

Lexington ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
400 East Tryon Road, Raleigh, NC 27610
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ABC
COMMISSION
NORTH CAROLINA

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ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

CHAIRMAN:
A. D. "Zander" GUY, JR.

April 3, 2019

COMMISSIONER:
Norman A. Mitchell, Sr.
Charlotte

Rosalind Baker
Chairman
Lexington ABC Board
PO Box 1562
Lexington, NC 27293

ADMINISTRATOR:
Agnes C. Stevens

Dear Chairman Baker,

LOCATION:
400 East Tryon Road
Raleigh NC 27610

On the following pages you will find the performance audit report conducted earlier this year by the staff of the ABC Commission reviewing the operations of the Lexington ABC Board.

MAILING:
4307 Mail Service Center
Raleigh NC 27699-4307

The report consists of an executive summary, an overview of the objective, purpose and scope, and a digest of your board's performance standards and related findings. Included in the findings are recommendations for action on the part of your board.

PHONE: (919) 779-0700
<http://abc.nc.gov/>

I encourage you to review the report and let me know if you have any questions or require assistance in implementing any of the recommendations.

On behalf of the NC ABC Commission I thank you and your staff for your assistance and cooperation in conducting this review and in implementing the changes that will reduce expenses and increase profitability of your board.

Sincerely,

A handwritten signature in black ink, appearing to read "Agnes Stevens".

Agnes Stevens
Administrator

cc: NC Association of ABC Boards

OBJECTIVE, PURPOSE, AND SCOPE

In addition to regular and special financial audits, G.S. 18B-705 (a) authorizes the N.C. 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 audits' 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
- Consult with specialists at the UNC School of Government
- Verify compliance with Commission and Board policies
- Verify results of previous performance audit recommendations
- Review organizational chart and job descriptions
- Review ABC board annual independent financial audits
- Visit the store(s)
- Interview key ABC board personnel.

The initial round of performance audits for the local ABC Boards concluded in 2016 and provided a comprehensive overview of the operations of the local boards. The follow-up round of performance audits now under way is designed to provide local boards with information that targets specific areas for improvement. Board activities that meet or exceed current performance standards are not included as areas recommended for corrective action and so are not included in the attached summary report and recommendations.

PROFIT PERCENTAGE TO SALES AND OPERATING COST RATIO

In FY2018, the Lexington ABC Board had a profit percentage to sales of 12.7%, a 0.4% increase over FY2017. The initial performance audit conducted in FY2013 concluded a profit percentage to sales of 9.4%. The NC ABC Commission profit percentage to sales standards for ABC Boards with gross sales greater than \$2M is 6.5%.

The operating cost ratio for the Lexington ABC Board was 0.46 in FY2018. Lexington ABC Board's operating expenses increased by 2.9% over FY2017. The NC ABC Commission standard for ABC boards with one or two stores with mixed beverage sales is less than 0.73.

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

	FY2018	FY2017
Expenses excluding Depreciation	\$526,255	\$511,252
Income from Operations	\$602,577	\$556,470

BUDGET ANALYSIS

In reviewing the budget to actual analysis of the FY2018 financial audit, sales revenues exceeded the budgeted projections by 4.3%. Overall expenses were within budget for the same period. The below chart shows the final budget to actual amounts and the variances.

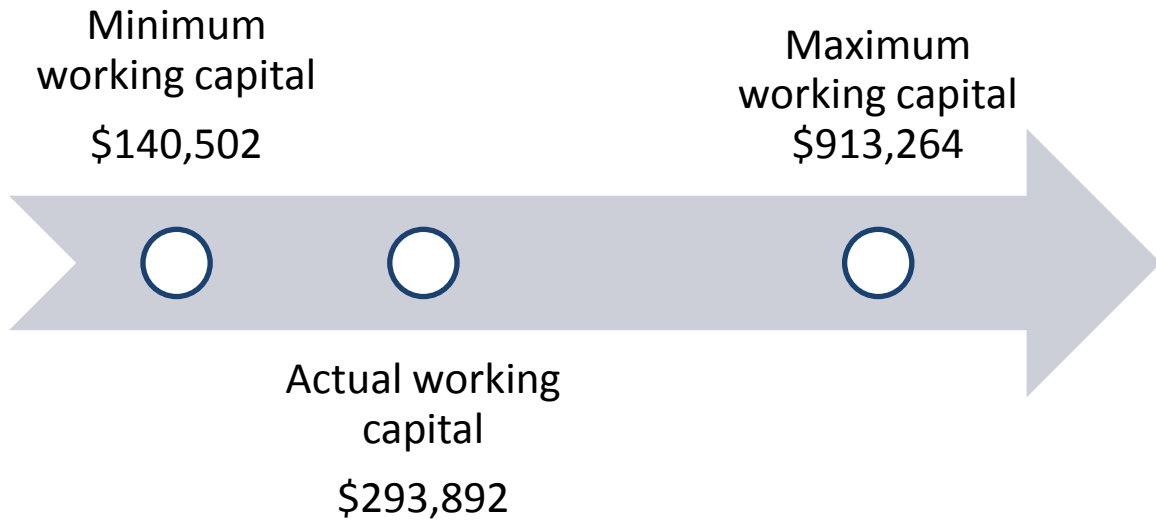
	FY2018 Budget Projections	FY2018 Actual	Variance \$	Variance %
Sales	\$4,540,000	\$4,736,408	\$196,408	4.3%
Total Operating Expenses including Capital Outlay	\$4,286,400	\$4,155,444	(\$130,956)	-3.1%

REQUIRED ACTION: *All ABC Boards are required to operate within a balanced budget. When sales projections exceed actual amounts, amend the budget to adjust for the increase. If budgeted line items are not balanced, adopt budget amendments to correct specific items or add omitted line items. G.S. 18B-702(h) states, "Except as otherwise restricted by law, the local board may amend the budget at any time after adoption, in any manner, so long as the budget, as amended, continues to satisfy the requirements of this section...Amendments to the adopted budget shall also be provided to the appointing authority and the Commission."*

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 gross sales greater than \$1.5M but less than \$50M an amount equal to three months of sales revenue.

Based upon the existing rules, the Lexington ABC Board is allowed to maintain a minimum working capital of \$140,502 and maximum working capital of \$913,264, equivalent to three months' gross sales. The board retained an actual working capital of \$293,892 in FY2018.



DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts all expenses, mixed beverage and bottle taxes. G.S. 18B-805 (c) requires the board to make a minimum quarterly distribution of the 3 ½% markup and .01/.05 cent bottle tax to the municipalities and county. Below is a chart of taxes paid to the NC Department of Revenue, Davidson County, and the City of Lexington.

G.S. 18B-805 (c) (2) and (3) requires the board to distribute quarterly at least five percent (5%) of profits to law enforcement and at least seven percent (7%) of profits toward alcohol education. Remaining profits are to be distributed as follows:

- Fifteen percent (15%) to the City of Lexington General Fund for recreational purposes
- Fifteen percent (15%) to the City of Lexington General Fund for schools
- Seventy percent (70%) to the City of Lexington General Fund.

Revenues Less Taxes and Cost of Sales FY2018	
Sales (Retail and Mixed Beverage)	\$4,736,408
Excise Tax	\$1,030,236
Mixed Beverage Tax (Combined)	\$37,199
Rehabilitation Tax	\$15,918
Net Sales	\$3,653,055
Cost of Liquor Sold	\$2,500,043
Gross Profit	\$1,153,012

	FY2018 Minimum Distribution Calculation	FY2018 Actual Distributions	Variance \$	Variance %
Gross Profit (Taken from Above)	\$1,153,012			
Total Operating Expenses	\$550,435			
Income from Operations	\$602,577			
Income (Loss) Before Distributions	\$601,124			
3 1/2 % Minimum Distribution	Total \$136,112	Total \$515,000	Total \$378,888	
<ul style="list-style-type: none"> • 15% to City of Lexington – Recreation • 15% to City of Lexington-Schools • 70% to City of Lexington General Fund 	<ul style="list-style-type: none"> • \$20,417 to City of Lexington-Recreation • \$17,354 to City of Lexington-Schools • \$98,341 to City of Lexington General Fund 	<ul style="list-style-type: none"> • \$77,250 to City of Lexington – Recreation • \$77,250 to City of Lexington- -Schools • \$350,500 to City of Lexington General Fund 	<ul style="list-style-type: none"> • \$56, 833 in excess to City of Lexington – Recreation • \$59,896 in excess to City of Lexington-Schools • \$252,159 in excess to City of Lexington General Fund 	278.4% in total excess
Law Enforcement	\$23,194	\$23,250	\$56	0.2%
Alcohol Education	\$32,473	\$ -	(\$32,473)	-1%

A contract between the City of Lexington Police Department and the ABC Board is in effect and requires the board to distribute at least 5% of profits if warranted. Referenced in the above chart, the Lexington ABC Board made a law enforcement distribution totaling \$23,250. In addition to the law enforcement distribution, the board is required to expend at least seven percent (7%) towards alcohol education or rehabilitation purposes. The Lexington ABC Board has not distributed funds for this purpose.

REQUIRED ACTION #1: *Begin distributing toward alcohol education/rehabilitation programs as described by G.S. 18B in FY2019 and future years. G.S. 18B-805 (c) (3) states that the local board shall spend, or pay to the county commissioners to spend, for the purposes stated an amount set by the board which shall be at least seven percent (7%) of the gross receipts remaining. G.S. 18B-805 (h) states that funds distributed shall be spent for the treatment of alcoholism or substance abuse, or for research or education on alcohol or substance abuse. Any agency or person receiving funds from the county commissioners or local board shall submit an annual report to the board of county commissioners or local board from which funds were received, describing how the funds were spent.*

REQUIRED ACTION #2: *Amend budget to reflect the expected alcohol education distribution requirement. Once approved, forward copies to the appointing authority, the NC ABC Commission, and the financial auditor.*

STORE APPEARANCE

The findings for store appearance are as follows:

- Both locations displayed the required Fetal Alcohol Syndrome poster as required by G.S. 18B-808.
- A North Carolina product selection is available within its own section.
- Products are placed within designated categories; premium products are found at eye-level or top shelf. However, in some categories, shelf space is excessively empty on the lower shelves.
- A consistent size flow shows a pattern from largest size on the right and smaller size on the left. New products and bestselling items are located at the front of the store on end caps or where space allows.
- In some instances, empty boxes were found on the sales floor due to insufficient space in the storeroom area.

RECOMMENDATIONS: *Consider utilizing resources that would create a shelf management system that is conducive to industry norms but considers sales history and trends.*

OPERATIONAL AND ADMINISTRATIVE COMPLIANCE

- While inspecting both store locations, a random sample of approximately 95 items was selected to determine if uniform pricing is displayed. Of those selected, all were correct.
- The board follows the requirements of G.S. 18B-700 (k) whereas the board does not employ members of immediate family of the general manager and/or board members.
- Board members are appointed by the Town of Lincolnton for three-year appointment terms. Board members are required to complete the NC ABC Commission ethics training within one year of appointment or reappointment. One board member has since been reappointed and has not yet completed the required ethics training.

REQUIRED ACTION #3: *As a reminder, board members who have been initially appointed and reappointed must complete the required ethics training within one year of appointment status.*

- The ABC Board has hired a finance officer to conduct financial duties pursuant to G.S. 18B-702(j). However, the finance officer has not yet completed the required ethics training.

REQUIRED ACTION #4: *Have the finance officer complete the ethics training as required. As a reminder, the finance officer and the general manager are required to attend or complete an NC ABC Commission approved training course every three (3) years. NCAC 15A .2001 states, "All finance officers and general managers shall complete a Commission training course for local boards within 12 months of their initial employment. After taking the initial Commission training course for local boards, all finance officers and general managers shall complete a Commission training course for local boards every three years that they are employed by a local board." NCAC 15A .2002 states, "All Commission training courses for local boards shall consist of two hours of ethics as a subject matter and no more than two hours of other subject matter."*

- In the initial performance audit conducted in FY2013, the findings instructed the board to complete an employee manual. Once approved, the board is required to forward to the NC ABC Commission for approval. The finding is still outstanding as of the current performance audit to date; the board has not completed and approved an employee manual.

REQUIRED ACTION #5: *Adopt a personnel manual and/or policies that incorporate board practices. The ABC Commission encourages ABC boards to model personnel policies and procedures after those of the appointing authority. However, certain ABC procedures must be clearly presented in the employee manual.*

REQUIRED ACTION #6: *As a reminder, submit policies to the NC ABC Commission prior to adoption. NCAC 15A .1102 states, "A copy of all rules or amendments thereto that may be adopted by a local board to govern the operation of ABC stores or the enforcement of the ABC laws shall be submitted to the Commission at least 15 days prior to the date on which it is proposed that those rules or amendments are to become effective."*

OTHER MATTERS

The Lexington ABC Board did not submit a response to the NC ABC Commission as to the required actions or other recommendations as mentioned. The NC ABC Commission strongly encourages compliance with the required actions as they are governed by the NC ABC General Statutes.