

# Pender County ABC Board

## Performance Audit Report



Alcoholic Beverage Control Commission  
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**ABC**  
COMMISSION  
NORTH CAROLINA

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## **OBJECTIVE, PURPOSE, AND SCOPE**

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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**

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S.L. 1963-50 authorized Pender County to hold an election for an ABC store upon a petition signed by at least fifteen percent (15%) of registered voters. The referendum was held on May 25, 1963 and passed 1,963 to 1,443. The first retail sale occurred on July 10, 1963. A subsequent mixed beverage election occurred on November 2, 1993 and passed 2,825 to 2,071.

S.L. 1963-778 authorized the Pender County Board of Commissioners, Board of Health, Board of Education, and Board of Public Welfare to create an ABC board consisting of a chairman and four members to serve for three-year staggered terms. Current board members are Don Hall, chairman, Henry Jordan, Jr., Elmer Hodges, George Grubbs, and Susan Robbins.

The Pender County ABC Board employs twelve full-time and five part-time employees. The general manager is responsible for the overall operational and administrative functions of the ABC system. Operational and administrative functions include policy implementation, inventory management, and human resource management. Other administrative positions include the finance officer/bookkeeper and a warehouse manager. The finance officer/bookkeeper is responsible for daily bookkeeping and other financial duties as required by the ABC statutes and Commission rules. The board has hired an accounting firm to prepare quarterly financial statements. The warehouse manager is responsible for the inventory management of warehouse and deliveries to the stores. All store employees have a primary responsibility of providing friendly customer service, store upkeep, and regular 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 FY2015, the Pender County ABC Board had gross sales of \$5,632,774; income from operations was \$433,408, a 7.69% profit percentage to sales. Sales revenue increased 8.94% 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 Pender County ABC Board made the required minimum distribution of \$161,065 proportionately to the municipalities in which stores are located and the Pender County General Fund. The Pender County ABC Board paid a total of \$1,294,347 in excise and other taxes to the NC Department of Revenue, the Department of Health and Human Services, the municipalities, and the county.

*G.S. 18B-805 (c) (2) requires a local board to distribute quarterly at least five percent (5%) of profits to law enforcement. S.L. 2013-180 requires the board to distribute quarterly not less than two percent (2%) and no more than five percent (5%) toward alcohol education or rehabilitation.*

*G.S. 18-805 (h) requires an external agency receiving alcohol education, treatment, or rehabilitation funds from a local board to submit an annual report describing how the funds were spent.*

The Pender County ABC Board has a contract with the Pender County Sheriff's Department and has distributed \$13,617 toward law enforcement. The ABC Board distributed the same amount for alcohol education/rehabilitation purposes. The board awards alcohol education funding to external agencies that specialize in alcohol education, treatment, rehabilitation, and other substance abuse programs. One agency was awarded funding in FY2015, Coastal Horizons Center. A letter was submitted to the board detailing how the funds were spent.

*S.L. 2013-180 requires the Pender County ABC Board to distribute quarterly the remaining profits as follows:*

- *Sixty-five percent (65%) to the Pender County General Fund of which five percent (5%) for use in mosquito control*
- *Thirty-five percent (35%) shall be distributed to the municipalities as follows:*
  - *Seventy percent (70%) to the Town of Burgaw and the Town of Surf City proportionately as follows:*
    - *Forty percent (40%) to the Town of Burgaw*
    - *Sixty percent (40%) to the Town of Surf City*
  - *Thirty percent (30%) to the municipalities according to the percentage of population within Pender County.*

In FY2015, the Pender County ABC Board made an additional distribution of \$218,850 to the Pender County General Fund and to the municipalities.

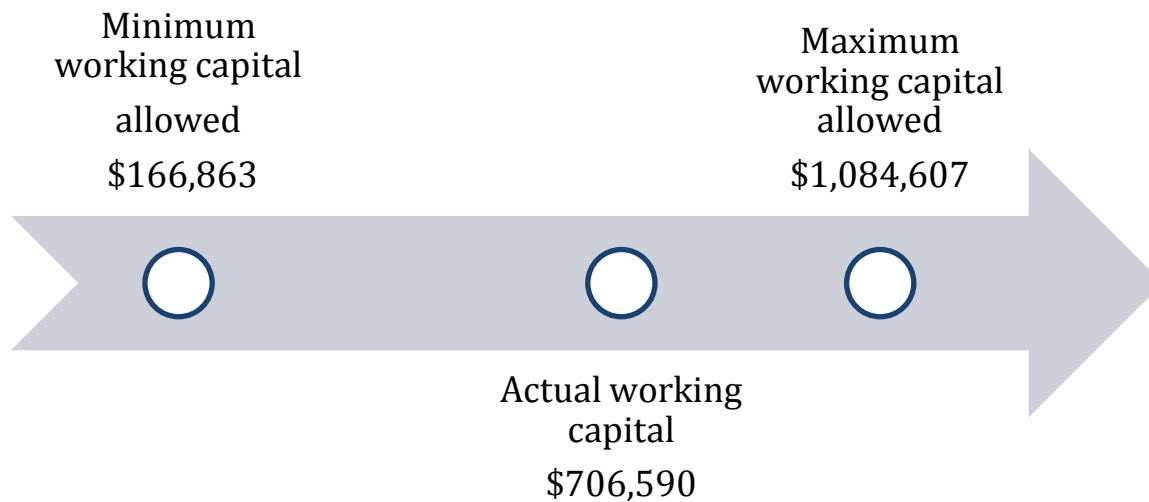
## WORKING CAPITAL

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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 ABC 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 ABC 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 Pender County ABC Board had gross sales of \$5,632,774 in FY2015. The board's working capital of \$706,590 is within the recommended range set by the rules of the ABC Commission.



## **OPERATING COST RATIO**

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The operating cost ratio was 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 Pender County ABC Board operates four stores with mixed beverage sales. Mixed beverage sales make up 8.0% of total gross sales. In FY2015, the Pender County ABC Board operating cost ratio was 0.67. Sales have increased 8.94% over FY2014. Expenses increased 5.3% over the same time period.

Key factors attributing to increased operating expense include:

- The board leases three out of the four stores with rental expense of \$59,400 in FY2015.
- The accounting and audit expenses have increased fees by \$1,400 since FY2014.
- Overall salaries have increased 5.4% since FY2014.



## **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 Pender County ABC Board receives deliveries two times a month: the inventory turnover rate is 4.8. The average inventory turnover rate for similar boards with the same delivery schedule is 5.6.

## **RECOMMENDATIONS**

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1. Consider the following to increase inventory turns:
  - Incorporating a shelf management plan that analyzes sales data to targeted shopping patterns;
  - Utilizing end caps and empty shelf space as much as possible to highlight slow moving and new products;
  - Moving stock between stores to increase visibility and to encourage more impulse shopping in other areas;
  - Eliminating poor performing items to drive category sales and replace with bestselling and/or new items to increase shopper satisfaction;

# **OBSERVATIONS, FINDINGS AND RECOMMENDATIONS**

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## **STORE APPEARANCE AND OPERATIONS**

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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 Pender County ABC Board operates four retail stores with an approximate average of 730 linear feet of shelf space and carries approximately 900 product codes within each store.

- 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 in all locations.
- Landscaping around the store 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.
- 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.
- 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.
- Each store has a monthly inventory schedule to be performed by store managers and all scheduled staff. The warehouse is counted by the warehouse manager two times a month. Spot checks are conducted more frequently. Once conducted, the count sheets are forwarded to the general manager for review. If discrepancies are found, the general manager will notify the store managers for a recount. A second variance report is generated to match with the recounted items. Adjustments are made by the general manager. Unsalable merchandise is adjusted from the inventory monthly.

## **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.
- Cross training has been extended on some key administrative duties to employees in the event the general manager or finance officer are unavailable. Cross training has been extended to store employees in the event the store managers' are unavailable.
- Additional training is provided to new and existing staff on key areas such as product knowledge, customer service, and clerk responsibilities. The general manager and other staff often attend various training courses offered by the NC ABC Commission and the NC Association of ABC Boards.
- Personnel files are available and include the required human resource documentation and other information as needed for payroll.

## **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 Pender County ABC Board's policies include, but are not limited to, the following:

- Code of Ethics
- Law Enforcement Contract (Pender County Sheriff's Department)
- Pender County ABC Board Travel Policy (Adopted the State's travel policy)
- Pender County ABC Board Price Discrepancy Policy

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.

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

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

Policies not adopted include:

- Mixed-Beverage Policy
- Sale to Underage Policy
- Employee Handbook

## **RECOMMENDATIONS**

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1. Adopt a mixed-beverage policy that follows current practices.
2. Adopt a policy that details the position of the board when an employee is charged with selling to a minor.
3. Update and/or revise the employee handbook to include current practices.

## **INTERNAL CONTROL AND ADMINISTRATIVE OPERATIONS**

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- The general manager schedules and notifies employees for work shift hours. Time sheets are used by all employees. In the event an employee fails to attend a shift, the general manager is notified and adjusts the schedule or finds a replacement. At the end of the payroll week, the general manager forwards all time sheets to the accountant for processing.
- In reviewing a sample of travel reimbursements, procedures were followed according to the travel policy submitted.
- The board owns a vehicle to deliver product between stores. Vehicle expenses were verified. A vehicle usage policy has not been adopted.
- Breakage forms are submitted as required by the Commission rules. Management has implemented procedures in handling breakage when a customer/employee breaks product.
- 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.
- 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 bookkeeper is unavailable, the warehouse manager is authorized to sign checks.
- Out of approximately 900 product codes per store, approximately 217 product codes were sampled to ensure accurate pricing and all were correct.

## **RECOMMENDATIONS**

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1. Adopt a vehicle usage policy that would specify the following:
  - a. Who is able to use the vehicle,
  - b. Requirement that all drives must have a valid driver's license
  - c. What purposes vehicle may be used for
  - d. Requirement that a mileage and/or gas log be filled out for every trip, if applicable.

## **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. However, the board did not follow the appropriate procedures when going into closed session.
- Board meeting minutes include a conflict of interest statement asking board members if conflicts exist with the items on the meeting agenda.
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- The board is in compliance with G.S. 18B-700 (k) as there are no employees who are related to board members or the general manager.
- Board members have requested reimbursement for travel to and from board meetings. The travel policy does not authorize board members to receive reimbursement to and from board meetings, only non-exempt employees. Board members are not considered employees.

## **RECOMMENDATIONS**

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1. As specified in G.S. 143-318, the board must follow and enter into closed session proceedings through motion and vote. The purpose must be specifically stated within the motion and only that topic may be discussed in the closed session. All actions discussed in closed session must be stated and/or voted on in open session and included in open session minutes.
2. The board must approve closed session meeting minutes. The required procedure is to hold a new closed session meeting specifically to approve the minutes of an earlier session.
3. Adopt a board policy that allows board members to receive travel reimbursement for attending board meetings.

## **SUMMARY**

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A board meeting was held on June 23, 2016 with the Pender County ABC Board. Discussions were held regarding potential new stores within the system, improvements to existing stores, and disbursements toward alcohol education or rehabilitation agencies within the county. The board continues to discuss ways to improve profitability while maintaining budget appropriations. Although the segregation of duties is limited, the ABC Commission encourages board members to provide sufficient oversight towards disbursements on a routine basis.



# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

KEVIN M. GREEN  
Greensboro

MICHAEL C. HERRING  
West Jefferson

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**Moniqua S. McLean**  
ABC Board Auditor

(919) 779-8365

February 27, 2017

Pender County ABC  
Mr. Donald A. Hall, Chairman  
P.O. Box 804  
Burgaw, NC 28425

Dear Chairman Hall,

We are pleased to submit this performance audit report on the Pender County ABC. 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 is commendable and should remain your most important goal.

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

Respectfully,

A handwritten signature in black ink, appearing to read "R.A. Hamilton".

Robert A. Hamilton  
Administrator

CC: North Carolina Association of ABC Boards



Pender County ABC  
P.O. Box 804  
Burgaw, NC 28425  
(910) 259-2672

June 28, 2016

Dear Ms. Mclean,

We have reviewed your suggestions from the audit and will make the necessary changes.

One item in which we disagree, is having a Board Member instead of the Deputy Finance Officer as a check signer. We currently have the General Manager, the Finance Officer, and the Deputy Finance Officer as signers. Also, please note, that 2 signatures are required on our checks. In our opinion this is an acceptable way of checks and balances. If you wish to discuss this further, please call.

Otherwise, our personnel manual is in process now, and will be forwarded to you as soon as it is complete. We will also be working on moving slow items as well, and replacing them as discussed.

I appreciate your efforts, and should you need any additional information, please call.

Sincerely,



Donald A. Hall  
Chairman, Pender ABC