

# Pasquotank County ABC Board

Performance Audit Report



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



# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

CHAIRMAN:  
JAMES C. GARDNER

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COMMISSIONERS:  
JOEL L. KEITH  
Wake Forest

KEVIN M. GREEN  
Greensboro

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ADMINISTRATOR:  
MICHAEL C. HERRING

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LOCATION:  
400 East Tryon Road  
Raleigh NC 27610

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**Moniqua S. McLean**  
ABC Board Auditor

February 21, 2014

Pasquotank County ABC Board  
Mr. Roy Daniels, Chairman  
860 Halstead Blvd  
Elizabeth City, NC 27909

Dear Chairman Daniels,

We are pleased to submit this performance audit report on the Pasquotank 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 general manager's 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 the efficient manner in which your ABC store is operated.

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

Respectfully,

Michael C. Herring  
Administrator

CC. North Carolina Association of ABC Boards

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## **EXECUTIVE SUMMARY**

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 store annual audit for the fiscal year 2013;
- Visited the store;
- Interviewed key ABC board personnel.

The Pasquotank County ABC Board responded to the performance audit recommendations and continues to explore different strategies to maintain profitability while reducing and maintaining operating expenses. 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.

## **BACKGROUND INFORMATION**

Chapter 493 of the 1935 Pasquotank Act authorized Pasquotank County to hold an election for an ABC store. The referendum was held on May 6, 1935 and passed 1,527 to 494. The first retail sale occurred on July 24, 1935. A county-wide mixed beverage election was held on May 6, 1986 and did not pass. A second mixed beverage election for Elizabeth City limits occurred on October 6, 1987 and passed 1,542 to 1,312.

Upon election of an ABC store, an ABC board was created consisting of a chairman and two members to serve for three year terms. Special legislation authorized the county to increase board membership from three to five members. Current board members are Roy Daniels, board chairman, William Allen, Tommy Tilley, Dr. Andrea Williams, and Anthony Turner, board members.

The Pasquotank County ABC Board operates one retail store. The board staffs four full-time and three part-time employees. The general manager is responsible for overseeing and managing daily operations of the stores including supervising personnel, inventory control, and providing customer service. All store employees are responsible for providing friendly customer service, store upkeep, and stock maintenance.

## **FINANCIAL ANALYSIS**

### **Inventory Turnover**

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

The Pasquotank County ABC Board receives deliveries twice a month: the inventory turnover rate is 7.2. A comparison of similar boards with the same delivery schedule indicates that Pasquotank County's turnover rate is in line with Vance County at 8.5 and Sylva at 6.2.

*No Recommendations.*

### **Operating Cost Ratio**

Operating costs are calculated by dividing total operating expenses less depreciation by the gross profit on sale (Total Operating Expenses less Depreciation/Gross Profit). Below are the average cost ratios for boards with and without mixed beverage sales (MXB):

- Single store boards with MXB sales that are equal to or greater than 25% of gross sales – cost ratio 0.75
- Single store boards with MXB sales less than 25% of gross sales – cost ratio 0.85
- Single store boards without MXB sales – cost ratio 0.85
- Boards with 2 stores with and without MXB sales – cost ratio 0.74
- Boards with 3 or more stores with and without MXB sales – cost ratio 0.64

The Pasquotank County ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.56. Mixed beverage sales make up 15% of total gross sales. In fiscal year 2013, sales increased 2.6% over fiscal year 2012 and expenses increased 5% over the same time period. *An expense comparison is located in Appendix A.*

*No Recommendations.*

### **Working Capital**

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 FY2013, Pasquotank County ABC Board had a working capital of \$177,728, which is equivalent to less than three months gross sales and is within the limits of NCAC 02R .0902.

## Profit Percentage to Sales

The profit percentage to sales is calculated by dividing the total income before distributions by the total liquor sales (Total Income before Distributions/Total Liquor Sales). The Commission has set goals based on the following breakdown:

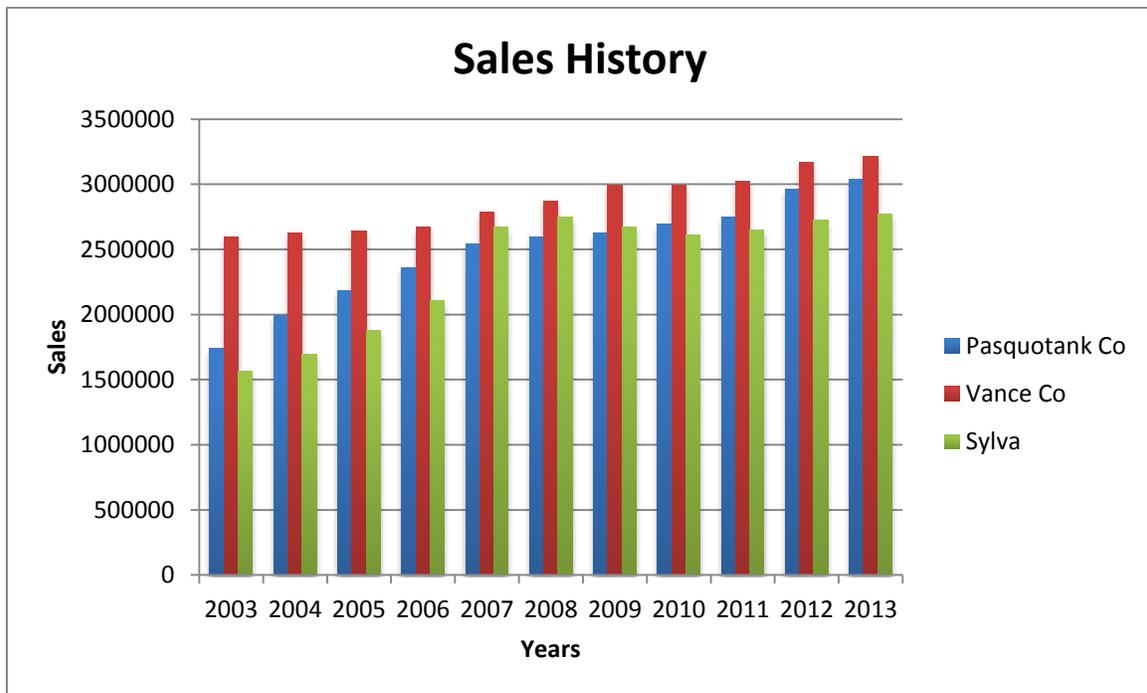
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2013, the Pasquotank County ABC Board had gross sales of \$3,040,863; income before distributions was \$292,767, a 9.63% profit percentage to sales.

Factors affecting sales and profitability:

- Surrounding ABC boards include Town of Hertford and Camden County
- Sales increased 2.6% over the previous fiscal year;
- Population for Pasquotank County is estimated to be 40,591 in 2012

Below is a sales history analysis of similar size boards compared with Pasquotank County ABC Board. This chart analyzes the sales trends for the past ten years.



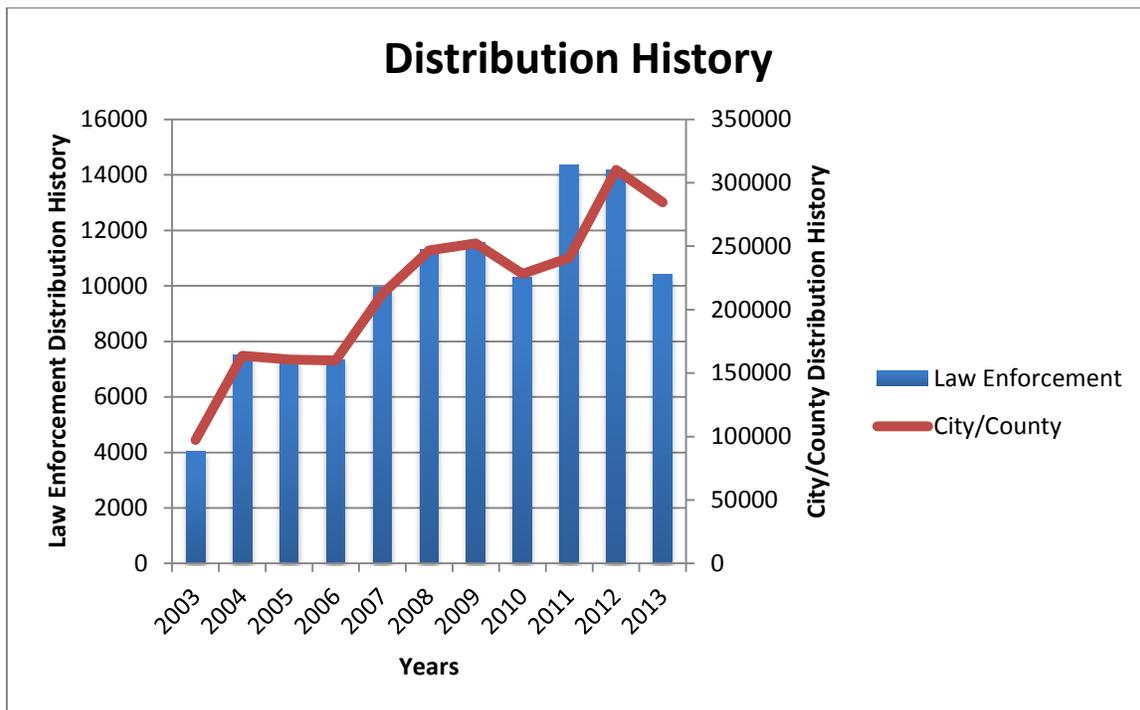
## Distributions

G.S. 18B-805 (c) (2) requires the board to distribute at least five percent (5%) of profits to law enforcement. The board follows the local enabling act for alcohol education distributions, whereas distributions are not required. The remaining profits are to be distributed as follows:

- 50% to the Elizabeth City General Fund of which no more than 10% is for education;
- 50% to the Pasquotank County General Fund of which no more than 10% is for education.

In FY2013, Pasquotank County ABC made the required minimum distribution to the county totaling \$86,786, plus additional distribution of \$197,776. \$715,635 in Excise and other taxes were paid to the NC Department of Revenue and the city/county. A total of \$10,409 was paid to law enforcement.

Below is a distribution chart analyzing the high-low trend of the Pasquotank County ABC Board for the past ten years.



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

On November 13, 2013, ABC Board Auditor, Moniqua S. McLean, visited the Pasquotank County ABC board and interviewed Bill Peck, general manager. The following are the operational observations, findings, and recommendations related to the performance audit.

### **Store Appearance and Customer Service**

The Pasquotank County ABC Board operates one retail store with approximately 1,350 linear feet of shelf space and carries approximately 1,600 product codes. *Pictures are found in Appendix B.*

- The store was clean, well-dusted, and maintained. Bottles were fronted and dusted. Counter areas were free of clutter and supplies were easily accessible.
- Exterior signage and landscaping around the store was clean and free of trash. Interior signage was neat and visible. The Fetal Alcohol Syndrome poster was displayed.
- Security systems are in place and functional in all locations.
- A consistent shelf management plan that exhibits a strategy per category following the highest priced .75L on the top shelves and the lowest priced product on the bottom shelves. Product displays are available spotlighting bestselling or newest items and seasonal or holiday items. *See pictures on page 11.*
- The state price book is available should customers ask for specific product. Sales clerks' often refer to the price book for verification of product listing and pricing.
- Sales clerk's interaction with customers is attentive, courteous, and all are eager to meet the needs of the customers.

*No Recommendations.*

### **Personnel and Training**

- All board members and the general manager have completed ethics training.
- Additional training is provided to new and existing staff on key areas, such as product knowledge, customer service, and other clerk responsibilities.
- Cross training opportunities have been extended to all employees in the event the general manager is suddenly unavailable.

*No Recommendations.*

## **ABC Board Policies**

- Policies adopted and submitted to the Commission include:
  - Code of Ethics
  - Travel Policy (State Travel Policy)
  - FY2013 Annual Audit
  - FY2014 Budget (Proposed and Adopted)
  - Employee Handbook (Original 1997)
  - Mixed Beverage Policy
  - Price Discrepancy Policy
  - Credit Card Policy
- Policies not adopted and submitted to the Commission include:
  - Law Enforcement Contract

### *Recommendations:*

- Have an agreed upon law enforcement contract and submit to the Commission. All local boards are required to have an agreement, even if the agreement results in no enforcement activity without pay. *Refer to Appendix C (1) for statute.*

## **Internal Control Procedures**

- The general manager determines the schedule of all sales clerks. Time sheets are signed by the employee monthly and verified by the manager. Payroll software is used to calculate tax and other withholdings for employees. Software backup is conducted weekly.
- Cash drawers are counted by all clerks. Employees often share drawers. Management has implemented procedures to handle situations when cash drawers are over or short.
- Bank deposits are made regularly as required by the ABC Commission rule. Bank notification is received and matched with corresponding daily register reports. Bank reconciliations are completed monthly by the general manager.
- Full physical inventory counts are performed twice a year by all scheduled staff. However, spot checks are conducted more frequently throughout the month. If discrepancies occur, all employees will investigate and recount for verification. Once completed, the general manager will adjust the inventory system to match with the actual store counts. Unsalable items are adjusted monthly.
- A credit card is issued to the board with the general manager as the only authorized person to use the card. The general manager reconciles all transactions purchased with the card. As a second verification, the board's auditor will assist with the reconciliations of purchases. The board chairman views the credit card statement on a monthly basis. A written policy has been implemented.

*No Recommendations.*

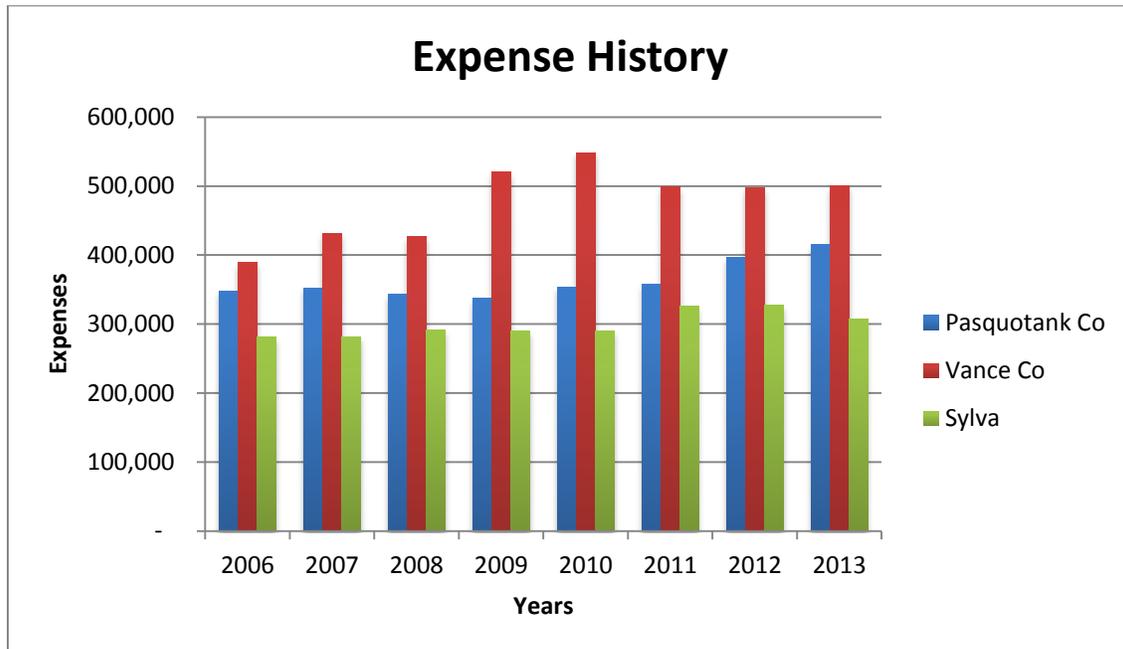
## **Administrative Compliance Findings and Observations**

- Board meeting minutes were viewed and followed the order of proceedings and providing information that a reasonable person would be able to follow. Board meeting minutes referenced the conflict of interest statement.
- Board member and general manager information, appointment dates and compensation amounts, are current on the Commission website.
- Board member and general manager compensation is in compliance with G.S. 18B-700 (g) and (g1).
- Law enforcement activity reports have been submitted to the Commission as required by G.S. 18B-501 (f1).
- Nepotism – The board is in compliance with G.S. 18B-700 (k).
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- The general manager serves as the finance officer of the board.
- A review of travel reimbursement expense reports revealed that expenses follow the travel policy adopted. However, original travel receipts were not available.
- In analyzing budget to actual expenses from the annual audit, actual expenses were more than budgeted expenses. Some expenses were not budgeted bringing the budget out of balance.
- Orders for liquor and other miscellaneous orders bear the pre-audit certificate as required by G.S. 18B-702 (m). When ordering supplies using the credit card, purchase orders are accompanied with the receipts.
- All checks bear the approved certificate and are signed by the finance officer and a board member. In the event the finance officer is unavailable, other board members or the general manager is authorized to sign checks.
- Out of approximately 1,300 product codes, approximately 115 product codes were sampled, and all were correct.

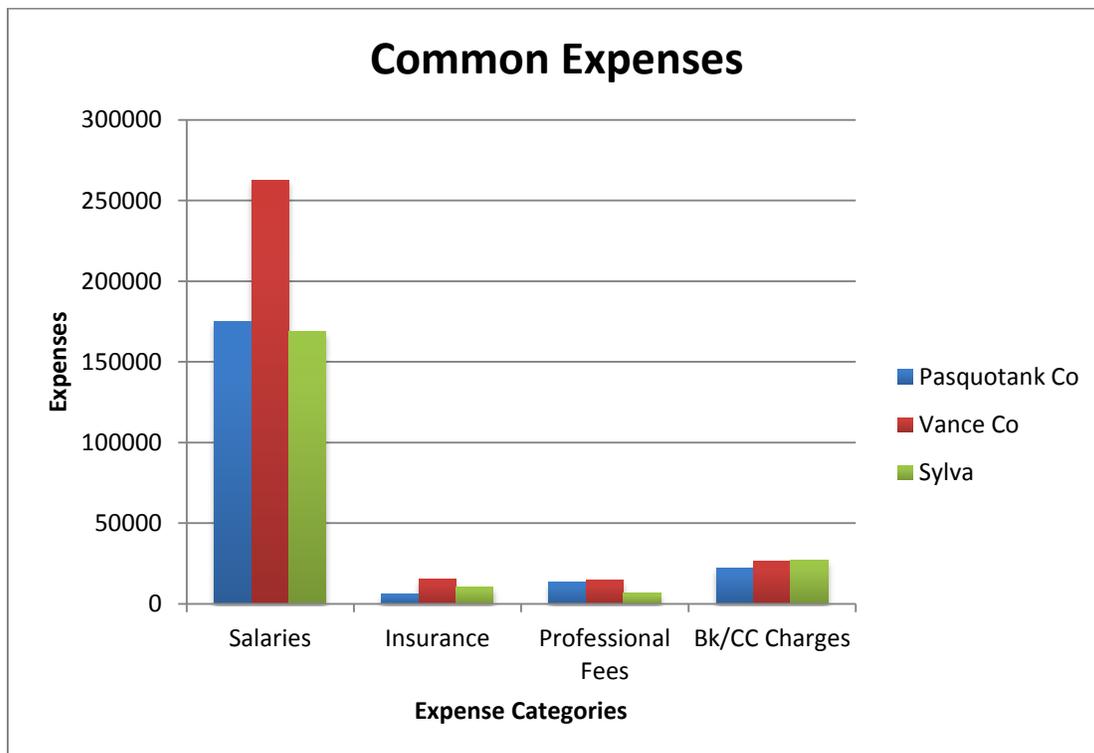
### *Recommendations:*

- Appoint a finance officer other than the general manager or request an extension from the Commission. *Refer to Appendix C (2) for statute.*
- Keep all original travel receipts on hand and refer to the Records Retention Schedule when to discard.
- Monitor budget more closely. Actual expenses cannot be more than budgeted expenses. If so, make budget amendments to remain in balance. *Refer to Appendix C (3) for statute.*

## APPENDIX A



*The expense history data indicates that Pasquotank County ABC's total expenses have increased 5% as sales have increased 2.6%. However, the analysis shows that Pasquotank County's expenses are mid-range compared with other similar boards.*



*Common expense analysis indicates that Pasquotank County ABC's expenses are relatively lower compared with other similar size boards.*

## APPENDIX B



*Exterior view*



*Interior view*



*Shelf management*

## APPENDIX C

- (1) 18B-203 (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. Enforcement agreements may be made with more than one agency at the same time.”*
- (2) 18B-702 (j) states *“...the local board shall designate (i) a part-time or full-time employee of the board other than the general manager or (ii) the finance officer of the appointing authority with consent of the appointing authority to be the finance officer for the local board. The Commission, for good cause shown, may grant a waiver to allow the general manager of a board also to be the finance officer...the approval shall be effective for 36 months.”*
- (3) 18B-702 (c) and (h) states *“Each local board shall operate under an annual balanced budget... 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. The local board by appropriate resolution may authorize the budget officer to transfer monies from one appropriation to another within the same fund subject to such limitations and procedures as it may prescribe. Any such transfers shall be reported to the local board at its next regular meeting and shall be entered in the minutes. Amendments to the adopted budget shall also be provided to the appointing authority and the Commission.”*

## **Mclean, Moniqua S**

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**From:** Pasquotank ABC Store <pasqabc@raleigh.twcbc.com>  
**Sent:** Thursday, February 06, 2014 4:56 PM  
**To:** Mclean, Moniqua S  
**Subject:** Recommendations

Moniqua McLean

Recommendations:

1. Appoint a finance officer other than the general manager or request an extension from the Commission. *Refer to Appendix C (2) for statute.*

We have requested, and received from Mike Herring approval for our current CFO position.

2. Keep all original travel receipts on hand and refer to the Records Retention Schedule when to discard.

All travel receipts are in one file. Copies available at December meeting.

3. Monitor budget more closely. Actual expenses cannot be more than budgeted expenses. If so, make budget amendments to remain in balance. *Refer to Appendix C (3) for statute.*

Beat budgeted sales and profit annual plan. Will look at individual accounts at monthly meeting and plan any adjustments if necessary.

4. Have an agreed upon law enforcement contract and submit to the Commission. All local boards are required to have an agreement, even if the agreement results in no enforcement activity without pay. *Refer to Appendix C (1) for statute.*

We now have a written agreement with the County and Elizabeth City. We will continue to use officers on weekend night as per the agreement.

Agreement has been signed by representatives of both agencies.

Bill Peck  
Pasquotank County ABC Board  
[pasgabc@raleigh.twcbc.com](mailto:pasgabc@raleigh.twcbc.com)

## PASQUOTANK COUNTY ALCOHOL BEVERAGE CONTROL BOARD

### Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>ABC Board Policies:</b></p> <p>Have an agreed upon law enforcement contract.</p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input checked="" type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>An agreement between the board, Elizabeth City, and the county has been established. A copy of the law enforcement contract has been forwarded to the Commission.</p>
<p><b>Administrative Compliance:</b></p> <ul style="list-style-type: none"> <li>• Appoint a finance officer other than the general manager.</li> <li>• Monitor budget closely as to not have actual expenses more than budgeted expenses.</li> </ul>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input checked="" type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The board has obtained an extension from the Commission allowing the general manager to serve as the finance officer for three years. Management has implemented procedures to ensure that budgeted expenses are monitored more closely.</p>