

Columbus 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 16, 2020

COMMISSIONERS:

Norman A. Mitchell, Sr.
Charlotte

Karen L. Stout
Black Mountain

Kelly Hamby
Chairperson, Columbus ABC Board
250 W. Mills Street, Unit 3
Columbus, NC 28722

ADMINISTRATOR:

Agnes Stevens

Dear Chairperson Hamby,

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

LOCATION:

400 East Tryon Road
Raleigh NC 27610

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.

MAILING:

4307 Mail Service Center
Raleigh NC 27699-4307

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.

PHONE: (919) 779-0700

<http://abc.nc.gov/>

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,

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 FY2019, the Columbus ABC Board had a profit percentage to sales of 5.4%, a 1.5% increase over FY2018. The initial performance audit conducted in FY2012 concluded a profit percentage to sales of 1.35%. The NC ABC Commission profit percentage to sales standards for ABC Boards with gross sales less than \$2M is 5%.

The operating cost ratio for the Columbus ABC Board was 0.81 in FY2019. The Columbus ABC Board's operating expenses increased 11.3% over FY2018. The NC ABC Commission operating cost standard for ABC Boards with one or two stores with mixed beverage sales is less than 0.73.

Thus, the Columbus ABC Board met the profitability but did not meet the cost standard set by the NC ABC Commission. Below is a chart showing expenses and income from operations for the previous two years.

	FY2019	FY2018
Expenses excluding Depreciation	\$134,678	\$121,046
Income from Operations	\$36,663	\$26,120

Factors affecting profitability and sales:

- Neighboring ABC Board, Tryon ABC, is within a 5-mile radius of the Columbus ABC Board
- Mixed beverage sales totaled \$29,137, 4.5% of total gross sales
- Average ABC Board's cost of goods sold percentage is between 52-54% per year. The Columbus ABC Board's cost of goods sold percentage is approximately 54%.

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

In reviewing the budget to actual analysis of the FY2019 financial audit, sales revenues exceed budgeted projections by 2.6%. Total expenses were within budget projections for the respective year. Amendments to the budget were made and forwarded to the NC ABC Commission as required in G.S. 18B-702 (h).

The below chart shows the final budget to actual amounts and the variances in the financial audit of FY2019.

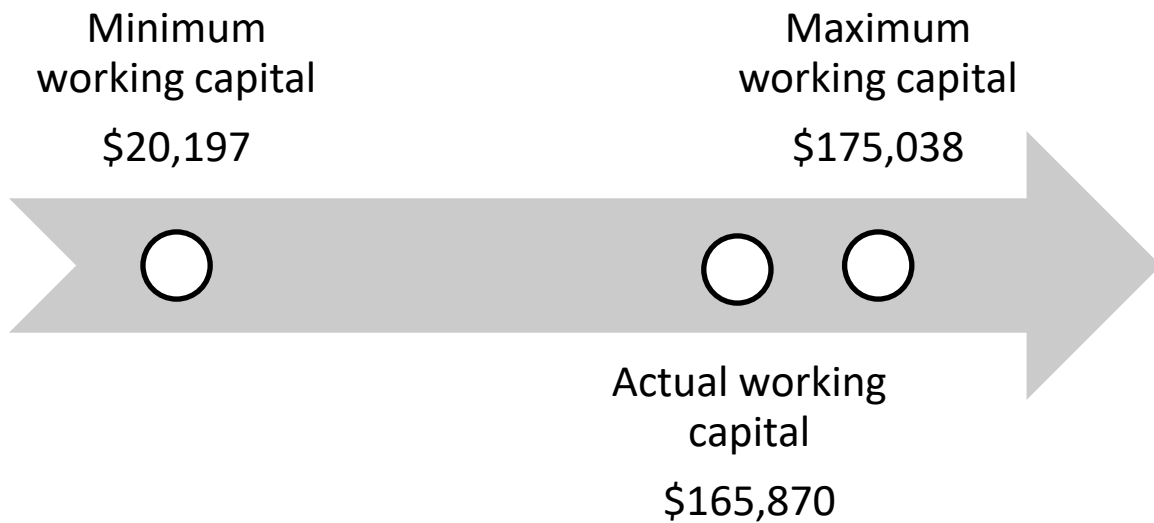
	FY2019 Budget Projections	FY2019 Actual	Variance \$	Variance %
Sales	\$661,900	\$678,978	\$17,078	2.58%
Total Operating Expenses	\$172,640	\$134,678	\$37,962	28.2%

REQUIRED ACTION: *All ABC Boards are required to operate within a balanced budget. When actual sales exceed budget projections, 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 less than \$1.5M an amount equal to four months of sales revenue.

Based upon the existing rules, the Columbus ABC Board is allowed to maintain a minimum working capital of \$20,197 and a maximum working capital of \$175,038. The board retained an actual working capital of \$165,870.



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 Town of Columbus and the county. Below is a chart of taxed paid to the NC Department of Revenue and the Town of Columbus.

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. The remaining profits are to be distributed to the Town of Columbus General Fund.

Revenues Less Taxes and Cost of Sales FY2019	
Sales (Retail, Mixed Beverage, and Wine)	\$678,978
Excise Tax	\$148,623
Mixed Beverage Tax (Combined)	\$2,747
Rehabilitation Tax	\$2,460
Wine Sales Tax	\$206
Net Sales	\$525,114
Cost of Liquor Sold	\$351,066
Gross Profit	\$174,048

	FY2019 Minimum Distribution Calculation	FY2019 Actual Distribution
Gross Profit (Taken from Above)	\$174,048	
Total Operating Expenses	\$137,385	
Income from Operations	\$36,663	
Net Position before Distributions	\$36,663	
3 ½% Minimum Distribution	\$19,626	\$7,500
Law Enforcement Distribution	\$852	\$852
Alcohol Education Distribution	\$1,188	\$1,193

As referenced in the above chart, the Columbus ABC Board did not meet the required 3 ½% minimum distribution. However, the board met the law enforcement and alcohol education distribution as required in G.S. 18B-805.

A contract between the Columbus ABC Board and the Columbus Police Department is in effect and requires the board to distribute at least five percent (5%) of profits if warranted. Referenced in the above chart, the Columbus ABC Board made a law enforcement distribution as required.

In addition to the law enforcement distribution, the board is required to distribute at least seven percent (7%) towards alcohol education or rehabilitation purposes. The Columbus ABC Board made these distributions as required by G.S. 18B-805.

REQUIRED ACTION: If profits are warranted, ABC Boards are required to distribute a 3 ½% minimum distribution following the schedule determined by the local enabling act. Once the minimum distribution is met, the board is required to distribute at least five percent (5%) toward law enforcement and at least seven percent (7%) toward alcohol education. G.S. 18B-805 (c) (1) states, “Before making any other distribution..., the local board shall set aside the clear proceeds of the three and one-half percent markup provided for in G.S. 18B-804(b)(5) and the bottle charge provide for in G.S. 18B-804(b)(6b), to be distributed as part of the remaining gross receipts under subsection (e) of this section.”

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.

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

1. While inspecting the store, a random sample of approximately 65 items was selected to determine if uniform pricing is displayed. Of those selected, all were correct.

STRONGLY RECOMMENDED: Although there is no indication of incorrect pricing, management must implement a routine procedure that would ensure inventory and pricing accuracy. A physical inventory count must be conducted, at minimum, on a monthly basis with frequent spot checks. Incorporate routine price verifications amidst physical inventory counts.

2. The board follows the requirements of G.S. 18B-700 (k) whereas the board does not employ members of the immediate family of the general manager and/or board members.
3. Board members are appointed by the Town of Columbus for three-year staggered appointment terms. Members are required to complete ethics training provided by the NC ABC Commission within one year of appointment or reappointment. According to Commission records, board members terms have expired.

REQUIRED ACTION: Confirm with the town the appointment terms of all board members. Once received, update the NC ABC Commission website to reflect current appointment terms for all board members. As a reminder, board members must complete ethics training within one year of appointment or reappointment status.

CORRECTIVE ACTION TAKEN: Management has updated the NC ABC Commission website to reflect new appointment dates for board members. Board members have been reminded to complete the required ethics training within one year. As of April 2020, no known record of completion has been recorded.

4. Board meetings are regularly scheduled as required by the general statutes. However, board notices are not displayed notifying the public of the time or place.

REQUIRED ACTION: Display a notice to the public of all scheduled board meetings indicating the date, time and place. G.S. 143-310.10 requires all official meetings of public bodies shall be open to the general public.

CORRECTIVE ACTION TAKEN: The board posts notices of regularly scheduled board meetings through multiple communication outlets, mainly on the appointing authority's website.

5. In the initial performance audit conducted in FY2012, the findings indicated that pre-authorization procedures were not evident in accordance with G.S. 18B-702(m). Management has not implemented procedures to ensure expenditures have been appropriately authorized in accordance with the general statutes.

REQUIRED ACTION: All ABC Boards must follow the pre-authorization practices as indicated in G.S. 18B-702(m). Affix the pre-audit certificate with the financier's signature on the initial order to LB&B or applicable invoice. When ordering supplies or services, have a purchase order, order confirmation, or vendor invoice for authorization from the finance officer before the transaction occurs. G.S. 18B-702(m) states, "...the contract, agreement, or purchase order shall include on its face a certificate stating that the instrument has been pre-audited to assure compliance. The certificate shall be signed by the finance officer or any deputy finance officer approved..."

CORRECTIVE ACTION TAKEN: Management has implemented operational procedures to ensure preauthorization and disbursements are being practiced and conform to the general statute.

6. In review of a physical disbursement check, the document did not show the approved certificate as required by G.S. 18B-702. The check signatures utilized are of the general manager and the assistant manager.

REQUIRED ACTION: Display on each disbursement check, other than payroll, the approved certificate specifics as required by G.S. 18B-702 (q). All checks must be signed by the finance officer and the board chairman or a deputy finance officer. G.S. 18B-702 (q) states, "Each check or draft on an official depository shall bear on its face a certificate signed by the finance officer or a deputy finance officer approved for this purpose by the local board (or signed by the chairman some other member of the board pursuant to subsection (o) of this section).

CORRECTIVE ACTION TAKEN: Management has implemented operational procedures to ensure preauthorization and disbursements are being practiced and conform to the general statute.

7. In reviewing the ABC Board's employee manual, certain policies do not reflect current practices or are not clear. The ABC Board has acquired a credit card to purchase store and office supplies but has not put policies in place to address who is authorized to use it, who will reconcile the statement, etc. A code of ethics has not been updated to reflect current board members.

REQUIRED ACTION: Adopt a personnel manual and operational 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: 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.”

CORRECTIVE ACTION TAKEN: Management is reviewing the personnel manual and other operational policies. Once sufficiently updated, the board will follow the approval process as outlined in the above rule.

Columbus ABC Board – Performance Audit Report Response

BUDGET ANALYSIS

We believe we were in compliance. Columbus ABC Board adopts budget amendments as needed to maintain a balanced budget.

OPERATIONAL AND ADMINISTRATIVE COMPLIANCE

1. General Manager will implement a routine practice to ensure inventory and pricing accuracy.
2. Columbus ABC Board does not hire immediate family members of the General Manager or Board Members.
3. We have confirmed the dates of Board Terms with the Town and all were current. However, terms had not been updated on the NC ABC Commission website. General Manager has entered Columbus ABC Board terms for the 2 board members that were reappointed in March 2020 and the Board Member that was reappointed in 2018. General Manager will update NC ABC Commission website as needed. All Board Members are in compliance with Ethics Training; and the Board Members that were reappointed will take the Ethics Training within 1 year of reappointment.
4. Board Meetings will continue to be displayed on the Town's website. General Manager has added notice of meetings on the door at the Columbus ABC Store.
5. Pre-authorization practices include using Purchase Orders when ordering supplies or services and signed by a Board Member.
6. All checks are signed by the Columbus ABC Board Chair and finance officer.
7. Columbus ABC Board is currently reviewing the Personnel Manual and Operational Policies to incorporate board practices and will submit policies to the NC ABC Commission at least 15 days prior to adoption.