

Carteret County ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA

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OBJECTIVE, PURPOSE, AND SCOPE

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 INFORMATION

S.L. 1935-493 authorized Carteret County to hold an election for an ABC store. The referendum was held on July 6, 1935 and passed 1,547 to 1,004. The first retail sale occurred on July 1, 1936. Subsequent mixed beverage elections occurred in the following areas:

- Carteret County – April 20, 1979, and did not pass
- Town of Atlantic Beach – September 16, 1980 and passed 198 to 50
- Town of Emerald Isle – August 18, 1981 and passed 179 to 45
- Town of Pine Knoll Shores – August 28, 1994 and passed 223 to 114
- City of Morehead City – December 13, 1988 and passed 437 to 271
- Town of Beaufort – March 7, 1989 and passed 350 to 156
- Town of Cape Carteret – June 27, 1989 and passed 177 to 53
- Town of Cedar Point – November 7, 1989 and passed 95 to 48

Upon vote passage, the county commissioners were authorized to create an ABC board consisting of a chairman and two members. S.L. 1977-634 authorized the board to increase membership from three to five members. Current board members are Terry Frank, chairman, John Parker, Bruce Caldwell, Ed Cox, and John Warrington.

The Carteret County ABC Board employs thirty-three employees. The administrative staff consists of the general manager, the finance officer, and warehouse staff. The general manager serves as the law enforcement chief and the manager of the overall system. All store personnel have primary responsibilities that include providing customer service, store upkeep, and regular inventory maintenance.

FINANCIAL ANALYSIS

PROFIT PERCENTAGE TO SALES

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 FY2016, the Carteret County ABC Board had gross sales of \$13,329,745; income from operations was \$1,604,957. Sales have increased 5.17% in FY2016. Profit percentage to sales for FY2016 is 12.0%.

The Carteret County ABC Board operates six stores with retail and mixed beverage sales. Five out of six stores service mixed beverage permit holders. Mixed beverage sales make up 18.8% of total liquor sales.

DISTRIBUTIONS

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 3 ½% markup and .01/.05 cent bottle tax to the municipalities and county.

In FY2016, the Carteret County ABC Board made the required minimum distribution of \$374,337 proportionately to the municipalities and the county. The Carteret County paid a total of \$3,128,890 in excise and other taxes to the North Carolina 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 Carteret County ABC Board employs the general manager as a part-time law enforcement officer. The distribution for law enforcement is an expense line item totaling \$56,416. Alcohol education distributions were not made.

S.L. 1955-963 requires the Carteret County ABC Board to distribute quarterly the remaining profits as follows:

- Fifty percent (50%) to municipalities in which stores are located
- Fifty percent (50%) to the Carteret County General Fund

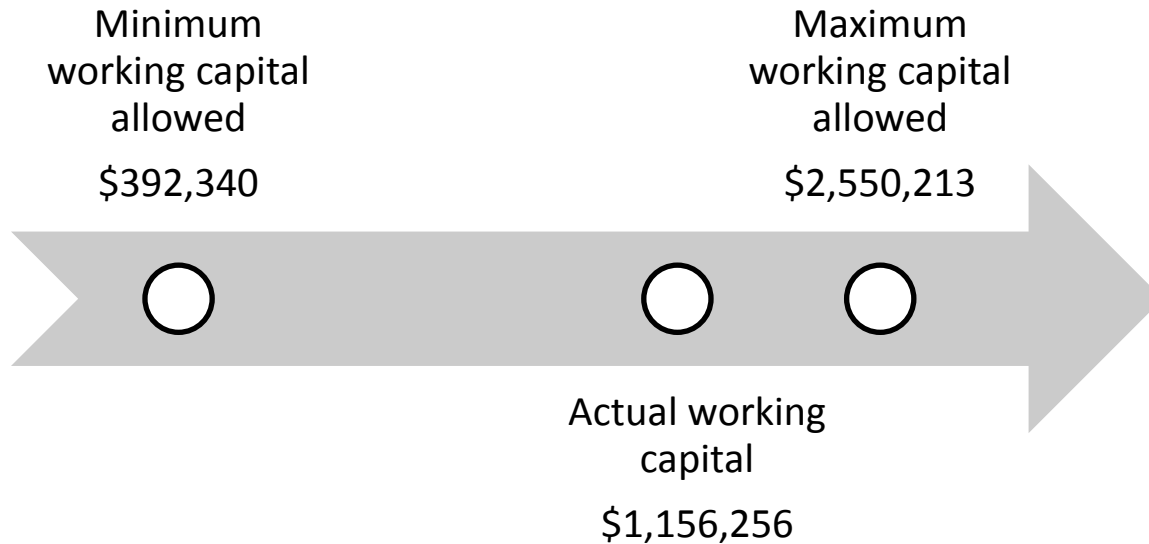
In FY2016, the Carteret County ABC Board made an additional distribution of \$972,682 proportionately to the municipalities and the county.

WORKING CAPITAL

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 Carteret County ABC Board had gross sales of \$13,329,745 in FY2016. The board's working capital of \$1,156,256 is within the recommended range set by the rules of the NC ABC Commission.



OPERATING COST RATIO

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

In FY2016, the Carteret County ABC Board's operating cost ratio was 0.49. Expenses increased 5.5% in fiscal year 2016. The Carteret County ABC Board leases two stores in Morehead City and Emerald Isle, one copy machine in the main office, and land for the Cape Carteret store. Rental expenses total approximately \$127,776.

FINDINGS AND RECOMMENDATIONS

STORE APPEARANCE AND OPERATIONS

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 Carteret County ABC Board operates six retail stores. The stores' linear footage averages approximately 1,373 ft. There are approximately 1,900 product codes between stores.

- 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.
- 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
- Sales clerks often refer to the North Carolina Liquor Quarterly for verification of products and pricing. Monthly sales information provided by the North Carolina ABC Commission 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.
- Full physical inventory counts are conducted three times a year. However, employees will conduct frequent spot checks throughout the year. A scanner system enables the store clerk to scan the barcode of a product to determine how many bottles are available. Store employees are not able to identify the master system product availability. Inventory counts from the scanner are uploaded into the inventory system for review by the administrative office. A variance report is created and reviewed to determine if discrepancies exist. Once discrepancies are investigated and recounted, adjustments are made to the inventory system.
- Out of approximately 1,900 product codes throughout the system, approximately 350 product codes were sampled to ensure accurate pricing. Two were incorrect.

RECOMMENDATIONS

1. To ensure correct pricing on the store shelves and in the computer system, audit shelf tags on a regular basis by incorporating this practice during or in between the regularly scheduled inventory counts.

PERSONNEL AND ABC TRAINING

- All board members, the general manager, and the finance officer have completed the ethics training as required. At the time of the audit fieldwork, three board members 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.
- Personnel files are available and include the required human resource documentation and other information.

NO RECOMMENDATIONS

ABC BOARD POLICIES

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

- Code of Ethics
- Carteret County ABC Board Employee Handbook/Manual and Addendums that include the following:
 - Carteret County ABC Board Procurement Card Policy
 - Carteret County ABC Board Vehicle Policy
 - Carteret County ABC Board Price Discrepancy Policy
 - Carteret County ABC Board Sale to Underage Policy
- Carteret County ABC Board Mixed Beverage Policy
- Carteret County ABC Board Travel Policy (Adopted the Carteret County Travel 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 Carteret County ABC Board has submitted the following as required:

- FY2017 Annual Budget (Proposed and Adopted)
- FY2016 Annual Independent Audit

NO RECOMMENDATIONS

INTERNAL CONTROL AND ADMINISTRATIVE OPERATIONS

- Board information on the Commission website is current reflecting board member appointment dates and salary information for all members including the general manager.
- Employee work schedules are created by the general manager. Employees record hours worked using a time card. Timecards are forwarded to the administrative office for processing through a third-party vendor. The finance officer manages and reconciles the payroll reports to create appropriate entries within the accounting system.
- In reviewing a sample of board credit card transactions, procedures were followed according to the adopted credit card usage policy to the extent of the ordering and disbursement processes.
- In reviewing a sample of travel reimbursements, procedures were followed according to the travel policy of the Carteret County ABC Board.
- The board owns three delivery trucks and one law enforcement vehicle. Vehicle expenses were verified and followed procedures according to the board vehicle policy.
- Law enforcement activity reports have been submitted to the Commission as required by G.S. 18B-501 (f1).
- All purchases are authorized by the general manager and pre-audited by the finance officer utilizing the certificate as required in G.S 18B-702 (m). Pre-audit procedures are indicated through use of a purchase order or vendor invoice. Although initial liquor orders bear the pre-audit certificate, each individual vendor invoice has the pre-audit certificate and is signed by the finance officer. Purchase payments are made by petty cash on hand, board credit card, and/or business checks.
- 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. Other parties are authorized to sign checks as authorized through bank documentation.

RECOMMENDATIONS

1. 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.

ABC BOARD COMPLIANCE

- 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 meeting notifications are available to the public of board members on the ABC board's website.
- The board is in compliance with G.S. 18B-700 (k) as there are no known relationship between staff, any board member, and the general manager employed within the system.
- Board member and general manager compensation is in compliance with G.S. 18B-700 (g) and (g1).
- 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

SUMMARY

The Carteret County ABC Board accepted the recommendations as outlined in the performance audit report and submitted a response to the recommendations. The board strives to implement strategies to maintain and improve profitability while maintaining or 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 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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Carteret County Board of Alcoholic Control
Mr. Terry Frank, Chairman
410 Live Oak Street
Beaufort, NC 28516

Dear Chairman Frank,

We are pleased to submit this performance audit report on the Carteret 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

Carteret County ABC

MR. TERRY FRANK
Chairman

MR. JOHN PARKER
Vice-Chairman

MR. JACK ASKEW
General Manager

MR. JOHN WARRINGTON
Board Member

MR. ED COX
Board Member

MR. BRUCE CALDWELL
Board Member

Board of Alcoholic Control

410 Live Oak Street - Beaufort, NC 28516
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December 8, 2016

Ms. Moniqua McClean
ABC Board Auditor
4307 Mail Service Center
Raleigh, NC 27699-4307

Dear Ms. McClean,

The Carteret County ABC Board held their monthly meeting on Monday, November 28, 2016. During the meeting the Performance Audit conducted by you on the Carteret County ABC Board was discussed. After the discussion, a motion was made to accept the Performance Audit as written. The motion was seconded and the vote was unanimous.

The Board would like to thank you for the excellent audit you performed on the Carteret County ABC Board.

They also advised that is not necessary for you to return to present the audit, because they were totally satisfied with it.

Again, I want to personally thank you for a job well done.

Sincerely,



Jack Askew
General Manager