

# Beaufort County ABC Board

## Performance Audit Report



Alcoholic Beverage Control Commission  
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**ABC**  
COMMISSION  
NORTH CAROLINA

## TABLE OF CONTENTS

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Objective, Purpose, and Scope.....	3
Background Information.....	4
Financial Analysis.....	5
Observations, Findings, and Recommendations.....	9
Summary.....	14
ABC Commission Statement.....	15
Beaufort County ABC Board Response.....	16

## **OBJECTIVE, PURPOSE, AND SCOPE**

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G.S. 18B-705 (a) authorizes the ABC Commission or alcohol law enforcement agents to conduct regular, special audits, or performance evaluations on all ABC boards. Performance audits are examinations of existing operating policies, practices, controls, and activities to determine those areas in which there may be a need for improvement.

The audits or evaluations are to ensure that all local ABC Boards comply with established performance standards pursuant to G.S. 18B-203 (a) (20). The audit scope includes performance standards that address compliance with ABC laws, store appearances, operating efficiency, solvency, and customer service.

To achieve the objectives of the audit, auditors:

- Reviewed applicable General Statutes, ABC Commission Rules, and administrative policies
- Reviewed applicable reports and studies of ABC boards with similar size and geography
- Consulted with specialists at UNC School of Government
- Verified compliance with Commission and Board policies
- Reviewed organizational chart and job descriptions
- Reviewed ABC board annual independent financial audits
- Visited the store(s)
- Interviewed key ABC board personnel.

As a basis for evaluating internal control, auditors applied the internal control guidance contained in professional auditing standards. Internal control is the process by which the board and management provide reasonable assurance that operations are effective and efficient, reliable, and in compliance with applicable rules, laws and regulations. As discussed in the standards, internal control consists of five interrelated components, which are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

## **BACKGROUND**

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S.L. 1935-493 authorized Beaufort County to have an ABC store. The referendum was held on June 29, 1935 and passed 2,923 to 964. The first retail sale occurred on July 12, 1935. Subsequent mixed beverage elections occurred in Beaufort County, the cities of Washington and Belhaven in 1988 and did not pass. On May 3, 1994, a mixed beverage election occurred in Beaufort County and passed 4,046 to 3,746.

Upon vote passage, the county commissioners were authorized to create an ABC board consisting of a chairman and two members to serve for three staggered year terms. Current board members are Donald Sadler, chairman, Danny Slade and Curtis Brown.

The Beaufort County ABC Board employs thirteen full-time and six part-time employees. Of those nineteen employees, the administrative staff consists of the general manager, the finance officer and the accounting technician. Each store has a store manager and an assistant manager. Store employees have a primary responsibility in providing customer service, consistent store upkeep, and regular stock maintenance.

## 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 (loss) from operations by the total liquor sales (Total Income (Loss) from Operations/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 and \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2015, the Beaufort County ABC Board had gross sales of \$4,901,473; income from operations \$323,926. This is a 6.6% profit percentage to sales. In FY2016, the Beaufort County ABC Board increased gross sales to \$5,114,674, a 4.4% increase over fiscal year 2015.

## **DISTRIBUTIONS**

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*G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, mixed beverage and bottle taxes. G.S. 18B-805 (c) requires the board to make a minimum quarterly distribution of the 3½% markup and .01/.05 cent bottle tax to the county.*

In FY2015, the Beaufort County ABC Board made the required minimum distribution of \$142,502 to the county. The Beaufort County ABC Board paid a total of \$1,120,241 in excise and other taxes to the NC Department of Revenue, the Department of Health and Human Services, and the 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 of profits toward alcohol education.*

The Beaufort County ABC Board employs one full-time law enforcement officer to enforce ABC law. The distribution for law enforcement is an expense line item totaling \$36,079. The alcohol education distribution totaled \$10,174.

*S.L. 1955-114 requires the Beaufort County ABC Board to distribute quarterly one hundred percent (100%) of the remaining profits to the Beaufort County General Fund of which an amount not to exceed twenty percent (20%) is to be distributed to the municipalities with ABC stores.*

In FY2015, the Beaufort County ABC Board made an additional distribution of \$16,988 to the county and municipalities.

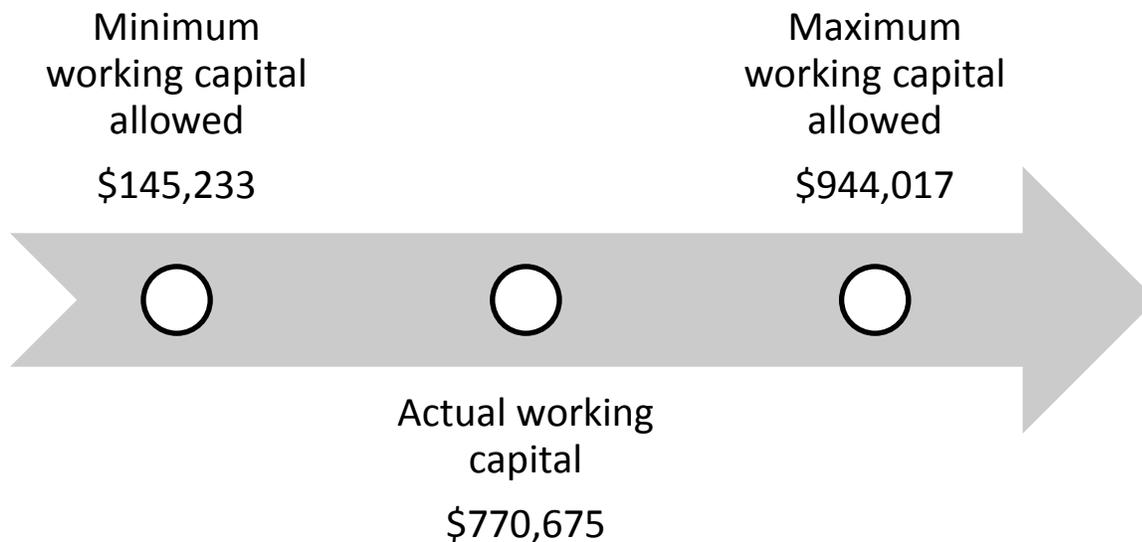
## WORKING CAPITAL

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*G.S. 18B-805 (d) allows the board to set aside a portion of the remaining gross receipts, within the limits set by the rules of the Commission, as cash to operate the ABC system. 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 working capital and 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*

The Beaufort County ABC Board had gross sales of \$4,901,473 in FY2015. The board's working capital of \$770,675 is within the recommended range set by the rules of the Commission. In FY2016, the board's estimated working capital of \$829,194 is within the range set by the Commission.



## **OPERATING COST RATIO**

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The operating costs ratio was 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 – cost ratio 0.63 or less
- Board with 1 or 2 stores with MXB – cost ratio .73 or less
- Boards with 1 or 2 stores without MXB – cost ratio .85 or less

The Beaufort County ABC Board operates six retail stores with mixed beverage. One store services mixed beverage permit holders. Mixed beverage sales make up 6.4% of total gross sales. In FY2015, the Beaufort County ABC Board's operating cost ratio was 0.68. Sales have increased 4.87% over fiscal year 2014. Expenses have increased 6.14% over the same time period.

The Beaufort County ABC Board owns all stores and has reduced overhead expenses.

# FINDINGS AND RECOMMENDATIONS

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## STORE APPEARANCE AND OPERATIONS

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As a routine procedure, the ABC Auditor tours ABC store locations, evaluates interior and exterior store appearances, verifies product pricing and interviews store personnel. The Beaufort County ABC Board operates six retail stores. The stores' linear footage averages approximately 742 ft.

- The stores appeared clean and free of trash. Counter areas were neat and well-organized.
- The stores displayed neat and visible signage. The Fetal Alcohol Syndrome poster is displayed and visible to the public.
- Landscaping around the stores is well-maintained and trash free.
- The ABC stores follow a shelf management/product placement policy. Shelf management and/or product placement follows marketing industry standards and shows the following:
  - Each product is displayed within its designated category
  - Premium products show at eye level and lowest-price products on the bottom shelves.
  - Sizes are consistent going from largest on the right and smallest to the left
  - Cross merchandising is utilized where possible to encourage impulse shopping
  - Bottles are fronted and dusted throughout the store
- Some locations had excessive empty shelving.
- Sales clerks often refer to the price book for verification of products and pricing. Monthly sales information is shared with mixed beverage and retail customers on a consistent basis.
- Cash drawers are maintained by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures for handling cash drawer overages/shortages.
- Bank deposits are made regularly according to the ABC Commission rules. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed by the finance officer.
- Physical counts are conducted monthly at each store. Stores are not able to identify the system's count. Inventory counts are forwarded to the admin office where a variance report is generated. The stores' variance reports are returned for a second check. Once discrepancies are investigated and recounted on multiple occasions, adjustments are made to the inventory system.
- Out of approximately 1,500 product codes throughout the system, approximately 250 product codes were sampled to ensure accurate pricing. All were correct.

## RECOMMENDATIONS

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1. To have more efficient use of shelving, incorporate a shelf display within the gondolas or floor shelves that would eliminate empty shelving. Incorporate other proven techniques that would reduce empty shelves.

## **PERSONNEL AND ABC TRAINING**

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- All board members, the general manager, and the finance officer have completed the ethics training as required. At the time of the audit fieldwork, one board member had since been reappointed and had not yet completed the ethics training. Each board member is required by statute to complete the training within one year of reappointment status.
- Cross training has been extended to employees in the event the store managers, general manager, or finance officer is unavailable.
- Additional training is provided to new and existing staff on key areas such as product knowledge, customer service, and clerk responsibilities. Employee meetings are offered to discuss additional policy implementation and other topic.
- Personnel files are available and include the required human resource documentation and other information.

## **NO RECOMMENDATIONS**

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## **ABC BOARD POLICIES**

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The Beaufort County ABC Board's policies and manual have been updated to include, but are not limited to, the following:

- Code of Ethics
- Beaufort County ABC Board Travel Policy (Adopted the Office of State Budget and Management Travel Policy)
- Beaufort County ABC Board Employee Handbook/Manual and Addendums that include the following:
  - Beaufort County ABC Board Mixed Beverage Policy
  - Beaufort County ABC Board Shelf Management Policy
  - Beaufort County ABC Board Sale to Underage Policy (Needs Revision)
  - Beaufort County ABC Board Price Discrepancy Policy

Policies are required to be submitted to the Commission within fifteen days prior to adoption as required by the Commission rule, NCAC 15A .1102.

G.S. 18B-702 requires the board to adopt a budget and budget message and an annual independent audit for the fiscal year. The Beaufort County ABC Board has submitted the following as required:

- FY2017 Budget (Proposed and Adopted)
- FY2015 Annual Audit

## **NO RECOMMENDATIONS**

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## **INTERNAL CONTROL AND ADMINISTRATIVE OPERATIONS**

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- Board information on the Commission website is current reflecting board member appointment dates and salary information for all members including general manager.
- Schedules are made by the store managers and forwarded to the general manager for verification. Timesheets are signed by the employee and the store manager and forwarded to the administrative office for processing.
- In reviewing a sample of travel reimbursements, procedures were followed according to the travel policy submitted.
- The board owns one delivery truck to help transport product between stores and from the warehouse. Vehicle expenses were verified. A vehicle usage policy has been adopted and submitted to the Commission.
- Law enforcement activity reports have been submitted to the Commission as required by G.S. 18B-501 (f1).
- All purchases are pre-audited by the finance officer utilizing the certificate as required in G.S. 18B-702 (m). Purchases are indicated through use of petty cash on hand or vendor invoices.
- Checks bear the approved certificate as required by G.S. 18B-702 (q) indicating that the items have been approved by the finance officer for payment. Two signatures are located on all paid checks; that of the finance officer and the general manager.

## **NO RECOMMENDATIONS**

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## **ABC BOARD COMPLIANCE**

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- Board meeting minutes were reviewed and found to provide sufficient detail that a reasonable person would be able to follow what transpired.
- Board meeting minutes included a conflict of interest statement asking board members if conflicts existed with items on the meeting agenda.
- Board notifies the public of board meetings through displaying the notice at the administrative office.
- The general manager compensation is in compliance with G.S. 18B-700 (g1).
- The board is in compliance with G.S. 18B-700 (k) as there are no known relationships between staff, any board member, and the general manager employed within the system.
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).

## **NO RECOMMENDATIONS**

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## **SUMMARY**

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A board meeting with held on September 19, 2016 with the Beaufort County ABC Board. Discussions were held regarding future goals of the board and possibilities of store improvements. The board strives to increase profitability while maintaining budget appropriations and minimizing costs. Policies have been adopted by the board and management that reflect current practices. Procedures are implemented to ensure compliance with statutes and ABC Commission rules and to ensure efficient operations are conducted while maintaining sufficient controls.



# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

January 16, 2017

CHAIRMAN:  
JAMES C. GARDNER

KEVIN M. GREEN  
Greensboro

MICHAEL C. HERRING  
West Jefferson

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Beaufort County Alcoholic Beverage Control Board  
Mr. Donald Sadler, Chairman  
P.O. Box 2552  
Washington, NC 27889

Dear Chairman Sadler,

We are pleased to submit this performance audit report on the Beaufort 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 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. Your continued efforts to increase profitability and reduce expenses is commendable and should remain your most important goal.

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

Respectfully,

A handwritten signature in black ink, appearing to read "R.A. Hamilton".

Robert A. Hamilton  
Administrator

CC: North Carolina Association of ABC Boards

DONALD SADLER  
Chairman of Board  
Washington, N.C.

**BEAUFORT COUNTY**  
**Alcoholic Beverage Control Board**

JOKAY SMITH  
General Manager  
and Supervisor  
Washington, N.C.

750 Carolina Avenue  
P.O. Box 2552

**Washington, N.C. 27889**

October 24, 2016

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

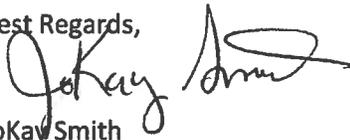
Dear Ms. McLean,

On behalf of the Beaufort County ABC Board, we would like to thank you for delivering your performance audit report at our September 2016 meeting. Our Board is committed to providing the best possible service to the citizens of Beaufort County and operating an efficient business for the state.

The recommendations made in your audit have been reviewed and addressed by the Board. Specifically, the locations that were mentioned with empty shelving. We have been remodeling stores within the last year, which has provided us with more shelving. We are ordering new products, but as the same time we are ordering items that customers are requesting, also that we feel we can sell; not just filling stores up with inventory.

We appreciate your work on this audit and the manner in which the audit was conducted. It is the goal of the Beaufort County ABC Board to continue to grow and prosper in the control sales of alcoholic beverages.

Best Regards,



JoKay Smith  
General Manager  
Beaufort County ABC Board