

# Catawba County ABC Board

## Performance Audit Report



Alcoholic Beverage Control Commission  
400 East Tryon Road, Raleigh, NC 27610  
p: 919-779-0700 | f: 919-661-5927 | <http://abc.nc.gov>



**ABC**  
COMMISSION  
NORTH CAROLINA

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# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

CHAIRMAN:  
A. D. "ZANDER" GUY, JR.

June 12, 2017

COMMISSIONER:  
MICHAEL C. HERRING  
West Jefferson

Catawba County ABC Board  
Mr. Jeff Bronnenberg, Chairman  
1910 Fairgrove Church Road  
Newton, NC 28658

ADMINISTRATOR:  
ROBERT A. HAMILTON

Dear Chairman Bronnenberg,

LOCATION:  
400 East Tryon Road  
Raleigh NC 27610

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

MAILING:  
4307 Mail Service Center  
Raleigh NC 27699-4307

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.

PHONE: (919) 779-0700  
<http://abc.nc.gov/>

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 are commendable.

**Moniqua S. McLean**  
**ABC Board Auditor**  
**919-779-8365**

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

Respectfully,

Robert A. Hamilton  
Administrator

Cc: North Carolina Association of ABC Boards

## **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 INFORMATION**

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S.L. 1937 authorized Catawba County to hold an election for an ABC store. The referendum was held on August 3, 1949 and passed 10,575 to 8,975. The first retail sale occurred on October 21, 1949. Subsequent mixed beverage elections occurred for the following:

- Catawba County - June 5, 1979 and did not pass
- City of Hickory - September 9, 1980 and passed 2,611 to 1,248
- Town of Conover - September 9, 1980 and passed 590 to 368
- Town of Newton - September 18, 1990 and passed 912 to 675
- Town of Claremont - May 30, 2000 and passed 178 to 144

The first mixed beverage sale occurred in the City of Hickory on November 8, 1980.

Upon vote passage, the county commissioners were authorized to create an ABC board consisting of a chairman and two members. In 2012, the ABC Commission approved a merger agreement between the Town of Taylorsville and Catawba County. The merger was to form a consolidated system that would best serve the public and generate greater revenues with significant savings.

The merger agreement created an additional seat on the board from five to six members. Current board members include Jeffrey Bronnenberg, chairman, David Isenhower, Kim Brown, Jody Street, Don Coleman, and John Marino.

The Catawba County ABC Board employs forty-seven full-time employees and contracts approximately thirty part-time positions. The board contracts with an external human resource service, ADP, which specializes in the hiring of part-time employees and other payroll activities. The administrative staff consists of the general manager, the finance officer, an administrative assistant, and warehouse personnel. All store personnel have primary responsibility to provide customer service, store upkeep, and regular inventory 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 2016, the Catawba County ABC Board had gross sales of \$18,240,068; income from operations was \$1,202,481. Sales have increased 6.2% in FY2016. Profit percentage to sales for FY2016 is 6.6%.

The Catawba County ABC Board operates eleven stores with retail and mixed beverage sales. Four out of eleven stores service mixed beverage permit holders. Mixed beverage sales make up 14.3% of total gross sales.

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

In FY2016, the Catawba County ABC Board made the required minimum distribution of \$515,102 proportionately to the municipalities and the county. The Catawba County paid a total of \$4,240,384 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 Catawba County ABC Board contracts with the Catawba County Sheriff Department and the Taylorsville Police Department and has distributed \$34,654 for enforcement purposes and \$59,811 for alcohol education.

S.L. 1937-515 requires the Catawba County ABC Board to distribute quarterly the remaining profits as follows:

- One hundred percent (100%) to the Catawba County General Fund of which fifty percent (50%) goes to municipalities with ABC stores.

In FY2016, the Catawba County ABC Board made an additional distribution of \$385,057 proportionately to the municipalities and the county.

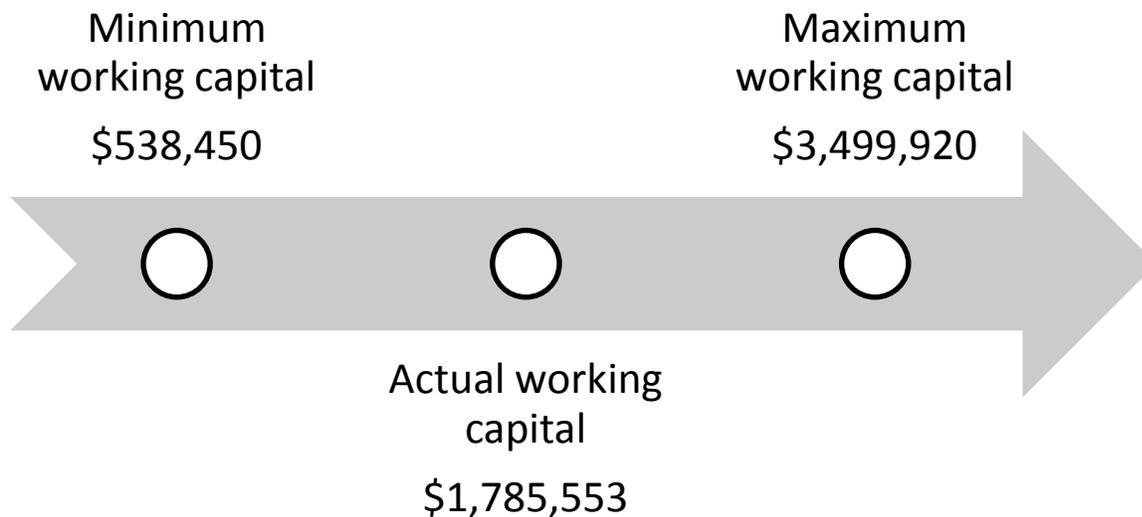
## WORKING CAPITAL

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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 ABC 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 ABC 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 Catawba County ABC Board had gross sales of \$18,240,068 in FY2016. The board's working capital is \$1,785,553 and is within the recommended range set by the rules of the NC ABC Commission.



## **OPERATING COST RATIO**

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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 – 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 Catawba County ABC Board's operating cost ratio was 0.69. Expenses increased 11.1% in FY2016. The Catawba County ABC Board leases four store locations. Rental expenses total approximately \$169,957.

## 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 Catawba County ABC Board operates eleven retail stores. The stores' linear footage averages approximately 1,096 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. Some stores did not display the Fetal Alcohol Syndrome poster.
- Landscaping around the stores is well-maintained and trash free.
- The following are specified in the board's shelf management plan but is not limited to:
  - Each product is displayed within its designated category
  - Premium products show at eye level and lowest price products are on the bottom shelves
  - 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 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. Store deposit slips are matched with corresponding daily store register reports. Bank reconciliations are completed by the finance officer and the accountant monthly.
- Physical counts are conducted monthly at each store by store managers and scheduled staff. Spot checks are conducted frequently throughout the month. Once store counts are completed, counts are forwarded to the administrative office where a variance report is created and reviewed. Once discrepancies are investigated and recounted, adjustments are made to the inventory system.
- Out of approximately 1,900 product codes throughout the system, approximately 250 product codes were sampled to ensure accurate pricing. Five were incorrect.

### RECOMMENDATIONS

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1. Display the required Fetal Alcohol Syndrome in all locations. *Refer to Appendix A (1) for statute.*
2. 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**

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- All board members, the general manager, and the finance officer have completed the ethics training as required. Two board members have since been reappointed and have not yet completed the required reappointment ethics training. Board members are required to complete ethics training within one year of reappointment status.
- Cross training opportunities have been extended to other employees in the event that key personnel are unavailable.
- To have knowledgeable staff, training is provided continuously on key areas such as product knowledge, customer service, and store responsibilities. The board hosts monthly Responsible Alcohol Sellers Program classes for mixed beverage permit holders.
- Employee personnel files are available and secured. Required human resource documentation and other information are available and appropriately filed.

## **RECOMMENDATIONS**

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1. Have all reappointed board members complete the ethics requirement within 12 months of reappointment. *Refer to Appendix A (2) for statute.*

## **ABC BOARD POLICIES**

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

- Code of Ethics
- Law Enforcement Contract (Taylorsville Police Department and Catawba County Sheriff Department)
- Catawba County ABC Board Travel Policy (Adopted the Catawba County Travel Policy – Effective January 2016 )
- Catawba County ABC Board Employee Handbook/Manual and Addendums that include the following:
  - Price Discrepancy Policy
  - Catawba County ABC Board Procurement Card Policy
  - Catawba County ABC Board Vehicle Policy
- Catawba County ABC Board Mixed Beverage 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 Catawba County ABC Board has submitted the following as required:

- FY2017 Annual Budget (Proposed and Adopted)
- FY2016 Annual Independent 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 the general manager.
- Employee work schedules are created by the store managers. All employees use a time entry system to record hours worked. Time cards are verified and signed by the store managers and the administrative office. Once verified, time cards are forwarded to a payroll service, ADP, for processing. The ADP service provides payroll documentation and reports for all services rendered. The finance officer uses the 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 Catawba County ABC Board.
- The board owns one vehicle to deliver product between stores. Vehicle expenses were verified and followed procedures according to the board vehicle policy. A vehicle usage policy has been adopted and submitted to the Commission.
- Breakage forms are submitted as required by the Commission rules. Management has implemented procedures for handling breakage when a customer/employee breaks product.
- 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). 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.

## **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 meeting notifications are not available to the public.
- 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).

## RECOMMENDATIONS

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1. Post a schedule of board meetings to notifying the public, when, where, and the time meetings are held. *Refer to Appendix A (3) for statute.*

## **SUMMARY**

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The Catawba County ABC Board has responded to the performance audit recommendation as outlined. The board continues to implement strategies to maintain and improve profitability while maintaining or reducing costs and meeting budget projections. Policies have been adopted and procedures have been implemented to ensure compliance with statutes and Commission rules and to ensure efficient operations while maintaining sufficient controls.



## **CATAWBA COUNTY ABC BOARD**

1910 Fairgrove Church Road  
Newton, North Carolina 28658  
(828) 464-7192 office  
(828) 464-0699 fax  
[catawbacoabc@gmail.com](mailto:catawbacoabc@gmail.com)

*Jeff Bronnenberg, Chairman Kim Brown Don Coleman David Isenhower John Marino Jody Street  
Jacob Ray Abernathy, Jr., General Manager*

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*March 2, 2017*

*To: Moniqua Mclean  
Re: Performance Audit*

*Ms Mclean,*

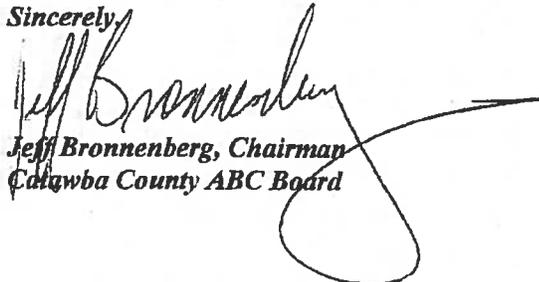
*Thank you for conducting our audit in such a thorough and professional manner. We appreciate the praise and the constructive criticism that you provided in order for us to improve our system and to maintain the integrity and transparency that we at the Catawba County ABC Board strive to achieve.*

*We have followed up on your recommendations outlined in the audit in the follow manner:*

- 1. We have posted the Fetal Alcohol Syndrome posters in all 11 stores.*
- 2. We have instructed our managers and clerks to perform random checks of price labels in their 'down' times in addition to the normal editing of the prices as price labels are issued for both monthly SPA prices and quarterly prices.*
- 3. At this time, all board members are up to date with all ethics training classes.*
- 4. Our meeting dates and times are posted on our website.*

*We hope that you and the NCABC Commission are satisfied with our compliance to your direction, and we look forward to seeing you after our next audit.*

*Sincerely,*

  
*Jeff Bronnenberg, Chairman  
Catawba County ABC Board*

## APPENDIX A

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1. *G.S. 18B-808 (a) states, "Each ABC store shall display or cause to be displayed warning signs that meet the requirements of this section on the store's premises to inform the public of the effects of alcohol consumption during pregnancy."*
2. *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."*
3. *Operations Manual states "North Carolina General Statute 143-318.12 requires the following from public bodies:*
  - a. Must have regular meetings*
  - b. Post schedule with the Town Clerk (if the regular schedule changes, notice must be given to the clerk)*
  - c. If a meeting is to be held at a time other than the regular time*
    - i. Announce the time and place during a meeting or*
    - ii. Written notice stating the purpose – bulletin board, and notice mailed to the media and interest persons who have requested notice*
    - iii. Notice given at least 48 hours in advance*
    - iv. If an emergency meeting is called because of generally unexpected circumstances that require immediate attention, and then notice to the media and interested persons shall be made by telephone or other means."*