operating expenses, analyze personnel hours to assess efficient personnel usage.
- Reduce travel expense by sending just one board member to annual conference on a rotating basis and having that person report back to board on topics covered.

3. Profit percentage to sales

The profit percentage to sales is calculated by dividing the total profit before distributions by the total liquor sales. The Commission has set efficiency goals based on the following breakdown:

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

The Orange County ABC board has a profit percentage to sales of 5.63% and does not meet the targeted rate set by the Commission.

Recommendations:

- Analyze and reduce operating expenses to increase profits. Refer to above recommendations.

4. 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:

- 4 months for boards with gross sales less than \$1.5M
- 3 months for boards with gross sales less than \$50M and greater than or equal to \$1.5M
- 2 months for boards with gross sales equal to or greater than \$50M

The Orange Co ABC board has a working capital of \$2,221,435 and meets the targeted goal set by the Commission.

5. Store Appearance

The linear footage for Orange County ABC stores ranges from 708 to 1658 feet of shelf space. Each store averages approximately 1075 SKU's.

- All stores were clean and well lit; however, the exterior areas of two locations need defined parking spaces.
- Shelf management system is clearly identified for each store. The shelf management in place is consistent and easily understood.

Recommendations:

- Improve the exterior areas for the two stores as mentioned. Make parking spaces clearly defined for customer usage. *Refer to Appendix A.*

6. Policies and Procedures

- The personnel manual was issued in 2004. Since then, there have been several amendments to the personnel manual.

Recommendations:

- Update the personnel manual and send a copy to the Commission. *See Appendix B (1) for rule.*

7. Administrative Compliance

- Board meeting minutes were viewed and followed the order of proceedings for conducting business meeting. Minutes should reflect that the meeting has been called to order, a record of attendees, the minutes of the last meeting have been approved, any votes taken and how members voted, policies adopted, and any other business presented in sufficient detail so that anyone reading the minutes could understand what transpired.
- Board information on the Commission website is current. Board members' compensation meets the current statutory requirements.
- Checks are currently signed by both the finance officer and general manager. However, they do not bear the certificate on the face of the instrument which is required by GS 18B-702(q).

Recommendations:

- All checks written after May 1, 2011 must include the certificate. *Refer to Appendix B (2).* The certificate can be placed above or beside the signature lines to show that each check has been approved by the finance officer. The text may be shortened to accommodate space constraints.

8. Personnel/Training Compliance

- Training is conducted when need arises and whenever new information is available.

Recommendations:

- Attend annual training, such as the Responsible Alcohol Seller Program, offered by the Commission and other approved venues.

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Chart 1

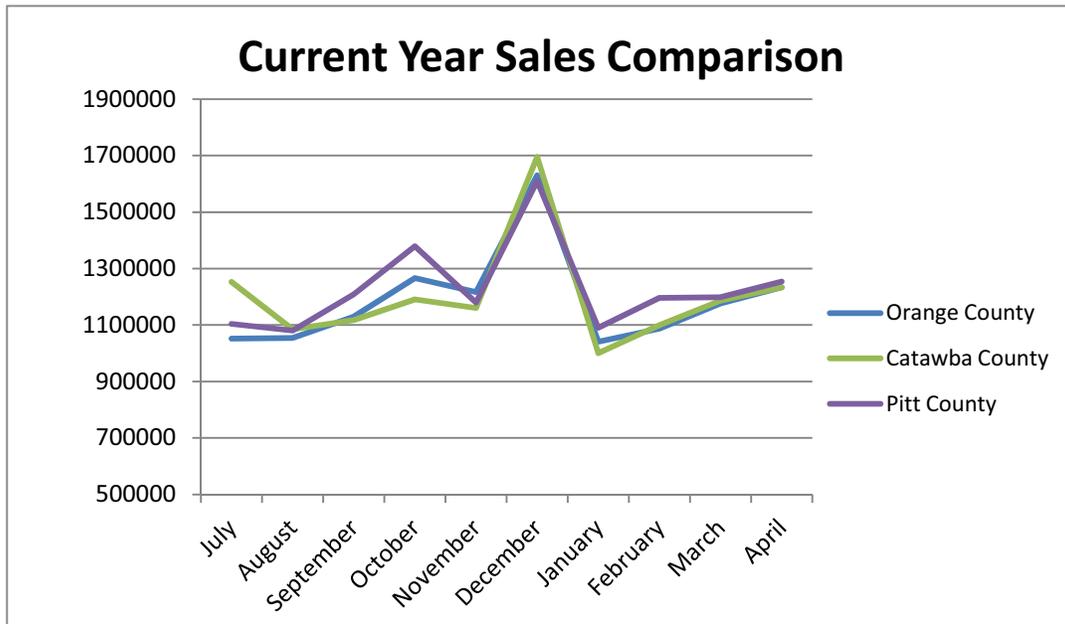


Chart 1 reflects the current year sales growth of similar boards.

Chart 2

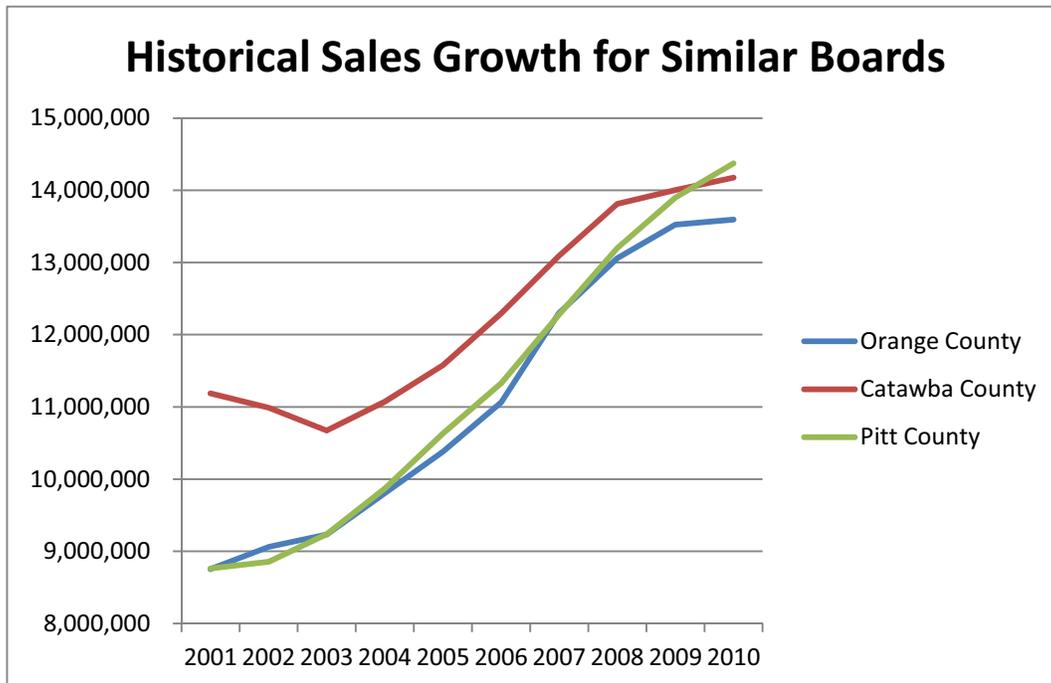


Chart 2 reflects the historical sales growth for similar boards for the past ten years.

Chart 3

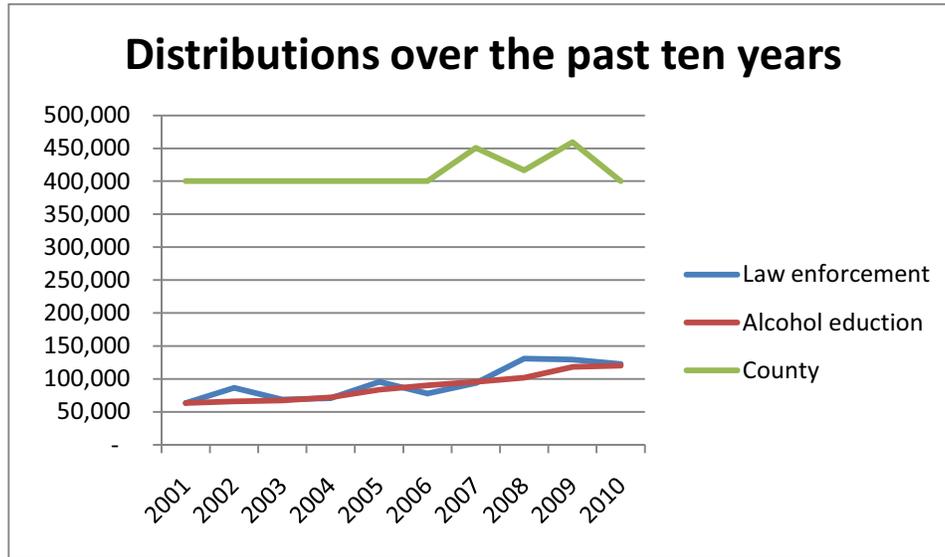


Chart 3 shows the trend of distributions to the appointing authority, law enforcement, and alcohol education.

Chart 4

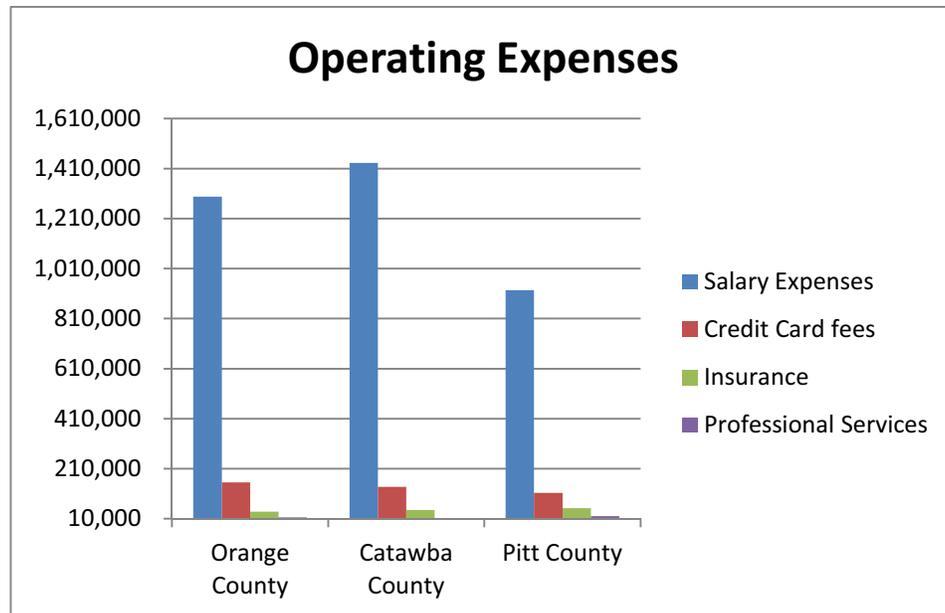


Chart 4 reflects total operating expenses for similar size boards.

Chart 5

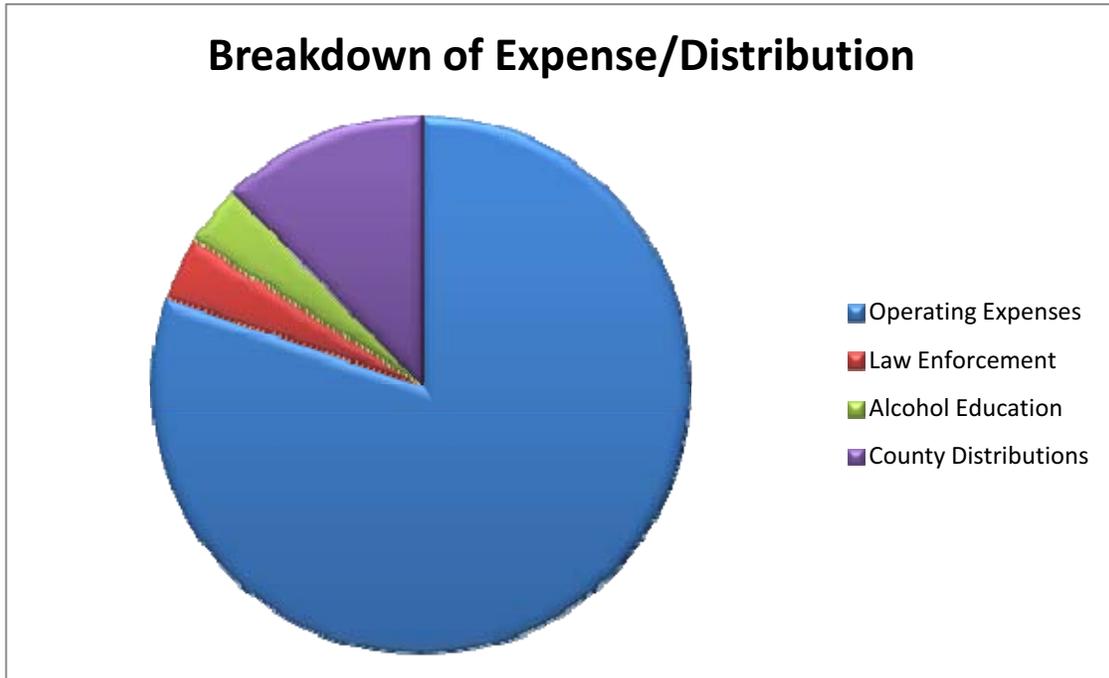


Chart 5 reflects the breakdown of gross profit between expenses and distributions to the county.

APPENDIX A

Picture 1



Picture 2



Exterior parking area at the store in Carrboro.

Picture 3



Shelf management system clearly defined and easily understood.

APPENDIX B

(1) NCAC 02R .1009 states "(a) Each local board shall establish policies and rules governing each of the following:

- (1) Initial employment of employees, including qualifications and requirements for new employees;
- (2) Compensation and benefits;
- (3) Hours and days of work, holidays, vacation, sick leave and other matters pertaining to the conditions of employment;
- (4) Promotion, transfer, demotion and suspension of employees;
- (5) Separation or termination of employees;
- (6) Granting of salary increases;
- (7) Employee grievance procedures; and
- (8) Any other programs or procedures as may be necessary to promote efficiency and to provide for a fair and reasonable system of personnel administration.

(b) A local board is encouraged to model its personnel policies and procedures after those adopted by the county or municipality in which it operates."

NCAC 02R .1102 states "(a) A copy of all rules or amendments thereto that may be adopted by a local board to govern the operation of ABC stores or the enforcement of the ABC laws shall be submitted to the Commission at least 15 days prior to the date on which it is proposed that those rules or amendments are to become effective."

(2) 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).

COUNTY OF ORANGE
ALCOHOLIC BEVERAGE CONTROL BOARD

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KEITH COOK, Chair
JOHN LINK, Vice Chair
TONY DUBOIS, General Manager

Board Members
WILLIAM CROWTHER
ROSA TILLEY
LISA STUCKEY

To: State ABC Commission
From: Orange County ABC Board
Date: September 16, 2011
Subject: ABC Board Performance Audit Response

RECEIVED

SEP 26 2011

NC ABC COMMISSION

This memorandum is to officially respond to the Performance Audit of the Orange County ABC Board performed starting on May 25, 2011 and the subsequent report submitted to the board on June 26, 2011. The summary was received with recommendations and a response is due by September 26, 2011 to fall within 90 days of receiving the audit. Moniqua McLean performed the audit and also made herself available in a board meeting on August 16, 2011 to present her findings and answer any questions about her recommendations. While most of the audit included things that were in compliance with the performance standards the following is a detailed response to the recommendations in the audit and our plan going forward.

Distribution

A distribution of \$400,000 will be made to the Orange County General fund for fy2012. Distributions will be made the last month of each quarter (September, December, March and June) in the amount of \$100,000. The board also set aside \$64,681 to contribute to the Board Retiree Health Care Plan. We will distribute \$120,000 to Alcohol Law Enforcement agencies including a new partnership with the Hillsborough Police Department. The board also committed \$105,000 to Alcohol Rehabilitation and Education grants for schools and local community organizations.

Alcohol Law Enforcement	Amount
Hillsborough Police Department	\$4,000
Carrboro Police Department	\$12,500
Chapel Hill Police Department	\$17,236
Orange County Sheriff's Department	\$86,246
Total Alcohol Law Enforcement	\$120,000

Alcohol Education and Rehabilitation Grants	Amount
Northern Orange Partnership for Alcohol and Drug Free Youth	\$8000
Carpe Diem	\$9000
El Futero	\$25,000
Orange County Schools	\$30,000
Chapel Hill-Carrboro city Schools	\$33,000
Total Alcohol Education and Rehabilitation	\$105,000

These amounts are well over statutory requirements

The Following is in Response to the Findings and Recommendations of the Commission:

1. Inventory turnover

Commission Recommendations:

- Explore different strategies for eliminating slow movers.
- Ask for price reductions for discontinued product.
- Monitor store inventories to avoid overstocking at the store level.

Orange County ABC Board Plan

- Use more aggressive strategy to sell out of slower moving items.
- Ask for price reductions for items that will not sell down after using an aggressive sales strategy and suggest the commission does an across the board price reduction for the state.
- Balance inventory to make sure there is no overstocking and on hand weeks of supply of the products we sell are lower.

2. Operating Cost less Depreciation

Commission Recommendations:

- Request bids annually from various vendors to get the best rates possible on audit, credit card processing fees, and insurance and bonding rates.
- Because salaries and benefits are the largest segment of operating expenses, analyze personnel hours to assess efficient personnel usage.
- Reduce travel expense by sending just one board member to annual conference on a rotating basis and having that person report back to board on topics covered.

Orange County ABC Board Plan

- Currently and for the past several years bids have been received annually for services and will continue to be bid out in the future to get the best price.
- Personnel hours are looked at on a continual basis and the schedule is being changed to lower weekly overtime hours.
- The Board only sent one board member to the annual conference in 2011 and will continue to rotate the members who attend the annual meeting while continuing to send board employees who benefit greatly from the knowledge shared at the conference.

3. Profit Percent to sales

Commission Recommendations:

- Analyze and reduce operating expenses to increase profits. Refer to above Recommendations

Orange County ABC Board Plan

- All controllable operating expenses are being reviewed and cost savings measures are being taken when possible. Credit Card fees, Insurance, Payroll, lighting, office supplies, pest control, telecom and data services are some of the examples.

4. Working Capital

- The Orange Co ABC board has a working capital of \$2,221,435 and this amount meets the targeted goal set by the Commission.

5. Store Appearance

Commission Recommendations:

- Improve the exterior areas for the two stores as mentioned. Make parking spaces more clearly defined for customer usage.

Orange County ABC Board Plan

- These improvements are in the budget for 2012, bids were received and both projects have already been completed.

6. Administrative Compliance Findings

Commission Recommendations:

- Update the personnel manual and send a copy to the Commission. See Appendix C (1) for the rule.

Orange County ABC Board Plan

- This project was started on January 1, 2011 and will continue throughout fy2012.

7. Personnel / Training Compliance

Commission Recommendations:

- Attend annual training, such as the Responsible Alcohol Seller Program, offered by the Commission and other approved venues.

Orange County ABC Board Plan

- The Orange County ABC Employees currently attend 2 RASP/BARS classes per year.
- All employees are also scheduled for professional development classes yearly
- All Board Members and required staff have attended mandated Commission ethics classes

8. Internal Controls

Commission Recommendations:

- All checks written after May 1, 2011 must include the certificate. Refer to Appendix C (2). The certificate can be placed above or beside the signature lines to show that each check has been approved by the finance officer. The text may be shortened to accommodate space constraints.

Orange County ABC Board Plan

- This plan was already put in place starting June 1, 2011.

The Orange County ABC Board and our employees are committed to serving our locality responsibly by controlling the sale of spirituous liquor, returning profits to Law Enforcement, Alcohol Education, and the County Fund while providing excellent service in customer friendly, modern and efficient stores.

This response defines Orange County ABC Board's commitment to our core mission while addressing the recommendations from the ABC commission and turning them into actionable goals.

Thank You,

A handwritten signature in black ink that reads "Tony DuBois". The signature is written in a cursive style with a large, stylized "T" and "D".

Tony DuBois
Orange County ABC
General Manager

ORANGE COUNTY ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Store Appearance – Make clearly define parking spaces for customer usage in two locations</p>	<p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>	<p>(Please provide documentation supporting implementation status.) <input checked="" type="checkbox"/> Fully Implemented <input type="checkbox"/> Partially implemented ___% complete. (Explain below.) <input type="checkbox"/> Not implemented (Explain below.)</p> <p>The Board has budgeted, requested bids, and completed this project.</p>
<p>Administrative Compliance – Update personnel manual.</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>(Please provide documentation supporting implementation status.) <input type="checkbox"/> Fully Implemented <input checked="" type="checkbox"/> Partially implemented 50% complete. (Explain below.) <input type="checkbox"/> Not implemented (Explain below.)</p> <p>The Board is currently in the process of updating the employee manual. This project will continue throughout FY2012.</p>

ORANGE COUNTY ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Training – Have employees attend annual training, such as the Responsible Alcohol Seller Program, offered by the Commission</p>	<p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>	<p>(Please provide documentation supporting implementation status.) <input checked="" type="checkbox"/> Fully Implemented <input type="checkbox"/> Partially implemented ____% complete. (Explain below.) <input type="checkbox"/> Not implemented (Explain below.)</p> <p>Employees currently attend 2 RASP/BARS classes per year. All employees are scheduled to attend professional development yearly.</p>
<p>Internal Controls – Have all checks include the approved certificate and signed by the finance officer.</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>(Please provide documentation supporting implementation status.) <input checked="" type="checkbox"/> Fully Implemented <input type="checkbox"/> Partially implemented ____% complete. (Explain below.) <input type="checkbox"/> Not implemented (Explain below.)</p> <p>The Board has implemented this practice starting June 1, 2011.</p>