

Caswell County 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.

COMMISSIONER:

Norman A. Mitchell, Sr.
Charlotte

ADMINISTRATOR:

Agnes C. Stevens

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April 3, 2019

Tony Mitchell
Chairman
Caswell County ABC Board
PO Box 338
Yanceyville, NC 27379

Dear Chairman Mitchell,

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 Caswell County ABC Board.

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.

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 FY2017, the Caswell County ABC Board had a profit percentage to sales of 2.9%, a 0.94% decrease over FY2016. In FY2016, the Caswell County ABC Board had a profit percentage to sales of 3.86%. In the initial performance audit of FY2013, the ABC Board had a profit percentage to sales of 2.84%. The ABC Commission profit percentage to sales standard for ABC Boards with gross sales between \$2M and \$10M is targeted at 6.5% or higher. Thus, the Caswell County ABC Board did not meet the targeted profit percentage.

The operating cost ratio for Caswell County ABC Board was 0.83. The ABC Commission standard for ABC Boards with three or more stores with mixed beverage sales is less than 0.63 or less. Thus, the Caswell County ABC Board did not meet the standard. Operating expenses increased in FY2017 by 6.3% over FY2016.

RECOMMENDATION #1: 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 FY2017 financial audit, sales revenues were above budgeted projections by 0.12%. Although overall expenses were within budget for the same time period, specific line items exceeded budgeted projections. The below chart shows the final budget to actual amounts and the variances.

	FY2017 Budget Projections	FY2017 Actual	Variance \$	Variance %
Sales	\$2,175,749	\$2,178,380	\$2,631	0.12%
Total Operating Expenses including Capital Outlay	\$449,496	\$436,217	\$13,279	3.0%

REQUIRED ACTION #1: All ABC Boards are required to operate within a balanced budget. 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."

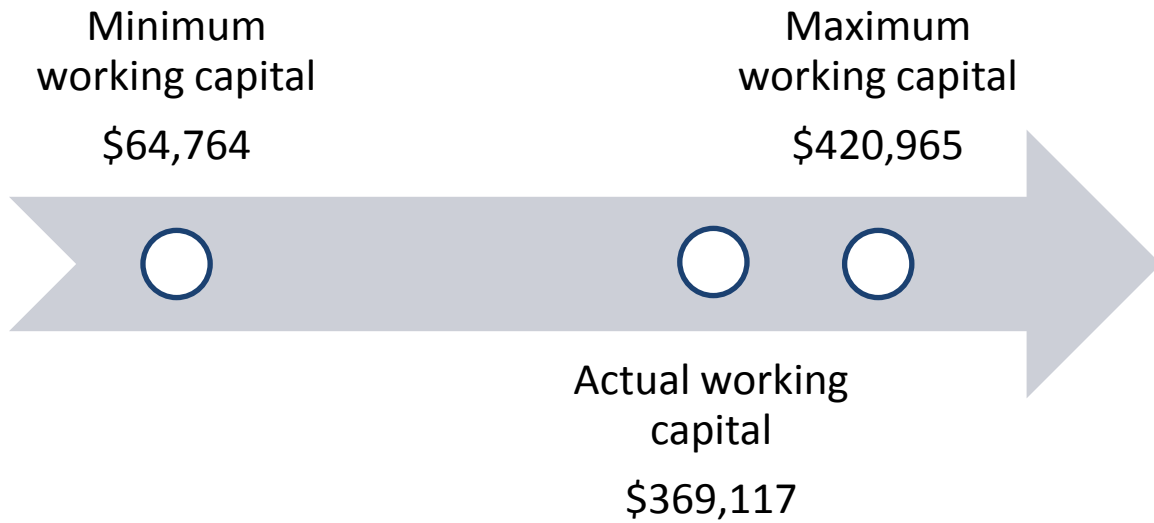
WORKING CAPITAL

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 the existing rules, the Caswell County ABC Board is allowed to maintain a minimum working capital of \$64,764 and a maximum working capital of \$420,965. The actual working capital the board has retained in FY2017 is \$369,117.

Note: The board's financial audit of FY2017 incorrectly calculates the maximum working capital being \$561,287 equivalent to four months gross sales revenue.

The NC ABC Commission has set a working capital standard for boards with gross sales less than \$50M and greater than or equal to \$1.5M to three months of sales revenue. The board's actual working capital has met the standard set by the NC ABC Commission.



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 and Caswell County.

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

- Seventy percent (70%) to the Caswell County General Fund
- Thirty percent (30%) to the Caswell County Board of Education.

Revenues Less Taxes and Cost of Sales FY2017	
Sales (Retail and Mixed Beverage)	\$2,178,380
Excise Tax	\$477,238
Mixed Beverage Tax Combined	\$8,943
Rehabilitation Tax	\$8,339
Net Sales	\$1,683,860
Cost of Liquor Sold	\$1,159,656
Gross Profit	\$524,203

	FY2017 Calculations	Actual Distributions	Variance \$
Gross Profit (Taken from Above)	\$524,203		
Total Operating Expenses	\$460,683		
Income from Operations	\$63,520		
Income (Loss) Before Distributions	\$63,808		
3 ½% Minimum Distribution	Total \$64,061	Total \$80,124	Total \$16,063
<ul style="list-style-type: none"> • 70% to Caswell County General Fund • 30% to Caswell County Board of Education 	<ul style="list-style-type: none"> • Caswell County General Fund - \$44,843 • Caswell County Board of Education - \$19,218 	<ul style="list-style-type: none"> • Caswell County General Fund - \$56,087 • Caswell County Board of Education - \$24,037 	
Law Enforcement	\$ -	\$2,000	(\$2,000)
Alcohol Education	\$ -	\$ -	

Per the above chart, the Caswell County ABC Board exceeded the minimum distribution requirement by \$16,063, a 25.1% increase. A dated contract between the Caswell County Sheriff's Department and the Caswell County ABC Board is in effect that requires the board to distribute at least five percent (5%) of profits in quarterly installments if profits are generated. The board distributed \$2,000 toward law enforcement in FY2017.

In addition to the law enforcement distribution requirement, the board is required to expend at least seven percent (7%) towards alcohol education or rehabilitation purposes. The Caswell County ABC Board has not distributed towards alcohol education and is required to do so if there are sufficient profits.

REQUIRED ACTION #2: *Begin making distributions toward alcohol education purposes if there are sufficient profits. Contact the NC ABC Commission for additional resources to aide in alcohol education distributions efforts.*

STORE APPEARANCE

The findings for store appearance are as follows:

- Three out of four locations displayed the required Fetal Alcohol Syndrome poster as required by G.S. 18B-808. Additional signage is worn and faded.
- Shelf management corresponds to the NC ABC Commission rule whereas premium products at eye level or top shelf and consumer loyal products at lower level. 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 shelf end caps or where space allows.
- A North Carolina product selection is available separately as well as merged within the specific brand category.

RECOMMENDATION #1: *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*
- *Considering a customer request log and evaluate the log monthly to determine if requests are addressed.*

OPERATING AND ADMINISTRATIVE COMPLIANCE

- While inspecting stores, the ABC Auditor randomly selected approximately ninety items to determine if uniform pricing is displayed on the shelves. Of those selected, all were correct.
- Board members are appointed by the Caswell County Commissioners 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, reappointed board members are required to complete ethics training within one year of reappointment status. G.S. 18B-706 (b) states, "Each member of a local board shall receive a minimum of two hours of ethics education within 12 months after initial appointment to the office and again within 12 months after each subsequent appointment to the office. The ethics education shall cover laws and principles that govern conflicts of interest and ethical standards of conduct for local ABC boards."*

- 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.
- Management has not cross trained an employee in key areas to strengthen internal controls and provide assurance that operations will continue should the manager be unavailable.

RECOMMENDATION #2: Begin designating at least one key employee to shadow the manager and learn his/her job in the event of sudden unavailability. Specific key operations for which cross training is essential should include end of the month procedures.

RECOMMENDATION #3: *Extend additional training opportunities to all staff in areas of customer service, Responsible Alcohol Sellers training, etc. The NC ABC Commission has approved additional selected training courses.*

- Since the initial performance audit, the ABC board has submitted an employee manual and other policies to better operate the system and provide guidance to customers.
- Liquor and miscellaneous purchases are approved in advance by the general manager and the finance officer. However, the pre-audit certificate is not found on the orders.

REQUIRED ACTION #4: *Place the pre-audit certificate with the finance officer's signature on the orders before the transaction occurs. G.S. 18B-702 (m) state, "...the contract, agreement, or purchase order shall include on its face a certificate stating that the instrument has been pre-audited to assure compliance."*

- Payments are made using an electronic payment process, BillPay, provided by the local bank institution. An encrypted password allows the general manager to enter the website and begin the payment process. The process specifies the listing of all vendors, invoice numbers, and invoice amounts before submission. Once all information is entered and verified, the general manager is able to process payments. Because the ABC system, does not utilize physical checks to pay vendors, the approved certificate along with the finance officer's signature is found on bank documentation.
- In reviewing the law enforcement activity reports, the board has not submitted reports by the 10th of every month.

REQUIRED ACTION #5: *Submit the require law enforcement activity information on the NC ABC Commission's website. If no information is available, submit "0" for all fields. In the future, all ABC boards are required to obtain law enforcement activity reports for agencies. G.S. 18B-501 (f) states "...every local board's ABC officers and those law enforcement agencies subject to an enforcement agreement entered into pursuant to subsection (f) of this section shall report to the local board, by the fifth business day of each month... The local board shall submit a copy of the enforcement report to the appointing authority and the Commission not later than five business days after receipt of the enforcement report by the local board."*

SUBSEQUENT EVENTS

The below information was received after the performance audit draft was completed and references the financial audit of FY2018. In FY2018, the Caswell County ABC Board had a profit percentage to sales of 2.11%. The operating cost ratio is 0.86.

See below the reference chart showing expenses and the income (loss) from operations of FY2018.

	FY2018
Expenses less Depreciation	\$449,082
Income from Operations	\$46,021

In FY2018, the Caswell County ABC Board made the minimum 3 ½% mark-up and bottle charge distribution totaling \$64,258 to the county. Law enforcement distributions totaled \$110. The board did not distribute toward alcohol education.

BUDGET ANALYSIS

In reviewing the budget to actual analysis of the FY2018 financial audit, the Caswell County ABC Board exceeded the original budget in gross sales. Amendments were adopted to adjust sales and applicable expenses. However, sales and expenses continued to exceed the budget.

	FY2018 Budget Projections	FY2018 Actual	Variance \$	Variance %
Sales	\$2,171,626	\$2,180,612	\$8,986	0.4%
Total Expenditures	\$438,554	\$449,082	\$10,528	2.4%

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.*

OTHER MATTERS

The Caswell County 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.