

Dare County ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA

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ABC
COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

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Moniqua S McLean
ABC Board Auditor
919-779-8365

June 29, 2015

Dare County ABC Board
Mr. W. Ray White, Chairman
PO Box 1879
Manteo, NC 27954-1879

Dear Chairman White,

We are pleased to submit this performance audit report on the Dare 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 along with your efforts to maintain profitability and reduce expenses.

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

Respectfully,

Robert A. Hamilton
Administrator

CC. North Carolina Association of ABC Boards

EXECUTIVE SUMMARY

By state law, the ABC Commission shall ensure that all local ABC Boards comply with established performance standards by conducting regular audit 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 audit for the fiscal year 2014;
- Visited the stores;
- Interviewed key ABC board personnel.

BACKGROUND INFORMATION

S.L. 1937 - 493 authorized Dare County to hold an election for an ABC store. The referendum was held on March 18, 1937 and passed 632 to 611. The first retail sale occurred on June 17, 1937.

Mixed beverage elections occurred on subsequent dates in multiple townships.

- Dare County – September 9, 1980 and did not pass;
- Kill Devil Hills – September 9, 1980 and passed 286 to 153;
- Kitty Hawk – June 29, 1982 and passed 172 to 117;
- Manteo – May 6, 1986 and did not pass;
- Duck – October 28, 1986 and passed 67 to 26;
- Manteo – November 7, 1989 and May 3, 1994 and did not pass;
- Southern Shores – November 7, 1995 and did not pass
- Southern Shores – May 10, 2005 and passed 284 to 122;
- Hatteras Township – November 6, 2007 and did not pass;
- Hatteras Township – December 7, 2010 and passed 555 to 322;

Upon election of an ABC store, the county was authorized to create an ABC board consisting of a chairman and two board members to serve for three year terms. Current board members include W. Ray White, board chairman, Robert “Bobby” V. Owens, and Fields Scarborough, board members.

The Dare County ABC Board operates five retail stores of which three are mixed beverage outlets. The administrative office staff consists of three full-time and one part-time employee, including an alcohol law enforcement officer. The general manager is responsible for oversight of all stores including daily operations, inventory management, human resource organization, and other administrative decisions for the board. The assistant general manager performs similar functions and serves as the point of contact in the absence of the general manager. The finance officer is responsible for accounts payable functions, financial reporting activities, and other duties as required by the ABC Commission statutes and rules. All store employees are primarily responsible for providing friendly customer service to all customers, general store upkeep, and stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On February 2, 2014, ABC Board Auditor, Moniqua S. McLean, visited the Dare County ABC administrative office and interviewed Ted Toler, general manager, and Cindy Morris, finance officer. Below is a financial analysis followed by operational observations, findings, and recommendations related to the performance audit.

FINANCIAL ANALYSIS

PROFIT PERCENTAGE TO SALES

The profit percentage to sales is calculated by dividing the total income from operations by the total liquor sales (Total Income 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 to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2014, the Dare County ABC Board had gross sales of \$14,784,390; income from operates totaled \$1,858,712, a 12.57% profit percentage to sales.

Factors affecting sales and profitability:

- Sales are heavily impacted by travelers going to the beach in the peak summer months;
- Surrounding counties with ABC Boards include Currituck, Hyde, and Tyrrell counties;
- Relocation of one profitable store that eliminated leasing expense;
- Estimated population for Dare County is 35,019 in 2013, a 3.2% increase since 2010

DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, mixed beverage, and bottle tax. G.S. 18B-805 (c) (1) requires the board to make a minimum quarterly distribution of the 3 ½% markup rate to the appointing authority. In FY2014, Dare County ABC made the required distribution to the county totaling \$403,390. \$3,524,785 in excise and other taxes were paid 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 (7%) for alcohol education and rehabilitation purposes. The board staffs their own law enforcement. A law enforcement expense analysis is located on the following page 6

S.L. 2001 and S.L. 1995 - 679 allowed the board to distribute remaining profits as follows:

- Forty-two and one-half percent (42.5%) to Dare County to be administered by the Dare County Department of Social Services used to supplement the operating cost of an in-county out-of-home group care facility for abused, neglected, and dependent children and for other child and family services;
- Up to twenty percent (20%) retained by the Dare County ABC Board for capital improvements;
- Fifteen (15%) to the incorporated towns within Dare County toward the general fund of each incorporated town;
- Remaining percentage to the Dare County General Fund.

S.L. 1979 - 1149 authorized the board to distribute a mixed beverage profit as follows:

- Fifteen percent (15%) to Dare County General Fund;
- Eighty-five percent (85%) of mixed beverage sales surcharge split evenly between Nags Head, Kill Devil Hills, Kitty Hawk, Duck, Southern Shores, and Manteo townships;

Below is a FY2014 profit comparison per store and a chart of distributions made.

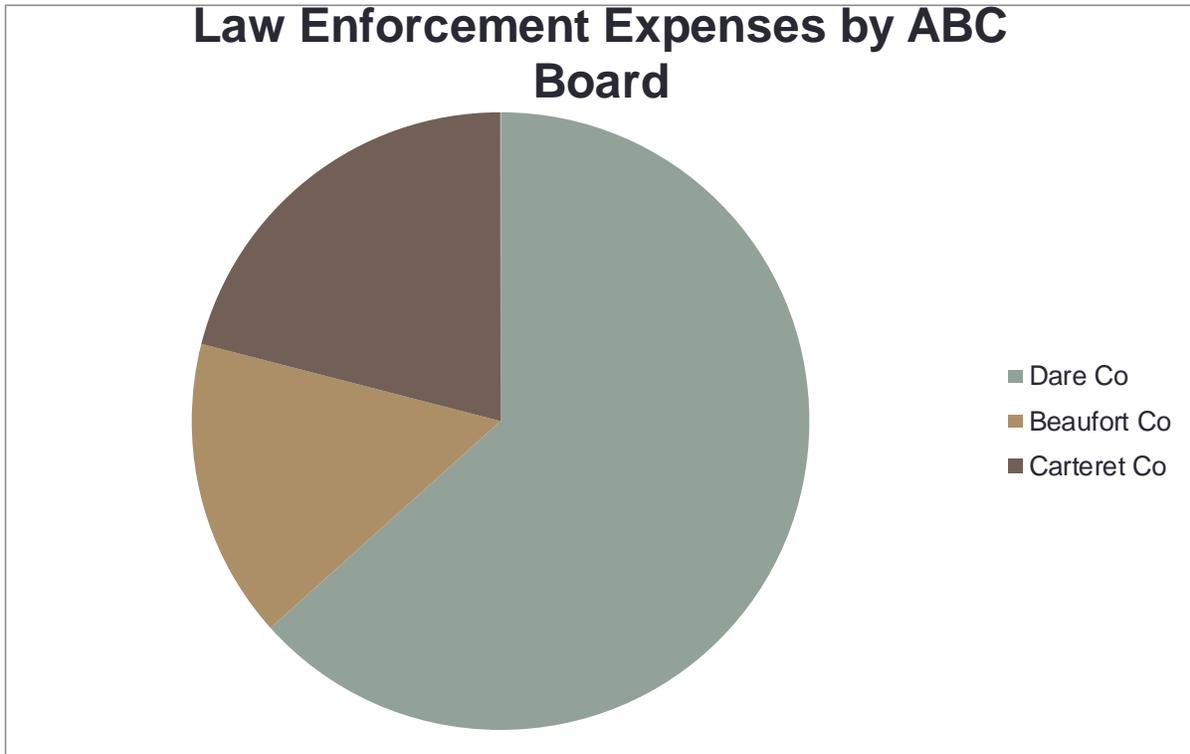
	Gross Sales	Net Profit
Kitty Hawk	\$ 3,045,847	\$ 271,143
Nags Head	\$ 3,903,301	\$ 452,460
Manteo	\$ 1,326,897	\$ 90,634
Buxton	\$ 2,207,988	\$ 179,477
Duck	\$ 1,219,833	\$ 58,788

In FY2014, Dare County ABC Board distributed \$527,551 to Dare County and \$49,646 to the incorporated cities and towns. Note: The total amounts shown include the mixed beverage profit allocated for each incorporated city and Dare County.

Dare County	\$ 527,550.76
Cities	
Kitty Hawk	\$ 49,646.43
Kill Devil Hills	\$ 49,646.43
Manteo	\$ 49,646.43
Nags Head	\$ 49,646.43
Southern Shores	\$ 49,646.43
Duck	\$ 49,646.43
Dare County Dept of Social Services	\$ 576,766.24
ABC Board Capital Reserve	\$ 203,564.55

LAW ENFORCEMENT

The Dare County ABC Board staffs one full-time law enforcement officer to aid in alcohol law enforcement. In FY2014, the Dare County ABC Board law enforcement operating expenses totaled \$144,985. Law enforcement expenses for boards with one law enforcement officer are located below. Note: Expenses vary by board based on the amount of mixed beverage permit holders and other duties as required by the board. Law enforcement expenses are budgeted from expenses of previous years.



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 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

In FY2014, the Dare County ABC Board had a working capital of \$1,766,476, which is less than the maximum allowed to retain of three months gross sales (\$2,816,477) and is within the limits of NCAC 02R .0902.

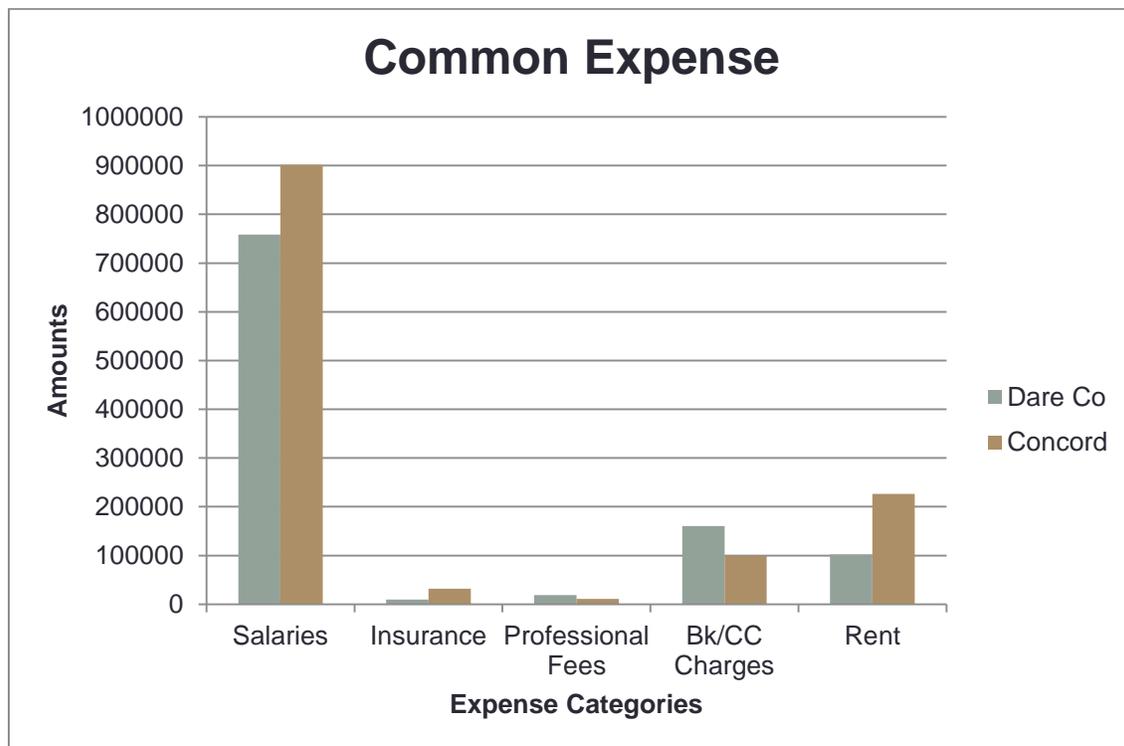
OPERATING COST RATIO

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):

- Single store boards with MXB sales that are equal to or greater than 25% of gross sales – cost ratio 0.75
- Single store boards with MXB sales less than 25% of gross sales – cost ratio 0.85
- Single store boards without MXB sales – cost ratio 0.85
- Boards with 2 stores with and without MXB sales – cost ratio 0.74
- Boards with 3 or more stores with and without MXB sales – cost ratio 0.64

The Dare County ABC Board operates five retail stores of which three are mixed beverage outlets: the operating cost ratio is 0.45. Mixed beverage sales make up 23.3% of total gross sales. In fiscal year 2014, sales increased 4.2% over fiscal year 2013 as expenses increased 5.2% over the same time period.

A common expense analysis shows that the Dare County ABC board's expenses compared with other similar size boards are not out of line. The board leases one store and ended a lease contract in the same year. Rental expenses total \$4,500 per month or \$54,000 per year. Overhead savings has been significant by owning other store locations. Note: This analysis does not include law enforcement expenses. Concord ABC leases all locations.



NO RECOMMENDATIONS

STORE APPEARANCE AND SHELF MANAGEMENT

The Dare County ABC Board operates five retail stores. Average shelf space for all retail stores is 1,000 linear feet and carries a wide variety of product at each location.

- All stores are clean and free of trash. Counter areas within all stores were neat and well-organized.
- Stores displayed clean and neat signage. The required Fetal Alcohol Syndrome poster is displayed and visible to the public in all locations.
- Landscaping around the stores is well-maintained with no evidence of trash.
- Each product is displayed within its designated category. Bottles are fronted and dusted.
- A shelf management plan is utilized/in use that exhibits a strategy following the premium products at eye level and lowest price products on the bottom shelves. Product placement is consistent with sizes going from largest on the right and smallest to the left. Vertical brand blocking is shown for similar products at all locations. Cross merchandising is utilized in all areas to encourage impulse shopping.

CUSTOMER SERVICE

- Each location has the state price book. 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.
- Sales clerks' interaction with retail and mixed beverage customers is attentive, courteous, and all are eager to meet the needs of the customers.

NO RECOMMENDATIONS

PERSONNEL AND TRAINING

- All board members, the general manager, and the finance officer have completed the ethics training required by the statute. Board members have since been reappointed and have completed the ethics training.
- Cross training opportunities on key administrative duties are being extended to key employees in the event the administrator was suddenly unavailable. Other training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities on a continual basis.
- Management often attends the NC Association of ABC Board General Manager and Summer Conferences for additional training opportunities on these specific issues and statute updates.
- Personnel files are available and include the required human resource documentation and other personnel information as needed.
- Each employee received an employee manual that incorporates benefits, job descriptions, and other human resource information. An acknowledgement of receipt is signed by employees and located in the personnel file. All locations have a copy of the employee handbook and procedures.

NO RECOMMENDATIONS

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Travel Policy (State Travel Policy Approved)
 - FY2014 Annual Audit
 - FY2015 Budget (Proposed and Adopted)
 - Price Discrepancy Policy
 - Employee Handbook

- Policies not adopted include:
 - Mixed Beverage Policy

RECOMMENDATIONS

1. Adopt a written mixed beverage policy that incorporates current practices of ordering, pickup, and payment processes.

INTERNAL CONTROL OBSERVATIONS

Internal control is the process by which the board provides assurance that operations are effective and efficient, reliable, and in compliance with applicable rules, laws and regulations. Internal control is strongest when activities are segregated creating a system of checks and balances, and adopting policies and procedures that follow current practices. Below are internal control findings that were observed during the audit fieldwork.

- Each store manager schedules the employees for work shift hours. Time sheets are used for all clerks. During payroll, the employees fill out the time sheets and the store managers' sign off for hours worked. Time sheets are forwarded to the administrative office for review and processing.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures to handle cash drawer overages/shortages.
- Bank deposits are made regularly as required by the ABC Commission rule. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed by the finance officer on a monthly basis.
- Physical inventory counts are completed monthly at all stores by store manager and a rotating employee. Once the initial count is completed, counts are forwarded to the administrative office to check for variances. Once variances are checked, an additional count is conducted. If there are accurate variances, the law enforcement officer and the store manager will determine why items were off. The administrative office personnel will adjust the main inventory management system for the exact inventory held in each store. Breakage adjustments are included in this process.
- Breakage forms are routinely submitted to the Commission once signed by the distiller representative.
- The board owns two vehicles. A vehicle usage policy has not been adopted.
- The board maintains a credit card to aid in purchases for the office and stores. A credit card policy has not been adopted.
- Out of an average of 900 product codes per store, approximately 350 product codes were sampled to ensure accurate pricing and all were correct.

RECOMMENDATIONS

1. Adopt a vehicle usage policy that would specify the following:
 - Who is able to use the vehicle,
 - Requirement that all drivers must have a valid driver's license
 - What purposes vehicle may be used for
 - Requirement that a mileage and/or gas log be filled out for every trip, if applicable.

2. To ensure strong internal controls for credit card purchases, adopt a written credit card usage policy. Document procedures for the usage including:
 - Who has authority to use the card,
 - What types of items the card may be used for,
 - Personal usage is prohibited;
 - An itemized receipt for every transaction is required,
 - Maximum limit allowed on purchases before approval is needed from the finance officer,
 - Receipts are to be submitted within 15 days of the purchase.

ADMINISTRATIVE COMPLIANCE FINDINGS AND OBSERVATIONS

- Board meeting minutes were viewed and followed the order of proceedings, providing sufficient detail that a reasonable person would be able to follow what transpired. Board meeting minutes included a certificate of accountability statement.
- Board member appointment dates and administrator compensation are current on the Commission website.
- Board member compensation is above the maximum as outlined in G.S. 18B-700 (g). However, the Dare County Commissioners have approved a different level of compensation and a copy of the approval has been forwarded to the Commission.
- The general manager compensation is in compliance with G.S. 18B-700 (g1).
- Law enforcement activity reports have been submitted to the Commission as required by G.S. 18B-501 (f1).
- The board is in compliance with G.S. 18B-700 (k); there are no immediate family members employed related to board members or the general manager.
- All board members, the general manager, and the finance officer are bonded for \$50,000 as stated in G.S. 18B-700 (i).
- Orders for liquor bear the pre-audit certificate as required by G.S. 18B-702 (m). Each store can order supplies but must seek approval from the administrative office and obtain a purchase order. Purchase orders have the pre-audit certificate and signed by the finance officer.
- All checks bear the approved certificate indicating that the item has been approved by the finance officer or an authorized person for payment. Two signatures are located on all paid checks: that of the finance officer and the general manager. In the event the finance officer is unavailable, the assistant manager is authorized to sign checks.

NO RECOMMENDATIONS

AUDITOR'S SUMMARY

ABC Board Auditor, Moniqua S. McLean, presented the performance audit recommendations on April 21, 2014. The board has since responded to the performance audit recommendations and continues to implement strategies to maintain and improve profitability while maintaining or reducing current 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 sufficient checks and balances.

May 1, 2015

Ms. Moniqua Mclean, ABC Board Auditor

North Carolina ABC Commission

4307 Mail Service Center

Raleigh, NC 27699-4307

Dear Moniqua,

On behalf of the Dare County ABC Board and staff, we would like to thank you for attending our April 21, 2015 board meeting to present your final performance audit report. We are committed to upholding the standards set forth by the NC ABC Commission. We take your recommendations very seriously and strive to be one of the top boards in the State each and every year.

Upon reviewing your recommendations, we have put in place a new mixed beverage policy, credit card use policy and travel policy.

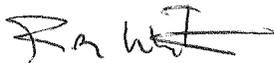
We have established a mixed beverage policy for all of our restaurants to give them some guidance when questions arise.

We have an official credit card policy that specifies what the board credit card can be used for and by whom.

We modified our travel policy to include that all drivers must have a valid driver's license before operating a board vehicle. Also, we placed mileage sheets in each of these vehicles.

Dare County ABC Board is committed to exceeding the standards set by the ABC Commission. We appreciate all the hard work by you and the rest of the commission staff in keeping our system running as efficiently as possible. Thank you again for taking the time to come out and visit all of our Dare County ABC's stores. It was a pleasure getting to know you during the process of auditing our stores. We appreciate you sharing ideas of how to improve our ABC system

Best regards,



Ray White

Board Chairman

Dare County ABC Board

RECEIVED

MAY 08 2015

NC ABC COMMISSION

APPENDIX A

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>ABC Board Policies:</p> <p>Adopt the following policies and forward to the Commission:</p> <ul style="list-style-type: none"> • Mixed Beverage Policy • Vehicle Usage Policy • Credit Card Usage Policy 	<p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>**Note: Required by Commission rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input checked="" type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management has implemented procedures and adopted all policies mentioned. Copies have been forwarded to the Commission.</p>