

Bunn ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
400 East Tryon Road, Raleigh, NC 27610
p: 919-779-0700 | f: 919-661-5927 | <http://abc.nc.gov>



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

LOCATION:
400 East Tryon Road
Raleigh NC 27610

MAILING:
4307 Mail Service Center
Raleigh NC 27699-4307

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

January 30, 2019

Richard Henn
Chairman
Bunn ABC Board
PO Box 235
Bunn, NC 27508

Dear Chairman Henn,

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 Bunn 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,

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 Bunn ABC Board had a profit percentage to sales of 5.4%, a 10.1% increase over FY2016. In FY2016, the Bunn ABC Board had a profit percentage to sales of 4.7%. The ABC Commission profit percentage to sales standard for ABC Boards with gross sales less than \$2M is targeted at 5% or higher. Thus, the Bunn ABC Board met the targeted profit percentage to sales.

The operating cost ratio for Bunn ABC Board was 0.76 in FY2017. The ABC Commission operating cost standard for ABC Boards with one or two stores and without mixed beverage sales is 0.85 or less. Total operating expenses less depreciation totaled \$150,693 in FY2017 and \$139,134 in FY2016, a 8.3% increase. Gross profit totaled \$199,119 and \$177,101 in FY2017 and FY2016 respectively. Gross profit increased by 12.4% over FY2016. Thus, the Bunn ABC Board met the targeted profit percentage to sales set by the NC ABC Commission.

BUDGET TO ACTUAL ANALYSIS

In reviewing the budget to actual analysis of the FY2017 financial audit, sales revenues were above budgeted projections by 8.3%. Total operating expenses were within budget for the same time period. The below chart shows the final budget to actual amounts and the variances.

	FY2017 Budget Projections	FY2017 Actual	Variance \$	Variance %
Sales	\$775,000	\$839,229	\$64,229	8.3%
Total Operating Expenses including Capital Outlay	\$158,970	\$149,399	\$10,571	6.4%

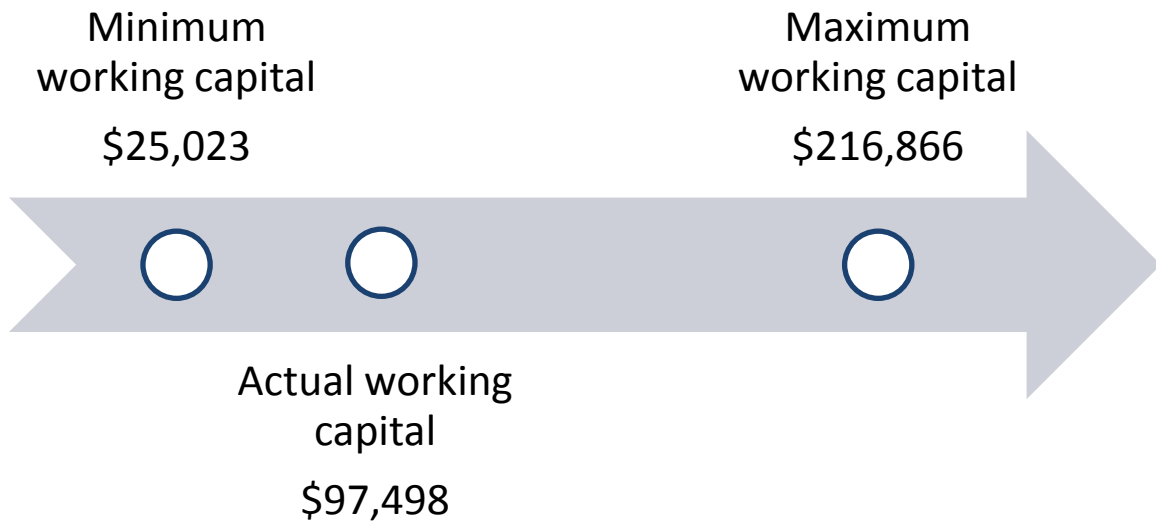
REQUIRED ACTION: *All ABC Boards are required to operate within a balanced budget. When sales projections exceed actual amounts, amend the budget to adjust for the increase.*

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 Bunn ABC Board is allowed to maintain a minimum working capital of \$25,023 and a maximum working capital of \$216,866. The actual working capital the board has retained in FY2017 is \$97,498.

The NC ABC Commission has set a working capital standard for boards with gross sales less than \$1.5M to four 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, Franklin County and the Town of Bunn.

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 or rehabilitation. Remaining profits are to be distributed to the Town of Bunn.

Revenues Less Taxes and Cost of Sales FY2017	
Sales (Retail and Wine Sales)	\$839,229
Excise Tax	\$185,542
Rehabilitation Tax	\$3,088
Net Sales	\$650,599
Cost of Liquor Sold	\$451,480
Gross Profit	\$199,119

	FY2017 Calculations	Actual Distributions	Variance \$	Variance %
Gross Profit (Taken from Above)	\$199,119			
Total Operating Expenses	\$153,989			
Income from Operations	\$45,130			
Income before Distributions	\$45,573			
3 ½% Minimum Distribution	\$24,735	\$37,072	\$12,337	49.9%
Law Enforcement Distribution (5%)	\$1,042	\$1,042		
Alcohol Education Distribution (7%)	\$1,459	\$1,459		

Although the ABC Board has been distributing toward law enforcement, a contract has not been adopted between a law enforcement agency and the board. The Bunn ABC Board is required to distribute quarterly at least five percent (5%) of profits to law enforcement and at least seven percent (7%) toward alcohol education if profits are generated.

REQUIRED ACTION: *Have a contract between the board and a law enforcement agency. Once enacted, submit a copy to the NC ABC Commission. G.S. 18B-501 (f) states, "Instead of hiring local ABC officers, a local board may contract to pay its enforcement funds to a sheriff's department, city police department, or other local law-enforcement agency for enforcement of the ABC laws within the law-enforcement agency's territorial jurisdiction...An agency contracted to provide ABC law enforcement shall designate no more than five officers to conduct inspections pursuant to this section and G.S. 18B-502."*

STORE APPEARANCE

The findings for store appearance are as follows:

- The store displayed the required Fetal Alcohol Syndrome poster as required by G.S. 18B-808.
- 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.

OPERATIONAL AND ADMINISTRATIVE COMPLIANCE

- 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 Bunn Commissioners for staggered three- year terms. Board members are required to complete the NC ABC Commission ethics training within one year of appointment or reappointment. Board member appointment terms are not staggered term limits as required by the local enabling act. Currently, all board members' terms have expired.

REQUIRED ACTION: *When an ABC board member's term has expired, they no longer have authority to vote on ABC board business. Ask the appointing authority to appoint new board members or reappoint the existing board members with staggered term limits. Once appointed, update the NC ABC Commission's website to reflect the changes.*

CORRECTIVE ACTION TAKEN: *Two board members have since been reappointed to the board. The NC ABC Commission website has been updated to reflect the current terms. The board continues to have one vacant seat.*

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

- Board meeting minutes are available and address specific details of what transpired. However, in being transparent with the items addressed in the agenda, a conflict of interest statement is not read or reflected in the minutes.

REQUIRED ACTION: *To reflect transparency and for accountability, a conflict of interest statement, provided in the NC ABC Commission Operations Manual, must be read by the board chairman at every meeting. Notate the conflict of interest statement as being read in the board meeting minutes.*

- Management continues to cross train key employees in some areas to strengthen internal controls and provide assurance that operations will continue should the manager be unavailable.

RECOMMENDATION: *Extend 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.*

- The ABC Board does not have a known employee manual. However, specific operational policies have been submitted to the NC ABC Commission.

REQUIRED ACTION: *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: *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."*

- The general manager serves as the finance officer for the ABC Board. However, an approval from the NC ABC Commission has not been granted.

REQUIRED ACTION: *Ask for a waiver from the NC ABC Commission to allow the general manager to serve as the finance officer up to three (3) years.*

REQUIRED ACTION: *Appoint a finance officer other than the general manager to perform essential financial functions relating to ABC Laws and NC ABC Commission rules. Once appointed, have the finance officer complete the required ABC ethics training or any Commission approved training course. 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."*

- 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: *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."*

- While inspecting the store, a random sample was collected to determine if uniform pricing is displayed on the shelves. Of those selected, all were correct.

SUBSEQUENT EVENTS

The below information was received after the performance audit draft was completed and references the financial audit of FY2018. In FY2018, the Bunn ABC Board had a profit percentage to sales of 5.2%. The operating cost ratio is constant at 0.76.

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

	FY2018
Expenses less Depreciation	\$153,010
Income from Operations	\$45,788

In FY2018, the Bunn ABC Board made the minimum 3 1/2% markup and bottle charge distribution totaling \$25,913 to the town. Law enforcement distributions totaled \$994 and alcohol education distributions totaled \$1,391.

BUDGET ANALYSIS

In reviewing the budget to actual analysis of the FY2018 financial audit, the Bunn ABC Board exceeded the original adopted budget. Amendments were not adopted to adjust sales and applicable expenses.

	FY2018 Budget Projections	FY2018 Actual	Variance \$	Variance %
Sales	\$860,000	\$879,957	\$19,957	2.3%
Total Expenditures	\$824,043	\$841,752	\$17,709	-2.1%

Town of Bunn ABC Board

Richard Henn, Chairman
Steve Mercer, Board Member
Lee Ann Coraci, Store Manager

July 27, 2018

Ms. Moniqua McLean, ABC Board Auditor
North Carolina ABC Commission
4307 Mail Service Center
Raleigh, NC 27699-4307

Dear Ms. McLean:

On behalf of the Bunn ABC Board, we would like to thank you for providing us with your performance audit report. Our board is committed to providing the citizens of The Town of Bunn, as well as surrounding areas in the sale of spirituous liquor, outstanding customer service to our patrons, and efficient operations that allow revenue to go back to the Town of Bunn and The Bunn Police Department. Your efforts in evaluating our store validates that our work is effective in meeting these goals.

The recommendations made in your audit have been reviewed and have been addressed by our staff and board. Specifically, we have updated the Commission's website with our Board members term information. Laurie Lee was contacted to provide information regarding the online ethics training class and one will be purchased by our board to insure that members receive ethics training within the first 12 months of their appointment. In the future, we will make sure they are appointed/reappointed in staggered terms. We have also provided an amended budget for the 2017-2018 fiscal year to the NC ABC Commission to reflect that we are indeed operating within a balanced budget. Additionally, a conflict of interest statement will be read at all future board meetings and reflected in the meeting's minutes.

Currently we are working with The Town of Bunn as well as the Town of Bunn Police Department in drafting a contract between our board and their department. Once it is finalized, we will submit it to the NC ABC Commission. The Town of Bunn ABC Board has also asked for a waiver from The NC ABC

Commission allowing the general manager to serve as the finance officer and has adopted a signature stamp policy, which we have attached to this email.

We appreciate your work on this audit and your professionalism in working with our employees. It is the goal of our Board to continue to improve our service in all parts of our operations.

Best Regards,

Richard Henn
Board Chairman
Town of Bunn ABC Board