

Bryson City ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA

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ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

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March 3, 2023

Bryson City ABC Board
Montaville Clampitt, Chair
254 Veterans Blvd
Bryson City, NC 28713

Chairperson Clampitt,

On the following pages, you will find the performance audit report conducted by the staff of the ABC Commission reviewing the operations of the Bryson City ABC Board. The report consists of an overview of the objectives & background summary, financial analysis and findings, and a summary of actions recommended based upon your board's performance and related findings. Additional considerations are listed as well to provide further guidance and enhance awareness to promote ABC board success.

Please reach out if you have any questions or require assistance in implementing any of the statute requirements, Commission rules, or other recommendations included in the report. On behalf of the North Carolina ABC Commission, I thank you and your staff for your assistance and cooperation in conducting this periodic review. We appreciate the continued efforts by your board to comply with the performance standards, as well as the board's commitment to increase profitability and reduce expenses.

If we can be of assistance in the future, please do not hesitate to reach out to the Commission staff.

Respectfully,

Michael DeSilva
Deputy Commissioner

OBJECTIVE, PURPOSE & BACKGROUND INFORMATION

In addition to regular and special financial audits, G.S. 18B-705(a) authorizes the NC 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 audit's 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
- Verify compliance with Commission and Board policies
- Verify results of previous performance audit recommendations
- Review ABC Board annual independent financial audits
- Review ABC Board reporting and documentation reports
- Visit the store(s)
- Interview key ABC Board personnel

Located in Swain County and home to the Great Smoky Mountains Railroad, Bryson City is surrounded by scenic views of the Great Smoky Mountains in the north, Cowee Mountains in the south, and the Plott Balsams in the east. The first FM radio station, WTIJ-LP (100.7), was launched in 2015 which broadcasts local and nationally syndicated ministers and Christian music. In 2020, the town's population per the Census was approximately 1,558 residents which increased roughly 10% since 2010.

Chapter 211 of the 1979 Session Law authorized the town of Bryson City to hold an election for an ABC store. The referendum was held on June 9, 1979, and it passed 297 to 280 with the first retail sales on August 1, 1979. A mixed beverage election was held on August 20, 1991, and it passed 286 to 109. Since formation, the Town of Bryson City appoints a chairperson and two (2) additional board members to serve for three-year terms on the ABC board.

The Bryson City ABC Board currently operates one (1) retail store. The board staffs approximately seven (7) total employees including five (5) full time employees and two (2) part-time personnel. The general manager / is responsible for the daily store operations including supervising personnel, inventory management, and various retail functions. The finance officer provides the general manager/budget officer and the board with fiscal management, administrative support, and assist with routine operations of the ABC stores. Sales associates handle retail functions including selling product, inventory, and providing customer service.

The last performance audit for the Bryson City ABC Board occurred in 2012. The Commission audit serves as a continuous way to provide local boards with information and best practices that target areas for improvement.



OPERATIONAL OBSERVATIONS, FINDINGS, REQUIRED ACTIONS, & RECOMMENDATIONS

On Tuesday, Wednesday, February 1, 2023, ABC Board Program Analyst Quinn Woolard, visited the Bryson City ABC Board and interviewed Michael Perry (General Manager) and Jeremy Radcliffe (Training Manager). Below is a financial analysis followed by operation observations, findings, and recommendations related to the performance audit.

FINANCIAL ANALYSIS

PROFIT PERCENTAGE TO SALES & OPERATING COST RATIO

In fiscal year (FY) 2021-2022, the Bryson City ABC Board had a profit percentage to sales of 12.43%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales more than \$2M but less than \$10M is 6.5%. The Bryson City ABC Board's gross sales totaled \$3,178,908, which was a 2.7% decrease from the previous fiscal year.

The operating cost ratio for the Bryson City ABC Board was .48 in FY 2021-2022. The NC ABC Commission standard for ABC Boards with one or two stores and mixed beverage sales is .73 or less.

Thus, the Bryson City ABC Board far surpassed the profitability standards and the operating cost standards set by the NC ABC Commission. Below is a chart showing gross profit on sales and income from operations for the previous two years.

	FY 2021-2022	FY 2020-2021
Gross Profit on Sales	\$790,634	\$801,779
Income from Operations	\$395,088	\$425,976

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores within an approximate twenty (20) mile range of Bryson City ABC: Jackson County ABC operating one store within range; Tribal ABC Commission is within range; the next closest ABC boards are twenty-five (25) or more miles away from Bryson City ABC.

- An ABC Board’s average cost of goods sold (COGS) is between 52% & 54% per year. The Bryson City ABC Board’s cost of goods sold was approximately **52.0%** in FY 2021-2022.
 - *Mixed beverage sales were roughly 12% of total sales in FY-2022, and there are currently around fifteen (15) mixed beverage customers.*

BUDGET ANALYSIS

	FY 2021-2022 Budget Projections	FY2021-2022 Actual	Variance	Variance %
Sales	\$3,366,600	\$3,178,908	(187,692)	5.6%
Total Expenditures (to include Distributions)	\$3,346,858	\$3,176,476	170,382	5.1%

In reviewing the budget to actual analysis of the FY 2021-2022 financial audit, actual sales revenues were under budgeted projections by 5.68%. In addition, total expenditures were below budget by 5.1%. Overall, revenues over expenditures were reflected as \$2,500 for the fiscal year period. The chart above shows the final budget to actual amounts and the appropriate positive or negative variances. *The board’s ending net position on June 30, 2022, was around \$835k; the net position has steadily risen over the last five (5) fiscal years, increasing over 15% during this period.*

DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, and rehabilitation taxes. G.S. 18B-805(c)(2) requires the board to distribute at least five percent (5%) of applicable gross receipts to law enforcement and at least seven percent (7%) for alcohol education. *Before assigning these percentage distributions, G.S. 18B-805(c)(1) requires the board to first make a minimum quarterly distribution of the 3.5% markup & relevant bottle charges to certain county/municipal recipients.*

Some of these specific recipients are designated by an official local enabling act (and thus will vary).

In FY 2021-2022, Bryson City ABC made other statutory distributions totaling \$388,941 (Net profit distribution recipients received \$352,372 of this). The amount of \$735,172 in primary distributions and other taxes were paid to the NC Department of Revenue (NCDOR), NC Department of Health & Human Services (NCDHHS), and the county commissioners of Swain County.

The net profits are to be distributed as follows per the current local enabling act:

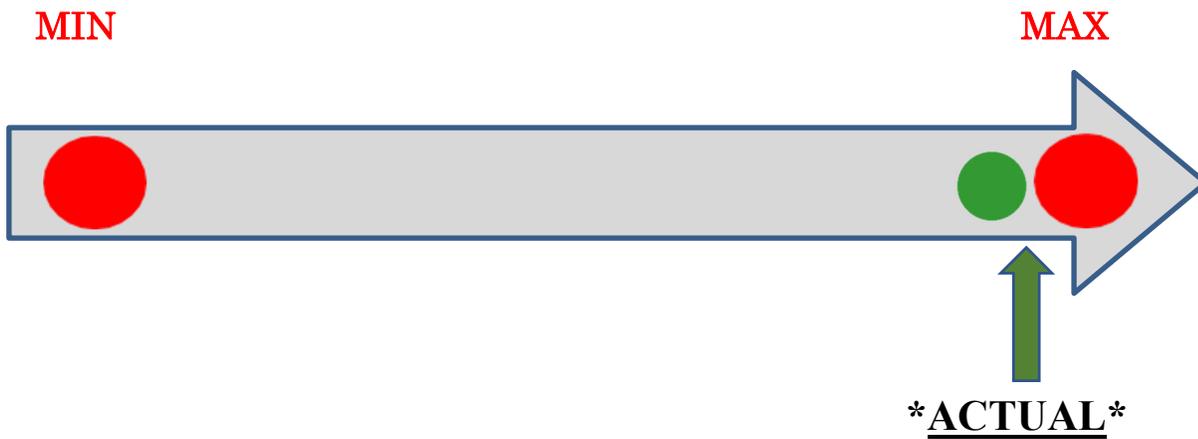
- Ninety percent (90%) to Bryson City General Fund
- Ten percent (10%) to parks & recreation in Bryson City

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. The NC ABC Commission has set a working capital standard for boards with annual gross sales greater than \$1.5M yet less than \$50M an amount equal to three (3) months of sales revenue.

Based upon the existing rules, as of June 30, 2022, the Bryson City ABC Board is required to maintain a minimum working capital of \$94,019 with a maximum working capital amount of \$611,124. The Bryson City ABC Board had a working capital balance of \$611,124, which falls within the Commission requirements for this section (*).

*** FY 2021-2022: *Working Capital (WC) graphic***



Over the last five (5) years, the board has done very well to ensure the working capital is very close to the maximum allowance providing excellent financial solvency.

Under 18B-805(d), with approval of the appointing authority for the board, the local board may set aside a portion of the remaining gross receipts as a fund for specific capital improvements whenever working capital is exceeded.

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE

The findings for personnel, operational & administrative compliance are as follows:

- The board holds board meetings the third Wednesday of each month at 6:00 PM, records regular meeting minutes, and provides public notification and awareness of these meetings. The meeting minutes are organized in a folder for review and have the conflict-of-interest disclosure statements and discussion. *The minutes provided have the conflict-of-interest disclosure statements and discussion, and they are routinely being signed by the Chairperson.*
 - Training records review: All board members are compliant on ethics training. Currently, one member must complete the training by June 2023 based on a July 2022 reappointment.
 - Board member compensation & General Manager (GM) Salary: Board member compensation fully adheres to statute requirements as does the GM salary.
 - Board website review: The board's login website had some outdated information particularly for board member term tenure information (*begin dates & end dates*). **Special note: As part of a revalidation effort, the Commission has worked to revalidate term tenure information for all ABC boards across the state, working directly with the appointing authorities. As a value-added measure for all ABC boards and Commission records tracking in 2022, the term begin dates as well as term end dates were entered on all individual ABC board websites.**
 - *The expectation going forward is that ABC boards will better manage this information online, and work to communicate with the Commission specifically when new members are added, or whenever any current serving members resign before a term has ended.*
 - Board Personnel & Board Members: The general manager provides board members with monthly sales information and previous year's applicable sales. The finance officer provides various financial reports for the board's review; among these are spreadsheets and profit & loss statements. Board members are heavily encouraged to use checks and balances to ensure that cash management practices are upheld; also, boards should routinely review any notes and recommendations provided by the CPA firm on annual audits.
 - Current general manager (GM) is retiring later in 2023, and the training manager is slated to become the new GM in June 2023.
- POLICIES: The board has a personnel policy manual, but the Commission had no electronic copy.
 - Commission personnel need to obtain an electronic copy of the MXB policy and an updated personnel / policy manual when it is available.
- BUDGETS: The FY-2022 actual gross sales were below budgeted projections. The board amended the budget in May 2022 and provided a copy to the Commission. For current fiscal year 2023, the board is on track with projected sales per budget.
- FINANCIAL INSIGHT: The finance officer is signing checks as required per statute with the General Manager or one of the other board members as secondary signature. Invoice records for recent liquor purchases reflect them as being paid routinely inside of 30 days. Taxes and distributions are paid in a routine and timely manner. *Finance officer is contracted and works locally in town.*
 - Finance officer provides a QuickBooks backup of information to the general manager on a quarterly basis.
 - Pre-audit certificate is routinely being stamped on the orders at the time they are placed; Checks bear the required disbursement certificate.
 - All board members & applicable personnel are each bonded for \$50,000 per NCGS 18B-700(i).

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- Bank deposits are made daily per review of bank statements and discussion with the general manager and manager trainee. For safeguard measures and adherence to *Commission rule 15A .0905 Daily Deposits*, the board utilizes a locked fireproof safe for integrity of funds that remain at the board at any given time.

➤ **STATUTORY DISTRIBUTIONS:**

- Net Profit Distributions: The Bryson City ABC board has been routinely making well above the minimum required net profit distributions. **Over the last five (5) years, the board has made generous net profit distributions which doubled & sometimes tripled the minimum calculated annual amount required by statute. Reference table below – the left side is CPA calculated amount & right side is amount distributed to town by Bryson City ABC Board.**
- Law Enforcement distributions: Have been properly disbursed at the five percent (5%) statute amount or higher.
- Alcohol Education distributions: Have routinely been disbursed at the seven percent (7%) statute amount or higher. Mountain Projects received dollars over the last fiscal year. No documentation could be found from the recipient on how they utilized the funds.

NC GENERAL STATUTE: 18B-805 (c)(1)			
Calculation of Minimum Mandatory Distribution for Net Profit to Designated Recipients		Bryson City ABC Board Net profit distribution made annually by fiscal year	
<i>Note: Referencing CPA Audit Reports</i>			
		Recipients by law: Town	
FY-2022	\$90,337	FY-2022	\$352,372
FY-2021	\$93,080	FY-2021	\$294,000
FY-2020	\$72,725	FY-2020	\$163,431
FY-2019	\$65,097	FY-2019	\$200,000
FY-2018	\$61,649	FY-2018	\$190,000

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- **LAW ENFORCEMENT (LE) REPORTS:** Law enforcement (LE) reports have been submitted routinely over the last several years without question. The reports contain suitable statistics and figures where applicable. *A good tip for awareness is to be sure reports are always placed in a "Final Submitted" status on the website when data is entered.*
- **LAW ENFORCEMENT (LE) CONTRACT:** Commission records reflect an outdated law enforcement contract on file. The board will likely need to engage in a new contract with the Bryson City Police Department, and a template copy will be provided to expedite.
- **INVENTORY:** Store inventories are conducted monthly whenever possible with intermittent spot checks. Trucks are received two times per month. Handheld inventory scanners are used for efficiency in operations. *The board could consider adding shelving in the larger warehouse space to lessen employee injury potential and better organize product.*
- **INTERNAL CONTROLS / CONTINUITY OF OPERATIONS:**
 - The board has had a long-term external finance officer who has been well adept at ensuring taxes and liquor invoices are paid on time.
 - The general manager plans to retire over the next year, and a current employee is in a training manager role for the position.
 - The Chairperson is well tenured on the ABC Board and is well engaged in the business operations of the store.
- **EXPENSES:**
 - Total expenses increased a reasonable five percent (5%) over the last fiscal year.
 - Board personnel payroll / salaries was roughly six and one-half percent (6.5%) of total sales. Payroll/salaries increased roughly ten percent (10%) from the previous fiscal year.
 - Cost of Goods Sold (COGS) was a reasonable 52% for the fiscal year. With the ample warehouse space, the board can consider taking advantage of more buy-ins to reasonably reduce liquor costs.
 - The board is in an excellent position on working capital to consider store upgrades.

STORE INSIGHT & OVERVIEW

The findings for store insight & overview are as follows:

- The store is located near the highway and in a great location within the town. Retail space is moderate, and the sales counter has a modern feel. The store could benefit from a remodel with new shelving and flooring. Warehouse space is very expansive in general for liquor inventory. The store's inventory turnover is pretty reasonable, and the board has taken advantage of some buy-ins / special purchase allowances (SPAs).
- The board has around seventeen (15) MXB customers as of January 2023. None of the business customers are interested in delivery service. Thus, the board has already requested an exemption with the Commission - Referencing Rule 15A . 1903 Delivery of MXB Permittee Orders.
- Besides closing on the five (5) required annual holidays and every Sunday, the board opts to close sometimes the day after Christmas.
- The store displays the required Fetal Alcohol Syndrome poster required by G.S. 18B-808.
- North Carolina products have their own section as required by law and are also cross merchandised according to product category.
- Products are placed within the designated categories; premium products are found at eye-level or top shelf. *Some occurrences were found with various bottle sizes of the same products increasing appropriately from left to right. Some sections of the store have product size increasing from right to left.* Bottles were fronted and dusted.
- Outside area surrounding the store is well-maintained and free of debris or trash.
- Security systems are in place and functional in all designated areas.
- Sales associate interactions with customers are attentive, courteous, and all are eager to meet the needs of the customers.
- A random sample of approximately 100 items were selected to determine if uniform pricing is displayed. Of those selected, every shelf item displayed the correct quarterly or monthly SPA price.

RECOMMENDED ACTIONS (PER STATUTES, RULES, OPS MANUAL)

- ABC Boards are required to operate within a balanced budget each fiscal year. Budget amendments must be approved by the board before any funds are transferred between accounts and utilized, occurring at the actual point of time an adjustment of funds is necessary. This would include the point in time during the fiscal year when the board will exceed its annual forecasted sales budget. *Ensure budget amendment copies are submitted to the ABC Commission as required per NCGS 18B-702(h), to include a final reconciliation budget amendment for the fiscal year end.*
- A Code of Ethics policy should be adopted and forwarded as soon as possible [*Referencing G.S. 18B-706*]. *If the board has an existing copy available, please forward to Commission personnel.*
- Due to new town officials (police chief), the board needs to draft a new law enforcement contract with Bryson City Police Department and provide a copy to Commission personnel *per G.S. 18B-501(f)*.
- In connection with the periodic audit, a Certificate of Accountability attestation form should be reviewed and signed by applicable board members/personnel, and email to Commission personnel for records.
- Local boards shall establish and maintain a shelf management plan *per Commission Rule 15A .1708 Shelf Management*. The board needs to work to rearrange liquor inventory on the shelves to follow shelf management requirements, in particular ensuring bottles increase in size from left to right.
- Ensure all policies are submitted to the Commission prior to official board approval in connection with Rule NCAC 15A .1102. *The board is asked to please forward an electronic copy of the most recent version of the personnel manual once updates are completed. An electronic copy of the mixed beverage (MXB) policy should be forwarded also.*
- The recipients of alcohol education distributions must provide annual documentation to the board describing the activity for which these awarded funds are spent *per G.S. 18B-805(h)*. *The board may want to consider obtaining documentation before the funds are officially awarded / transmitted to any recipients.*

ADDITIONAL CONSIDERATIONS & GUIDANCE

- The Commission's primary focus for ABC boards & board members:
 - ABC board members are highly encouraged to meet monthly for the best formal oversight and review of board operations, routinely recording meeting minutes (*adhering to closed meeting requirements where applicable*) and ensuring either no conflicts of interest are present or that they are addressed appropriately when presented. Monthly sales should be reported to the Commission at beginning of next month, providing annual budgets, budget amendments, miscellaneous financial reporting to Commission following timelines, and ensuring Commission has annual CPA audits by Oct 1st.
 - ABC board members *must* complete ethics training within one (1) year of each appointment and following every reappointment as well. *General managers, finance officers (and any applicable deputies) have a one-time training requirement for ethics training but are also encouraged to complete training periodically as a good refresher (or other any personnel interested).*
 - ABC boards are highly encouraged to keep term begin dates & term end dates updated on the Commission's board login website for all ABC board members and other information such as store hour changes, pictures, email updates, etc. *Moreover, liaising with the Commission when new members are appointed or when member resign early before term has ended is very important for recordkeeping efforts of the Commission.*
- ABC boards are highly encouraged to find straightforward ways to lower any recurring expenses. *A very tangible way to lower operating costs is to fully maximize monthly special purchase allowance (SPA) liquor products that routinely sell well in the store to lower cost of goods sold (COGS).* ABC Boards can limit the number of personnel travelling to conference and convention events across the state. Other ways to try to improve expenses include requesting bids annually from various vendors to get the best rates possible on financial audits, various utilities, maintenance contracts, and *credit card processing companies.*
- ABC boards are encouraged to closely review financial statements monthly, comparing with the annual budget forecast, approving budget amendments when necessary and submitting copies to the Commission for anticipated sales increases as well as other adjustments for budgeted accounts.
- Cross training opportunities for personnel should be maximized to ensure solid continuity of operations occurs for ABC boards. Also, training opportunities can work well to develop store employees for increased responsibility roles and serving to make both the routine operations and employee morale stronger.
- NCAC Rule 15A .1701 requires quarterly reports be submitted for any unsaleable merchandise (breakage) and retain original copies for three (3) years. *All breakage reports should only be transmitted via email submission to Commission staff; copies should not be mailed.*
- As a reminder, remove all faded posters and replace with new ones when applicable. Reach out to the Commission to provide fetal alcohol syndrome posters, NC Dept of Labor can provide wage & hour posters, and OSHA can provide some applicable federal posters if any are needed.
- ABC boards can explore additional training opportunities periodically available through the ABC Commission as well as partnering with other ABC boards on specific areas such as best retail and marketing practices.

Please network with the ABC Commission whenever needed for guidance and assistance to support local ABC board mission and success.

**Bryson City
ABC**

March 03, 2023

Dear Mr. Woolard,

Thank you for all your insights and suggestions. We enjoyed your visit and look forward to seeing you again in the future. Please see our plan of action and again thank you.

Item 1: Budget Amendment

All budgets and amendments are submitted in a timely matter.
All recommendations will be followed.

Item 2: Meeting Minutes

No issues discussed.
All recommendations will be followed.

Item 3: Ethics Training

All are up to date and aware of when training is due. Board members and new GM to have training completed by June
All recommendations will be followed.

Item 4: Policies

We are working on updating all policies and will submit copies to the commission as soon as completed. This is including the contract for law enforcement.

Item 5: Alcohol Education/ Research Funds

Going forward we are asking for these agencies to provide documentation on how the funds are used.

All recommendations will be followed per NCGS 18B-805(h).

Item 6: Code of Ethics & Certificate of Accountability

An updated Code of Ethics & Certificate of Accountability has been signed and in the process of being submitted.

Item 7: Pre-audit certificates on liquor orders

Since your visit and going forward we have implemented this.

The board will ensure pre-audit certificates are present on liquor orders to adhere to NCGS 18B-702(m).

Item 8: Certificate of Accountability (COA) form

The board has signed and in the process of submitting a COA form.

Item 9: Shelf management plan

All products have been reset per requirements with bottles increasing in size from left to right.

Sincerely,

Montaville Clampitt, Chairman / GM
Bryson City ABC Board