Pittsboro 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

COMMISSIONERS:
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Wake Forest

KEVIN M. GREEN
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Your Name
Director
Permit Division
(this is editable)

June 13, 2013

Pittsboro ABC Board
Mr. James Nass Chairman
PO Box 624
Pittsboro, NC 27312

Dear Chairman Nass,

We are pleased to submit this performance audit report on the Pittsboro 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 efficient manner in which your Board is operated and for the efforts you have recently made to comply with the new performance standards.

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

Respectfully,

Michael C. Herring
Administrator

CC: The Honorable Randolph Voller, Mayor
Mr. Bryan Guresbeck, Town Manager
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 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 the store;
- Interviewed key ABC board personnel.

The Pittsboro ABC Board has submitted a response to the performance audit recommendations and is continuing to implement steps toward increasing profitability and oversight. Policies and procedures have been established to maintain compliance with statutes and to ensure efficient operations.

BACKGROUND INFORMATION

Chapter 365 of the 1967 Session Laws authorized the Town of Pittsboro to hold an election. The referendum was held on August 14, 1971 and passed 294 to 201. The first retail sales occurred on October 13, 1971. A mixed beverage election was held on May 5, 2009 and passed 5,187 to 2,756.

Upon election of an ABC store, the Town of Pittsboro was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members are James Nass, board chairman, Sera Cuni and Edward Kelly, board members.

The Pittsboro ABC Board operates one retail store. The board staffs one part-time general manager, who is also the general manager of the Siler City ABC store, and three full-time employees. The general manager is responsible for the daily operations of the store including supervising personnel, retail operations, inventory management, and administrative functions. The clerk duties include various retail functions such as selling products, customer service, inventory management, and store upkeep. The board has hired an external finance officer to handle all financial operations.

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 Pittsboro ABC Board receives deliveries twice a month: the inventory turnover rate is 5.0.

Recommendations:

- Continue with the following practices 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;
  - Asking for price reductions from the Commission to clear dead stock.

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 Pittsboro ABC Board operates one retail store with mixed beverage; the operating cost ratio is 0.55. Mixed beverage sales began in 2009 and make up 4.9% of total gross sales. In fiscal year 2012, sales increased 11.6% over fiscal year 2011 and expenses decreased 10.75% over the same time period. The board owns the building which contributes to the savings on rental expense.

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:

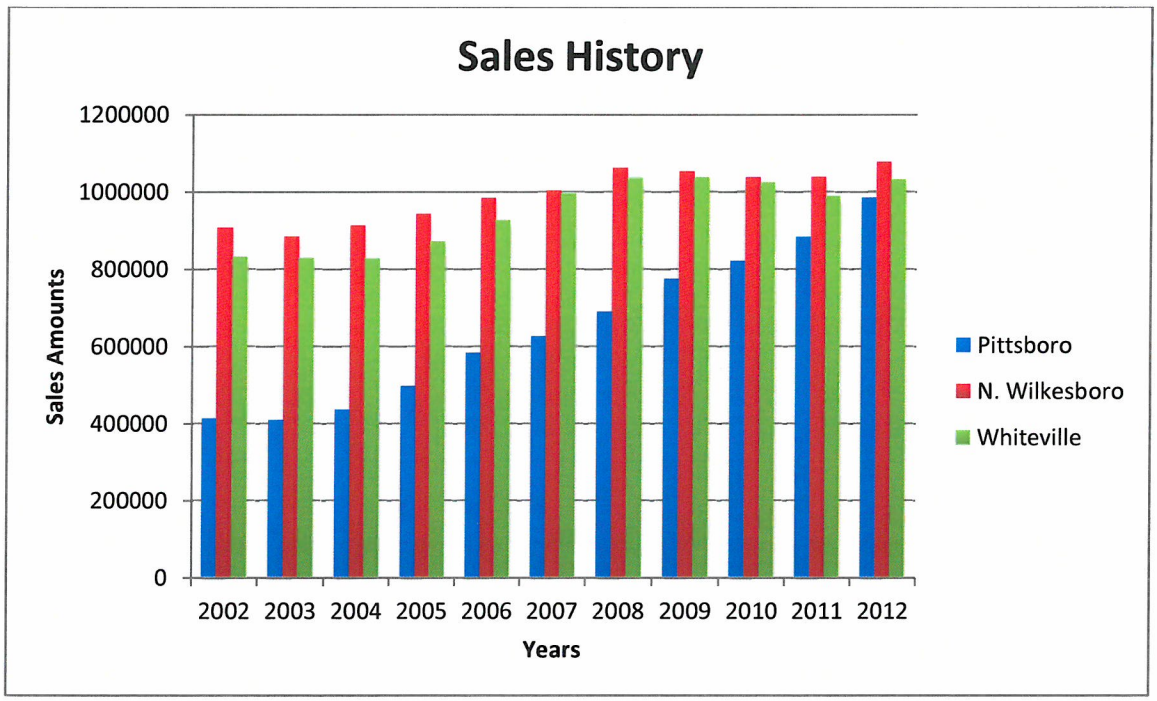
- Gross sales greater than $10M – target rate at 9%
- Gross sales between $2M to $10M – target rate at 6.5%
- Gross sales less than $2M – target rate at 5%

In fiscal year 2012, the Pittsboro ABC Board had gross sales of $984,762; income from operations was $101,620, a 10.32% profit percentage to sales.

Factors affecting sales and profitability:

- US Census Bureau reports a total population of 3,743 in 2010;
- Population increased 68% since 2000 contributing to the overall growth of the county;
- Sales increased 11.6% over the previous year;
- Surrounding towns/counties with ABC stores within a twenty mile radius include Chatham Co, Siler City, Durham Co, Orange Co, Sanford, and Moore Co.

Below is a sales history analysis of similar size boards compared with Pittsboro ABC Board. This chart analyzes the sales trend for the past ten years. Note: Pittsboro ABC began mixed beverage sales in 2009.



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

Pittsboro ABC had a working capital of $226,912 which is equivalent to less than four months gross sales and is within the limits of NCAC 02R .0902.

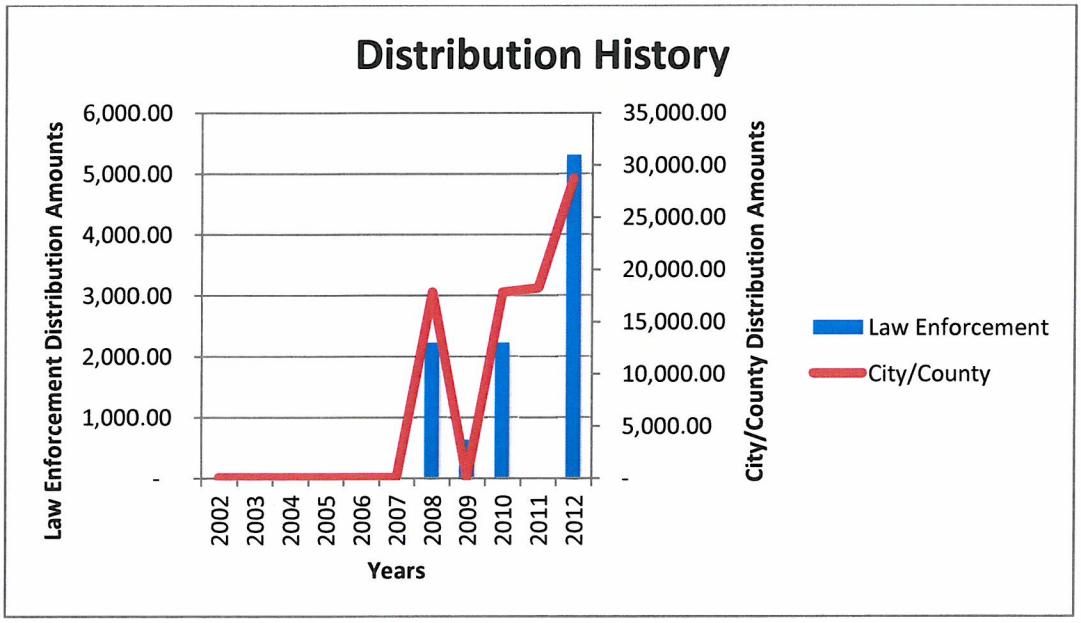
Distributions

G.S. 18B-805 (c) requires the board to distribute at least five percent (5%) of profits to law enforcement. The board follows the local enabling act for alcohol distributions, whereas alcohol education distributions are not required. The remaining profits are to be distributed as follows:

- 10% to Chatham County General Fund
- 90% to Pittsboro General Fund

In FY2012, the Pittsboro ABC Board made the required minimum distributions totaling $28,684, plus additional distributions of $28,684. $212,595 in Excise and other taxes were paid to the NC Department of Revenue and $5,307 to law enforcement.

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



OPERATIONAL FINDINGS, OBSERVATIONS, AND RECOMMENDATIONS

On February 5, 2013, ABC Board Auditor, Moniqua S. McLean visited the Pittsboro ABC Board and interviewed Nancy Gooch, general manager, Faye Ward, finance officer, and James Nass, board chairman. The following are the operational findings, observations and recommendations related to the performance audit.

Store Appearance and Customer Service

The Pittsboro ABC Board operates one retail store with approximately 1,000 feet of shelf space and carries approximately 1,143 product codes.

- The store has been newly renovated exhibiting an open warehouse atmosphere with custom wood shelving, exposed duct work and dropped lighting. The store was clean and well-dusted. Counter areas were free of clutter having supplies easily accessible. No televisions were evident.
- Exterior signage and landscaping around the store have been improved to attract new customers.
- Due to the position and layout of the store, the parking area is compact. However, the area is clean and well-lit.
- The Fetal Alcohol Syndrome poster was displayed.
- Security systems were in place and functional.
- The state price book was available along with monthly sales lists.
- Sales clerks' interaction with customers was attentive, courteous, and eager to meet the needs of customers.

No Recommendations.

Personnel and Training

- Two out of three board members have attended the initial mandatory ethics class. The other member is past due. One board member has been reappointed and is making plans to take the online ethics training.

- Training is provided as new information becomes available to current staff. Some sales staff has not attended a RASP class.

- Cross training opportunities have been extended to key employees in the event the general manager was suddenly unavailable.

- An employee handbook was submitted to the Commission in 2000. The board is currently updating the handbook to reflect current policies and procedures.

Recommendations:

- Bring all board members into compliance with state ethics requirement. All board members must receive ethics education within 12 months of the initial appointment date. All reappointed board members must receive ethics education within 12 months of the reappointment date. *Refer to Appendix C (1) for statute.*

- 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
  - FY2013 Budget (Proposed and Adopted)
  - FY2012 Annual Audit

- Policies not adopted include:
  - Travel Policy
  - Price Discrepancy Policy
  - Mixed Beverage Policy

Recommendations:

- Adopt a travel policy that conforms to either the Town of Pittsboro's or the State's policy. If the town's travel policy is adopted, submit a copy of the town's travel policy along with documentation showing that the town commission has approved the board's adoption of their policy. If the State's travel policy is adopted, submit a copy of the ABC board's minutes stating the travel policy was adopted. *Refer to Appendix C (2) for statute.*

- 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 (3) for rule.*

- In the event of new mixed beverage permit holders, have a written mixed beverage policy to distribute. Incorporate flexible ordering and pickup hours.

Internal Control Procedures

- Physical inventory counts are performed monthly by all staff. Frequent spot checks are performed throughout the month. If discrepancies occur, the general manager will recount the clerks' count sheets and vice versa. Once completed, only the general manager will adjust the inventory control system to match with the actual store count. Unsalable items are adjusted immediately.

- Cash drawers are counted at the beginning of each shift by clerks. All clerks' are responsible for their own cash drawer. Although understood, there are no written procedures/policies explaining how to handle cash drawer overages and shortages.

- Bank deposits are made daily in between shifts. As an additional internal control procedure, the clerks fax deposit slips daily to the finance officer. Deposits and credit card transactions are verified via the web and monthly by the finance officer while completing the bank reconciliations.

Recommendations:

- Implement procedures for handling cash drawer overages and shortages. Incorporate these procedures into the updated employee manual for current and future employees.

Administrative Compliance Findings and Observations

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

- Board member appointment dates and compensation amounts is current on the Commission 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 for $50,000 as required by G.S. 18B-700 (i).

- Although the initial liquor order does not reflect the pre-audit certificate, each individual invoice has the stamp applied with the finance officer's signature.

- When ordering supplies, purchase orders are not used. However, the board has adopted a policy stating that purchases under $500 do not require purchase orders.

- All checks bear the approved certificate with the finance officer's signature. The general manager is the second signature. In the event the general manager is unavailable, all board members are authorized to sign checks.

- Because the board has not adopted a travel policy, travel expenses do not conform to a policy.

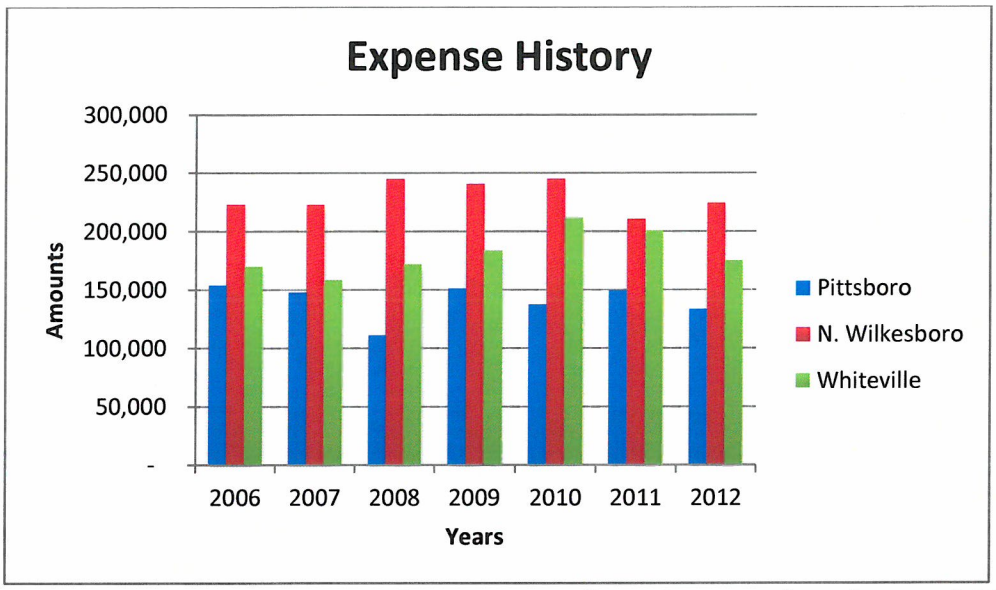
- Out of approximately 1,000 product codes, approximately 100 product codes were sampled and all were correct.

Recommendations:

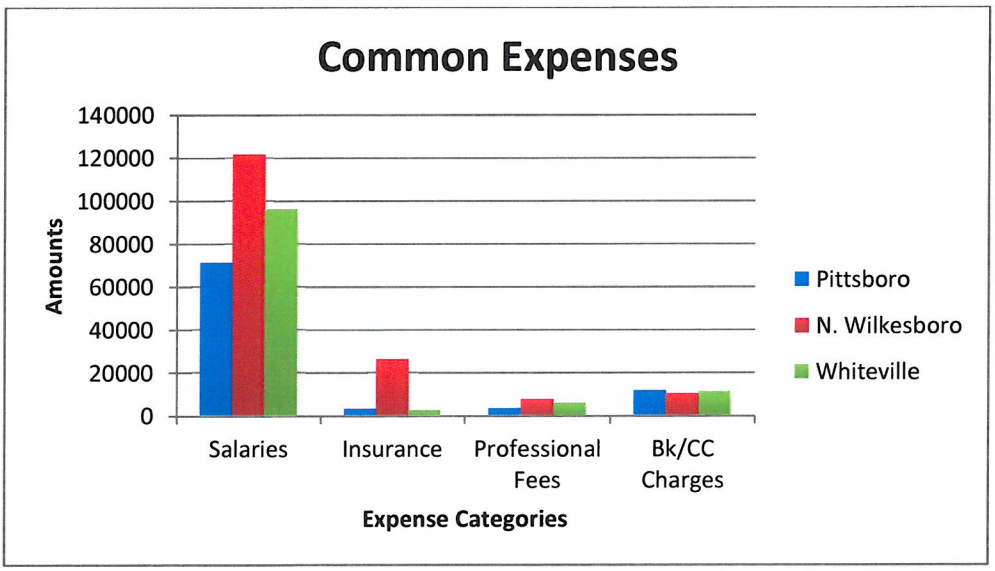
- To save time, eliminate stamping and signing each invoice; place the pre-audit certificate on the order to LB&B. Authorization should occur before the transaction takes place.

- Refer to recommendation under ABC Board Policies on adopting a travel policy.

APPENDIX A

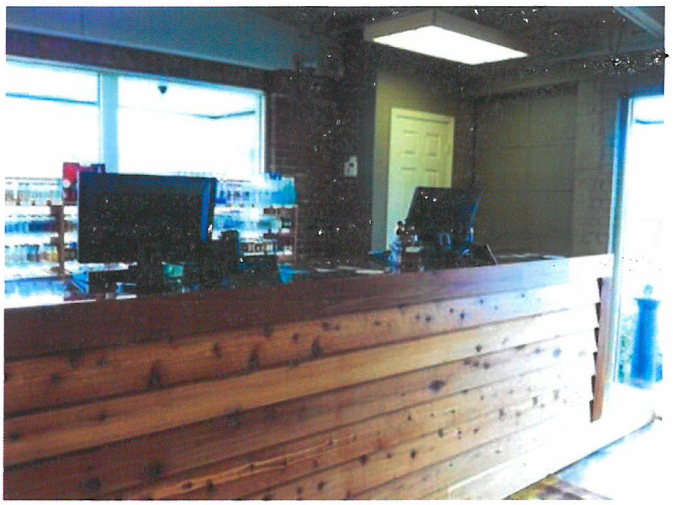


The expense history data indicates Pittsboro ABC Board's total expenses have decreased 13.32% overall since FY2006 while sales have increased 69.1% over the same time period. Pittsboro ABC's overall expenses are not out of line with other similar size boards.



Pittsboro ABC's common expenses are relatively lower than other similar size boards. Bank and credit card charges have increased to reflect the increase of sales by credit card.

APPENDIX B



Counter area

Interior view

Interior view

APPENDIX C

(1) *G.S. 18B-706 (b) states, "Each member of a local board shall receive a minimum of two hours of ethics education within 12 months after initial appointment to the office and again within 12 months after each subsequent appointment to the office."*

(2) *18B-700(g2) states "...the local board adopts a travel policy that conforms to the travel policy of the appointing authority and such policy is approved by the appointing authority [or adopts the state policy]."*

NCAC02R.0909 (c) Rules to be filed with Commission. Each local board shall file a certified copy of its travel policies and procedures, and any amendments thereto, with the Commission within 10 days of the adoption, or amendment, of the policies by the local board.

(3) *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."*

PITTSBORO NORTH CAROLINA ABC BOARD

PO BOX 624

PITTSBORO, NC 27312

MAY 1, 2013

Moniqua S. McLean
ABC Board Auditor
4307 Mail Service Center
Raleigh, NC 27699-4307

Subject: Response to the Pittsboro ABC Board Performance Audit

The Pittsboro ABC Board has carefully reviewed the Performance Audit Report along with your oral presentation and is providing the following response.

We appreciate the in depth review of our operations set forth in the audit report. The material has given us a good deal of information that we can use to better plan and execute our responsibilities as a board.

We wholeheartedly accept the recommendations for improvement set forth in the report.

Specifically we have addressed the following recommendations:

- All board members will be in compliance with the state ethics requirement. The member that is past due for the mandatory ethics class has been scheduled for that class.

- Adopt a travel policy that conforms to either the appointing authority's or the State's policy. The Chair of the Pittsboro ABC Board will seek the appointing authority's approval to adopt their travel policy at the May 13, 2013 Board of Commissioners meeting. A copy of those minutes will be provided when they are available after the meeting.

- Have a written Discrepancy policy. The Price discrepancy policy has been placed in the policy and procedures manual.

- Have a written procedure/policy for cash drawer overages/shortages. The cash drawer overage/shortage procedure has been placed in the policy and procedures manual

- Have a written mixed beverage policy to distribute. The written mixed beverage policy has been placed in the policy and procedure manual and is available to be distributed to permit holders.

A copy of the policy and procedure manual will be provided in electronic format to the Commission.

- Eliminate stamping and signing each invoice; place the pre-audit certificate on the order to LB&B. Done.

Again, we appreciate the performance audit report and the other information provided orally and are working to insure that we are in full compliance with Commission policies, procedures, and requirements and that we are doing everything possible to fulfill our responsibilities as a board.

Sincerely.

James Nass

James Nass, Chair
Pittsboro ABC Board

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PITTSBORO ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
Personnel and Training: Bring all board members into compliance with state ethics requirement.	☑ **Yes** ☐ **No**	(Please provide documentation supporting implementation status.) ☐ Fully Implemented ☑ Partially implemented 50% complete. (Explain below.) • Not implemented (Explain below.) The board member that is past due is scheduled for an upcoming class.
ABC Board Policies: Adopt the following policies: • Travel Policy • **Price Discrepancy Policy • MXB Beverage Policy	☑ **Yes** ☐ **No** **Note: Required by rule.	(Please provide documentation supporting implementation status.) ☐ Fully Implemented ☑ Partially implemented 75% complete. (Explain below.) ☐ Not implemented (Explain below.) The board has adopted and submitted all required policies to the Commission.