

West Jefferson 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	13-14
Appendix A- West Jefferson ABC Board Response Letter.....	15



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

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January 16, 2025

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

West Jefferson, NC is found in Ashe County and situated in the Appalachian Mountain chain. West Jefferson, NC is a charming town nestled in the picturesque Blue Ridge Mountains. It offers a variety of attractions that cater to both nature lovers and art enthusiasts alike. One of the main highlights is Mount Jefferson State Natural Area, where visitors can hike scenic trails and enjoy breathtaking views from the summit. The town also boasts a vibrant arts scene, with numerous galleries showcasing local talent. The Ashe County Cheese Factory is another must-visit spot, offering tours and tastings of their delicious artisanal cheeses. Additionally, West Jefferson hosts several annual festivals and events, such as the Christmas in July Festival and the Old Time Fiddlers Convention, which showcase the rich cultural heritage of the region. With its natural beauty, artistic flair, and community spirit. Make sure to check out all of the can't miss attractions. West Jefferson serves as a gateway to the Blue Ridge Mountains and the Blue Ridge Parkway. In 2020, the town's population per the Census was approximately 1,279 residents which was virtually unchanged since 2010.

A mixed beverage referendum occurred August 9, 2011, and it passed. *Currently, the Town of West Jefferson appoints a chairperson and two (2) additional board members to serve on the ABC board.* The West Jefferson ABC Board currently operates one (1) retail store. The board staffs seven (7) total personnel. These include two (2) full-time employees and five (5) part-time personnel. The general manager is responsible for daily store operations including supervising personnel, inventory management, and various retail functions. The general manager also serves as the finance officer and provides the board with fiscal management, administrative support, and oversees routine operations of the ABC stores. Sales associate responsibilities include, selling products, daily stocking, and floor upkeep & maintenance.

The last performance audit for the West Jefferson 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 Wednesday, December 4, 2024, ABC Board Program Analyst Quinn Woolard and Eric McClary, visited the West Jefferson ABC Board and interviewed Justin Jones (General Manager & Finance Officer), Joni Ray (Member), and Derek Green (Member). 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) 2024, the West Jefferson ABC Board had a profit percentage to sales of 6.31%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales more than \$2M yet less than \$10M is 6.5%. The West Jefferson ABC Board's gross sales totaled \$3,401,300, which was a 3.92% increase from the previous fiscal year.

The operating cost ratio for the West Jefferson ABC Board was 0.69 in FY 2024. The NC ABC Commission standard for ABC Boards with one or two stores and mixed beverage sales is .73 or less.

Thus, the West Jefferson ABC Board did not meet the profitability standard, however made the operating cost standard 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 2023-2024	FY 2022-2023
Gross Profit on Sales	\$774,155	\$759,495
Income from Operations	\$214,640	\$240,378

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores is Boone ABC which is within a 25 mile radius.
 - An ABC Board’s average cost of goods sold (COGS) is between 52% & 54% per year. The West Jefferson ABC Board’s cost of goods sold was approximately **54.4%** in FY 2023-2024.
 - *Mixed beverage sales were roughly 9% of total sales in FY-2024, and there are currently 12 mixed beverage customers.*

BUDGET ANALYSIS

	FY 2023-2024 Budget Projections	FY2023-2024 Actual	Variance	Variance %
Sales	\$3,500,000	\$3,401,300	(\$98,700)	2.8%
Revenue over or (under)				
Expenditures		(\$14,264)		

In reviewing the budget to actual analysis of the FY 2023-2024 financial audit, actual sales revenues were under budgeted projections by 2.8%. In addition, revenue under expenditures by \$14,264 and the net income change during the fiscal year was negative \$66,330. *The board’s collective net position on June 30, 2024, was around \$1.1M.*

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 2023-2024, West Jefferson ABC made other statutory distributions totaling \$286,495 (Net profit distribution recipients received \$29,447 of this). The amount of \$777,052 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 Ashe County.

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

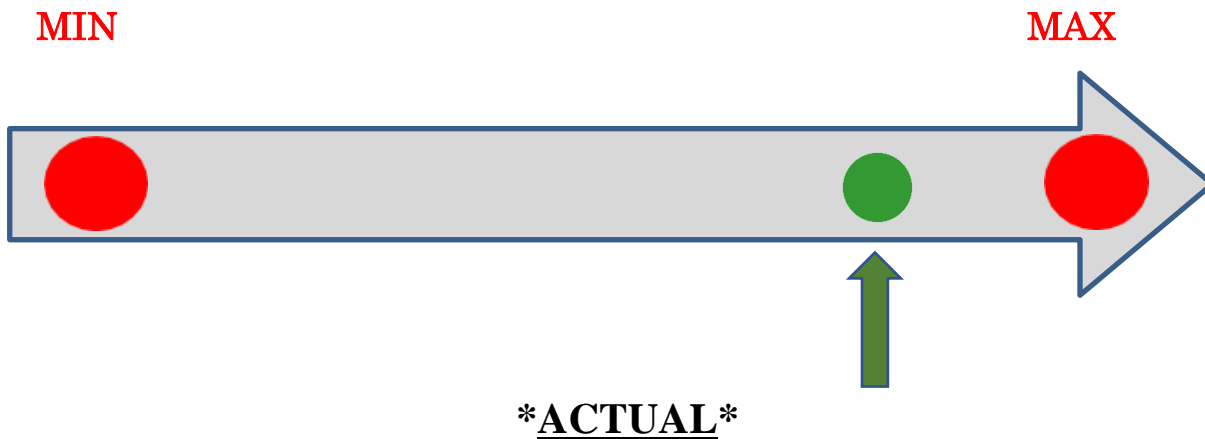
- One Hundred percent (100%) to West Jefferson General Fund

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 more 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, 2024, the West Jefferson ABC Board is required to maintain a minimum working capital of \$100,623 with a maximum working capital amount of \$654,053. The West Jefferson ABC Board had a working capital balance of \$534,817, which falls within the Commission requirements for this section (*).

*** FY 2023-2024: 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 first Wednesday of each month at 5:00 PM, records regular meeting minutes, and provides public notification and awareness of these meetings. The meeting minutes are organized in a folder for review.
 - Training records review: Board members and personnel are compliant on ethics training.
 - General Manager (GM) Salary and Board Member compensation: GM salary fully adheres to 18B-700(g1) statute requirements. The Board member compensation exceeds statute 18B-700(g) requirement. However, the Town of West Jefferson has approved the \$500 per meeting board member compensation, and the Commission has an approval copy on file.
 - 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. 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 also serves as the finance officer. The GM provides board members with monthly sales information and previous year's applicable sales and operational concerns along with financials from accounting firm. Board members will rotate for the second signature on checks, and the GM/finance officer continually makes sure financial records are 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 Commission does not have a copy of the board's current personnel policy manual. The board adheres to the local travel policy, yet the Commission does not have any recent approval documentation on file for this. The board has a business credit card but no policy on file for its authorized use.
- BUDGETS: In FY-2024, the board was relatively close to budgeted sales. While a budget amendment could not be located within Commission records, the CPA audit reflects and validates a budget amendment being done. *Based on sales trajectory for the current fiscal year, the board is tracking well on projected sales through November 2024.*
- FINANCIAL INSIGHT: The GM in a dual role as finance officer is signing checks as required per statute with a 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. *Beginning in 2025, all boards with GMs serving as Finance are required to have an accounting firm provide quarterly financials to the Commission.*

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- Bank deposits are routinely made each business day per review of bank Statements and discussion with GM. 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 by the CPA.
- 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 \$100,000 per G.S. 18B-700(i).
- The annual CPA audit was received and logged by the Commission on September 12, 2024.

➤ **STATUTORY DISTRIBUTIONS:**

- Net Profit Distributions - The West Jefferson ABC board has routinely made the minimum mandatory distributions to the designated recipients over the last several years referencing NCGS 18B-805(c)(1). **The table below references distributions calculated by CPA on the left and total net profit distributions made by the ABC Board for the last three (3) years on the right.**
- Law Enforcement Distributions: Have been properly disbursed at or above the regular 5% statute amount over the last three (3) fiscal years.
- Alcohol Education Distributions: Have been properly disbursed at or above the regular 7% statute amount. Recipients have been providing appropriate documentation for use of funds in connection with NCGS 18B-805(h). **Have recipients been doing this?? Cannot remember.**

NC GENERAL STATUTE: 18B-805 (c)(1)			
Calculation of Minimum Mandatory Distribution for Net Profit to Designated Recipients		West Jefferson 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-2024	\$95,796	FY-2024	\$260,000
FY-2023	\$92,331	FY-2023	\$200,000
FY-2022	\$89,763	FY-2022	\$180,000

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- **LAW ENFORCEMENT (LE) REPORTS:** Reports have been submitted online routinely for several years.
- **LAW ENFORCEMENT (LE) CONTRACT:** The Commission does not have an electronic copy of a law enforcement contract. An updated contract would be beneficial to communicate the need for the department to provide enforcement & regulatory data to the ABC board as part of the monthly reporting process.
- **INVENTORY:** Full store inventories are conducted quarterly whenever possible. Outside of this, spot checks in certain categories are conducted at random intervals. The inventory turns over at the store with a 4.3 turnover ratio per most recent fiscal year. The target turnover ratio is 5.0 for ABC systems which received deliveries twice per month.
- **INTERNAL CONTROLS:**
 - The board has one full-time employee to support the general manager.
 - An accounting firm prepares monthly financial statements for the board. The GM reviews and makes these available for the monthly board meetings.
 - Invoice information is entered into QuickBooks, cash requirements are printed for the truck shipments and the Purchase Orders History from computer system is utilized to balance totals to make sure invoices / inventory match the system.
 - Board members alternate reviewing financial statements and monthly reconciliations.
 - Board members alternate signature authority.
 - A new board member joined the ABC Board in October 2024 and is focused on operational efficiency and support of all staff.
 - Town of West Jefferson recently implemented term limits at nine (9) years for ABC Board members. The two tenured ABC board members will be at term maximum when their next term expires.
- **EXPENSES:**
 - Total expenses increased by roughly 7.75% from the last fiscal year.
 - Board payroll was roughly 8.1% of total annual sales.
 - Cost of Goods Sold (COGS) was around 54.4%. With the moderate warehouse space, the board has opportunity to continue taking advantage of buy-ins to reasonably reduce liquor costs.

STORE INSIGHT & OVERVIEW

The findings for store insight & overview are as follows:

- Store has a modern layout, good ergonomics for shoppers, and plenty of inventory on the shelves. *The board has a capital improvement account to pursue some upgrades.*
- Sales associate interactions with customers are attentive, courteous, and all are eager to meet the needs of the customers.
- The board has around twelve (12) MXB customers. None of the business customers are really interested in delivery service. Thus, the board has requested and received an approval waiver from the Commission for a delivery service policy - Referencing Rule 15A. 1903 Delivery of MXB Permittee Orders.
- A random sample of approximately 120 items were selected to determine if uniform pricing is displayed. Of those selected, every item reflected the correct quarterly or monthly SPA price. The board highlights the monthly SPA products very well with visual aids.
- Besides closing on the two (2) required annual holidays and every Sunday, the board may opt to continue closing on New Year's Day, July 4th, and Labor Day annually.
- The store displays the required Fetal Alcohol Syndrome poster required by G.S. 18B-808. A new poster was provided to replace the older one. *The board has a unique digital poster on the glass which increases outside visibility and reduces clutter.*
- North Carolina products are 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 other areas had bottle sizes of the same products decreasing in size 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.
 - *Eighteen (18) cameras work to cover the property footprint with two outside and six interior cameras.*
 - *A panic button is available and was recently tested with police department.*

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. A credit card policy is recommended to established authorized use (sample copy forwarded for consideration). A tastings policy is recommended if tastings are done routinely.
- The board needs to forward a signed law enforcement contract with West Jefferson Police Department (or other applicable law enforcement agency) and provide a copy to the Commission *per G.S. 18B-501(f)*.
- ABC Board members must complete ethics training within one (1) year of each appointment and again following all reappointments under NCGS 18B-706(b).
- 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 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.*
- The board must annually obtain approval from the appointing authority to adhere to their local government travel policy and annually provide the Commission a copy of this approval per G.S. 18B700(g2). NOTE: As another option the board can alternately adopt the official State of NC government travel policy referenced under G.S. 138-6. This would allow the board an option to eliminate the annual travel policy update requirement by instead formally adopting the state government travel policy at an official board meeting and providing a copy of minutes to the Commission.

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 Sept 30th.
 - 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.

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Jak Reeves – Chair
Derek Green - Member
Joni Ray - Member

ABC Commission
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January 16, 2025

The Town of West Jefferson ABC Board is grateful for your review and audit of our performance and standards. Your recommendations from the December 2024 audit are a valuable tool for us to guide us and enhance our operations. Below is a response to the findings and recommendations from the Audit report.

- Item 1: All recommendations will be followed
- Item 2: All recommendations will be followed
- Item 3: A signed copy of the law enforcement agreement has been sent to the commission.
- Item 4: All recommendations will be followed
- Item 5: All recommendations will be followed
- Item 6: The board will ensure pre-audit certificates are present on liquor orders to adhere to NC GS 18B-7029m)
- Item 7: A signed copy of the certificate of accountability has been sent to the commission
- Item 8: All recommendations will be followed
- Item 9: A signed copy of the updated travel policy adopting the state policy has been sent to the commission

Sincerely,

Justin Jones, General Manager
West Jefferson ABC Board