

# Bertie 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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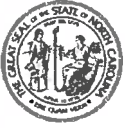
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# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

**CHAIRMAN:**

A. D. "Zander" GUY, JR.

August 30, 2019

**COMMISSIONERS:**

Norman A. Mitchell, Sr.  
Charlotte

Karen Stout  
Black Mountain

Miles Davis  
Chairman  
Bertie County ABC Board  
PO Box 97,  
Windsor, NC 27983

**ADMINISTRATOR:**

Agnes Stevens

Dear Chairman Davis,

**LOCATION:**

400 East Tryon Road  
Raleigh NC 27610

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

**MAILING:**

4307 Mail Service Center  
Raleigh NC 27699-4307

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.

**PHONE:** (919) 779-0700

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

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

On behalf of the NC ABC Commission 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,

A handwritten signature in cursive script that reads "Agnes Stevens".

Agnes Stevens  
Administrator

cc: NC Association of ABC Boards

## OBJECTIVE, PURPOSE, AND SCOPE

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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
- Visit 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

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In FY2017, the Bertie County ABC Board had a profit percentage to sales of -1.95%. Bertie County ABC Board had sales totaling \$785,789 in FY2017 and \$748,373 in FY2016. Income before distributions was -\$15,335 in FY2017 and -\$4,770 in FY2016. In the initial performance audit of FY2014, the ABC Board had a profit percentage to sales of 3.25%. The ABC Commission profit percentage to sales standard for ABC Boards with gross sales less than \$2M is targeted at 5% or higher. Thus, the Bertie County ABC Board did not meet the targeted profit percentage.

The operating cost ratio for Bertie County ABC Board in FY2017 was 1.05. The ABC Commission standard for ABC Boards with one store and mixed beverage sales is less than 0.77. Total operating expenses less depreciation totaled \$179,170 in FY2017 and \$198,968 in FY2016, a 10% decrease. However, gross profit totaled \$170,982 and \$195,642 for FY2017 and FY2016 respectively. Gross profit decreased by 12.6% over FY2016. In the initial performance audit, the ABC Board had an operating cost ratio of 0.85. Thus, the Bertie County ABC Board did not meet the targeted profit percentage.

Cost of sales totaled \$437,762, 56% of total gross sales in FY2017. In FY2016, cost of sales totaled \$384,225, 51% of total gross sales. The state's average cost of sales is approximately 52%. The cost of sales percentage for Bertie County has fluctuated since FY2014. It is undeterminable whether the cause of the fluctuations is related to possible accounting errors or inventory control issues.

**REQUIRED ACTION:** *Conduct routine physical inventory counts. Adjust accordingly. Coordinate with computer vendor on the accuracy of end of month reports.*

**RECOMMENDATION:** *To increase sales, consider effective practices to generate more revenue such as:*

- *Partnering with distilleries to showcase product as long as it meets the NC ABC Commission's promotion requirements*
  - *Creating recipe cards, displays, and other marketing techniques to further enhance customer shopping experience*
  - *Borrowing common marketing strategies from suppliers and other boards for best practices in shelf management, customer service, and inventory management*
  - *Contacting neighboring systems to inquire about selling off discontinued or slow-moving products or ask for a price reduction from the NC ABC Commission*
  - *Taking advantage of Special Purchase Allowance (SPAs) or the buy-in process to provide variety within the store at a reduce cost while increase the profit margin*

**RECOMMENDATION:** Reduce discretionary expenses such as board travel for all board members and meals during monthly board meetings as a means to reduce costs and return to profitability status.

**CORRECTIVE ACTION WILL TAKE/HAVE TAKEN:** *The ABC Board has stated that board members will only attend one conference per year. Management has incorporated inventory controls to include routine and frequent spot checks.*

## BUDGET TO ACTUAL ANALYSIS

In reviewing the budget to actual analysis of the FY2017 financial audit, sales revenues were below budgeted projections by 1.7%. Overall expenses exceeded budgeted projections by 1.4%. An amendment was submitted to the NC ABC Commission but not forwarded to the certified public accountant. The below charts show the final budget to actual amounts and the variances as indicated in the financial audit and a chart showing the amendments as provided to the NC ABC Commission

	FY2017 Budget Projections	FY2017 Actual	Variance \$	Variance %
Sales	\$799,000	\$785,789	(\$13,211)	(1.7%)
Total Operating Expenses including Capital Outlay	\$186,900	\$189,451	(\$2,551)	(1.4%)

	FY 2017 Original	FY2017 Amended	FY2017 Actual	Variance \$	Variance %
Sales	\$799,000	\$782,000	\$786,875	(\$4,875)	(0.5%)
Taxes	\$190,100	\$156,500	\$177,045	(\$20,545)	(11.6%)
Cost of Liquor Sold	\$400,000	\$437,762	\$460,000	(\$22,238)	(4.8%)
Total Operating Expenses	\$186,900	\$153,500	\$189,451	(\$35,951)	(19.0%)
Distribution	\$22,000	\$11,000	\$5,185	(\$5,815)	(52.9%)
Law Enforcement	\$1,000	\$1,000	\$ -		
Alcohol Education	\$ -	\$ -	\$3,650		

**REQUIRED ACTION:** *All ABC Boards are required to operate within a balanced budget. ABC Boards cannot appropriate items or spend money not included in the budget or that has exceeded budgeted projections. 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."*

**CORRECTIVE ACTION WILL TAKE/HAVE TAKEN:** *The ABC Board has incorporated procedures that will ensure appropriate persons will receive the ABC board budget amendments. Additional practices involve ensuring appropriate funds are available before transactions are initiated.*

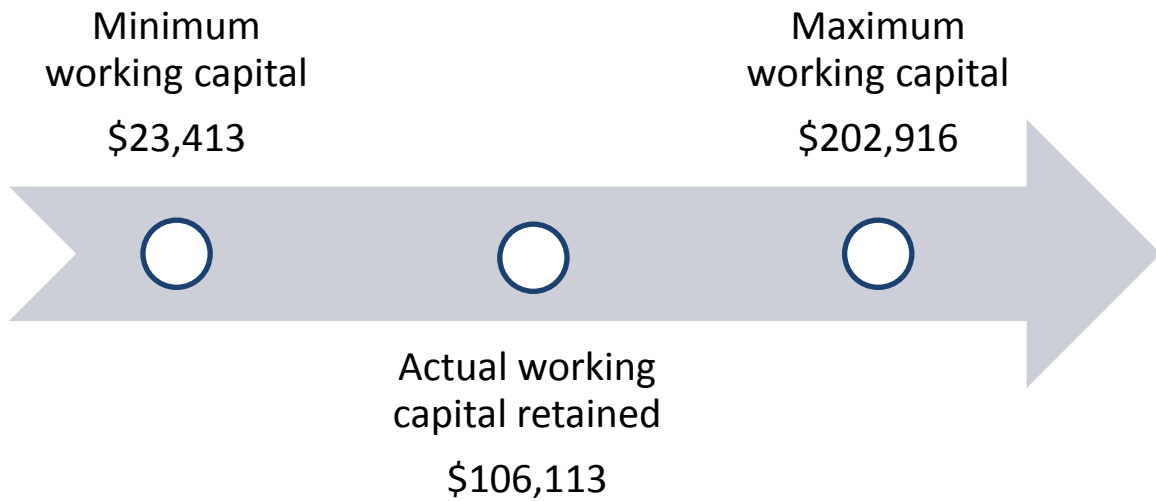
## WORKING CAPITAL

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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.*

Based on the existing rules, the Bertie County ABC Board is allowed to maintain a minimum working capital of \$23,413 and a maximum working capital of \$202,916. The actual working capital the board has retained in FY2017 is \$106,113.

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



## 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 Bertie County.

G.S. 18B-805 (c) (2) and (3) requires the board to distribute quarterly at least five percent of profits to law enforcement and at least seven percent (7%) of profits toward alcohol education or rehabilitation. Remaining profits are to be distributed as follows:

- Five percent (5%) of profits made by store in each incorporated town
- Ninety-five percent (95%) of profits to the Bertie County General Fund.

<b>Revenues Less Taxes and Cost of Sales FY2017</b>	
<b>Sales (Retail and Mixed Beverage)</b>	\$785,789
<b>Excise Tax</b>	\$173,303
<b>Mixed Beverage Combined</b>	\$788
<b>Rehabilitation Tax</b>	\$2,954
<b>Net Sales</b>	\$608,744
<b>Cost of Liquor Sold</b>	\$437,762
<b>Gross Profit</b>	\$170,982

	<b>FY2017 Calculation</b>	<b>Actual Distributions</b>
<b>Gross Profit (Taken from Above)</b>	\$170,982	
<b>Total Operating Expenses</b>	\$187,403	
<b>Income from Operations</b>	(\$16,421)	
<b>Income (Loss) Before Distribution</b>	(\$15,335)	
<b>3 ½% Minimum Distribution</b>		
• Bertie County (95%)	\$ -	Bertie County - \$4,926
• Town of Windsor (5%)		Town of Windsor - 259
<b>Law Enforcement</b>	\$ -	\$ -
<b>Alcohol Education</b>	\$ -	\$3,650



## STORE APPEARANCE

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Management has incorporated a shelf management or category management plan that follows guidelines specified in the NC ABC Commission rules and incorporated industry standards to maintain and increase profits. Products are placed within designated categories; premium products are found at eye-level or top shelf and value-added products are placed 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 available and displayed throughout the store using displays and additional gondolas. A made-in-North Carolina selection is available in a designated area and co-mingled within their brand category.

## OPERATIONAL AND ADMINISTRATIVE COMPLIANCE

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- Findings regarding the presentation of board meeting minutes as follows:
  - Board minutes do not reference a conflict of interest statement being read nor do they indicate if there were conflicts of board members
  - Board minutes do not clearly detail what transpired within the meeting. Minutes are vague in specific topics covered.

**REQUIRED ACTION:** *Have clear, concise, and detailed board meeting minutes reflecting what has transpired during the meeting. Have the board chairman read a conflict of interest statement provided in the NC ABC Commission Operations Manual. Notate the conflict of interest statement was read in the board meeting minutes.*

**CORRECTIVE ACTION TAKEN:** *The board has implemented a practice to read a conflict of interest statement at every meeting.*

- While inspecting, a random sample of approximately ninety-four items were selected to determine if uniform pricing is displayed. Of those selected, one was incorrect.

**REQUIRED ACTION:** *Conduct a routine check of shelf prices along with the register to ensure accuracy. All prices must match what is in the register, the shelf, and in the NC Liquor Quarterly, and/or memorandums. Refer to the ABC Commission's website to verify product pricing.*

**CORRECTIVE ACTION TAKEN:** *Management has implemented procedures that allow for continuous monitoring of pricing on the shelves and within the register.*

- The board follows the requirements of G.S. 18B-700 (k) whereas the board does not employ members of immediate family of the general manager and/or board members.
- Board members are appointed by the Bertie County Commissioners for three year terms. Board members are required to complete the NC ABC Commission ethics training within one year of appointment or reappointment.
- Board member appointment dates have not been updated with the NC ABC Commission. According to the NC ABC Commission website, one board member has an expired term.

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

**REQUIRED ACTION:** *If a board member has been reappointed, 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.”*

**CORRECTIVE ACTION TAKEN:** *Board appointment dates have been updated on the NC ABC Commission website. Ethics training will be provided in August 2019.*

- ABC Boards are required to submit forecasted budgets each year. A proposed budget is due by June 1 with the following adopted budget by July 1. The Bertie County ABC Board did not submit the proposed budget by the June 1<sup>st</sup> deadline.

**REQUIRED ACTION:** *Submit the required budget message and proposed budget before the June 1<sup>st</sup> deadline. G.S. 18B-702 (d) states, “ ... the budget officer shall prepare a budget for consideration by the local board in such form and detail as may have been prescribed by the budget officer or the local board. The budget, together with a budget message, shall be submitted to the local board, the appointing authority, and the Commission not later than June 1. The budget and budget message should, but need not, be submitted at a formal meeting of the board. The budget message should contain a concise explanation of the goals fixed by the budget for the budget year, explain important features of the activities anticipated in the budget, set forth the reasons for stated changes from the previous year in appropriation levels, and explain any major changes in fiscal policy.”*

**NO CORRECTIVE ACTION TAKEN**

- Liquor and miscellaneous purchases are approved in advance by the general manager and the finance officer. However, the pre-audit certificate is not found on the orders.

**REQUIRED ACTION:** *Place the pre-audit certificate with the finance officer’s signature on the orders before the transaction occurs. G.S. 18B-702 (m) state, “...the contract, agreement, or purchase order shall include on its face a certificate stating that the instrument has been pre-audited to assure compliance.”*

**CORRECTIVE ACTION TAKEN:** *Management has implemented procedures that will allow for sufficient oversight in the purchasing and disbursement function.*

- The board has appointed the bookkeeper as the finance officer. However, the bookkeeper is not aware of the appointment. The board meeting minutes do not indicate any appointment of finance officer.

**REQUIRED ACTION:** *Appoint a finance officer as required by G.S. 18B-702 (j). Provide the finance officer with duties and responsibilities as authorized by G.S. 18B-702 (k). G.S. 18B-702 (j) and (k) state, “Except as otherwise provided, 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. Good cause includes, but is not limited to, the fact that the board operates no more than two stores, and any approval for the general manager also to be the finance officer shall apply until the board operates more than two stores; in any event, the approval shall be effective for 36 months. The Commission may grant one or more waivers to a board.*

*(k) Duties and Powers of the Finance Officer. - The finance officer for a local board shall:*

- (1) Keep the accounts of the local board in accordance with generally accepted principles of governmental accounting and the rules and regulations of the Commission.*
- (2) Disburse all funds of the local board in strict compliance with this Chapter, the budget, preaudit obligations, and disbursements as required by this section.*
- (3) As often as may be requested by the local board or the general manager, prepare and file with the board a statement of the financial condition of the local board.*

- (4) *Receive and deposit all monies accruing to the local board, or supervise the receipt and deposit of money by other duly authorized employees.*
- (5) *Maintain all records concerning the debt and other obligations of the local board, determine the amount of money that will be required for debt service or the payment of other obligations during each fiscal year, and maintain all funds.*
- (6) *Supervise the investment of idle funds of the local board pursuant to subsection (t) of this section.*

*The finance officer shall perform such other duties as may be assigned by law, by the general manager, budget officer, or local board, or by rules and regulations of the Commission.*

**RECOMMENDATION:** *Clearly communicate with the bookkeeper the expectations of the board. Provide documentation of expectations through a detailed job description. It remains the board's responsibility to verify the accuracy of the financial statements on a monthly basis.*

- Approval certificate is provided on the checks. However, the finance officer does not sign the checks as required by G.S. 18B-702.

**REQUIRED ACTION:** *Place the approved certificate on all checks 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."*

**CORRECTIVE ACTION TAKEN:** *Management has implemented procedures that will allow for sufficient oversight in the purchasing and disbursement function.*

- Before fieldwork began, operational and administrative policies were not submitted to the NC ABC Commission. However, the board has since submitted copies of adopted policies.

**REQUIRED ACTION #4:** *As a reminder, submit policies to the NC ABC Commission prior to adoption. NCAC 15A .1102 states, "A copy of all rules or amendments thereto that may be adopted by a local board to govern the operation of ABC stores or the enforcement of the ABC laws shall be submitted to the Commission at least 15 days prior to the date on which it is proposed that those rules or amendments are to become effective."*

BERTIE COUNTY ABC BOARD

127 US Highway 13-17 S  
P.O. Box 97  
Windsor NC 27983



bertiecountyabcboard@gmail.com  
252-794-4959

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November 15, 2018

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

Dear Ms. McLean:

The Bertie County ABC Board has taken the recommendation given to us by the NC ABC Commission through its April 24, 2018 performance audit. These are the steps taken to improve those areas that require attention.

Solutions for Audit Recommendations

1. Profit to sales and operating cost ratio:
  - A. Bertie County ABC Board has changed computer and cash register vendor.
  - B. Will continue routine inventory count and spot checks.
  - C. Board members will only attend (1) conference per year, unless the board member is a state Association member.
  
2. Budget to Actual Analysis:
  - A. All budget amendments will be forwarded to the bookkeeper and the commission hence forward.
  - B. No money will be spent on items outside the actual budget.

3. Operational and Administrative compliance:

- A. The conflict of interest statement has been adopted and placed on the agenda to be read by all at each board meeting.
- B. Minutes of meeting will be clear and detailed.
- C. Prices will be monitored at the beginning of each month and also monitored routinely during each month.
- D. A list of board member appointment dates have been sent via email to the Auditor at the NC ABC Commission. There is one board member who is in need of Ethics Training. This will be done on August 7, 2018.
- E. A pre-audit system has been put in place to allow purchases and transactions.

We appreciate your recommendations and assisting us in improving the quality of the Bertie County ABC Board.

Sincerely,

William M Freeman -Chairman  
Miles Davis  
James Pugh