

Pamlico County ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA

TABLE OF CONTENTS

ABC Commission Statement.....	3
Objective, Purpose, and Scope.....	4
Performance Standards and Findings.....	5
Pamlico County ABC Board Response.....	10



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

CHAIRMAN:
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COMMISSIONER:
Norman A. Mitchell, Sr.
Charlotte

ADMINISTRATOR:
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December 12, 2018

Robert Sadler
Chairman
Pamlico County ABC Board
PO Box 396
Bayboro, NC 28515

Dear Chairman Sadler,

On the following pages you will find the performance audit report conducted earlier this year by the staff of the ABC Commission reviewing the operations of the Pamlico County ABC Board.

The report consists of an executive summary, an overview of the objective, purpose and scope, and a digest of your board's performance standards and related findings. Included in the findings are recommendations for action on the part of your board.

I encourage you to review the report and let me know if you have any questions or require assistance in implementing any of the recommendatons.

On behalf of the NC ABC Commision I thank you and your staff for your assistance and cooperation in conducting this review and in implementing the changes that will reduce expenses and increase profitability of your board.

Sincerely,

Agnes Stevens
Administrator

Cc: NC Association of ABC Boards

OBJECTIVE, PURPOSE, AND SCOPE

In addition to regular and special financial audits, G.S. 18B-705 (a) authorizes the N.C. ABC Commission to conduct performance audits of all local ABC boards in the state. 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 are designed to ensure that all local ABC Boards comply with established performance standards pursuant to G.S. 18B-203 (a) (20). The audits' scope addresses compliance with ABC laws and rules, store appearance, operating efficiency, solvency, and customer service.

To achieve the objectives of the audit, auditors:

- Review applicable General Statutes, ABC Commission Rules, and Administrative Policies
- Review applicable reports and studies of ABC boards with similar size and geography
- Consult with specialists at the UNC School of Government
- Verify compliance with Commission and Board policies
- Verify results of previous performance audit recommendations
- Review organizational chart and job descriptions
- Review ABC board annual independent financial audits
- Visits the store(s)
- Interview key ABC board personnel.

The initial round of performance audits for the local ABC Boards concluded in 2016 and provided a comprehensive overview of the operations of the local boards. The follow-up round of performance audits now under way is designed to provide local boards with information that targets specific areas for improvement. Board activities that meet or exceed current performance standards are not included as areas recommended for corrective action and so are not included in the attached summary report and recommendations.

PROFIT PERCENTAGE TO SALES AND OPERATING COST RATIO

In FY2017, the Pamlico County ABC Board had a profit percentage to sales of 6.19%, a 1.41% increase over FY2016. In FY2016, the Pamlico County ABC Board had a profit percentage to sales of 4.86%. In the initial performance audit of FY2015, the ABC Board had a profit percentage to sales of 3.22%. The ABC Commission profit percentage to sales standard for ABC Boards with gross sales between \$2M and \$10M is targeted at 5% or higher. Thus, the Pamlico County ABC Board met the targeted profit percentage.

The operating cost ratio for Pamlico County ABC Board was 0.72. The ABC Commission standard for ABC Boards with one or two stores with mixed beverage sales is less than 0.73. Thus, the Pamlico County ABC Board met the standard.

Pamlico County ABC Board's operating expenses including depreciation decreased by 0.71% over FY2016. The income from operations increased by 34.9% over FY2016. Below is a chart showing the change of expenses and income from operations for the previous two years.

	FY2017	FY2016	Percent Change
Expenses excluding Depreciation	\$240,161	\$236,883	1.4%
Income from Operations	\$85,785	\$63,595	34.9%

BUDGET ANALYSIS

In reviewing the budget to actual analysis of the FY2017 financial audit, sales revenues were below budgeted projections by 5.88%. Although overall expenses were within budget for the same time period, specific line items exceeded budgeted projections. The below chart shows the final budget to actual amounts and the variances.

	FY2017 Budget Projections	FY2017 Actual	Variance \$	Variance %
Sales	\$1,473,000	\$1,386,369	(\$86,631)	-5.88%
Total Expenditures including Capital Outlay	\$294,400	\$255,039	\$39,361	15.4%

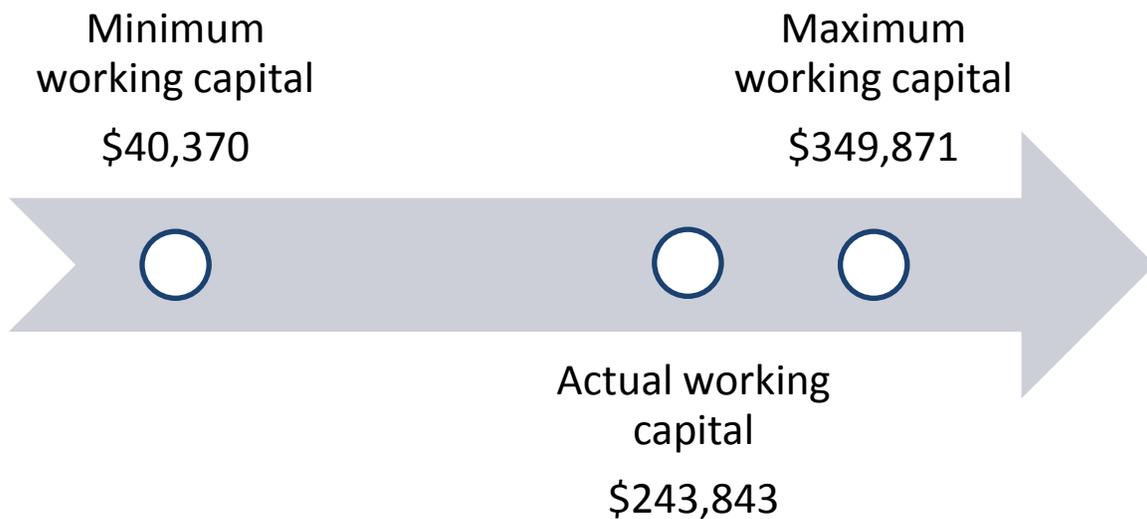
REQUIRED ACTION #1: All ABC Boards are required to operate within a balanced budget. ABC Boards cannot appropriate items or spend money not included in the budget. If budgeted line items are not balanced, adopt budget amendments to correct specific items or add omitted line items. G.S. 18B-702(h) states, "Except as otherwise restricted by law, the local board may amend the budget at any time after adoption, in any manner, so long as the budget, as amended, continues to satisfy the requirements of this section...Amendments to the adopted budget shall also be provided to the appointing authority and the Commission."

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.

Based on the existing rules, the Pamlico County ABC Board is allowed to maintain a minimum working capital of \$40,370 and a maximum working capital of \$349,871. The actual working capital the board has retained in FY2017 is \$243,843.

The NC ABC Commission has set a working capital standard for boards with gross sales less than \$1.5M to four months of sales revenue. The board's actual working capital has met the standard set by the NC ABC Commission.



The Pamlico County ABC Board received an approval from the appointing authority on April 28, 2015, allowing the board to create a reserve for capital improvements for land acquisition and store improvements or renovations. The approval has been submitted to the NC ABC Commission. The approval allows the board to increase the reserve from \$130,000 to \$200,000. The total amount of the reserve account is \$219,244 in FY2017. Building projects have not been completed.

REQUIRED ACTION #2: *The board has exceeded the maximum limit for the capital improvements reserve fund by \$19,244. Distribute the excess amount in the reserve account to the appointing authority following the distribution schedule.*

REQUIRED ACTION #3: *Begin initiating building projects according to the capital improvement strategy determined in the board minutes and forwarded to the Pamlico County Board of Commissioners. If no building projects are completed, reserve funds must be distributed to the county.*

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 3 ½% markup and .01/.05 cent bottle tax to the municipalities and county. Below is a chart of taxes paid to the NC Department of Revenue, and Pamlico County.

G.S. 18B-805 (c) (2) and (3) requires the board to distribute quarterly at least five percent (5%) of profits to law enforcement and at least seven percent (7%) of profits toward alcohol education. Remaining profits are to be distributed to the Pamlico County General Fund.

Revenues Less Taxes and Cost of Sales FY2017	
Sales (Retail, Mixed Beverage, and Wine)	\$1,386,369
Excise Tax	\$300,699
Mixed Beverage Tax Combined	\$9,494
Rehabilitation Tax	\$4,408
Net Sales	\$1,071,575
Cost of Liquor Sold	\$740,202
Gross Profit	\$331,373

	FY2017 Calculations	Actual Distributions	Variance (\$)	Percent Variance
Gross Profit (Taken from Above)	\$331,373			
Total Operating Expenses	\$245,722			
Income from Operations	\$85,651			
Income (Loss) Before Distribution	\$85,785			
3 ½% Minimum Distribution	\$39,367	\$73,460	\$34,093	87%
Law Enforcement	\$2,321	\$2,325	\$4	0.2%
Alcohol Education	\$3,249	\$ -		

A contract between the Pamlico County ABC Board and the Pamlico County Sheriff's Department is in effect and requires the board to distribute at least five percent (5%) of profits in quarterly installments if profits are generated.

In addition to the law enforcement distribution requirement, the board is required to expend at least seven percent (7%) towards alcohol education or rehabilitation purposes. The Pamlico County ABC Board has not distributed towards alcohol education and is required to do so in FY2017 if there are sufficient profits.

REQUIRED ACTION #4: *Begin making distributions toward alcohol education purposes for the upcoming fiscal years if there are sufficient profits. Contact the NC ABC Commission for additional resources to aide in alcohol education distributions efforts.*

STORE APPEARANCE

The findings for store appearance are as follows:

- Both locations displayed the required Fetal Alcohol Syndrome poster as required by G.S. 18B-808. Additional signage is worn and faded.
- Shelf management corresponds to the NC ABC Commission rule whereas premium products at eye level or top shelf and consumer loyal products are on the lower shelves. A consistent size flow shows a pattern from largest size on the right and smaller size on the left. New products and bestselling items are located at the front of the store on shelf end caps or where space allows.
- A North Carolina product selection is available separately as well as merged within their brand category.

OPERATIONAL AND ADMINISTRATIVE COMPLIANCE

- While inspecting the store, a random sample was collected to determine if uniform pricing is displayed on the shelves. Of those selected, all were correct.
- Previously, the board employed members of the immediate family of the general manager. Multiple correspondence from the NC ABC Commission reminded the board of the noncompliance. In a recent change of management, the board now follows the requirements of G.S. 18B-700 (k) whereas the board does not employ family members of the general manager and/or board members.

REQUIRED ACTION #5: *As a reminder, members of the immediate family to the general manager and any board member shall not be employed by the board. G.S. 18B-700 (k) states, "Members of an immediate family shall not be employed within the local board if such employment will result in one member of the immediate family supervising another member of the immediate family, or if one member of the immediate family will occupy a position which has influence over another member's employment, promotion, salary administration, or other related management or personnel considerations. This subsection applies to local board members and employees... the term "immediate family" includes wife, husband, mother, father, brother, sister, son, daughter, grandmother, grandfather, grandson, and granddaughter. Also included are the step-, half-, and in-law relationships. It also includes other people living in the same household, who share a relationship comparable to immediate family members, if either occupies a position which requires influence over the other's employment, promotion, salary administration, or other related management or personnel considerations."*

- Board member appointment dates have not been updated with the NC ABC Commission. According to the board's minutes, one board member has been reappointed and has not yet taken the ethics training.

REQUIRED ACTION #6: *Update the board member appointment dates on the NC ABC Commission website.*

REQUIRED ACTION #7: *As a reminder, reappointed board members are required to complete ethics training within one year of reappointment status. 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. The ethics education shall cover laws and principles that govern conflicts of interest and ethical standards of conduct for local ABC boards."*

- At the time of the fieldwork, a finance officer has not been appointed. The board plans to appoint a finance officer from within the ABC system.

REQUIRED ACTION #8: *Once appointed, have the finance office complete the required ABC ethics training or any Commission approved training course. NCAC 15A .2001 states, "All finance officers and general managers shall complete a Commission training course for local boards within 12 months of their initial employment. 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.” NCAC 15A .2002 states, “All Commission training courses for local boards shall consist of two hours of ethics as a subject matter and no more than two hours of other subject matter.”

- Payments are made using an electronic payment process, BillPay, provided by the local banking institution. An encrypted password allows the general manager to enter the website and begin the payment process. The process specifies the listing of all vendors, invoice numbers, and invoice amounts before submission. Once all information is entered and verified, the general manager is able to process payments. Because the ABC system, does not utilize physical checks to pay vendors, the approved certificate along with the finance officer’s signature is not found on documentation.

REQUIRED ACTION #9: *Place the approved certificate on the summary indicating the payments were approved and verified with the finance officer. G.S. 18B-702 (q) states, “A local board may not pay a bill, invoice, salary, or other claim except by a check or draft on an official depository or by a bank wire transfer from an official depository. Except as provided in this subsection, each check or draft on an official depository shall bear on its face a certificate signed by the finance officer or a deputy finance officer approved for this purpose by the local board (or signed by the chairman or some other member of the board pursuant to subsection (o) of this section). The certificate shall take substantially the following form*

“This disbursement has been approved in the manner required by G.S. 18B-702.

*_____
(Signature of finance officer).”*

No certificate is required on payroll checks or drafts on an imprest account in an official depository if the check or draft depositing the funds in the imprest account carried a signed certificate. No certificate is required for expenditures of fifty dollars (\$50.00) or less from a petty cash fund, provided the expenditure is accounted for by a receipt for the expended item.”

- In reviewing the paid liquor invoices, some payments were made beyond thirty (30) days.

REQUIRED ACTION #10: *Begin making liquor payments within thirty (30) days. NCAC 15A .1406 states, “Local boards shall remit full payment of the distiller's invoice within 30 days of delivery of the liquor.”*

Pamlico County ABC Board

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July 16, 2018

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 22, 2018, we respectfully submit the following:

We will start distributing alcohol education funds in the month of July 2018.

We are following your recommendations to stamp the complete paid list of all invoices paid on Bill Pay with approved certificate and the financial officer signs each.

All Board members appointment dates have been updated on the NC ABC Commission website.

All board members and financial officers are up-to-date on the required ethics training.

We now have Tiffany Johnson appointed as the financial officer.

All invoices are paid on time with in the 30 days.

The budget is balanced.

Attached is the Approval for the building fund of \$10,000.00 per year, until a balance of \$300,000.00 is met.

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

Sincerely,

Robert W. Sadler, Chairman
Pamlico County ABC Board