

Rutherfordton ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA

TABLE OF CONTENTS

ABC Commission Statement	3
Objective, Purpose & Background Information	4
Financial Analysis, Observations & Findings	6
Recommended Actions & Additional Considerations	14-15
Appendix A -Rutherfordton ABC Board Response Letter	16-17



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

June 28, 2024

CHAIRMAN:
Hank Bauer

Rutherfordton ABC Board

COMMISSIONER:
Norman A. Mitchell, Sr.
Charlotte

H. Gregory Hodge, Chair
441 S. Main Street
Rutherfordton, NC 28139

Deputy Commissioner:
Mike DeSilva

Chairperson Hodge,

LOCATION:
400 East Tryon Road
Raleigh NC 27610

On the following pages you will find the performance audit report conducted by the staff of the ABC Commission Reviewing the operations of the Rutherfordton 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.

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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
- 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 Rutherfordton was originally incorporated in 1787 as the county seat for Rutherford County and was a planned town by the NC General Assembly. The town was the center of the late 18th and early 19th century gold rush, and the first US gold dollars were minted here by Christopher Bechtler. In 2020, the town's population per the Census was approximately 3,640 residents with a reduced population of approximately 500 residents since 2000.

Chapter 350 of the 1979 Session Laws authorized the Town of Rutherfordton to hold an election for an ABC store. The referendum was held on August 1, 1979, and it passed 850 to 568. The first retail sale occurred on November 1, 1979. A mixed beverage election was held on March 12, 2002, and it passed 795 to 575. The Town Council of Rutherfordton appoints a chairperson and two (2) additional board members to serve for three-year terms on the ABC board.

The Rutherfordton ABC Board currently operates one (1) retail store. The board staffs approximately six (6) total employees including an interim general manager, sales associates, and warehouse. These include four (4) full time employees and two (2) part-time personnel. The Finance Officer position is outsourced to a third-party accountant. 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. Sales associate/warehouse responsibilities include selling products, daily stocking, truck deliveries, and floor upkeep & maintenance.

The last performance audit for the Rutherfordton ABC Board occurred in 2015. 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, April 9, 2024, ABC Board Program Analyst Edwin Strickland and ABC Board Audit and Budget manager Quinn Woolard, visited the Rutherfordton ABC Board and interviewed Bettie Hendren (I-General Manager) and Gregory Hodge (Chair). In addition, two representatives from the Rutherfordton Police Department were briefly in attendance facilitating some information about an on-going criminal investigation. 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) 2022-2023, the Rutherfordton ABC Board had a profit percentage to sales of 7.26%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales greater than \$2M is 6.5%. The Rutherfordton ABC Board's gross sales totaled \$2,163,581, which was a 3.37% over the previous fiscal year.

The operating cost ratio for the Rutherfordton ABC Board was .74 in FY 2022-2023. The NC ABC Commission standard for ABC Boards with one or two stores and mixed beverage sales is .73 or less.

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

	FY 2022-2023	FY 2021-2022
Gross Profit on Sales	\$630,472	\$462,910
Income from Operations	\$156,989	\$83,377

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores within a twenty-five (25) mile range of Rutherfordton ABC: Forest City ABC operating one store; Lake Lure ABC operating one store; Columbus ABC Board operating one store; Tryon ABC Board operating one store; and Marion and Shelby ABC Boards with store(s) within a thirty (30) mile range.
- An ABC Board’s average cost of goods sold (COGS) is between 52% & 54% per year. The Rutherfordton ABC Board’s cost of goods sold was approximately **49.1%** in FY 2022-2023.
 - *Mixed beverage sales were roughly 1% of total sales in FY-2023, and there eight (8) current mixed beverage customers.*

BUDGET ANALYSIS

	FY 2022-2023 Budget Projections	FY2022-2023 Actual	Variance	Variance %
Sales	\$2,096,000	\$2,159,001	\$63,001	3.0%
Revenue over or (under) Expenditures		\$74,134		

In reviewing the budget to actual analysis of the FY 2022-2023 financial audit, actual sales revenues exceeded budgeted sales. In addition, revenue exceeded expenditures by \$74,134 and the net income change during the fiscal year was \$69,223. *The board’s total net position on June 30, 2023, was \$383,388.*

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 typically distribute at least five percent (5%) of applicable gross receipts to law enforcement and typically 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 distribution percentages are designated by an official local enabling act (and thus distribution requirements and recipients are subject to vary).***

In FY 2022-2023, Rutherfordton ABC made other statutory distributions totaling \$87,759 (Net profit distribution recipients received \$60,000 of this). The amount of \$468,057 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 Iredell County.

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

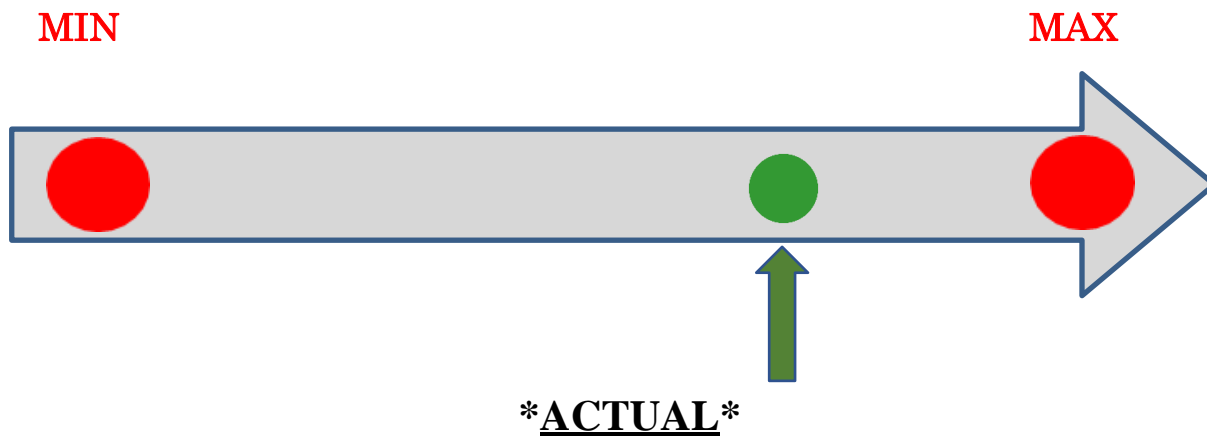
- Seventy percent (70%) to Town Council of Rutherfordton
- Fifteen percent (15%) to Rutherford County Board of Education
- Seven- and one-half percent (7.5%) to Rutherfordton Elementary School
- Seven- and one-half percent (7.5%) to R-S Middles School

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. Based on 15A .0902 Maintenance of Working Capital, 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, 2023, the Rutherfordton ABC Board is required to maintain a minimum working capital of \$64,487 with a maximum working capital amount of \$419,168. The Rutherfordton ABC Board had a working capital balance of \$333,261, which falls within the Commission requirements for this section (*).

*** FY 2022-2023: 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 Thursday of each month at 12:00 PM, records regular meeting minutes, and provides public notification and awareness of these meetings. One meeting minutes draft was available. Others were currently held by the Internal Revenue Service (IRS). *The minutes provided have the conflict-of-interest disclosure statements referenced and are signed by all board members in attendance.*
 - **Training records review:** Board members and personnel are compliant on ethics training. Board member Rick Gilbert, Beth Burbank, and I-GM Bettie Hendren will need to complete ethics training.
 - **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 updated by the Commission in 2022 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 and ABC boards in some cases. 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 continue to update this information online on the Commission's board website, 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 interim general manager, and CPA firm provide board members with monthly sales information and previous year's applicable sales and operational concerns. Various financial reports are provided for the board's review; among these are spreadsheets and profit & loss statements. Board members are heavily encouraged by the Commission to use checks and balances to ensure that cash management practices are upheld and review any notes and recommendations provided by the CPA firm on annual audits.
- **POLICIES:** The board has a personnel policy manual, but no electronic version has been forwarded to the Commission. The board adheres to the state travel policy. The board has a credit card & conducts policies but currently does not have policies for the card in place. The Commission has forwarded templates that could be used as a good reference.
- **BUDGETS:** In FY-2023, the board exceeded budgeted sales in June 2023. A budget amendment was submitted in March of 2023 indicating less revenue by \$75,000. *Based on sales trajectory for the current fiscal year and with 75% of the current budget year completed, the board is already tracking at 75% of annual budgeted sales. Thus, no budget amendment is needed currently.*
- **FINANCIAL INSIGHT:** Two board members are currently signing checks. The board has hired a CPA to make timely payments of invoices, taxes, and distributions. Invoice records for recent liquor purchases reflect them as being paid routinely well inside of 30 days.

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- Bank deposits are routinely made at the end of each business day and police escorts from the board to the bank. Board plans to pursue a better store safe.
- Timecards are taken to the CPA where they are processed bi-weekly and direct deposited by the CPA. A new time clock has been implemented and overtime has been generally eliminated.
- The pre-audit certificate is not stamped on the liquor orders at the time they are placed; however, board checks bear the statute disbursement certificate.
- All board members and applicable personnel are each bonded for \$50,000 per G.S. 18B-700(i).
- The annual CPA audit was received and logged by the Commission on November 7, 2023.
- CPA will reconcile bank statements on a monthly basis.

➤ **STATUTORY DISTRIBUTIONS:**

- Net Profit Distributions - The Rutherfordton ABC board has made distributions to all the designated recipients over the last five years as referenced in GS 18B-805(c)(1). The table below references distributions calculated by CPA on the left and total distributions made by the ABC Board for the last five (5) years on the right.
- Law Enforcement Distributions: Have been properly disbursed at or above the 5% statute amount over the last five (5) fiscal years.
- Alcohol Education Distributions: Have been properly disbursed at above the regular 7% statute amount. Recipients should be 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		Rutherfordton ABC Board Net profit distribution made annually by fiscal year	
<i>Note: Referencing CPA Audit Reports</i>			
CPA Calculated Amount		Total paid to recipient(s)	
FY-2023	\$60,827	FY-2023	\$60,000
FY-2022	\$59,086	FY-2022	\$60,000
FY-2021	\$57,411	FY-2021	\$48,329
FY-2020	\$48,889	FY-2020	\$45,642
FY-2019	\$43,126	FY-2019	\$44,667

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- **LAW ENFORCEMENT (LE) REPORTS:** Reports are slightly past due with the last report submitted for January 2024. Reports contain relevant statistics and data for alcohol related enforcement & training.
- **LAW ENFORCEMENT (LE) CONTRACT:** The board has a law enforcement contract with Rutherfordton Police Department. The Commission has an electronic copy on file. Distributions from the contract were dispensed in 2023.
- **INVENTORY:** Interim GM Bettie Hendren has re-started monthly inventory and is working to get staff acclimated with proper inventory procedures. Ms. Hendren stated they have some excess stock for particular brands, and they are working to eliminate.
- **INTERNAL CONTROLS:**
 - Due to fraud the board is utilizing a third-party CPA who is involved with monthly bank reconciliation and financial reports.
 - The Interim General Manager and CPA provide monthly point of sale summaries and other CPA financial information.
- **EXPENSES:**
 - Total operating expenses increased roughly twenty-five percent (25%) from the last fiscal year.
 - Board payroll was roughly 8.1% of total annual sales. Payroll increased roughly half a percent (.5%) from the previous fiscal year.
 - Cost of Goods Sold (COGS) was 49.1% for the fiscal year. This is lower than the 52%-54% normal range. Ms. Hendren indicated the inventory may have been off by as much as \$30,000, thus this percentage may be inaccurate.

STORE INSIGHT & OVERVIEW

The findings for store insight & overview are as follows:

- The board's single store is located south of downtown Rutherfordton on US HWY 221. The store has a friendly but business-like environment, and the retail area is clean and professionally maintained.
- Store hours are 10 a.m. – 8:00 p.m. six days a week.
- Sales associate interactions with customers are attentive, courteous, and all are eager to meet the needs of the customers.
- The board has around eight (8) MXB customers as of April 2024. None of the business' customers are currently utilizing delivery service. The board has provided a delivery service policy to the Commission.
- A random sample of approximately 100 items were selected to determine if uniform pricing is displayed. Of those selected, at least four (4) items had inaccurate quarterly or monthly SPA prices reflected on shelf tags.
- In addition to closing on the five (5) required annual holidays and every Sunday, the board also closes on Easter Monday and Memorial Day.
- The store displays the required Fetal Alcohol Syndrome posters required by G.S. 18B-808.
- North Carolina products are displayed in a section only for North Carolina products.
- Products are placed within the designated categories; premium products are found at eye-level or top shelf. Bottles were fronted and dusted. *Most occurrences were found with various bottle sizes of the same products increasing appropriately from left to right. A few sections of the store have product size increasing from right to left.*
- 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 and alarm system is in place.

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.*
- The board is required to appoint a finance officer to perform duties as required by G.S. 18B-702(k). *The finance officer is required to sign all checks referenced in the statutes. G.S. 18B-702(p) states, "Except as otherwise provided by law, all checks or drafts on an official depository shall be signed by the finance officer or a properly designated deputy finance officer."*
- Please ensure all newly adopted policies or any updated policies are submitted electronically to Commission personnel for recordkeeping and review per NCAC 15A .1102 Rule. The board has a personnel policy, but no electronic copy has been provided to the Commission. *Ms. Hendren stated there is a re-write planned for this policy.* A credit card policy for use of the board's card and a tasting policy are recommended.
- Unsaleable Merchandise report should be submitted quarterly to the distiller and Commission and the original should be retained by the board for three years. Under Rule 15A .1701 email is the sole method for transmitting to the Commission.
- 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.
- 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.
- Please ensure accurate quarterly or monthly SPA prices reflected on shelf tags.
- The recipient of alcoholism fund or 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.*
- 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.

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 members 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.
- *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

The Town of Rutherfordton ABC Board 135

P.O. Box 104
Rutherfordton, NC 28139
(828) 287-2701

June 20, 2024

NCABC Commission
400 E. Tryon Rd.
Raleigh, NC 27610

Dear Sirs:

We appreciate your support and recommendations from the Audit performed at our Store on April 9, 2024. This performance audit will definitely help with the areas in which we need improvement. Please find below our responses to the findings and recommendations of the audit.

Item 1: **BUDGET AMENDMENTS.** All recommendations from the ABC Commission will be followed.

Item 2: **FINANCE OFFICER:** All recommendations regarding the Finance Officer for our Board will be followed.

Item 3: **POICY & PERSONNEL MANUAL:** The recommendations made by the ABC Commission will be followed. There is a Credit Card Policy & Tasting Policy being drafted at this time.

Item 4: **UNSALEABLE MERCHANDISE:** All recommendations from the ABC Commission will be followed.

Item 5: **PURCHASE ORDERS:** The recommendations regarding purchase orders will be followed.

Item 6: **SHELF MANAGEMENT:** The recommendations regarding shelf management are currently being addressed and followed.

Item 7: **QUARTERLY /MONTHLY PRICE CHANGES:** The recommendations regarding the quarterly and monthly price changes will be followed.

Item 8: **NEW FIREARM STICKER:** The new sticker provided by the commission has been placed on the incoming front door of the store.

Item 9: FUNDS SPENT FOR ALCOHOLISM OR OTHER FUNDS: All recommendations from the ABC Commission will be followed. We have requested that our Police Department give a report as to what the funds we allocate to them are used for.

Item 10: CERTIFICATE OF ACCOUNTABILITY: This recommendation has been implemented and is done on a monthly basis.

Item 11: ETHICS TRAINING: All recommendations from the ABC Commission will be followed.

The Rutherfordton ABC Board will follow all of the Commissions additional considerations and guidance. The Board does meet on a monthly basis and minutes for those meetings contain that either no conflicts of interest are present or if any are presented, they are handled appropriately. Financial reports are given at the beginning of each Board meeting. The Board 's books and yearly information will be available for the yearly audit in a timely manner. At this point the term dates for our board members should be up to date on the commission site as should the information regarding our store.

The Board is looking into ways to cut monthly costs for various utilities, credit card processing, etc. We are also making an effort to utilize the monthly special purchase price (SPA's) for the liquor we purchase.

There is an ongoing effort to get our sales and law enforcement report to the commission in a timely fashion.

Thank you for all of the guidance support you give to the Boards across the State. It certainly helps to be able to call the Commission and receive help and answers to questions so many of us have.

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Greg Hodge
Chairperson
Rutherfordton ABCBoard

GH:bh