

Onslow 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

TABLE OF CONTENTS

Objective, Purpose, and Scope.....	3
Background Information.....	4
Financial Analysis.....	5
Observations, Findings, and Recommendations.....	9
Summary.....	14
ABC Commission Statement.....	15
Onslow County ABC Board Response.....	16
Appendices.....	17

OBJECTIVE, PURPOSE, AND SCOPE

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

S.L. 1935-493 authorized Onslow County to have an ABC store. The referendum was held on July 6, 1935 and passed 1,249 to 283. The first retail sale occurred in the fall of 1935. A subsequent mixed beverage election occurred on January 12, 1979 and passed 4,220 to 3,747.

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. S.L. 1979-1134 authorized the county commissioners to expand membership from three to five members. S.L. 1995-44 allows all members to serve for three consecutive terms. Current board members are Carol McIntyre, chairperson, Mat Raymond, Jr., Dante Martin, Greg Cooper, and Cynthia Waun.

The Onslow County ABC Board employs twenty-eight full-time and fourteen part-time employees. The administrative staff consists of the general manager, two assistant general managers, the bookkeeper, finance officer, warehouse manager, and two warehouseman. 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 FY2016, the Onslow County ABC Board had gross sales of \$15,968,124; income from operations was \$1,473,555. Profit percentage to sales was 9.23% in FY2016.

DISTRIBUTIONS

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 Onslow County ABC Board made the required minimum distribution of \$443,365 to the county and municipalities. The Onslow County ABC Board paid a total of \$3,758,623 in excise and other taxes to the North Carolina Department of Revenue, the Department of Health and Human Services, the municipalities, and the county.

G.S. 18B-805 (c) (2) and (3) requires the board to distribute at least five percent (5%) of profits to law enforcement and at least seven percent of profits toward alcohol education.

The Onslow County ABC Board contracts with the City of Jacksonville Police Department and has distributed \$51,732 for enforcement purposes. Alcohol education distributions totaled \$72,424.

S.L. 1949-1146 requires the Onslow County ABC Board to distribute annually to the following:

- Five percent (5%) to the City of Jacksonville General Fund
- Four percent (4%) to the Town of Richlands General Fund
- Four percent (4%) to the Town of Swansboro General Fund
- Three percent (3%) to the Town of Holly Ridge General Fund
- Five percent (5%) to municipalities in which stores are located
- Ten percent (10%) to Onslow County Hospital
- Sixty-nine percent (69%) to the Onslow County General Fund

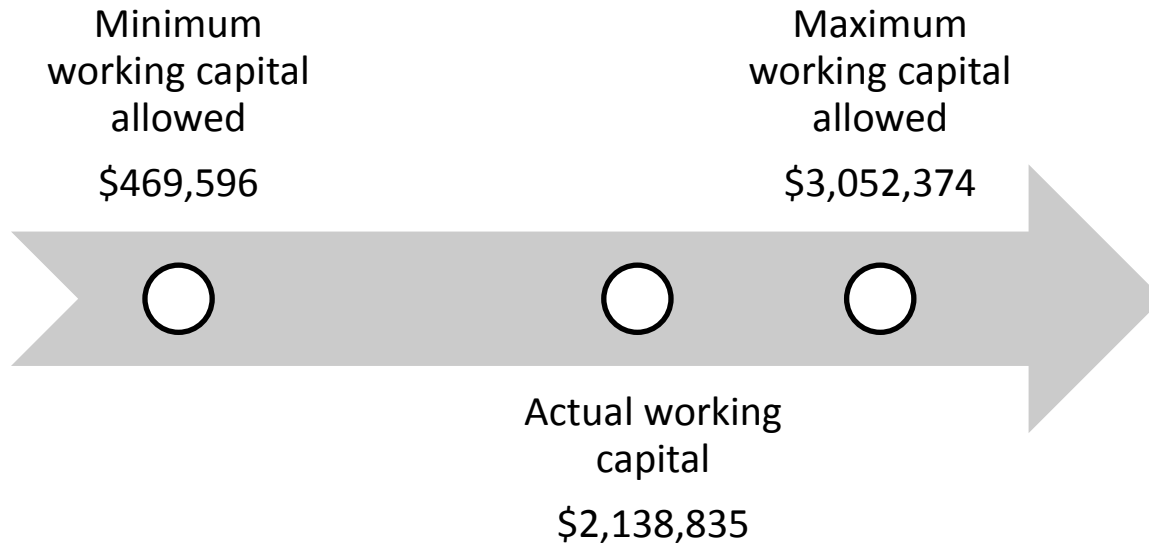
In FY2016, the Onslow County ABC Board made an additional distribution of \$437,029 as indicated in the above enabling act.

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 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 Onslow County ABC Board had gross sales of \$15,968,124 in FY2016. The board's working capital of \$2,138,835 is within the recommended range set by the rules of the Commission.



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):

- 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 Onslow County ABC Board operates six stores with retail and mixed beverage sales. Five out of six stores service mixed beverage permit holders. Mixed beverage sales make up 20.2% of total gross sales. In FY2016, the Onslow County ABC Board's operating cost ratio was 0.58. Sales have increased 4.9% over fiscal year 2015. Expenses increased 8.4% over the same time period.

The Onslow County ABC Board owns all stores which contribute to the reduced overhead expenses.

FINDINGS AND RECOMMENDATIONS

STORE APPEARANCE AND OPERATIONS

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 Onslow County ABC Board operates six retail stores. The board carries approximately 1,900 product codes between stores.

- The stores appeared clean and free of trash. Counter areas were neat and well-organized. Store shelves are well-stocked with a variety of products. In an effort to have a variety, products are shared between stores.
- The stores displayed neat signage. The Fetal Alcohol Syndrome poster is displayed in a designated area in all store locations.
- Landscaping around the stores is well-maintained and trash free.
- The ABC stores follow a shelf management/product placement policy. 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 the ABC Commission rules. Store deposit slips are matched with corresponding daily store register reports. Bank reconciliations are completed by the finance officer and the accountant monthly.
- Physical counts are conducted monthly at each store. Stores are not able to identify the system's count. Inventory counts are forwarded to the admin office where a variance report is generated. The stores' variance reports are returned for a second check. Once discrepancies are investigated and recounted on multiple occasions, adjustments are made to the inventory system.
- Out of approximately 1,900 product codes throughout the system, approximately 380 product codes were sampled to ensure accurate pricing. Three were incorrect.

RECOMMENDATIONS

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

- All board members, the general manager, and the finance officer have completed the ethics training as required. At the time of the audit fieldwork, two board members have since been reappointed and not yet completed the ethics training. Board members are required to complete ethics 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 additional policy implementation and other topic.
- Employee personnel files are available and secured. Required human resource documentation and other information are available and appropriately filed.

RECOMMENDATIONS

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

ABC BOARD POLICIES

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 ABC Commission. The Onslow County ABC Board policies and manual have been updated to include, but are not limited to, the following:

- Onslow County ABC Board Code of Ethics
- Law Enforcement Contract
- Travel Policy (Follows the Onslow County Travel Policy)
- Onslow County ABC Board Employee Manual
- Onslow County Mixed Beverage Policy
- Onslow County ABC Board Credit Card Usage Policy
- FY2017 Budget (Proposed and Adopted)
- FY2016 Annual Audit

Policies are required to be submitted to the ABC Commission within fifteen days prior to adoption as stated by the ABC Commission rule, NCAC 15A .1102.

NO RECOMMENDATIONS

INTERNAL CONTROL AND ADMINISTRATIVE OPERATIONS

- Board information on the ABC Commission website is current reflecting board member appointment dates and salary information for all members including the 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 travel reimbursements, procedures were followed according to the travel policy submitted.
- The board owns two delivery trucks and one van to help transport product between stores and from the board warehouse. Vehicle expenses were verified and follow the procedures as specified in the vehicle usage policy. The policy has been submitted to the Commission.
- Law enforcement activity reports have been submitted to the ABC Commission as required by G.S. 18B-501 (f1).
- All purchases are authorized by the general manager and pre-audited by the finance officer utilizing the certificate as required in G.S 18B-702 (m). Pre-audit procedures are indicated through use of the vendor invoices. Purchase payments are made by petty cash on hand, board credit card, and/or business checks.
- Checks bear the approved certificate as required by G.S. 18B-702 (q) indicating that the items have been approved by the finance officer for payment. Two signatures are located on all paid checks; that of the finance officer and the general manager. Other parties are authorized to sign checks as indicated through bank documentation.

NO RECOMMENDATIONS

ABC BOARD COMPLIANCE

- Board meeting minutes were reviewed and found to provide sufficient detail that a reasonable person would be able to follow what transpired.
- Board meeting minutes included a conflict of interest statement asking board members if conflicts existed with items on the meeting agenda.
- Board notifies the public of board meetings through the local media, the appointing authority, and the administrative office.
- 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

SUMMARY

A board meeting was held on November 21, 2016 with the Onslow County ABC Board. Discussions were held regarding future goals of the board and possibilities of new stores within the county. The board strives to increase profitability while maintaining budget appropriations and minimizing costs. Policies have been adopted by the board and management that reflect current practices. Procedures are implemented to ensure compliance with statutes and ABC Commission rules and to ensure efficient operations are conducted while maintaining sufficient controls.



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

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
<http://abc.nc.gov/>

Moniqua S. McLean
ABC Board Auditor

(919) 779-8365

March 2, 2017

Onslow County Alcoholic Beverage Control Board
Ms. Carol McIntyre, Chairperson
485 Center Street
Jacksonville, NC 27699-4307

Dear Chairperson McIntyre,

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

Onslow County Alcoholic Beverage Control Board

485 Center Street

Jacksonville, NC 28546

Phone 910-577-7186

Fax 910-577-5296

Email: onslowabc@embargmail.com

**Carol McIntyre, Chairman
Mat Raymond, Jr., Vice Chairman
Neta L. Grady, Administrator**

**Cynthia Waun, Member
Greg Cooper, Member
Dante Martin, Member**

December 9, 2016

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

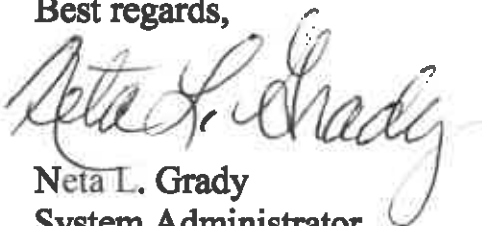
Dear Ms. McLean,

On behalf of the Onslow County ABC Board, I thank you for your attendance at the November board meeting. All the members of the board expressed a very favorable impression of your professionalism and your thoroughness in evaluating our system. Staff members in several of the stores commented on your friendliness and professionalism also. Your perspective provided some interesting observations and candid discussions regarding our operations.

Your recommendations from the audit have been addressed and procedures implemented to ensure compliance in the shelf pricing at all times. There will be random spot checks done between the monthly inventories by store and administrative staff. Customer service and responsible selling will remain as top priorities.

The Onslow County ABC Board greatly appreciates your guidance in our continuing efforts to make our system the very best that it can be.

Best regards,



**Neta L. Grady
System Administrator
Onslow County ABC Board**

APPENDIX A

- 1) *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."*