

# Pamlico 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

December 16, 2015

**CHAIRMAN:**  
JAMES C. GARDNER

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**KEVIN M. GREEN**  
Greensboro

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**ADMINISTRATOR:**  
ROBERT A. HAMILTON

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**LOCATION:**  
400 East Tryon Road  
Raleigh NC 27610

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**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

Pamlico County ABC Board  
Mr. Robert W. Sadler, Chairman  
P.O. Box 396  
Bayboro, NC 28515

Dear Chairman Sadler,

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

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**

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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 board annual audit for the fiscal year 2014;
- Visited both stores;
- Interviewed key ABC board personnel.

## **BACKGROUND INFORMATION**

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S.L. 1937-49 authorized Pamlico County to hold an election for an ABC store. The referendum was held on March 22, 1952 and passed 767 to 697. The first retail sale occurred on May 15, 1952. A county-wide mixed beverage election occurred on June 5, 1990 and did not pass. Two subsequent elections occurred for Oriental and Minnesot Beach and both passed.

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 three year staggered terms. Current board members are Robert Sadler, board chairman, Harvey Daniels and Maurice Benton, board members.

The Pamlico County ABC Board operates two retail stores. The board staffs five full-time and two part-time employees. The general manager is responsible for the oversight of all daily operations of locations, inventory management, human resource organization, and other administrative decisions for the board. The board has hired from within the organization a finance officer to provide checks and balances of the purchasing function of internal control. Store employees are primarily responsible for providing friendly customer service to all customers, general store upkeep, and stock maintenance.

## **OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS**

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On March 17, 2015, ABC Board Auditor, Moniqua S. McLean, visited the Pamlico County ABC office and stores and interviewed Sheila Martin, general manager, and Heather Owen, finance officer. Below is a financial analysis followed by operational observations, findings, and recommendations related to the performance audit.

### **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 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 Pamlico County ABC Board had gross sales of \$1,186,883; income from operations was \$38,269, a 3.22% profit percentage to sales.

Factors affecting sales and profitability:

- Surrounding counties with ABC store include Beaufort and Craven counties;
- Estimated population is 12,948 in 2014, a 1.5% decrease since 2010.

## **DISTRIBUTIONS**

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G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, mixed beverage and bottle taxes. G.S. 18B-805 (c) (1) requires the board to make a minimum quarterly distribution of the 3 ½% markup and bottle tax to the county. In FY2014, the Pamlico ABC Board made distribution of \$28,200, which is \$5,588 less than the required distribution of \$33,788. Previous audits reveal the board retains \$10,000 of net profits for capital improvements and distributes the remainder. \$915,873 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) requires the board to distribute at least five percent (5%) of profits to law enforcement. The local enabling act does not require alcohol education distributions. The remaining profits are to be distributed to the Pamlico County General Fund.

In FY2014, the Pamlico County ABC Board distributed to the county \$251 to law enforcement and \$351 toward alcohol education.

## **RECOMMENDATIONS**

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1. Refrain from distributing toward alcohol education. To continue this distribution, seek approval from the appointing authority allowing the board to distribute for alcohol education/rehabilitation 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 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 Pamlico County ABC Board had a working capital of \$218,162 which is less than the maximum allowed to retain of four months gross sales (\$303,780) and is within the limits of NCAC 02R. 0902. The FY2014 financial audit shows the working capital included the wine sales and a restricted cash item. These amounts are not part of the working capital calculation. The board has obtained approval from the county to withhold a portion of the distribution for a capital improvement plan. A copy of the approval has not been forwarded to the Commission.

## **RECOMMENDATIONS**

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1. Obtain a written approval from the appointing authority allowing the board to set aside a portion of profits to fund specific capital improvements. *Refer to Appendix A (1) for statute.*

## OPERATING COST RATIO

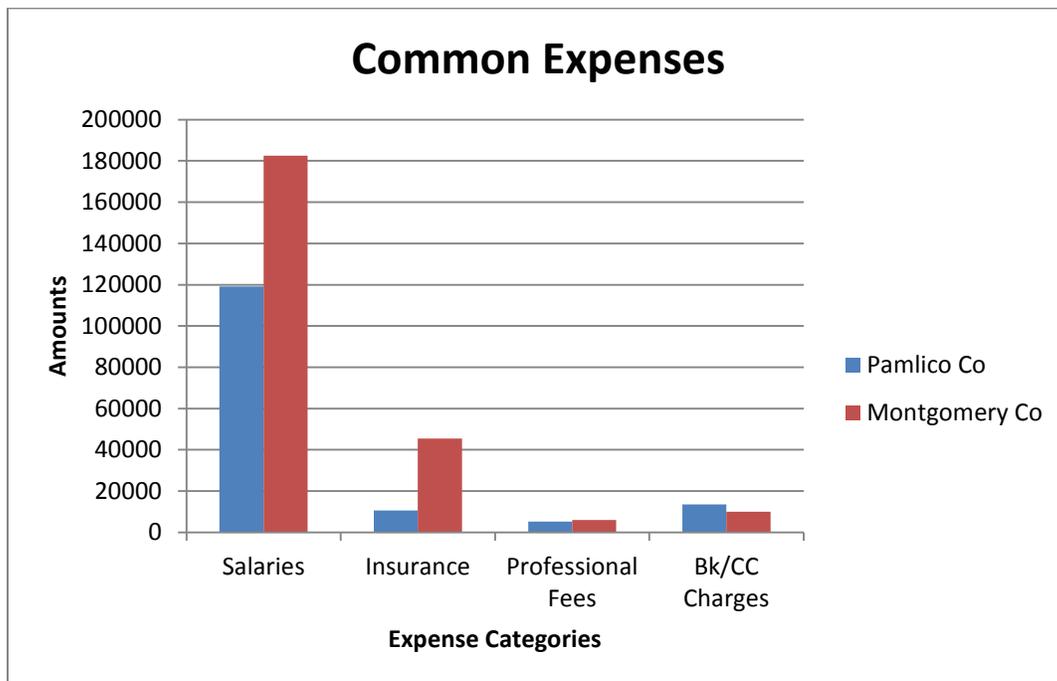
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Operating costs are calculated by dividing total operating expenses less depreciation by the gross profit on sales (Total Operating Expenses less Depreciation/Gross Profit). Below are the average cost ratios for boards with and without mixed beverage 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 Pamlico County ABC Board operates two retail stores with mixed beverage sales: the operating cost ratio is 0.83. Mixed beverage sales make up 5.7% of total gross sales. In fiscal year 2014, sales increased 2.41% over fiscal year 2013 as expenses increased 6.41% over the same time period. To meet the goal and remain at current expense levels of \$236,639, revenues must be increased to \$1,325,000, a 12% increase. To meet the goal and remain at current revenue levels of \$1,186,883, expenses must be reduced to \$212,500, a 10% decrease.

Below is a common expense analysis showing Pamlico County ABC Board expenses compared with other similar size boards. The board contributes to significant savings in overhead expenses as a result of owning both stores.



## **INVENTORY TURNOVER**

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The inventory turnover is calculated by dividing the cost of liquor by the average inventory in the system (Cost of Liquor/Average Inventory).

The Pamlico County ABC Board receives deliveries one time a month: the inventory turnover rate is 2.5. The average inventory turnover rate for similar boards with same delivery schedule is 4.5.

## **RECOMMENDATIONS**

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1. Consider the following to increase inventory turns:
  - a. Moving stock within the store and between stores to increase visibility and to encourage more impulse shopping;
  - b. Utilizing end caps as much as possible to highlight slow moving and new products;
  - c. Cross-merchandising by placing products that mix together on the same shelves. Intermingle North Carolina products within their specific category as well as having a designated area.

## **STORE APPEARANCE AND CUSTOMER SERVICE**

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The Pamlico County ABC Board operates two retail stores. Average shelf space is approximately 910 linear feet and carrying approximately 1,000 product codes.

- Both stores are clean and free of trash. Counter areas are neat and well-organized.
- Stores display clean and neat signage. However, the signage at the Reelsboro store was overwhelming. The required Fetal Alcohol Syndrome poster is displayed and visible to the public in both locations.
- Landscaping around each store is well-maintained with no evidence of trash.
- Each product is displayed within its designated category. Bottles are fronted and dusted in both stores. A shelf management plan is utilized/in use that exhibits a strategy following the premium products at eye level and value products on the bottom shelves. Product placement is consistent with sizes going from largest on the right and smallest to the left.
- The state price book is available in all locations should customers ask for a specific product. 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.

## **RECOMMENDATIONS**

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1. Limit the number of signs posted in stores as it becomes overwhelming to customers.

## **PERSONNEL AND TRAINING**

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- Current board members have completed the initial ethics training. However, one board member has since been reappointed and has not completed training.
- Cross training opportunities have been extended to employees in the event the general manager is unavailable.
- As new information comes available, training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities on a continual basis.
- Personnel files are available and contained human resource documentation and other personnel information as needed.

## **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 additional training opportunities through the Commission and other Commission-approved courses. *Refer to Appendix A (3) for rule.*

## **ABC BOARD POLICIES**

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- Policies adopted and submitted to the Commission include:
  - Code of Ethics
  - Law Enforcement Contract
  - Travel Policy (State Approved)
  - FY2014 Annual Audit
  - FY2015 Budget (Proposed and Adopted)
  - Shelf Management Policy
  - Mixed Beverage Policy
  - Employee Handbook – (Needs Revision)
  
- Policies not adopted include:
  - Price Discrepancy Policy

## **RECOMMENDATIONS**

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1. Update the employee handbook to include current practices and procedures as applicable to the board. The Operations Manual outlines some items to be included in the handbook. *Refer to Appendix A (4) for rule.*
2. Adopt a written price discrepancy policy that incorporates customer friendly practices. Once adopted, communicate to all employees should the need arise. *Refer to Appendix A (5) for rule*

## **INTERNAL CONTROL OBSERVATIONS**

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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 and appropriate. Below are internal control findings that were observed during the audit fieldwork.

- The general manager schedules employees for work shift hours at both locations. Time cards are used by all employees. During payroll, time cards are forwarded to the general manager to produce time sheets. The general manager will verify time sheets and enter all employees' hours worked into the accounting/payroll software for processing.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures on handling cash drawer overages/shortages. However, the policy is not written.
- 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 general manager and/or finance officer.
- Management has not completed an inventory since January at the time of the fieldwork. On a regular basis, physical inventory counts are usually completed monthly with one location conducting inventory on a weekly basis. Once the initial count is completed, management reviews and investigates variances. Once variances are checked and verified, management will adjust the inventory management system for the exact inventory held in both stores.
- Unsalable merchandise is adjusted from inventory on a monthly basis. Breakage forms are routinely submitted to the Commission once signed by the distiller representative.
- A credit card is issued to the board with the general manager as the authorized user. The chairman reviews all transactions purchased with the card. A credit card policy has not been implemented.
- Out of approximately 1,000 product codes, approximately 250 codes were sampled to ensure accurate pricing and four were incorrect.

## RECOMMENDATIONS

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1. Have a written policy in place for cash drawer overages and shortages. Present to clerks so that they will know what is expected.
2. Re-establish a regularly scheduled inventory count with frequent spot checks in between the next routine schedule.
3. 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.
4. 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.

## ADMINISTRATIVE COMPLIANCE FINDINGS AND OBSERVATIONS

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- Board meetings are not posted as required by the NC Public Meetings Law.
- Board meeting minutes are current and available and provide sufficient detail that a reasonable person would be able to follow what transpired. Board meeting minutes did not include a conflict of interest statement asking board members if conflicts existed with items on the meeting agenda.
- Board member appointment dates and compensation are current on the Commission website.
- The general manager compensation is in compliance with G.S. 18B-700 (g1).
- The board chairman receives compensation above the maximum allowed as stated in G.S. 18B-700 (g).
- 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 general manager.
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S.18B-700 (i).
- In reviewing the budget to actual expenses as reference in the financial audit of FY2014, expenses were overspent.
- Liquor orders and miscellaneous purchases are not pre-audited by the finance officer. Store employees purchase store supplies and are reimbursed.
- All checks bear the approved certificate indicating that the item has been approved by the finance officer for payment. Two signatures are located on all paid checks; that of the general manager, as the deputy finance officer, and the board chairman.

## RECOMMENDATIONS

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1. Post signage at each location notifying the public, when, where, and the time meetings are held. *Refer to Appendix A (6) for statute.*
2. Have the board chairman read the conflict of interest statement to all board members at the beginning of each meeting. Reference the conflict of interest statement was read in the board minutes. *Refer to Appendix A (7).*
3. Obtain approval from the appointing authority of a different compensation and forward approval to the Commission. *Refer to Appendix A (8).*
4. Monitor budget more closely, particularly towards the year end, to determine whether amendments are needed. Amendments are needed when expenses are over budget or have not been budgeted for and when sales are not meeting or are exceeding budgeted amounts.
5. Place the pre-audit certificate with the finance officer's signature on the order to LB&B. When ordering supplies, have a purchase order or order confirmation that will have authorization from the finance officer before the transaction takes place. *Refer to Appendix A (9) for statute.*

## **AUDITOR'S SUMMARY**

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On June 29, 2015, ABC Board Auditor, Moniqua S. McLean, presented the performance audit findings and recommendations to the board. The board has since responded to the performance audit recommendations and has outline strategies that will continue to improve profitability while maintaining or reducing 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.

# Pamlico County ABC Board

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P. O. Box 396  
Bayboro, NC 28515  
Phone 252-745-3561  
Fax 252-745-3575  
[pamlicoabc@embarqmail.com](mailto:pamlicoabc@embarqmail.com)

November 18, 2015

Moniqua S. McLean, MAFM  
ABC Board Auditor  
NC ABC Commission  
4307 Mail Service Center  
Raleigh, NC 27699-4307

Dear Moniqua,

In response to your audit of our stores on March 17, 2015, we respectfully submit the following:

We have refrained from distributing alcohol education funds.

We are following your recommendations to increase inventory turnover by making more frequent transfers between stores and utilizing endcaps to highlight new and slow-moving items. NC products are in a designated area as well as with their category on shelves.

We have limited signage posted in stores.

All board members are up-to-date on the required ethics training. We have one member that will be reappointed in the very near future.

The prices are now double-checked with the cash register monthly and a credit card policy, as well as other policies, has been adopted. Inventory is checked more regularly.

Signage has been posted at each location notifying the public, when, where, and the time meetings are held. The board chairman now reads the conflict of interest statement to the other members before each meeting. The budget is being monitored more closely. The finance officer's signature is placed on liquor orders and purchase orders are being used.

Please let us know if there is anything else we can be of assistance with.

Sincerely,

Robert W. Sadler, Chairman  
Pamlico County ABC Board

## APPENDIX A

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- (1) *G.S. 18B-805 (d) states, "...With the approval of the appointing authority for the board, the local board may also set aside a portion of the remaining gross receipts as a fund for specific capital improvements."*
- (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) *NCAC 02R .2001 (a) (3) states, "After taking the initial Commission training course for local boards, all finance officers and general managers shall complete a Commission training course for local boards every three years that they are employed by a local board."*
- (4) *NCAC 02R .1009 states (a) "Each local board shall establish policies and rules governing each of the following:
  - (1) Initial employment of employees, including qualifications and requirements for new employees;
  - (2) Compensation and benefits;
  - (3) Hours and days of work, holidays, vacation, sick leave and other matters pertaining to the conditions of employment;
  - (4) Promotion, transfer, demotion and suspension of employees;
  - (5) Separation or termination of employees;
  - (6) Granting of salary increases;
  - (7) Employee grievance procedures; and
  - (8) Any other programs or procedures as may be necessary to promote efficiency and to provide for a fair and reasonable system of personnel administration.(b) A local board is encourage to model its personnel policies and procedures after those adopted by the county or municipality in which it operates. (c) A local board shall not adopt a rule or policy that conflicts with the provisions of Chapter 18B or these Rules."*
- (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) *Operations Manual states "North Carolina General Statute 143-318.12 requires the following from public bodies:
  - a. Must have regular meetings
  - b. Post schedule with the Town Clerk (if the regular schedule changes, notice must be given to the clerk)
  - c. If a meeting is to be held at a time other than the regular time
    - i. Announce the time and place during a meeting or
    - ii. Written notice stating the purpose – bulletin board, and notice mailed to the media and interest persons who have requested notice
    - iii. Notice given at least 48 hours in advance
    - iv. If an emergency meeting is called because of generally unexpected circumstances that require immediate attention, then notice to the media and interested persons shall be made by telephone or other means.*

(7) OP 4.19.4 states, "In an effort to avoid possible conflicts of interest it is recommended at the beginning of each meeting the Chairman ask fellow board members if there are any potential conflicts of interest. This can be done by reading the following ethics reminder:

*'In accordance with G.S. 18B-201, it is the duty of every Board member to avoid both conflicts of interest and appearances of conflicts. Does any member have any known conflict of interest or appearance of conflict with respect to any matters coming before the Board today? If so, please identify the conflict or appearance of conflict and refrain from any undue participation in the particular matter involved.'*"

(8) G.S. 18B-700 (g) states, "A local board member shall receive compensation in an amount not to exceed one hundred fifty dollars (\$150.00) per board meeting unless a different level of monetary compensation is approved by the appointing authority."

(9) 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>Personnel and Training</b></p> <p>Have all reappointed board members complete the ethics requirement within 12 months of reappointment</p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p> <p><b>**Note:</b> 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>All board members have completed the ethics training as required. Verification forms have been submitted to the Commission.</p>
<p><b>ABC Board Policies:</b></p> <p>Adopt the following written policies:</p> <ul style="list-style-type: none"> <li>• Price Discrepancy Policy</li> <li>• Credit Card Policy</li> <li>• Cash Drawer Overage/Shortage Policy</li> </ul>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p> <p><b>**Note:</b> 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 25% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management has implemented procedures be in compliance with the rule. Copies have been submitted to the Commission.</p>

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Administrative Compliance:</b></p> <p>Have the board chairman read the conflict of interest statement to all board members for transparency.</p> <p>Post signage notifying the public of all meeting times and locations.</p> <p>Affix the pre-audit certificate on all orders before the transaction occurs.</p> <p>Obtain approval from the appointing authority setting a different board chairman compensation.</p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p> <p><b>**Note:</b> 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 25% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management has implemented procedures to be in compliance with the statute. An approval setting a different compensation has been forwarded to the Commission.</p>