

# Moore 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:  
JAMES C. GARDNER

KEVIN M. GREEN  
Greensboro

MICHAEL C. HERRING  
West Jefferson

ADMINISTRATOR:  
ROBERT A. HAMILTON

LOCATION:  
400 East Tryon Road  
Raleigh NC 27610

MAILING:  
4307 Mail Service Center  
Raleigh NC 27699-4307

PHONE: (919) 779-0700  
Fax: (919) 661-5927  
<http://abc.nc.gov/>

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

August 3, 2016

Moore County ABC Board  
Mr. John Garner, Chairman  
273 N E Broad St  
Southern Pines, NC 28387

Dear Chairman Garner,

We are pleased to submit this performance audit report on the Moore 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 increase profitability and reduce expenses. Your Board is to also be commended on your understanding of the issues that exist with underage drinking, education and rehabilitation.

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

Respectfully,

Robert A. Hamilton  
Administrator

CC: North Carolina Association of ABC Boards

## OBJECTIVE, SCOPE, AND METHODOLOGY

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G.S. 18B-705 (a) authorizes the ABC Commission to ensure that all local ABC Boards comply with established performance standards by conducting regular or special audits, performance evaluations or taking other measures, which may include inspections by Commission auditors or alcohol law enforcement agents.

The audit scope includes performance 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.

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 audit for the FY2015
- 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 consists of five interrelated components: (1) control environment; (2) risk assessment; (3) control activities; (4) information and communication; and (5) monitoring.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that the auditor plan and perform the audit to obtain sufficient and appropriate evidence This evidence is to provide a reasonable basis for the findings and conclusions based on the audit objectives.

## BACKGROUND

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Multiple elections occurred for townships within Moore County that authorized the opening of an ABC store. S.L. 1935-493 authorized the townships of Southern Pines and Pinehurst to have ABC stores but managed by the Wilson County ABC Board. S.L. 1937-49 (6) later authorized Moore County to manage the operations of the stores in the above townships. The first retail sale occurred in Southern Pines on August 30, 1935 and Pinehurst on October 19, 1935.

S.L. 1965-962 authorized the Town of Carthage to hold an election for an ABC store. The vote passed 248 to 219. S.L. 1969-122 authorized the Town of Aberdeen to hold an election for an ABC store. The vote passed 228 to 60.

Subsequent elections for mixed beverages in multiple townships were authorized between 1978 and 2015. The following townships allow for the sale of mixed-beverages:

- Town of Southern Pines
- Town of Pinehurst
- Town of Little River
- Town of East and West Aberdeen
- Town of Pindene
- Town of Carthage
- Town of Robbins

S.L. 1935-493 authorized Moore County Commissioners to create an ABC board consisting of a chairman and two members to serve for three-year staggered terms. S.L. 1984-957 allowed for the expansion of the board from three to five members. Current board members are John Garner, chairman, Ernest Hooker, Gerald Galloway, Louis Gregory, and Thomas Kees.

The Moore County ABC Board employs eleven full-time employees and twenty-four part-time employees. The administrative staff to the board consists of the general manager and an administrative secretary. The duties of the general manager consist of providing daily oversight of all store operations including policy implementation, inventory management, human resource management, and other administrative decisions for the board. The administrative secretary is responsible for the office management, accounts payable, finance officer, and performing other secretarial duties as instructed by the general manager and the board. Store employees' primary responsibilities include providing friendly customer service to all retail and mixed-beverage customers, general store upkeep, and 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 Moore County ABC Board had gross sales of \$9,656,514; income from operations was \$1,307,807, a 13.54% profit percentage to sales. Sales revenue decreased 0.12% over FY2014.

## **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 Moore County ABC Board made the required minimum distribution of \$267,310 proportionately to the townships and the Moore County General Fund. The Moore County ABC Board paid a total of \$2,291,766 in excise and other taxes to the NC Department of Revenue, the Department of Health and Human Services, the townships, and the county.

*G.S. 18B-805 (c) (2) and (3) requires the board to distribute quarterly not less than five percent (5%) to law enforcement and not less than seven percent (7%) toward alcohol education.*

The Moore County ABC Board contracts with the Moore County Sheriff Department and has distributed \$146,453 toward law enforcement. The ABC Board distributed \$148,000 for alcohol education and rehabilitation purposes.

*S.L. 1979-853 requires the Moore County ABC Board to distribute quarterly the remaining profit:*

- *Twenty-five percent (25%) to the town general funds where stores are located*
- *Fifty percent (50%) of mixed-beverage profit to the town general funds where stores are located*
- *Remainder to the Moore County General Fund.*

In FY2015, the Moore County ABC Board made an additional distribution of \$430,364 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 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 Moore County ABC Board had gross sales of \$9,656,514 in FY2015. At year end, the board exceeded the maximum amount allowed in working capital (\$1,841,187) to have an actual amount of \$2,353,383. However, subsequent to the year end, the board spent \$1,195,000 of cash on hand for the purchase of land and renovation of building at the Aberdeen location. After this amount was excluded, the actual working capital was decreased to \$1,158,383 and is within the recommended range set by the rules of the 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 Moore County ABC Board operates four retail stores and a mixed beverage outlet. Mixed beverage sales make up 24% of total gross sales. In FY2015, the Moore County ABC Board operating cost ratio was 0.44. Sales have decreased 0.12% since FY2014. Expenses have increased 3.32% over the same time period.

The Moore County ABC Board leases two stores. Rental expenses in FY2015 were \$81,294

## **FINDINGS AND RECOMMENDATIONS**

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### **STORE APPEARANCE**

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As a routine procedure, the ABC Auditor tours ABC store locations, evaluates interior and exterior appearances, verifies product pricing and interviews store personnel. The Moore County ABC Board operates four retail stores with one mixed beverage outlet. The stores linear footage ranges from approximately 730 to 1,200 and carries approximately 1,900 product codes between stores.

- The stores appeared clean and free of trash. Counter areas were neat and well-organized
- The store displays neat and visible signage. The Fetal Alcohol Syndrome was displayed in three out of the four stores.
- 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.

### **CUSTOMER SERVICE**

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- The state price book is available for retail and mixed beverage customers. 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 appear to meet the needs of the customers.

### **NO RECOMMENDATIONS**

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## **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 completed the ethics training. Since the audit fieldwork, the board member had completed the training.
- 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.

## **RECOMMENDATIONS**

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1. Consider completing additional training opportunities through the Commission, such as the Responsible Alcohol Sellers Program, and other Commission-approved courses.

## **ABC BOARD POLICIES**

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

- Code of Ethics
- Travel Policy (Follows the State's travel policy)
- Price Discrepancy Policy
- Employee Handbook/Manual
- Law Enforcement Contract
- Mixed Beverage Policy
- Moore County Board Credit Card Usage Policy
- Shelf Management Policy
- Employee Safety Manual

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

- FY2016 Budget (Proposed and Adopted)
- FY2015 Annual Audit

Policies not adopted include:

- Sale to Underage Drinking Policy

## **RECOMMENDATIONS**

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1. Adopt a policy that details the position of the board when an employee is charged with selling to a minor.

## **INTERNAL CONTROL**

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Internal control is the process by which the board and management provides reasonable assurance that operations are effective and efficient, reliable, and in compliance with applicable rules, laws and regulations. As a basis for evaluating internal control, the performance audit applied the internal control guidance contained in professional auditing standards. 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.

- The store managers schedule employees for work shift hours. Schedules are forwarded to the administrative office for verification of coverage. In the event an employee fails to attend a shift, the office is notified and finds a replacement. Each employee clocks in/out on the register. As a checks and balances procedure, each employee is required to use a time sheet. The finance officer will create a register report of all time entries per employee and verify with the time sheets for payroll processing.
- 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 accountant.
- A credit card is issued to the board with the general manager and the office manager as the authorized users. Credit card reconciliations are performed by the finance officer monthly. The finance officer and all board members review all transactions purchased with the card. A credit card policy has been adopted.
- Physical inventory counts are performed at all stores monthly by store personnel. Warehouse conducts a monthly inventory. Once inventory is completed, counts are forwarded to the finance officer for verification. A variance report is generated to determine if anything has been adjusted previously. The finance officer will adjust the system once investigated.
- Breakage forms are submitted as required by the Commission rules. Management has implemented procedures for handling breakage when a customer/employee breaks product.
- Out of approximately 1,900 product codes between stores, approximately 200 product codes were sampled to ensure accurate pricing and all were correct.

## **NO RECOMMENDATIONS**

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## **BOARD COMPLIANCE**

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- 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 conflict of interest statement asking board members if conflicts existed with items on the meeting agenda.
- Date/time/location of board meetings are posted for public knowledge.
- Board member appointment dates and compensation amounts are current on the Commission website.
- Board member and general manager compensation are in compliance with G.S. 18B-800 (g) and (g1).
- Law enforcement activity reports have been submitted to the Commission as required by G.S. 18B-501 (f1).
- The board has employed members of an immediate family as part-time employees at the stores. However, these individuals are not in a position that has influence over each other.
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- Vendors often invoice the board when office and store supplies are needed or the board credit card is used. Invoices do not have a pre-audit certificate indicating they are/have been approved for payment as required in G.S. 18B-702 (m).
- 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. In the event the general manager or board member is unavailable, other board members are authorized to sign checks.

## **RECOMMENDATIONS**

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1. Place the pre-audit certificate with the finance officer's signature on the orders to LB&B. When ordering supplies, include the certificate on the invoice, purchase order, or order confirmation before the transaction takes place. *Refer to Appendix A (1) for statute.*

## **AUDITOR'S SUMMARY**

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On May 25, 2016, ABC Board Auditor, Moniqua S. McLean, presented the performance audit findings and recommendations to the board. Discussions were held regarding the future improvements to existing stores and the board's goals for increasing profitability. The board strives to improve profitability while maintaining 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.

**MOORE COUNTY ABC BOARD**  
**273 NE BROAD ST**  
**SOUTHERN PINES, NC 28387**  
**910-692-8578**

Moniqua McLean  
North Carolina ABC Commission  
4307 Mail Service Center  
Raleigh, NC 27699-4307

Dear Moniqua,

On behalf of the Moore County ABC Board and administrative staff, thank you for presenting your performance audit report to us on May 25, 2016. In our opinion, these audits are necessary and beneficial to our NC ABC system as a whole. We believe all Boards should be held to the highest of standards, not only financially but ethically.

We support the present control system in North Carolina. It puts issues such as underage drinking, education, and rehabilitation as priorities. Without a control system such as ours, these issues become large and unmanageable. We have a great relationship with our County Commissioners and Law Enforcement. We strive to serve our public with the best of customer service and selection.

In review of your recommendations, all LB&B orders and supply purchases will include the pre-audit certification. Also, although our Board has always had a 'zero tolerance for underage sales', meaning any employee selling to a minor has always been immediately terminated from employment, our employee handbook did not specifically state that position. It is now included as a written part of our handbook.

The Moore County ABC Board and staff will continue to strive to be the best!

Regards,



John Garner, Board Chairman

**RECEIVED**

**JUN 08 2016**

**NC ABC COMMISSION**

## APPENDIX A

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- 1) 18B-702 (m) states *"...the contract, agreement, or purchase order shall include on its face a certificate stating that the instrument has been pre-audited to assure compliance. The certificate, which shall be signed by the finance officer or any deputy finance officer approved, shall take substantially the following form:*

*"This instrument has been pre-audited in the manner required by GS 18B-702."*

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*(Signature of finance officer)*

## APPENDIX B

| RECOMMENDATION   | REQUIRED BY STATUTE  | IMPLEMENTATION STATUS   |
|--|--|---|
| <p><b>Board Policies</b></p> <p>Adopt the policies as mentioned.</p>   | <p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p> <p><b>**Note:</b><br/>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 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Policies have been adopted and submitted to the Commission.</p>                   |
| <p><b>Board Compliance:</b></p> <p>Affix the pre-audit certificate on documents before the transaction occurs.</p> | <p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p> <p><b>**Note:</b><br/>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 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management has implemented procedures to ensure compliance with G.S. 18B-702.</p> |