

# New Hanover 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

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

June 13, 2017

COMMISSIONER:  
MICHAEL C. HERRING  
West Jefferson

New Hanover County Alcoholic Beverage Control Board  
Mr. Robert Martenis, Chairman  
6009 Market Street  
Wilmington, NC 28405

ADMINISTRATOR:  
ROBERT A. HAMILTON

Dear Chairman Martenis,

LOCATION:  
400 East Tryon Road  
Raleigh NC 27610

We are pleased to submit this performance audit report on the New Hanover County Alcoholic Beverage Control 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.

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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.

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

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.

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 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 FY2016
- 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. 1935-418 authorized New Hanover County to have an ABC store within the county. The referendum was held on July 2, 1935 and passed 5,403 to 758. The first retail sale occurred on August 3, 1935. A subsequent mixed beverage election occurred on January 12, 1979 and passed 11,849 to 6,941. The first mixed beverage sale occurred on February 9, 1979.

Upon vote passage, the county commissioners were authorized to create an ABC board consisting of a chairman and two members to serve for three staggered year terms. G.S. 18B-700 allowed the appointing authority to increase the New Hanover County board membership from three to five. Current board members are Robert Martenis, chairman, Vivian "Zeke" Partin, vice-chairperson, William A. Kopp, Bruce T. Shell, and Ronald Woodruff.

The New Hanover County ABC Board employs fifty-one full-time and twenty-three part-time employees. The administrative staff includes the Chief Executive Officer, Chief Finance Officer, Retail & LBD Operations Manager, Purchasing & Logistics Operations Manager, accounting and administrative assistants, and the warehouse staff. Each store has a store manager and an assistant manager. Store employees have a primary responsibility in providing customer service, consistent store upkeep, and regular stock maintenance.

## FINANCIAL ANALYSIS

### PROFIT PERCENTAGE TO SALES

The profit percentage to sales is calculated by dividing the total income (loss) from operations by the total liquor sales (Total Income (Loss) from Operations/Total Liquor Sales). The Commission has set goals based on the following breakdown:

- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M and \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2016, the New Hanover County ABC Board had gross sales of \$41,441,444; income from operations was \$6,320,247. This is a 15.3% profit percentage to sales. Gross sales increased 7.5% over fiscal year 2015.

Below is the profit percentage per store location.

Profit Percentage per Store Location						
Store Address	Gross Sales		Net Profit (Loss)	Profit Percentage		
	2016	2015				
523 S. 17th Street	3,646,887	3,816,239	(169,352)		-4.4%	
2378 Carolina Beach Road	2,200,001	2,038,550	161,451		7.9%	
523 S. 17th Street *	307,294	4,720,306	(4,413,012)		-93.5%	
6730 Wrightsville Ave	4,837,780	4,522,439	315,341		7.0%	
1020 N. Lake Park Blvd **	4,939,332	4,542,780	396,552		8.7%	
3544 S. College Rd	5,049,462	4,734,343	315,119		6.7%	
6009 Market Street *	10,326,510	4,572,972	5,753,538		125.8%	
5410 Market Street	5,568,230	5,133,905	434,325		8.5%	
6015 Castle Hayne Rd.	1,278,223	1,215,413	62,810		5.2%	
8122 Market Street	3,287,725	3,261,925	25,800		0.8%	
* Only sells Mixed Beverages						
** Retail and Mixed Beverage 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 3½% markup and .01/.05 cent bottle tax to the county.*

In FY2016, the New Hanover County ABC Board made the required minimum distribution of \$1,127,842 proportionately to the municipalities with ABC stores and the county. The New Hanover County ABC Board paid a total of \$9,993,148 in excise and other taxes to the North Carolina Department of Revenue, the Department of Health and Human Services, the municipalities and the county.

*S.L. 1935-418 requires the New Hanover County ABC Board to distribute quarterly the remaining profits:*

- *Seventy-five percent (75%) of store profits located in Wrightsville Beach to the Town of Wrightsville Beach General Fund*
- *Twenty-five percent (25%) of store profits located in Wrightsville Beach to the New Hanover County General Fund*
- *Seventy-five percent (75%) of store profits located in Carolina Beach to the Town of Carolina Beach General Fund*
- *Twenty-five percent (25%) of store profits located in Carolina Beach to the New Hanover County General Fund*
- *One-hundred percent (100%) of store profits located in the unincorporated cities to the New Hanover County General Fund*

*S.L. 1953-554 requires the New Hanover County ABC Board to distribute quarterly store profits located in the City of Wilmington; fifty percent (50%) to the City of Wilmington General Fund and fifty percent (50%) to the New Hanover County General Fund.*

In FY2016, the New Hanover County ABC Board made an additional distribution of \$2,479,447 proportionately to the municipalities and the county.

*S.L. 1981-388 requires the mixed beverage distribution for permit holders located within a municipality to be distributed as follows:*

- *Seventy-five percent (75%) to the General Fund of the municipality*
- *Twenty-five percent (25%) to the New Hanover County General Fund*
- *Except for the City of Wilmington whereas profits are fifty percent (50%) to the City of Wilmington General Fund*

In FY2016, the New Hanover County ABC Board made a mixed beverage distribution totaling \$963,034.

## Law Enforcement

*G.S. 18B-805 (c) (2) requires the board to distribute at least five percent (5%) of profits to law enforcement. G.S. 18B-501(f) states, "Instead of hiring local ABC officers, a local board may contract to pay its enforcement funds to a sheriff's department, city police department, or other local law-enforcement agency for enforcement of the ABC laws within the law-enforcement agency's territorial jurisdiction."*

The New Hanover County ABC Board has a contract with the New Hanover County Sheriff's Office and has distributed \$519,968 for enforcement purposes.

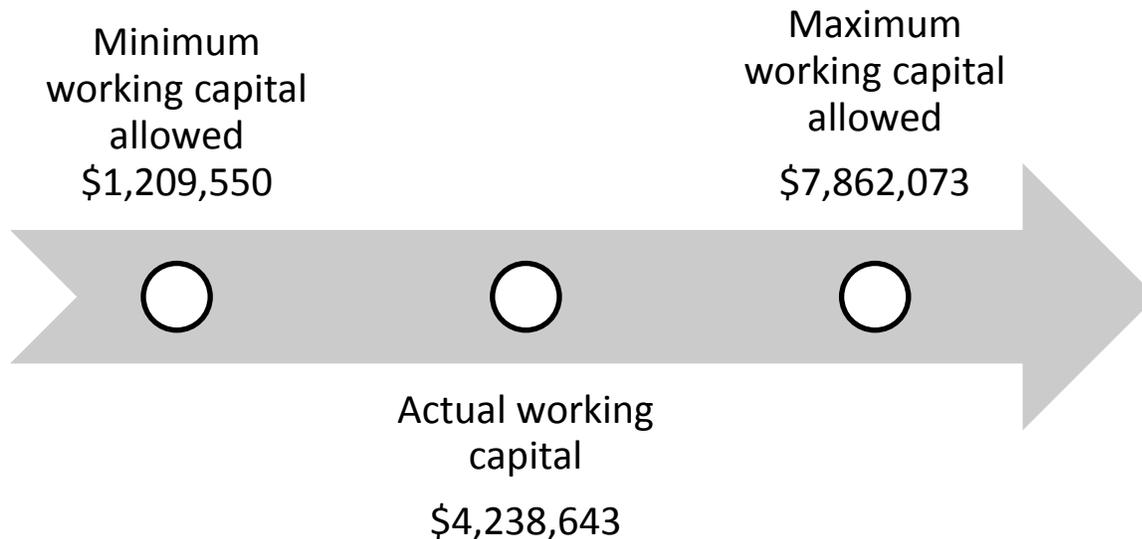
## WORKING CAPITAL

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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 New Hanover County ABC Board had gross sales of \$41,441,444 in FY2016. The board's working capital of \$4,238,643 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 New Hanover County ABC Board operates eight retail stores and two mixed beverage outlets. Mixed beverage sales make up 29.1% of total gross sales. In FY2016, the New Hanover County ABC Board's operating cost ratio was 0.37. Sales have increased 7.5% over fiscal year 2015. Expenses have increased 6.5% over the same time period.

The New Hanover County ABC Board owns all store locations which reduces overhead expenses.

## **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 appearances, verifies product pricing and interviews store personnel. The New Hanover County ABC Board operates eight retail stores and two mixed beverage outlets. The stores' linear shelf footage averages approximately 1,471 ft.

- The stores appeared clean and free of trash. Counter areas were neat and well-organized.
- The stores displayed neat and visible signage. The Fetal Alcohol Syndrome poster is displayed and visible to the public. However, one location did not display the required poster.
- Landscaping around the stores is well-maintained and trash free.
- Shelf management and/or product placement follows marketing industry standards and shows the following:
  - Each product is displayed within its designated category
  - Premium products show at eye level and lowest-price products on the bottom shelves.
  - Sizes are consistent going from largest on the right and smallest to the left
  - Cross merchandising is utilized where possible to encourage impulse shopping
  - Bottles are fronted and dusted throughout the store
- Sales clerks often refer to the North Carolina Liquor Quarterly for verification of products and pricing. Monthly sales information 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 ABC Commission rules and federal guidelines. Cash deposits are validated and reconciled with corresponding daily register reports. Bank reconciliations are completed by the finance officer.
- 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 throughout the system, approximately 300 product prices were sampled to ensure accurate pricing. One price was incorrect.

### **RECOMMENDATIONS**

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

## **PERSONNEL AND ABC TRAINING**

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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 yet completed the ethics training. Each board member is required by statute to complete the training within one year of reappointment status.
- Cross training has been extended to employees in the event the store managers, general manager, or finance officer is unavailable.
- Additional training is provided to new and existing staff on key areas such as product knowledge, customer service, and clerk responsibilities. Employee meetings are offered to discuss policies and other specific topics.
- Personnel files are secured. All files include required human resource documentation in accordance to state and federal guidelines.

## **NO RECOMMENDATIONS**

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## **ABC BOARD POLICIES**

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

- Code of Ethics
- Employee Handbook/Manual
- Price Discrepancy Policy
- Mixed Beverage Policy
- New Hanover County ABC Board Credit Card Usage Policy
- New Hanover County ABC Board Vehicle Usage Policy

Board 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 annually adopt a budget and budget message and to have an annual independent audit completed for the fiscal year. The New Hanover County ABC Board has submitted the following as required:

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

Required policies not adopted or approved include the following:

- Travel Policy

## **RECOMMENDATIONS**

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1. Adopt a travel policy that conforms to either the appointing authority or the state. If adopting the appointing authority's policy, submit a copy of their approval allowing the board's use, a copy of the appointing authority's travel policy, and a copy of the ABC board's travel policy to the Commission annually. *Refer to Appendix A (1) for statute.*

## **INTERNAL CONTROL AND ADMINISTRATIVE OPERATIONS**

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- Board information on the Commission website is not current reflecting board member appointment dates and salary information for all members including general manager.
- Schedules are made by the store managers and forwarded to the general manager for verification. Timesheets are signed by the employee and the store manager and forwarded to the administrative office for processing.
- In reviewing a sample of board credit card transactions, procedures were followed according to the credit card usage policy. A finance committee consisting of board members, the general manager, and the finance officer reviews all financial documentation.
- The board owns three vehicles and two delivery trucks to perform board business. Vehicle expenses were verified. A vehicle usage policy has been adopted and submitted to the Commission.
- Law enforcement activity reports have been submitted to the Commission as required by G.S. 18B-501 (f1).
- All purchases are pre-audited by the finance officer utilizing the certificate as required in G.S. 18B-702 (m). Purchases are indicated through use of a purchase order or vendor invoice.
- 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 board chairman. Other parties are authorized to sign checks as authorized through bank documentation.

## **RECOMMENDATIONS**

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1. Update the Commission's website to reflect current board member appointment dates, compensation amounts, and other information as they come available.

## **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 ABC Board's website, the county's website, and with the news media.
- Board member compensation is above the maximum specified in G.S. 18B-700 (g). An approval allowing for the excess has been filed with the ABC Commission.
- The 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 New Hanover County ABC Board has responded to the performance audit recommendations as outlined previously. The board continues to implement strategies to improve store operations and maintain or increase profitability while maintaining budget projections. As indicated within the board's response, policies have been adopted and procedures have been implemented to ensure compliance with statutes and NC ABC Commission rules and to ensure efficient operations.

NEW HANOVER COUNTY  
ALCOHOLIC BEVERAGE CONTROL BOARD

6009 Market Street  
Wilmington, NC 28405  
Telephone: 910-762-7611  
FAX: 910-343-0491

ROBERT MARTENIS, Chairman  
WILLIAM KOPP, Member  
RONALD WOODRUFF, Member

ZEKE PARTIN, Vice Chairman  
BRUCE SHELL, Member  
MARNINA QUEEN, CEO

March 16, 2017

Ms. Moniqua McLean, ABC Board Auditor  
North Carolina ABC Commission  
4307 Mail Service Center  
Raleigh, NC 27699-4307

Dear Ms. McLean,

On behalf of the New Hanover County ABC Board, we would like to thank you for delivering your performance audit report at our October 26<sup>th</sup> meeting. Our Board and staff continually strive to meet our goals: (1) providing a high level of customer service, (2) contributing to the Boards beneficiaries, (3) maintaining a knowledgeable and dedicated workforce, (4) supporting efforts to ensure the legal sell and control of alcoholic beverages (5) maintaining sufficient working capital to sustain the future.

We greatly appreciate the recommendations made in your audit to help us to continue to strive toward our goals. We have addressed the recommendations and have implemented new protocol to insure shelf tag accuracy and monthly audits by Store Managers. All information on the New Hanover County ABC websites are accurate and will continue to be reviewed on a quarterly basis.

The New Hanover County ABC Board greatly appreciates your hard work, professionalism and recommendations during this process.

Sincerely,



Bob Martenis, Chairman  
New Hanover County ABC Board

## APPENDIX A

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1. *G.S. 18B-700 (g2) states, "Approved travel on official business by the members and employees of local boards shall be reimbursed pursuant to G.S. 138-6 unless the local board adots 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..."*