

# Lexington ABC Board

## Performance Audit Report



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

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**Alcoholic Beverage Control**

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April 25, 2022

Lexington ABC Board  
Jim Myers, Chair  
PO Box 1562  
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Chairman Myers,

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

Terrance Merriweather  
Deputy Commissioner

cc: North Carolina Association of ABC Boards

# **OBJECTIVE, PURPOSE AND BACKGROUND**

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## **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

Chapter 653 of the 1965 Session Laws authorized the City of Lexington to hold an election based upon a petition of at least fifteen percent (15%) of the register voters. The referendum was held on December 21, 1971 and passed 2,970 to 2,565. The first retail sale occurred on January 14, 1972. A mixed beverage election was held on October 2, 1990 and passed 2,112 to 2,002. The ABC board was established by a local enabling act establishing three (3) board members.

The Lexington ABC Board operates two (2) retail stores. The board staffs seven (7) full-time employees and fourteen (14) part-time employees. The administrative office staff consists of a full-time general manager and finance officer. The general manager is responsible for the oversight of all daily operations pertaining to the stores, inventory management, human resource organization, and other administrative decisions for the board. The finance officer is responsible for accounts payable functions, financial reporting activities, and other duties as required by the ABC Commission statutes and rules. Store employees are primarily responsible for providing friendly customer service to all customers, general store upkeep, and stock maintenance.

The Lexington ABC Board had its last performance audit in 2019. This performance 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 & RECOMMENATIONS:

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On Tuesday, June 22, 2021, ABC Board Auditor Quinn Woolard, visited the Lexington ABC Board and interviewed Bill Sigmon, General Manager and Christina Dalton, Finance Officer. Below is a financial analysis followed by operation observations, findings, and recommendations related to the performance audit.

## FINANCIAL ANALYSIS

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### PROFIT PERCENTAGE TO SALES & OPERATING COST RATIO

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In fiscal year (FY) 2019-2020, the Lexington Board had a profit percentage to sales of 13.5%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales greater than \$2M but less than \$10M is 6.5%. The Lexington ABC Board's gross sales totaled \$5,619,027, a 11% increase over FY 2018-2019.

The operating cost ratio for the Lexington ABC Board was .43 in FY 2019-2020. The NC ABC Commission standard for ABC Boards with 1 or 2 stores and mixed beverage sales is .73 or less. The Lexington ABC Board well met this Commission standard.

Thus, the Lexington ABC Board met both the profitability and operating cost standards set by the NC ABC Commission. Below is a chart showing operating expenses and income from operations for the previous two years.

|  | FY2019-2020 | FY2018-2019 |
|--|-------------|-------------|
| <b>Operating Expenses<br/>(excluding Depreciation)</b> | \$588,277   | \$526,102   |
| <b>Income from Operations</b>                          | \$758,690   | \$685,401   |

*Factors affecting profitability and cost include:*

- Surrounding ABC boards within a fifteen (15) mile range with ABC stores include (4) stores operated by Triad Municipal ABC Board in the Winston-Salem vicinity; Additional nearby independently operating ABC Boards with one store include Davidson County ABC Board, Clemmons, and Thomasville boards.

- An ABC Board’s average cost of goods sold (COGS) is between 52% & 54% per year. *The Lexington ABC Board’s cost of goods sold was approximately 52.8% in FY 2019-2020.*
- *Mixed beverage sales total approximately 5.9% in FY 2019-2020.*

## BUDGET ANALYSIS

|   | FY2019-2020 Budget Projections | FY2019-2020 Actual | Variance    | Variance % |
|---|--------------------------------|--------------------|-------------|------------|
| <b>Sales</b>  | \$5,275,200                    | <b>\$5,619,027</b> | \$343,827   | 6.5%       |
| <b>Total Expenditures (to include Capital Outlay)</b> | \$4,901,700                    | <b>\$5,228,195</b> | (\$326,495) | (6.7%)     |

In reviewing the budget to actual analysis of the FY 2019-2020 financial audit, actual sales revenues exceeded the budgeted projections by 6.5%. Yet, total expenditures were greater than projections by 6.7% for the same period. The chart above shows the final budget to actual amounts and appropriate positive or negative variances.

## 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 gross profits to law enforcement and at least seven percent (7%) of gross profits to alcohol education. *Before assigning these percentage distributions, G.S. 18B-805(c)(1) requires the board to make a minimum quarterly distribution of profits of the 3.5% markup rate and relevant bottle charges to certain county/municipal recipients. These specific recipients are designated by an official local enabling act (and will vary from board to board).*

In FY 2019-2020, Lexington ABC made the distributions totaling \$662,953 (City of Lexington received \$592,000 of this). The amount of \$1,278,602 in excise and other taxes were paid to the NC Department of Revenue (NCDOR), the NC Department of Health and Human Services (NCDHHS) and county commissioners of Davidson County.

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

- Seventy percent (70%) to Lexington General Fund
- Fifteen percent (15%) to Lexington General Fund designated for recreational purposes
- Fifteen percent (15%) to Lexington General Fund designated for schools

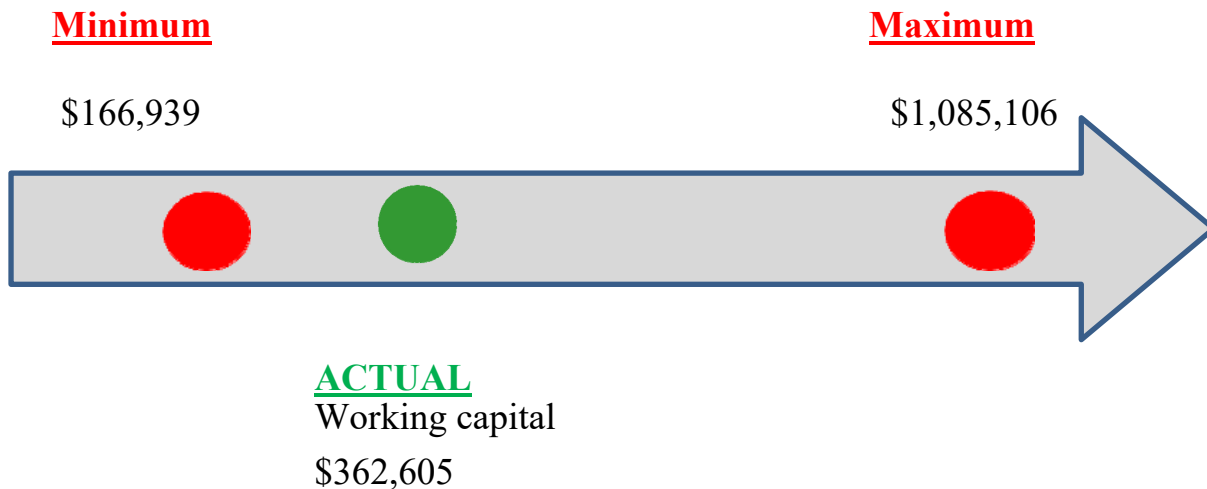
## WORKING CAPITAL

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

Based upon the existing rules, as of June 30, 2020, the Lexington ABC Board is required to maintain a minimum working capital of \$166,939 with a maximum working capital amount of \$1,085,106. The Lexington ABC Board currently has a working capital balance of \$362,606 which is well within the Commission requirements for this section. (\*)

\* FY 2019-2020 Working Capital graphic



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



## **PERSONNEL, POLICY AND ADMINISTRATIVE COMPLIANCE**

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- The Lexington ABC Board holds regular meetings as required by G.S. 143. The meetings are held routinely the second Monday of the month at 6 PM. Business minutes for meetings were available and public notification is properly broadcasted.
- The general manager and finance officer have both completed recent trainings offered virtually by the Commission.
- Presently, the board has a finance officer as required by G.S. 18B-702(j), who is conducting relevant duties per statute requirements.
- Cash deposits are made nightly by both stores, with two-person integrity during the deposits at the bank night deposit box. Law enforcement assistance is available upon request to the city police force.
- The board had not submitted a personnel manual before the audit; however, the board provided hard copy of their sufficient and established personnel manual.
- The board is currently and routinely drafting checks for payment of liquor invoices. However, the checks do not bear the certificate required per G.S. 18B-702. Nevertheless, liquor invoice record reviews reflect invoices being paid well within the 30-day requirement.
- The board periodically reviews bank reconciliations and financial statements for oversight. For further appropriate oversight, board members are encouraged to conduct checks and balances to ensure that cash management practices are upheld. A CPA firm provides quarterly oversight and reconciliation.
- Board members have completed the required ethics training as required by G.S. 18B-706(b). Also, all board member appointment dates and Commission records match seamlessly, showing the members properly serving staggered terms.
- All board members and general manager are bonded as required; board members and general manager compensation adhere properly to general statutes.
- Law enforcement reports are missing from April 2020 to January 2021 timeframe and the May 2021 report has not been submitted by contracted agency. The general manager discussed that a former police official left the department who had been routinely completing the law enforcement reports. The last report reflecting evidence of regulatory activity and training by the Lexington Police Department was November 2019.
- The law enforcement contract is from 2014 and does not reflect a current police or town official signature.
- The Path of Hope provided documentation to the boards on how their received alcohol funds were spent. Another recipient, the Davidson County D.A.R.E. program, did not provide the board any documentation as required per G.S. 18B-805(h).
- Within the last year, the board has worked to enhance operations particularly via the use of an electronic point of sale system as well as constructing more efficient electronic records. Also, a massive general housekeeping effort occurred to increase available space in the board headquarters building. Previously, the store operations were focused around extensive paper copies and the general manager and finance officer have worked diligently to make the board and local ABC management system more efficient and robust.

## STORE FACETS & APPEARANCE

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The findings for store appearance are as follows:

- The stores displayed the required Fetal Alcohol Syndrome poster required by G.S. 18B-808.
- North Carolina products have their own section as required by law but are also cross merchandised according to product category. Green North Carolina product tags are displayed on the shelves throughout the stores to help stimulate sales.
- 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.
- Few empty areas were noticed, primarily due to outages at state warehouse.
- Outside area surrounding the stores were well-maintained and free of debris or trash.
- Security systems are in place and functional in all designated areas.
- The store clerks were professional and friendly. While observing the clerks interacting with the public, they not only exhibited a high-level customer service excellence but a genuine friendly and helpful attitude during the encounters.
- While inspecting the stores, a random sample of approximately 100 items was selected to determine if uniform pricing is displayed. Of those selected, all had the correct pricing.
- As a reminder, remove all faded posters and replace with new ones. The ABC Commission can provide fetal alcohol syndrome posters, NC Dept of Labor can provide wage & hour posters, and OSHA can provide some applicable federal posters.
- The paved area adjacent to the loading dock at the Main Street location has experienced extensive issues for years (due to this area having unfavorable sloping terrain). This has caused delays for personnel when unloading liquor inventory deliveries, and the tractor trailers have been frequently getting stuck. Additionally, some tractor trailers have been damaged because of this sloping terrain. Thus, the general manager has coordinated with the board to hire a company for demolition work in this problem area and are seeking to permanently remedy the problem. Once the problem surface area has been regraded, a few trial deliveries will occur to ensure the terrain has been resolved. When the new grade has been deemed effective, the area can then be properly paved again.
- The Main St store may need some mold remediation and drainage improvements per observations and discussion with the general manager.
- The 1705 Cotton Grove Rd will have a remodel later in 2021. *This remodel will create several hundred more feet of retail space.* The board is also considering the purchase of the adjacent, vacant lot because the existing property line is very close to the edge of the parking lot. If another business decided to open here, it would impact truck deliveries at a minimum. If a potential land purchase occurred by the board however, it would positively ensure the preservation of logistics for truck deliveries creating a beneficial buffer area. It would also protect the entry and exit of all vehicles, while eliminating any encroachment issues that would occur from a new neighboring business.

## **RECOMMENDED ACTIONS PER STATUTE 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. *Ensure budget amendments are submitted to the ABC Commission as required per NCGS 18B-702(h), to include a final reconciliation budget amendment for the FY 2020-2021 period.*
- Checks or drafts must bear a certificate, and the certificate shall take substantially the following form: “This disbursement has been approved in the manner required by G.S. 18B-702.” *No certificate however is required on payroll checks or for expenditures from petty cash of \$50.00 or less per 18B-702(q).*
- Law enforcement (LE) reports must reflect and capture applicable occurrences of regulatory activity and training providing by contracted law enforcement agencies *per G.S. 18B-501(f1)*. If the board chooses to submit the monthly LE reports, law enforcement agencies should be communicating any applicable activities and compliance checks completed.
- A new law enforcement contract reflecting current town officials needs to be obtained and a copy provided to the Commission *per G.S. 18B-501(f)*.
- Any agencies receiving distributed funds from the ABC board for the treatment of alcoholism or substance abuse, or alcohol education or substance abuse research must submit an annual report to the board describing how the funds were spent, as required *by G.S.18B-805(h)*.
- A hard copy travel policy for the current fiscal year for the City of Lexington was reviewed. The board must annually obtain approval from the appointing authority to adhere to their travel policy and annually provide the Commission a copy of this approval *per G.S. 18B-700(g2)*. NOTE: *If the board ever decided to instead adhere to the official State of NC government travel policy, then the travel policy requirement would automatically be met and would not require annual approval through the local appointing authority, and thus, no extra board action would be necessary.*

## **ADDITIONAL CONSIDERATIONS ....**

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- The board is encouraged to review financial statements monthly, comparing them with the annual budget, approving budget amendments as needed, forwarding copies to the Commission.
- Continue to 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). The specific statement should read, *“This instrument has been pre audited in the manner required by G.S. 18B-702.”*
- The Board should consider listing board member term expiration dates on board meeting minutes. *This will allow high situational awareness for the board, and it serves to allow for efficient updates on communications with the Commission.*
- To improve operating cost ratios, the board can request bids annually from various vendors to get the best rates possible on financial audits, specific utilities, maintenance contracts, and credit card processing fees. *In addition, closely monitor and take advantage of monthly special purchase allowances (SPAs) to reduce the cost of goods sold on any applicable items that will sell well in the store.*
- The Board is highly encouraged to closely review financial statements monthly, comparing with the annual budget forecast, approving budget amendments when necessary and submitting copies to the Commission.
- The Board should consider drafting a telework policy if any employees will be allowed to work remotely for any reason (especially with COVID and other related medical scenarios).
- 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 the routine operations and employee morale stronger.
- Quarterly distributions of profits must occur (per G.S. 18B-805(c)(e), *unless the applicable distribution recipients approve of distributions made otherwise.*
- Consider using existing liquor inventory to fill in empty sections as applicable, until out of stock product or new product inventory has been established in the store and shelf space.
- When applicable, ensure unsaleable merchandise (breakage) reports are submitted to the Commission quarterly. NCAC Rule 15A .1701 requires quarterly reports be submitted for any unsaleable merchandise and retain original copies for three (3) years.
- The Board 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.

## APPENDIX A

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### Program Analyst's Summary

The performance audit recommendations were presented to the board on August 9, 2021. While the board has not provided a formal response letter, the board agrees with all recommendations as presented. In addition, the board has essentially completed all recommended actions and deliverables. The board continues to focus on enhancing profitability and reducing expenses when possible.