

Cramerton ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA

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ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

CHAIRMAN:

A. D. "Zander" Guy, Jr.

January 6, 2020

COMMISSIONERS:

Norman A. Mitchell, Sr.
Charlotte

Karen L. Stout
Black Mountain

Carolyn Helms,
Chairperson,
Cramerton ABC Board
4701 South New Hope Road
Belmont, NC 28012

ADMINISTRATOR:

Agnes Stevens

Dear Chairperson Helms,

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 Cramerton 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.

FINANCIAL ANALYSIS

PROFIT PERCENTAGE TO SALES AND OPERATING COST RATIO

In FY2018, the Cramerton ABC Board had a profit percentage to sales of 3.0%. The initial performance audit conducted in FY2013 concluded a profit percentage to sales of 8.14%. The NC ABC Commission profit percentage to sales standards for ABC Boards with gross sales between \$2M and \$10M is 6.5%.

The operating cost ratio for the Cramerton ABC Board was 0.75 in FY2018. The Cramerton ABC Board's operating expenses decreased by 9.9% 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 Cramerton ABC Board did not meet profitability nor the operating cost standards as determined 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	\$554,976	\$505,205
Income from Operations	\$89,680	\$108,600

Factors affecting profitability and cost include:

- Opening of a second location within a 10-mile radius
- Additional financial obligation to secure loan for second property. Current annual long-term debt totals \$36,748.
- The board leases one store location for monthly rent of \$3,740. Annual rental expense totals \$39,193.
- Average ABC Boards cost of goods sold percentage is between 52-54% per year. The Cramerton ABC Board's cost of goods sold percentage is approximately 52%.
- Neighboring ABC Board, Belmont ABC, opened within an approximate 10-mile radius of the Cramerton ABC Board.

RECOMMENDATIONS

To increase sales, consider effective practices to generate more revenue such as:

- Partnering with distilleries to showcase product as long as it meets the NC ABC Commission's promotion requirements
- Creating recipe cards, displays, and other marketing techniques to further enhance customer shopping experience
- Borrowing common marketing strategies from suppliers and other boards for best practices in shelf management, customer service, and inventory management
- Contacting neighboring systems to inquire about selling off discontinued or slow-moving products or ask for a price reduction from the NC ABC Commission
- Taking advantage of Special Purchase Allowance (SPAs) or the buy-in process to provide variety within the store at a reduce cost while increase the profit margin.

BUDGET ANALYSIS

The NC ABC Commission audits and compares all ABC Board monthly sales with the submitted adopted budgets. In reviewing the budget to actual analysis of the FY2018 financial audit, sales revenues exceeded the budgeted projections by less than 1%. Overall total expenses were within budget for the respective year. Amendments were adopted by the board and were forwarded to the NC ABC Commission as required law.

The below charts shows the final budget to actual amounts and the variances in the financial audit of FY2018.

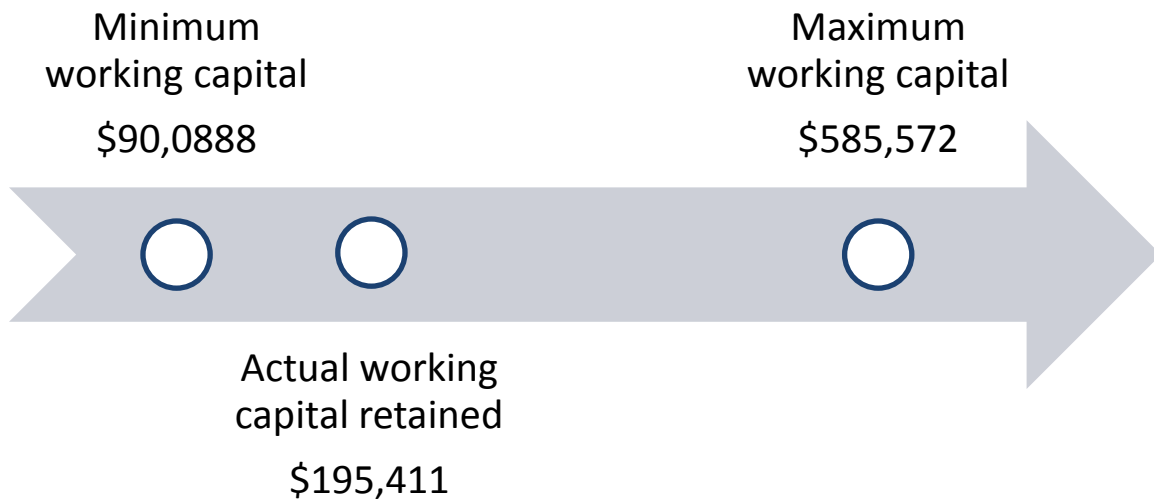
	FY2018 Budget Projections	FY2018 Actual	Variance \$	Variance %
Sales	\$3,030,280	\$3,030,340	\$180	0.01%
Total Operating Expenses including Debt Service and Distributions	\$3,060,280	\$2,990,477	\$69,803	2.3%

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. NCAC 15A .0902 (b) states, A local board shall set aside its working capital requirements at not less than two weeks' average gross sales of the latest fiscal year. The NC ABC Commission has set a maximum 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 Cramerton ABC Board is required to maintain a minimum working capital of \$90,088 and a maximum working capital of \$585,572, equivalent to three months' gross sales. The board retained an actual working capital of \$195,411 and is therefore in compliance.

Note: The FY2018 financial audit indicated a different calculation of working capital, \$432,159.



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, Gaston County, and the Town of Cramerton.

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 to the Town of Cramerton.

Revenues Less Taxes and Cost of Sales FY2018	
Sales (Retail, Mixed Beverage, and Wine)	\$ 3,030,340
Excise Tax	\$662,000
Mixed Beverage Tax (Combined)	\$16,575
Rehabilitation Tax	\$9,479
Net Sales	\$2,342,286
Cost of Liquor Sold	\$1,598,702
Gross Profit	\$743,584

	FY2018 Minimum Distribution Calculation	FY2018 Actual Distribution
Gross Profit (Taken from above)	\$743,584	
Total Operating Expenses*	\$604,690	
Income from Operations	\$138,894	
Income before Distributions**	\$89,680	
3 ½ Minimum Distribution	\$77,877	\$77,913
Law Enforcement	\$116	\$114
Alcohol Education	\$163	\$160

*Total operating expenses included depreciation expenses. Depreciation expense is not calculated for budget purposes.

**Income before distributions deducts interest income or expense.

A contract between the Cramerton Police Department and the ABC Board is in effect and requires the board to distribute at least 5% of profits if warranted. In addition to the law enforcement distribution, the board is required to distribute at least 7% towards alcohol education or rehabilitation purposes. The Cramerton ABC Board made these distributions as required by G.S. 18B-805.

FINDINGS AND RECOMMENDATIONS

STORE APPEARANCE

The findings for store appearance are as follows:

- The required Fetal Alcohol Syndrome poster is displayed as required by G.S. 18B-808.
- A North Carolina product selection is displayed separately within its own section and products are also displayed within their respective categories.
- Products are placed following industry standards and guidelines that would increase profit and encourage more impulse shopping. Examples are that of the following:
 - Products are placed within designated categories; premium products are found at eye-level and value-added products are placed 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
 - New products and bestselling items are available and displayed throughout the store using displays and additional gondolas.

OPERATIONAL AND ADMINISTRATIVE

Finding #1: While inspecting one store, a random sample of approximately 50 items was selected to determine if uniform pricing is displayed. Of those selected, one was incorrect.

ABC Statute¹ states, "The retail price of spirituous liquor sold in ABC stores and permitted distilleries shall be uniform throughout the State, unless otherwise provided by the ABC law."

RECOMMENDATIONS

Conduct a routine check of shelf prices along with the register to ensure accuracy. All prices must match what is in the register, the shelf, and in the NC Liquor Quarterly, and/or memorandums. Refer to the ABC Commission's website to verify product pricing.

¹ G.S. 18B-804(a) Uniform Pricing of Spirituous Liquor

Finding #2: Human resource issues pertaining to ABC Board policy approval and policy implementation have not been approved but have been implemented.

NC ABC Commission rule² states (a) each local board shall establish policies and rules governing each of the following:

- 1) Initial employment of employees, including qualifications and requirements for new employees;*
- 2) Compensation and benefits*
- 3) Hours and days of work, holidays, vacation, sick leave and other matters pertaining to the conditions of employment;*
- 4) Promotion, transfer, demotion and suspension of employees;*
- 5) Separation or termination of employees;*
- 6) Granting of salary increases;*
- 7) Employee grievance procedures;*
- 8) Any other programs or procedures as may be necessary to promote efficiency and to provide for a fair and reasonable system of personnel administration.*

(b) A local board is encouraged to model its personnel policies and procedures after those adopted by the county or municipality in which it operates.

(c) A local board shall not adopt a rule or policy that conflicts with the provisions of Chapter 18B or these Rules.

An additional rule³ states, “a copy of all rules or amendments thereto that may be adopted by a local board to govern the operations of ABC stores or the enforcement of the ABC laws shall be submitted to the Commission at least fifteen days (15) prior to the date on which it is proposed that those rules or amendments are to become effective.”

Policies pertaining to employee benefit structure must be approved by the ABC Board and provided to staff by the effective date.

2 (a) It has been a practice that policies implemented are not forwarded to the NC ABC Commission within the time frame as outlined in the rule. Policies applicable to this finding deal with the employee benefit structure.

In reviewing the ABC Board’s minutes, the following occurred:

- On August 16, 2017, the board approved a 457 or 401K plan for employees.
- On May 15, 2018, policies were discussed. However, the minutes do not reference what policies were changed. The NC ABC Commission did not receive changes to policies for approval.
- On July 18, 2018, the board voted to allow the general manager to research specifically the 457 or 401K policy.
- On August 15, 2018, the board decided to rescind the original vote of the 457 or 401K plan.

² NCAC Rule 15A .1006

³ NCAC Rule 15A .1102

RECOMMENDATIONS

As indicated above, ABC Board policy and procedural changes must be forwarded to the ABC Commission for review and approval.

As referenced under the finding, the NC ABC Commission encourages the ABC Board to model their personnel policies after the appointing authority. However, any policy changes must be approved before adoption to ensure that they do not conflict with ABC laws and rules and/or federal mandates.

Finding #3: Employment specifics and the division of duties between the general manager and finance officer are not clearly defined.

Note: The Cramerton ABC Board employs a general manager and a finance officer. The intent was for the general manager to resign after a period of the opening of the new location and to move the finance officer into the general manager position.

The board's function is to provide broad oversight of the ABC system. Clear communication of the duties and responsibilities of the general manager and finance officer should be made available to all parties.

Employment matters are between the board and the potential candidate or employee. Specifics regarding an employment contract have been developed in a closed/executive session and are not available for public knowledge. However, employees and the board are bound by the contract in its entirety. If changes are made altering the current contract, documentation of the approved changes are to be adhered to as specified. Communication to the general manager as the direct supervisor regarding the change was not clearly defined.

In reviewing the ABC Board's minutes, the board approved a reduction of hours worked from forty to twenty for the finance officer beginning February 1, 2019. However, payroll documentation for the finance officer indicates hours worked were less than the twenty hours authorized. Payroll check stubs indicated the finance officer was paid for more than forty hours in a given pay period.

RECOMMENDATIONS

All employees are required to perform duties and maintain sufficient documentation of hours worked. In the event that an employee contract is approved by the ABC board, the contract must be adhered to as specified.

Any changes to employment contracts or job descriptions should be clearly documented. As stated above, employment matters are between the board the potential candidate or employee. Therefore, human resource and employee matters are beyond the scope and expertise of the NC ABC Commission. Consult with legal counsel on the next course of action in the repayment of funds.

Finding #4: Internal control procedures are not defined and practiced.

ABC Board systems are required to implement internal control procedures for the effectiveness and efficiency of the operations. The general statutes⁴ outline specific mandates to ensure of this process and are as follows:

- The local board shall designate (i) a part-time or full-time employee of the board other than the general manager or (ii) the finance officer of the appointing authority with consent of the appointing authority to be the finance officer for the local board.
- The finance officer shall disburse all funds of the local board in strict compliance with this Chapter, the budget, pre-audit obligations, and disbursements as required.

Internal control procedures provide a basis for the accuracy and reliability of accounting records and financial statements. A larger system may have more clearly defined internal controls due to larger staffing. However, internal controls for a smaller system are not as extensive. In such instances, duties should be separated as much as possible to ensure the effectiveness and efficiency of operations to provide reasonable assurance of the reliability of the financial statements.

In reviewing financial documentations and interviewing personnel, key functions are not being followed that are required by the ABC statute.

1. The pre-audit certificate is not found on orders before the transaction is initiated.

The statute⁵ requires the use of a certificate, or stamp, to indicate the transaction has been approved by the board and verified in the budget by the finance officer's signature. It states, "No obligation may be incurred in the budget unless the budget includes an appropriation authorizing the obligation and an unencumbered balance remains in the appropriation sufficient to pay in the current fiscal year...If the obligation is evidenced by a contract or agreement requiring the payment of money or by a purchase order for supplies and materials, the contract, agreement, or purchase order shall include on its face a certificate stating that the instrument has been pre-audited to assure compliance with this subsection."

2. Although the finance officer has been responsible for the disbursement and recording of payments, internal controls dealing with the payroll function are not practiced.

In reviewing the time records of employees, management authorization is not available verifying the hours worked by the employee. In the absence of checks and balances in the disbursement and payroll function, payments were made that were not authorized by management. All payments are made by the finance officer.

⁴ G.S. 18B-702(j)

⁵ G.S. 18B-702 (m)

RECOMMENDATIONS

Affix the pre-audit certificate on all orders before the transaction occurs.

The common practice of other ABC boards is to utilize the initial order edit list function as provided by the computer software. Most ABC boards' edit lists include the quantity of cases ordered and an estimated total of the order. Affix the pre-audit certificate on the order edit list and have the finance officer sign verifying that the order is within the adopted budget line item. For office and store supplies, the pre-audit certificate can be placed on the invoice.

To strengthen and provide effective control of the system, eliminate one person handling two internal control functions where possible.

In smaller ABC systems, segregation of duties is often limited due to insufficient staffing. In situations like this, the board members are relied upon to provide appropriate checks and balances, such as verifying hours worked by staff. All disbursements and paychecks should be supported by itemized documentation and time sheets that are reviewed and approved by management with periodic verification by the board.

SUBSEQUENT EVENTS

The below information was received after the performance audit draft was completed and references the financial audit of FY2019. In FY2019, the Cramerton ABC Board had a profit percentage to sales of -2.9% with an operating cost ratio of 0.97.

In FY2019, the Cramerton ABC Board made the minimum 3 ½% distribution of \$72,729. However, distributions for law enforcement and alcohol educations were not made due to insufficient profits.

BUDGET ANALYSIS

In reviewing the budget to actual analysis of the FY2019 financial audit, the Cramerton ABC Board did not meet the sales budget as adopted. Amendments were not adopted to adjust for the decrease of sales and applicable expenses.

	FY2019 Budget Projections	FY2019 Actual	Variance \$	Variance %
Sales	\$2,830,100	\$2,817,397	-\$12,703	-0.4%
Expenditures	\$608,650	\$633,394	-\$24,744	-3.91%

RECOMMENDATIONS

Consider utilizing previous recommendations to increase sales while reducing expenses.

All ABC Boards are required to operate within a balanced budget.

When actual sales do not meet or exceed budget projections, amend the budget to adjust the sales line items. ABC Boards cannot appropriate items or spend money not included in the budget. 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."

OTHER MATTERS

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