

Woodfin 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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April 27, 2023

Woodfin ABC Board
Donald Millsaps, Chair
142 Weaverville Rd
Asheville, NC 28804

Chairperson Millsaps,

On the following pages, you will find the performance audit report conducted by the staff of the ABC Commission reviewing the operations of the Woodfin 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

The Town of Woodfin is located north of Asheville in Buncombe County along the Interstate 26 corridor. It is the only municipality bearing this name in the country. While the town was incorporated in 1971, the community itself dates to at least the mid-19th century. Since the 1990s, the town has experienced new residential growth following an economic decline in the 1970s and 1980s. Today, the economy is comprised of large and small-scale manufacturing. In 2020, the Town's population per the Census was approximately 7,936 residents which increased close to 30% since 2010.

NC General Statute 18B-601(c) authorized the town to hold an election for an ABC store. The referendum was held on May 2, 2006, and it passed 286 to 181. A mixed beverage election was held the same date and passed 288 to 181. The first retail sale occurred on July 19, 2007. *Currently, the Town of Woodfin appoints a chairperson and two (2) additional board members to serve on the ABC board.*

The Woodfin ABC Board currently operates one (1) retail store. The board staffs approximately eight (8) total employees. These include four (4) full-time employees and four (4) 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 associate responsibilities include selling products, daily stocking, and floor upkeep & maintenance.

The last performance audit for the Woodfin ABC Board occurred in 2014. 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, February 28, 2023, ABC Board Program Analyst Quinn Woolard, visited the Woodfin ABC Board and interviewed Tammy Ballew (General Manager), Joan Morris (Finance Officer) and Board Member Thomas Spradling. Chairman Millsaps was interviewed by phone on February 24, 2023, ahead of the visit. 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 Woodfin ABC Board had a profit percentage to sales of 5.33%. 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 Woodfin ABC Board's gross sales totaled \$2,593,302, which was a 7.7% decrease from the previous fiscal year.

The operating cost ratio for the Woodfin ABC Board was .71 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 Woodfin ABC Board did not reach the profitability standard yet did meet 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	\$634,651	\$682,964
Income from Operations	\$138,230	\$222,195

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores within an approximate ten to fifteen (10-15) mile range of Woodfin ABC: Asheville ABC – most of their stores are operating within range and Weaverville ABC operating one store.
- An ABC Board's average cost of goods sold (COGS) is between 52% & 54% per year. The Woodfin ABC Board's cost of goods sold was approximately 53.0% in FY 2021-2022.
 - *Mixed beverage sales were roughly two percent (2%) of total sales in FY-2022, and there are currently three (3) mixed beverage customers.*

BUDGET ANALYSIS

	FY 2021-2022 Budget Projections	FY2021-2022 Actual	Variance	Variance %
Sales	\$2,597,925	\$2,593,302	(4,623)	0.17%
Net Income		\$63,830		

In reviewing the budget to actual analysis of the FY 2021-2022 financial audit, actual sales revenues were very slightly under budgeted projections by 0.17%. In addition, net income for the fiscal year was \$63,830. 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 \$777k; the net position has steadily increased over the last five (5) fiscal years, and the FY-2022 figure reflects the board's highest overall net position during the five-year 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, Woodfin ABC made other statutory distributions totaling \$74,400 (Net profit distribution recipients received \$60,000 of this). The amount of \$583,844 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 Buncombe County.

Per the local enabling act, the distribution formula for recipients of net profits is as follows:

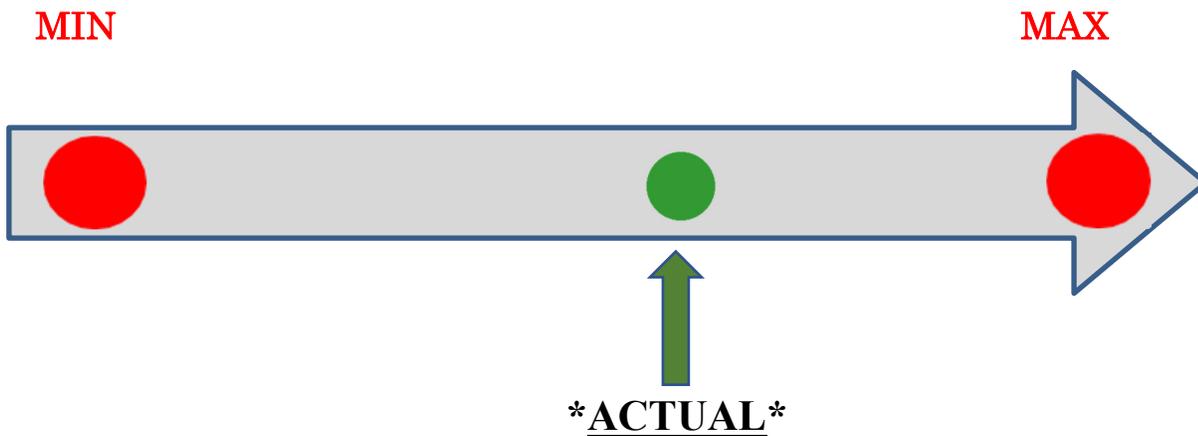
- One hundred percent (100%) to Woodfin General Fund

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 Woodfin ABC Board is required to maintain a minimum working capital of \$77,287 with a maximum working capital amount of \$502,365. The Woodfin ABC Board had a working capital balance of \$363,873, which falls within the Commission requirements for this section (*).

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



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 Monday of each month at 4:00 PM, records regular meeting minutes, and provides public notification and awareness of these meetings. The meeting minutes are organized in a folder for review. *The minutes provided have the conflict-of-interest disclosure statements referenced and are signed by the Chairperson.*
 - Training records review: Board members and personnel are compliant on ethics training. However, one board member is due by June 2023 based on July 2022 appointment to the board.
 - 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 was outdated 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 summer 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 particularly 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 and operational concerns. The finance officer provides various financial reports for the board's review; among these are spreadsheets and profit & loss statements. Board members will rotate for the second signature on checks, and the finance officer continually makes financial records and direct deposits available for review. Board members are heavily encouraged by the Commission 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.
- POLICIES: The board has a personnel policy manual. The Commission does not have a copy of the personnel policy manual but a signed copy of the code of ethics was provided during the visit.
- BUDGETS: The board exceeded original budgeted sales in FY-2022 during the month of May 2022; thus, a budget amendment was adopted in advance during April 2022 and forwarded to the Commission. *For the current fiscal year, the sales to date are tracking along well based on the FY-2023 budget.*
- FINANCIAL INSIGHT: The finance officer is signing checks as required per statute with the General Manager or the Chairman / Board Member as secondary signature. Invoice records for recent liquor purchases reflect them as being paid routinely well inside of 30 days. Taxes and distributions are paid in a routine and timely manner. The board uses QuickBooks for routine journal entries.

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- Bank deposits are routinely made each business day per review of bank Statements and discussion with the finance officer. 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.
- Payroll is processed and direct deposited by the finance officer through QuickBooks. Board members will alternate review of monthly financial records and signing checks.
- The pre-audit certificate is not stamped on the orders at the time they are placed; however, board checks bear the disbursal certificate.
- All board members and applicable personnel are each bonded for \$50,000 per G.S. 18B-700(i).

➤ **STATUTORY DISTRIBUTIONS:**

- Net Profit Distributions - The Woodfin ABC board worked to finance the warehouse expansion with internal funds incurring no bank loans. Thus, the board had approval from the Town of Woodfin to withhold some net profit distribution funds over the last few years. **The table below references distributions calculated by CPA and distributions made by the ABC Board for the last five (5) years.**
- Law Enforcement Distributions: Have been properly disbursed at the 5% statute amount over the last five (5) fiscal years.
- Alcohol Education Distributions: Have been properly disbursed at the regular 7% statute amount over the last five (5) fiscal years. The recipients have not been providing documentation to the board on how these funds are spent in connection with NCGS 18B-805(h).

NC GENERAL STATUTE: 18B-805 (c)(1)			
Calculation of Minimum Mandatory Distribution for Net Profit to Designated Recipients		Woodfin ABC Board Net profit distribution made annually by fiscal year	
<i>Note: Referencing CPA Audit Reports</i>			
Recipients by law: Town			
FY-2022	\$73,529	FY-2022	\$60,000
FY-2021	\$80,067	FY-2021	\$75,000
FY-2020	\$68,786	FY-2020	\$60,000
FY-2019	\$54,484	FY-2019	\$60,000
FY-2018	\$51,547	FY-2018	\$21,325

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- **LAW ENFORCEMENT (LE) REPORTS:** Reports are being submitted routinely and they are current to date as well. Reports for recent months are not final submitted on the board website.
- **LAW ENFORCEMENT (LE) CONTRACT:** The board has a law enforcement contract on file at the Commission from 2006 with the Woodfin Police Department. A new police chief has been sworn in since then, and a new contract will be needed.
- **INVENTORY:** Full store inventories are conducted twice per year. In addition, inventory spot checks in certain categories are conducted monthly whenever possible. The inventory turns over moderately well at the store with a 5.6 turnover ratio. *To improve operations, the board should consider procuring an electronic scanner system to make inventory management much more efficient for all personnel involved.*
- **INTERNAL CONTROLS:**
 - The board has an assistant manager to support the general manager.
 - The board should consider designating a deputy finance officer to support the finance officer for continuity of operations.
 - Invoice information is entered into QuickBooks, cash requirements are printed for the truck shipments and the Purchase Orders History from BOSS is utilized to balance totals to make sure invoices / inventory match the system.
 - Board members alternate reviewing financial statements and monthly reconciliations.
 - Bank deposits are made by different people at different times of the day.
- **EXPENSES:**
 - Total expenses increased roughly seven percent (7%) over the last fiscal year.
 - Board payroll was roughly 9.8% of total annual sales. Payroll increased roughly seven percent (7%) from the previous fiscal year.
 - Cost of Goods Sold (COGS) was around 53% for the fiscal year. With the ample warehouse space, the board has opportunity to take more advantage of buy-ins to reasonably reduce liquor costs.

STORE INSIGHT & OVERVIEW

The findings for store insight & overview are as follows:

- Store has a very modern layout and excellent ergonomics for shoppers. The store interior and shelves are arranged way to allow ease in shopping for customers. In 2022, the store made tremendous upgrades including the expansion of the warehouse. As part of the expansion, a new loading dock was created to improve efficiency for the board as well as increase safety for delivery drivers. The store also added an atrium to the front with automatic opening doors; this particularly improves the shopping experience especially for senior citizens. COST WAS \$360k
- Sales associate interactions with customers are attentive, courteous, and all are eager to meet the needs of the customers.
- The board has around three (3) MXB customers as of February 2023. None of the business customers are really interested in delivery service. However, the board has provided a delivery service policy to the Commission - Referencing Rule 15A . 1903 Delivery of MXB Permittee Orders.
- A random sample of approximately 100 items were selected to determine if uniform pricing is displayed. Of those selected, six items had shelf prices that did not reflect the current quarterly or monthly SPA price. The shelf tags for these items were immediately updated.
- Besides closing on the five (5) required annual holidays and every Sunday, the board opted to close on the day after Christmas 2022.
- The store displays the required Fetal Alcohol Syndrome poster required by G.S. 18B-808. One new poster was brought for the visit, and the Commission will send additional ones per General Manager request.
- 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. Regular occurrences were found with various bottle sizes of the same products increasing appropriately from left to right. 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.
 - *Sixteen (16) cameras work to cover the property footprint.*
 - *Safety bollards are present in front of the store.*

RECOMMENDED ACTIONS (PER STATUTES OR COMMISSION RULES)

- 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.*
- Please ensure all newly adopted policies or any updated policies are submitted electronically to the Commission for recordkeeping and review per NCAC 15A .1102 Rule. Electronic copies of the personnel manual should be emailed to Commission personnel for recordkeeping.
- Due to new Town officials, the board needs to draft a new law enforcement contract with Woodfin Police Department and provide a copy to the Commission *per G.S. 18B-501(f)*.
- Ensure all purchase orders to include obligations evidenced by a contract or agreement requiring the payment of money, shall include or bear a certificate stating that the instrument (or order) has been pre-audited to ensure compliance with *G.S. 18B-702(m)* with a signature by the finance officer. The specific statement should read, *“This instrument has been pre audited in the manner required by G.S. 18B-702.”*
Special note: This would be most reasonably accomplished by signing & stamping the summary total of the Order Edit List from inventory system *before* any liquor orders are placed with state warehouse.
- In connection with the periodic audit, a Certificate of Accountability attestation form should be reviewed and signed by board members and applicable personnel. A signed copy would then only need to be emailed to Commission personnel for recordkeeping.
- 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.*
- ABC board members must complete ethics training within one (1) year of each appointment and again following all reappointments. *General managers, finance officers (and any applicable deputies) have a one-time training requirement for ethics training yet are highly encouraged to complete training periodically as a good refresher along with any other personnel interested.*
- All ABC boards are expected to track and monitor board members’ current appointment dates and term expiration dates, with updates made on the Commission’s login board website (the website where monthly sales are reported). In 2022, the Commission has already worked to do a validation reset for all ABC boards / board member information to include the most recent & valid term begin date as well as term end date. *Board members need to provide the GM with their Oaths of Office documents when new members are appointed and whenever existing members are reappointed. Going forward, this will increase visibility and allow for seamless board member updates with the Commission. It also allows ABC boards to easily communicate necessary reappointment dates and offer high visibility to the applicable appointing authorities involved.*

ADDITIONAL CONSIDERATIONS & GUIDANCE

- The Commission's primary focus for ABC 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 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.
- Law enforcement reports must be submitted on the Commission's board website by the 7th of each month referencing G.S. 18B-501(f1). ABC Boards should make sure reports are in a "Final Submitted" status and not just in saved status. *For any saved reports, the only transaction necessary is to click the preview button and then click the submit button for the reports.*
- 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.

APPENDIX A

ABC BOARD

Woodfin, NC

Quinn Woolard
ABC Board Auditor
400 E. Tryon Rd.
Raleigh, NC 27610

April 19, 2023

Dear Mr. Woolard,

Thank you for your audit of our store on February 28, and for your report and recommendations. We also appreciate your remarks on how well our store is laid out and how well our sales associates perform.

This performance audit will help us with the areas that need improvement. Please find below our responses to the findings and recommendations.

Item 1: Budget Amendments

We will continue to ensure that budget amendment copies are submitted to the ABC Commission as required, including a final reconciliation budget amendment for the fiscal year end.

Item 2: Policies

We will continue to submit new policy documents to the ABC Commission once they are approved by the Board.

Item 3: Law Enforcement Contract

Woodfin's new police chief has now signed our Law Enforcement contract; it accompanies this letter.

Item 4: Pre-audit certificates on liquor orders

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

Item 5: Certificate of Accountability

An updated Certificate of Accountability has been completed; it accompanies this letter.

Item 6: Alcohol Education/ Research Funds

Although alcohol education distributions have been properly disbursed, the recipients have not been providing documentation to the board on how these funds are spent in connection. We are seeking this documentation, and will consider requiring the documentation before the funds are awarded. Thank you for the requested fetal alcohol syndrome posters.

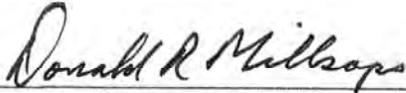
Item 7: Ethics Training

As confirmed in our phone meeting on March 20, all board members were already compliant on the ethics training course prior to this board's first meeting in July, 2022.

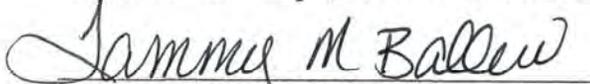
Item 8: Other

We are obtaining two missing Oaths of Office documents from the Town, to keep on file with our General Manager. You made other suggestions pertaining to obtaining a scanner system and having a deputy finance officer, which we will be evaluating soon.

Sincerely,



Donald R. Millsaps, Chairman 2022-2023



Tammy Ballew GM

Woodfin, NC ABC Board