

# Belville ABC Board

## Performance Audit Report



Alcoholic Beverage Control Commission  
400 East Tryon Road, Raleigh, NC 27610  
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**ABC**  
COMMISSION  
NORTH CAROLINA

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# ABC COMMISSION NORTH CAROLINA

## Alcoholic Beverage Control

June 11, 2014

CHAIRMAN:  
JAMES C. GARDNER

Belville ABC Board  
Dr. Howard Armistead Jr., Chairman  
44 River Road  
Belville, NC 28451

COMMISSIONERS:  
JOEL L. KEITH  
Wake Forest

KEVIN M. GREEN  
Greensboro

ADMINISTRATOR:  
MICHAEL C. HERRING

Dear Chairman Armistead,

LOCATION:  
400 East Tryon Road  
Raleigh NC 27610

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

MAILING:  
4307 Mail Service Center  
Raleigh, NC 27699-4307

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.

PHONE: (919) 779-0700  
FAX: (919) 661-5927  
<http://abc.nc.gov/>

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 continuing efforts to reduce expenses and increase profits.

**Moniqua S. McLean**  
ABC Board Auditor

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

Respectfully,

Michael C. Herring  
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 store annual audit for the fiscal year 2012;
- Visited the stores;
- Interviewed key ABC board personnel.

## **BACKGROUND INFORMATION**

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Chapter 83 of the 1979 Session Laws authorized the Town of Belville to hold an election for an ABC store. The referendum was held on May 29, 1979 and passed 11 to 2. The first retail sale occurred on December 14, 1979.

Upon election of an ABC store, the town of Belville was authorized to create an ABC Board consisting of a chairman and two members. Current board members are Howard Armistead Jr., board chairman, Anthony Huskey and Joseph Henson, board members.

The Belville ABC Board operates two retail stores. The board staffs twelve employees consisting of five full-time and seven part-time employees. The general manager is responsible for the overall operations of stores including providing and maintaining sufficient inventory, supervising personnel and budget maintenance. Clerks are primarily responsible for providing friendly customer service, store upkeep, and stock maintenance. The board has hired an outside accounting firm to assist with monthly bookkeeping duties and payroll activities.

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

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On May 13, 2013, ABC Board Auditor, Moniqua S. McLean, visited the Belville ABC stores and interviewed Michelle York, general manager. The following are the findings, observations, 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 2012, the Belville ABC Board had gross sales of \$2,525,049; income from operations was \$112,326, a 4.45% profit percentage to sales.

Factors affecting sales and profitability:

- US Census Bureau reports an estimated population of 1,936 in 2010;
- Sales increased 7.2% over previous year;
- Surrounding counties and towns with ABC stores include New Hanover County, Brunswick County, Boiling Spring Lakes, Southport, Oak Island;
- Working population in the surrounding urban area contributes to increased sales in the rural area;
- Rental expense of \$67,800 affects profitability for the entire system;

### **RECOMMENDATIONS**

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1. Refer to recommendations under store appearance for methods that will increase profitability.
2. Closely monitor monthly overhead and business expenses. Request bids from vendors to ensure that the best price is offered for services provided, such as insurance, professional fees, some utilities, and bank/credit card charges.

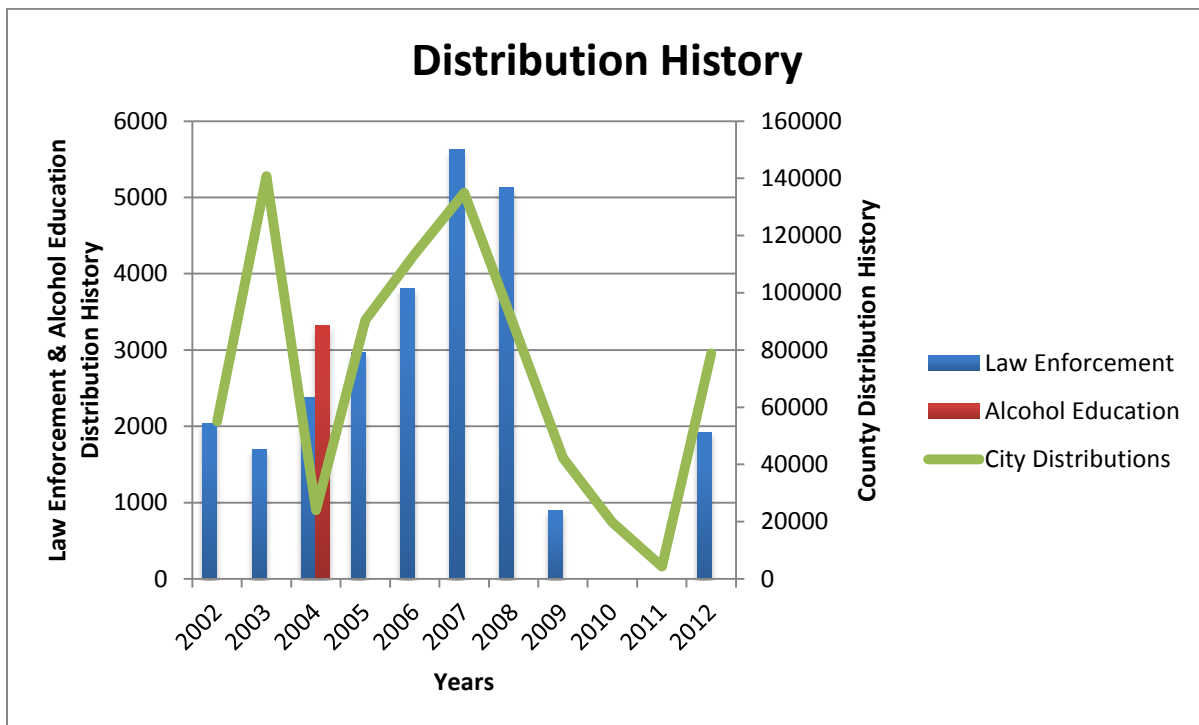
## DISTRIBUTIONS

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 rate to the appointing authority. In FY2012, Belville ABC made the minimum distribution to the town totaling \$74,059, plus additional distribution of \$78,776. \$568,671 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, and the town.

G.S. 18B-805(c) (2) and (3) requires the board to distribute at least five percent (5%) of profits to law enforcement and at least seven percent (7%) for alcohol education. Alcohol education distributions are not required by the board's enabling act. The remaining profits are to be distributed to the Belville General Fund of which the town shall spend at least seven percent for education and rehabilitation of alcoholics.

In FY2012, Belville ABC distributed \$1,915 to law enforcement.

Below is a distribution chart analyzing the high-low trend of the Belville ABC Board for the past ten years. Note: The dramatic drop in 2007-2011 is a result in the renovation of the main store and the opening of a new location.



## **WORKING CAPITAL**

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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 FY2012, Belville ABC had a working capital of \$89,026 which is equivalent to less than three months gross sales and is within the limits of NCAC 02R .0902.



## OPERATING COST RATIO

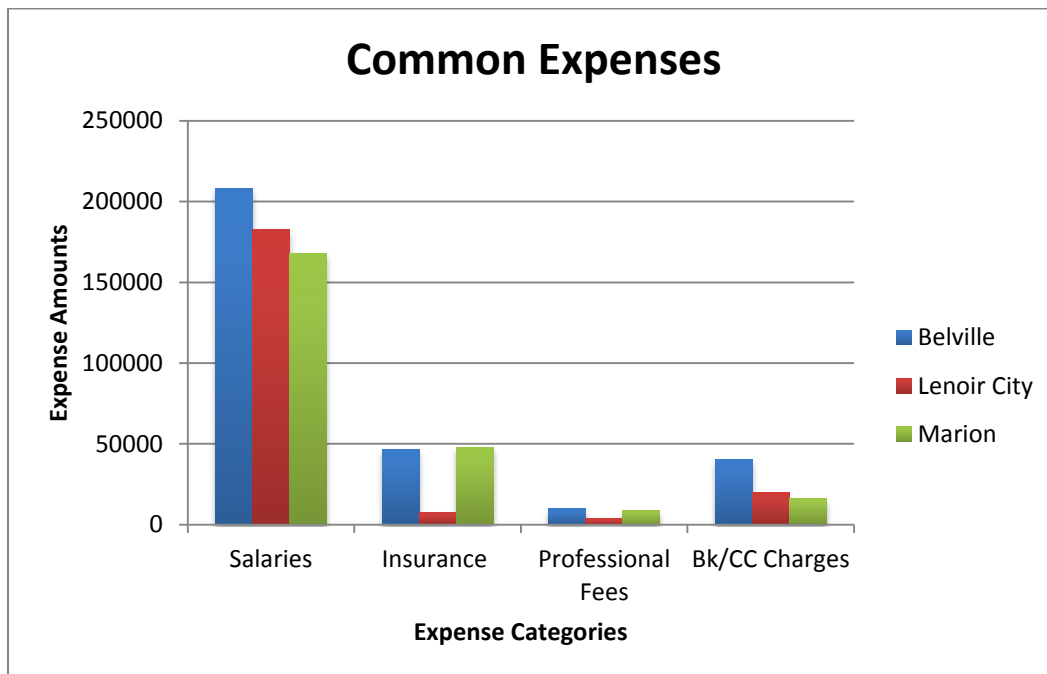
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Operating costs are calculated by dividing total operating expenses less depreciation by the gross profit on sales (Total Operating Expenses less Depreciation/Gross Profit). Below are the average cost ratios for boards with and without mixed beverage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

- 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 Belville ABC Board operates two retail stores with mixed beverage sales; the operating cost ratio is 0.77. In fiscal year 2012, sales increased 7.2% over fiscal year 2011 while overall expenses decreased 13.99% over the same time period. Note: Although the board has mixed beverage sales, much of the business is retail due to a county election that restricts mixed beverage account holders to purchase within specific parameters. The board rents both locations for approximately \$6300 total which contribute to increased overhead expenses.

A common expense analysis is found below. Excluding salaries, common expenses analysis indicates that Belville ABC's expenses are in line with other similar size boards. Bank fee/credit card charges increase as sales increase.



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## NO RECOMMENDATIONS

## **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 Belville ABC Board receives deliveries twice a month: the inventory turnover rate is 6.5. The average inventory turnover rate for similar boards with the same delivery schedule is 5.6.

## **NO RECOMMENDATIONS**

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## **STORE APPEARANCE AND CUSTOMER SERVICE OBSERVATIONS**

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The Belville ABC Board operates two retail stores with shelf space ranging from approximately 500 to 700 linear feet and carries an average of 1560 product codes. *Refer to pictures in Appendix A.*

- The Belville store was renovated in January 2008 and the Waterford store opened in October 2008.
- Both stores were clean and well-lit. 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. The Fetal Alcohol Syndrome poster is displayed in both locations.
- Current product placement generally follows the highest priced premium product on the top shelves and lowest priced or value product on the bottom shelves. Product displays are used where space permits and exhibit a variety of bestselling products. End caps at the Belville location display new items and premium items as to attract customers to impulse shop. *Refer to pictures on page 18.*
- Security systems are in place and functional.
- The state price book is available along with the monthly sales lists.
- Sales clerks' interaction with customers was attentive, courteous, and eager to meet the needs of customers.

## **RECOMMENDATIONS**

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1. Consider developing a strategy for product placement utilizing the latest marketing and industry standards. An efficient shelf management plan focuses on the growing market. Recommended practices are as follows:
  - a. Brand blocking products with bottles with mid-price, or premium products, at eye level, high-priced, or ultra-premium products, on top shelves and lower priced, value products, on lower shelves;
  - b. 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;
  - c. Reallocating shelf space from declining categories to those showing growth;
  - d. Allow more space for your more popular brands and re-allocating space when eliminating underperforming brands.
2. Contact other boards and suppliers for additional ideas that may be implemented in areas of shelf management and marketing techniques.

## **PERSONNEL AND TRAINING**

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- All board members and general manager have attended the initial mandatory ethics class.
- Training is provided as new information becomes available to new and current staff. Management encourages ongoing product knowledge training for all employees to better assist with customer interests.
- Cross training opportunities have been extended to key employee in the event the general manager was suddenly unavailable.
- Personnel files are available for all employees, past and present, and display human resource documentation and other personnel as needed.

## **RECOMMENDATIONS**

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## ABC BOARD POLICIES

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- Policies adopted and submitted to the Commission include:
  - Code of Ethics
  - Travel Policy (State Policy)
  - FY2012 Annual Audit
  - FY2013 Budget (Proposed and Adopted)
  
- Policies not adopted include:
  - Law Enforcement Contract
  - Mixed Beverage Policy
  - Price Discrepancy Policy
  - Employee Handbook

## RECOMMENDATIONS

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1. 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 B (1) for statute.*
2. Adopt a mixed beverage policy that details customer friendly and flexible ordering and pickup guidelines. The Commission expects excellent service to be provided to all customers coming into local ABC Boards. Once adopted, submit a copy to the Commission.
3. Adopt a price discrepancy policy that incorporates customer friendly practices. *Refer to Appendix B (2) for rule.*
4. Adopt an employee handbook that outlines the duties and responsibilities of each employee, board policies, and benefits offered, if any. Once adopted, submit to the Commission. *Refer Appendix B (3) for rule.*

## **INTERNAL CONTROL PROCEDURES**

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- Physical inventory counts are performed weekly by category by whoever is scheduled to work. If discrepancies occur, the general manager and store manager will investigate and recount for accuracy and verification. Once completed, the general manager and store manager will adjust the system to match with the actual store count. Unsalable items are adjusted whenever the sales representatives sign off.
- Out of an average of 1560 product codes in each store, approximately 160 were sampled and one did not reflect the correct price.
- Cash drawers are counted by clerks. All clerks are responsible for their own cash drawer. Bank deposits are made regularly as required by the ABC Commission. Bank notification is received and matched with corresponding daily register reports. Bank reconciliations are completed at the end of the month by the accountant. Although understood, a cash drawer overage and shortage policy has not been adopted should instances occur.
- The master payroll activity report is verified by the general manager. The accountant's software calculates tax and other withholdings. All payroll reconciliations are completed by the accountant.

## **RECOMMENDATIONS**

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1. 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.
2. Adopt a written cash shortage and overage policy. While this is understood, it is good business practice to have written procedures in place for current and future employees. Once adopted, submit a copy to the Commission and include in the employee personnel manual.

## **ADMINISTRATIVE COMPLIANCE FINDINGS AND OBSERVATIONS**

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- Board meeting minutes were viewed and followed the order of proceedings for conducting business meeting. However, the conflict of interest statement was not referenced.
- Board member 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 and general manager are bonded for \$50,000 as required by G.S.18B-700 (i).
- A finance officer other than the general manager has not been appointed as required by G.S. 18B-702(j).
- Although liquor orders do not bear the pre-audit certificate, each individual vendor invoice has the pre-audit certificate and is signed by the finance officer. Other common orders are accompanied with a purchase order and are signed by the finance officer.
- All checks bear the approved certificate and are signed by the finance officer/ general manager and a board member. The store manager and another board member are also authorized to sign checks.

## **RECOMMENDATIONS**

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1. Have the board chairman read the conflict of interest statement to all board members at the start of each meeting. Reference the conflict of interest statement was read in the board minutes. *Refer to Appendix B (4) for rule.*
2. Appoint a finance officer other than the general manager or ask the Commission for a one year exemption. *Refer to Appendix B (5) for statute.*

## **AUDITOR'S SUMMARY**

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ABC Board Auditor, Moniqua S. McLean, presented to the board the performance audit report and recommendations on August 20, 2013. The Belville ABC Board responded to the performance audit recommendations, found on page 17, and continues to explore different strategies to maintain profitability while reducing and maintaining operating expenses. Pertinent policies and procedures have been addressed but a formal response as to whether or not they have been implemented and/or adopted has not been forwarded to the Commission. The Commission encourages the Belville ABC Board to address the areas of improvement noted in the audit in order to fully realize the opportunities for improved performance.



# Belville ABC

*44 River Road*

*Belville, NC. 28451*

*(910) 371-3383*

**March 4, 2014**

**Ms. Monqiuia S McLean, MAFM  
North Carolina ABC Commission  
4307 Mail Service Center  
Raleigh, North Carolina 27699-4307**

**Ms. McLean,**

**We, the board members and managerial staff of Belville ABC  
would like to thank you for visiting our store. We are satisfied with the  
performance audit, and have no questions at this time.**

**Sincerely,**

**Howard Armistead, Board Chairman  
Anthony Huskey, Secretary  
Joe Henson, Board Member  
Michele Ford York, Supervisor**

**RECEIVED**

**MAR 04 2014**

**NC ABC COMMISSION**

## APPENDIX A

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*Counter view at the Belville store*



*Interior view at the Belville store*



*Counter view at the Waterford store*



*Interior view at the Waterford store*

## APPENDIX B

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- (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) 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."
- (3) NCAC 02R.1009 (a) states, "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.
- (4) 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.'*"
- (5) GS 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."