

# Hyde County ABC Board

## Performance Audit Report



Alcoholic Beverage Control Commission  
400 East Tryon Road, Raleigh, NC 27610  
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**ABC**  
COMMISSION  
NORTH CAROLINA

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# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

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

June 13, 2017

COMMISSIONER:  
MICHAEL C. HERRING  
West Jefferson

Hyde County ABC Board  
Ms. Meredith M. Nicholson, Chairperson  
20121 US Hwy 264  
Swan Quarter, NC 27885

ADMINISTRATOR:  
ROBERT A. HAMILTON

Dear Chairperson Nicholson,

LOCATION:  
400 East Tryon Road  
Raleigh NC 27610

We are pleased to submit this performance audit report on the Hyde 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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G.S. 18A-51 (later modified as G.S. 18B-601 (c)) authorized Hyde County to hold an election for an ABC store. The referendum was held on July 29, 1975 and passed 527 to 277. The first retail sale occurred on August 1, 1978. Subsequent mixed beverage elections occurred in 1994 and 2002 and did not pass. A third mixed beverage election occurred on August 22, 2006 and passed.

Upon vote passage, the county is required to create an ABC board consisting of a chairman and two board members. Current board members include Meredith Nicholson, chairperson, John Giagu and Glenda Williams.

The Hyde County ABC Board employs one full-time and four part-time employees. The board has hired a finance officer who provides financial oversight and other financial duties as required by the ABC statutes and Commission rules. All store employees have a primary responsibility to include providing 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 Hyde County ABC Board had gross sales of \$814,628; income from operations was \$63,035. Profit percentage to sales for FY2016 is 7.7%.

Factors affecting sales and profitability:

- The Ocracoke Island store is dependent upon the summer tourist trade. Store hours are reduced in the winter months and increased in the summer months.

## **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 city.*

In FY2016, the Hyde County ABC Board did not make the required minimum distribution of \$22,559. However, the Hyde County ABC Board paid a total of \$210,528 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 (7%) of profits toward alcohol education.*

The Hyde County ABC Board has contracted with the Hyde County Sheriff's Office. Law enforcement distributions totaled \$2,048 and alcohol education distributions totaled \$2,867.

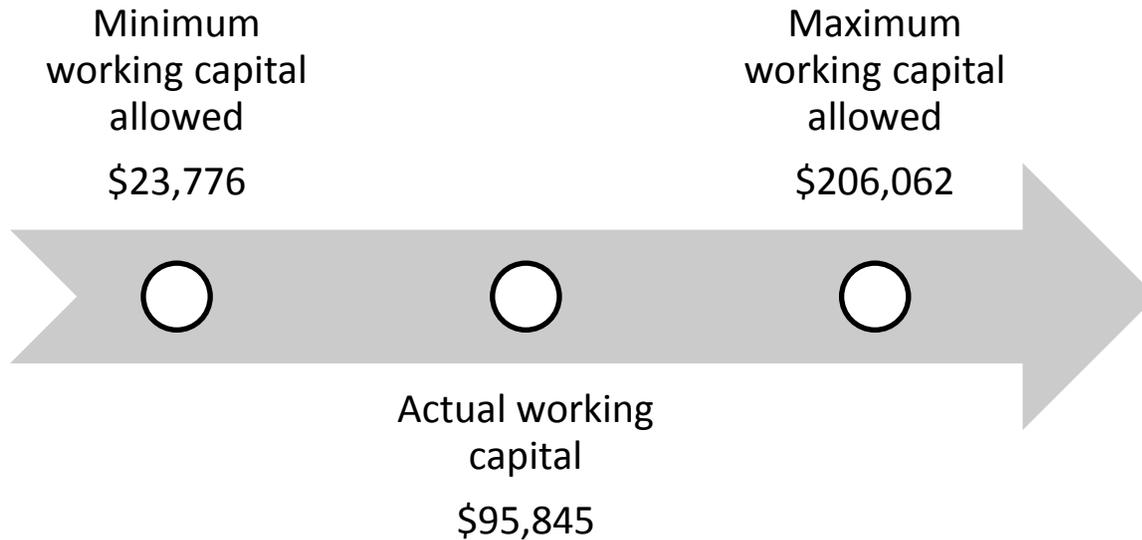
## WORKING CAPITAL

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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 Hyde County ABC Board had gross sales of \$814,628 in FY2016. The board's working capital is within the recommended range set by the rules of the North Carolina 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

The Hyde County ABC Board operates two stores with retail and mixed beverage sales. Mixed beverage sales make up 32.7% of total gross sales. In FY2016, the Hyde County ABC Board's operating cost was 0.69. Sales increased 9.3% over fiscal year 2015. Expenses increased 4.0% over the same time period.

Factors affecting the operating cost:

- The board leases both store locations. Rental expense for both locations totals \$8,160.

## FINDINGS AND RECOMMENDATIONS

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### STORE APPEARANCE AND OPERATIONS

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As a routine procedure, the ABC Board Auditor tours ABC store locations, evaluates interior and exterior store appearance, verifies product pricing and interviews store personnel. The main store is located in Swan Quarter and is one of the few remaining counter stores in North Carolina. A typical shelf management system would not apply due to the partition separating the customer from product visibility. The second store is located on Ocracoke Island. Shelf management is minimal due to the size of the store. The store's linear shelf space is approximately 400 ft.

- The stores appeared clean and free of trash. Counter areas were neat and well-organized. Store shelves were well-stocked with a variety of products as spacing permits. Because of the limited storage area at the Ocracoke Island location, boxes of product are found at the front of the store for easy accessibility.
- The stores displayed neat and visible signage. The Fetal Alcohol Syndrome poster is displayed and visible to the public in both locations
- Landscaping around the stores is well-maintained and trash free.
- 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.
- In verifying financial documentation, the computer system does not compute appropriate figures for determining mixed beverage taxes or cost of goods sold, which includes the bailment and bailment surcharge. Calculations are computed manually.
- 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 daily at the Ocracoke Island store. However, due to the lack of proximity between the bank and the Swan Quarter location, deposits are made within two days. In inspecting bank documentation, it was evident that store deposit slips were matched with corresponding daily register reports. Bank reconciliations are completed by the finance officer.
- Physical inventory counts are performed monthly primarily by the general manager. Spot checks are conducted more frequently. If discrepancies are found, the general manager will investigate and recount. The general manager and the finance officer will adjust the inventory management system.
- Out of approximately 900 product codes between stores, approximately 60 product codes were sampled. All were correct.

### RECOMMENDATIONS

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1. Consider a computer system that would provide accurate calculations for taxes and cost of goods sold.
2. Ask the Commission for a waiver in making daily deposits. *Refer to Appendix A (1) for rule.*

## PERSONNEL AND ABC TRAINING

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- All board members, the general manager, and the finance officer have completed the initial ethics training as required. Two board members have since been reappointed and have not yet completed the required reappointment ethics training. Each board member is required by statute to complete the training within one year of reappointment status.
- Cross training has not been provided in the event the general manager is suddenly unavailable. The general manager is solely responsible for the ordering, inventory management, and procurement process. The finance officer is responsible for disbursing payments and providing financial management as prescribed in the general statutes and the Commission rules.
- Training on alcohol control is provided to new and existing employees and includes specific areas such as product knowledge, customer service, and daily responsibilities.
- 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.*
2. Consider providing training to other key employees in specific areas, such as inventory management, in the event the general manager is unavailable.

## **ABC BOARD POLICIES**

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G.S. 18B-702 requires the board to annually adopt a budget and budget message. G. S. 18B-702 (s) requires the board to submit an annual independent audit of its operations to the appointing authority and the Commission. The Hyde County ABC Board has adopted the following:

- Law Enforcement Contract
- FY2017 Budget (Proposed and Adopted)
- FY2016 Annual Audit

Policies not adopted include the following:

- Code of Ethics
- Travel Policy
- Hyde County ABC Board Employee Manual
- Hyde County Mixed Beverage Policy
- Sale to Underage Policy
- Price Discrepancy Policy

All policies are required to be submitted to the Commission within fifteen days prior to adoption as required by the Commission rule, NCAC 15A .1101.

## **RECOMMENDATIONS**

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1. Adopt a code of ethics to guide local board members and employees of the local board. *Refer to Appendix A(3) for statute.*
2. Adopt a travel policy that conforms to the state travel policy or the appointing authority's travel policy. If adopting the appointing authority's travel policy, ask for a written approval from the county allowing the board to adopt the policy. Send a copy of the written approval from the county, a copy of the town's travel policy, and a copy of the ABC board's travel policy to the Commission. *Refer to Appendix A (4) for statute.*
3. Update and adopt an employee manual detailing the specifics of employee responsibilities, benefits, if any, procedures, and other policies. Include an addition to the employee handbook detailing what would occur in the event an employee were found to have sold to an underage person. Once completed, provide copies to all employees for acknowledgement. Require all employees to sign an acknowledgement of receipt and include in all personnel files.
4. Adopt a mixed beverage policy that details the current practice of ordering, delivery, pickup, and payments.
5. Adopt a policy that specifies the procedures to follow when a product price varies between the shelf and the register. *Refer to Appendix A (5) for rule.*

## **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.
- Employee work schedules are created by the general manager. All employees utilize a time sheet to record hours worked. Timesheets are verified and signed by the general manager and forwarded to the finance officer for processing. 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, payment procedures were followed according to an intended credit card usage policy. A credit card usage policy has not been adopted.
- Breakage forms are submitted as required by the Commission rules. Management has implemented procedures for handling breakage when a customer/employee breaks product.
- In reviewing the budget to actual expenses as reference in the financial audit, expenses were over spent.
- Law enforcement activity reports have not been submitted to the Commission for August 2016 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 on the vendor invoice. Although initial liquor orders do not bear the pre-audit certificate, each individual vendor invoice has the pre-audit certificate and is signed by the general manager. Purchase payments are made by petty cash on hand, board credit card, and/or business checks.
- In reviewing a sample of liquor vendor payments, payments are not made within thirty days.
- 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 indicated through bank documentation.

## **RECOMMENDATIONS**

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1. 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;
  - Have someone other than the persons authorized to make purchases reconcile the credit card statements.
2. Monitor budget more closely, particularly towards the year end, to determine whether amendments are needed. Amendments are required when expenses are over budget or have not been budgeted for and when sales are not meeting or are exceeding budgeted amounts.
3. Submit all law enforcement activity reports by the 10<sup>th</sup> of the month. *Refer to Appendix A (6) for statute.*
4. To save time, eliminate stamping and signing each liquor invoice; place the pre-audit certificate on the order to LB&B. Authorization should occur before the transaction takes place.
5. Pay all liquor invoices within thirty days of receipt. *Refer to Appendix A (7) for rule.*

### **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 include a conflict of interest statement asking board members if conflicts exist with the items on the meeting agenda.
- Board notifies the public of board meetings on the county's website.
- Board member and 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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The Hyde County ABC Board responded to the performance audit recommendations as outlined previously. The board continues to strategize methods to improve store operations and increase profitability while maintaining budget projections. As indicated within the board's response, policies are continually being adopted and procedures have been implemented to ensure compliance with statutes and NC ABC Commission rules and to ensure efficient operations.

## Hyde County ABC Board

20121 US Hwy 264, Swan Quarter NC 27885

March 22, 2017

Ms. Moniqua S. McLean  
ABC Board Auditor  
Alcoholic Beverage Control Commission  
4307 Mail Service Center  
Raleigh NC 27699-4307

Ms. McLean,

We would like to address by category the findings and recommendations as the result of the recent Performance Audit as detailed in the audit report.

### Store Appearance and Operation:

1. Consider a computer system that would provide accurate calculations for taxes and cost of goods sold.  
**RESPONSE:** Due to limited personnel to handle the seasonal increase in sales activity we have a limited time span each year to install and implement new systems. We have not yet had time to research all computer systems available and make a sound decision regarding this large capital expenditure. Contingent on availability of funds, it is our plan to have all the research done and a decision on which system to install by the time our next "slow cycle" begins.
2. Ask the Commission for a waiver in making daily deposits.  
**RESPONSE:** Our manager has requested a waiver in making daily deposits and was advised we could do that only if the deposit was less than two hundred dollars (\$200.00). The Commission suggested a safe that was bolted to the floor would be an acceptable alternative. We are in the process of having that installed.

### Personnel and ABC Training:

1. Have all reappointed board members complete the ethics requirement within 12 months of reappointment.  
**RESPONSE:** Reappointed board members needing the ethics class are scheduled to do so in April.
2. Consider providing training to other key employees in specific areas, such as inventory management, in the event the general manager is unavailable.  
**RESPONSE:** We are currently interviewing for an additional part-time employee to cross-train in all positions.

**ABC Board Policies:**

1. Adopt a code of ethics to guide local board members and employees of the local board.  
**RESPONSE:** Adopted at 11/09/16 board meeting.
2. Adopt a travel policy that confirms to the state travel policy or the appointing authority's travel policy.  
**RESPONSE:** Adopted at 10/24/16 board meeting.
3. Update and adopt an employee manual detailing the specifics of employee responsibilities, benefits, if any, procedures and other policies.  
**RESPONSE:** We are currently updating our old employee manual and hope to have it completed by end of fiscal year.
4. Adopt a mixed beverage policy that details the current practice of ordering, delivery, pickup and payments.  
**RESPONSE:** Adopted at 10/24/16 board meeting.
5. Adopt a policy that specifies the procedures to follow when a product price varies between the shelf and register.  
**RESPONSE:** Adopted at 03/21/17 board meeting

**Internal Control and Administrative Operations:**

1. To ensure strong internal controls for credit card purchases, adopt a written credit card usage policy.  
**RESPONSE:** Adopted at 10/24/16 board meeting
2. Monitor budget more closely, particularly towards the year end, to determine whether amendments are needed.  
**RESPONSE:** Income and expenditures will be monitored more closely and budgets amendments made as necessary.
3. Submit all law enforcement activity reports by the 10<sup>th</sup> of the month.  
**RESPONSE:** Clarified with law enforcement officer the necessity of filing reports in a timely manner.
4. To save time, eliminate stamping and signing each liquor invoice; place the pre-audit certificate on the order to LB&B. Authorization should occur before the transaction takes place.  
**RESPONSE:** Management has implemented this practice so authorization occurs at the appropriate time.
5. Pay all liquor invoices within thirty days of receipt.  
**RESPONSE:** New payment practices have been implemented to insure timely processing of all invoice payments.

**ABC Board Compliance:**

No recommendations

**Distributions:**

**Finding:** Requirement to make a minimum quarterly distribution of the 3 ½% markup and .01/.05 cent bottle tax to the county.

**Action:** After discussions with both Moniqua McLean and Laurie Lee we were advised to begin making this payment beginning with FY 16/17. Also to request from our county board of commissioners to make this payment annually instead of the quarterly requirement.

At the 01/03/2017 meeting of the county board of commissioners we made this request and voted to approve our request. A copy of the certified minutes from that meeting is attached.

In conclusion we appreciate the courteous and helpful manner in which this performance audit was conducted.

Sincerely,



Meredith M. Nicholson  
Chairman, Hyde County ABC Board

Attachment

Cc: Laurie Lee, Director Pricing Division & ABC Board Audits

## APPENDIX A

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- 1) *NCAC 02R .0905 (a) states, "Each officer whose duty it is to collect or receive moneys of the local board shall deposit into an official depository the collections and receipts daily. If the local board gives its approval, deposits shall be required only when the moneys on hand are equal to or are greater than two hundred fifty dollars (\$250.00), but in any event a deposit shall be made on the last business day of the month. All deposits shall be made in an official depository. Deposits in an official depository shall be reported to the finance officer by means of a duplicate deposit ticket."*
- 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) *G.S. 18B-706 (a) states, "Each local board shall adopt a policy containing a code of ethics consistent with the provisions of G.S. 18B-201, to guide actions by the local board members and employees of the local board in the performance of their official duties."*
- 4) *G.S. 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. The local board shall annually provide the appointing authority's written confirmation of such approval to the Commission and a copy of the travel policy authorized by the appointing authority."*
- 5) *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."*
- 6) *G.S. 18B-501 (f1) states, "To ensure accountability to the appointing authority and the Commission, every local board's ABC officers and those law enforcement agencies subject to an enforcement agreement entered into pursuant to subsection (f) of this section shall report to the local board, by the fifth business day of each month...The local board shall submit a copy of the enforcement report to the appointing authority and the Commission not later than five business days after receipt of the enforcement report by the local board."*
- 7) *NCAC 02R .1407 (c) states, "Local boards shall remit full payment of the distiller's invoice within thirty days of delivery of the liquor."*