

Brunswick 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.

August 30, 2019

COMMISSIONERS:

Norman A. Mitchell, Sr.
Charlotte

Karen Stout
Black Mountain

Coletta Faulk
Chairman
Town of Brunswick ABC Board
PO Box 7,
Brunswick, NC 28424-0007

ADMINISTRATOR:

Agnes Stevens

Dear Chairman Faulk,

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 Town of Brunswick 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,

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
- Visits 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 AND OPERATING COST ANALYSIS

In FY2016, the Brunswick ABC Board had a profit percentage to sales of 4.28%, a 0.65% increase over FY2015. The ABC Commission profit percentage to sales standards for ABC Boards with gross sales less than \$2M is targeted at 5% or higher. Thus, the Brunswick ABC Board has improved its profitability, but does not yet meet the targeted percentage. In FY2015, the Brunswick ABC Board had a profit percentage to sales of 3.63%.

The operating cost ratio for Brunswick ABC was 0.76 in FY2016. The ABC Commission standard operating cost ratio for ABC boards with one or two stores without mixed beverage sales is less than 0.85. Thus, the Brunswick ABC Board met the standard.

Brunswick's expenses less depreciation decreased 1.5% since FY15. Below is a chart showing expenses and the income (loss) from operations of the previous two years.

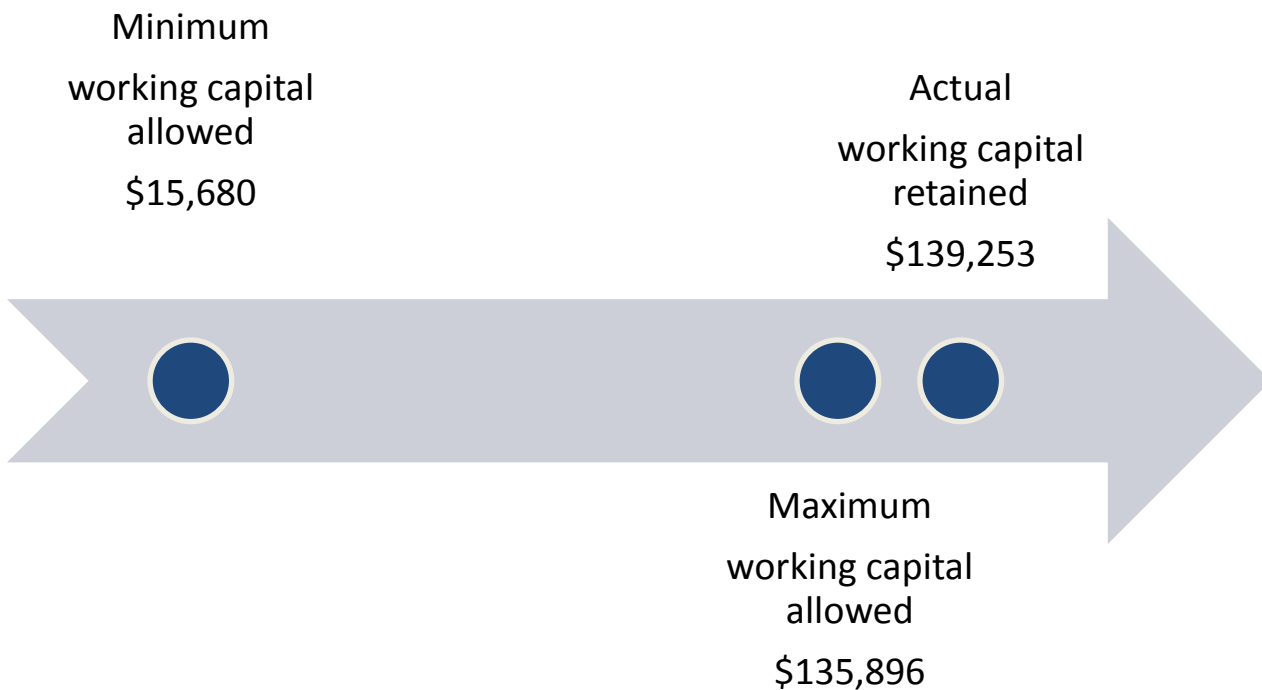
	FY16	FY15
Expenses including Depreciation	\$101,535	\$103,095
Expenses excluding Depreciation	\$94,883	\$95,232
Income (Loss) From Operations	\$23,051	\$18,200

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 Brunswick ABC Board is allowed to set a minimum working capital of \$15,680 and a maximum working capital of \$135,896. The actual working capital the board has retained is \$139,253.

The ABC Commission has set a working capital and efficiency goal for boards with gross sales of less than \$1.5M to be an amount equal to four months of sales revenue. The Brunswick's actual working capital exceeds the standard set by the ABC Commission by \$3,357. In the initial performance audit of 2012, the board was directed to seek approval from the appointing authority to retain excess capital for a specific capital improvement plan. The Brunswick ABC Board has obtained approval from the town to retain \$10,000 of working capital, although no clear plans for the \$10,000 retention were documented. The board is required by G.S. 18B-805 to distribute any excess of working capital to the appointing authority.



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, the Town of Brunswick, and Columbus County.

State Excise Tax	\$115,975
Rehabilitation Tax	\$2,305

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

S.L. 1967-540 requires the board to distribute the following:

- Five percent (5%) to the Town of Brunswick Fire Department
- Fifty percent (50%) to the Town of Brunswick General Fund
- Forty-five percent (45%) to the Columbus County General Fund to be allocated equally to the board of education school units

	FY2016 Calculations	Actual Distributions Made
Sales Revenue	\$525,967	
Total Operating Expenses	\$101,535	
Profit (Loss) from Operations	\$23,051	
Required 3 ½% Markup and Bottle Charge	\$15,835	\$19,338
• Town of Brunswick Fire Department	\$792	\$967
• Town of Brunswick General Fund	\$7,918	\$9,669
• Columbus County General Fund	\$7,126	\$8,702
Law Enforcement	\$361	\$9,600
Alcohol Education	\$505	\$ -

The board has distributed an excess of \$3,503 in mandatory distributions for FY2016.

A law enforcement contract has been submitted to the ABC Commission. However, in reviewing the details, the contract is between the Town of Brunswick and Columbus County and not with the Brunswick ABC Board.

In addition to the law enforcement distribution requirement, the board is required to expend seven percent (7%) towards alcohol education or rehabilitation purposes. The Brunswick ABC Board has not distributed towards alcohol education but is required to make alcohol education distributions in the future.

See next page for recommendations.

REQUIRED ACTIONS

REQUIRED ACTION #1: *To increase sales, consider effective practices to generate more revenue. Cutting expenses continuously is not recommended for increasing revenue. See additional recommendations under store appearance.*

REQUIRED ACTION #2: *Seek a clarification from the appointing authority approving the board's retention of up to \$10,000 of the excess maximum working capital for a specific capital improvement plan.*

CORRECTIVE ACTION TAKEN: The board has submitted an approval from the Town of Brunswick allowing the board to increase the working capital retained to \$10,000. The approval does not designate the retained funds to be for a specific purpose. The board is required to clarify the designation of funds for a specific capital improvement purpose.

REQUIRED ACTION #3: *Adopt a law enforcement contract between the Brunswick ABC Board and a law enforcement agency that would provide alcohol enforcement within the town limits.*

CORRECTIVE ACTION TAKEN: The board's response indicated the town attorney will draft a law enforcement contract between the ABC Board and a law enforcement agency. As of August 2019, a law enforcement contract has not been submitted to the NC ABC Commission.

STORE APPEARANCE

The ABC Board Auditor visited the store to evaluate store appearance in May 2017. The findings are as follows:

- Since the last performance audit, significant improvements were made to the store, including new counter areas, and more clearly define entry and exit. However, shelf management needs to be improved to efficiently utilize the excess space.
- Shelves displayed multiple products that were discontinued Christmas or seasonal products and other dead stock.

RECOMMENDATION #1: Utilize resources that would provide effective practices, i.e. shelf management, customer service, and inventory management, using the board's sales history.

RECOMMENDATION #2: Contact neighboring systems to inquire about selling off discontinued or slow-moving products or ask for a price reduction from the NC ABC Commission.

OPERATIONAL AND ADMINISTRATIVE COMPLIANCE

- In reviewing the store schedule, two employees are responsible for fulfilling daily operations. A risk is presented when two employees are operating six full days. In reviewing the board minutes, the board has set maximum hour limit for both employees to be 92 hours.

REQUIRED ACTION #4: *Adjust the schedule to allow employees to make daily deposits, travel to required trainings, and to perform necessary administrative duties outside of the store.*

- While inspecting stores, the ABC Auditor randomly selected approximately twenty- four product codes to determine if uniform pricing is displayed on the shelves. Of those product codes selected, four were incorrect.

REQUIRED ACTION #5: *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 within the NC Liquor Quarterly, and/or memorandums. Refer to the ABC Commission's website to verify product pricing.*

CORRECTIVE ACTION TAKEN: *Management has implemented procedures to ensure correct prices are maintained.*

- Due to lack of overlap in store personnel, the ABC Board relies on the Town Clerk to make daily deposits. Because town employees are not employees of the board, they are not included in the board's bonding insurance.

REQUIRED ACTION #6: *Daily deposits are to be made by persons specifically bonded. G.S. 18B-700 states, "Each local board member and the employees designated as the general manager and finance officer of the local board shall be bonded in an amount not less than fifty thousand dollars (\$50,000) secured by a corporate surety, for the faithful performance of his duties."*

CORRECTIVE ACTION TAKEN: *The board has implemented procedures to allow for common cash management and handling practices to be fulfilled.*

- Personnel files are not available for current and former employees.

REQUIRED ACTION #7: *Create personnel files on all employees. Personnel files are required for all employees both current and former. Personnel files serve as documentation on human resource topics to ensure compliance with federal and state labor laws. Files should include employment application, documentation specifically requested by the board, etc. Although not required to be included within the individual personnel files, the I-9 Employment Eligibility Form is required for all employees.*

CORRECTIVE ACTION TAKEN: *The board has implemented procedures to ensure employee files are readily available at the store's physical location.*

- The board has updated the employee manual since the initial performance audit. However, copies of the employee manual were not submitted to the NC ABC Commission. In reviewing the current manual, job descriptions for employee positions were eliminated.

REQUIRED ACTION #8: *Create specific job descriptions for all employee positions.*

CORRECTIVE ACTION TAKEN: *The board has updated the employee manual and submitted to the Commission as required by the NC ABC Commission rule.*

- Board appointment dates have not been updated with the NC ABC Commission. New board members and reappointed board members have not taken the required ethics training.

REQUIRED ACTION #9: *Update the NC ABC Commission’s website to include the current appointment and reappointment dates. Have all new and reappointed board members to complete the required ethics training. 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.”*

CORRECTIVE ACTION TAKEN: *Except for the finance officer, all board members have completed the required ethics training as required by the general statute.*

- In reviewing the board meeting minutes, procedures for entering into closed session were not followed.

REQUIRED ACTION #10: *Follow the closed session proceedings as indicated in the ABC Operations Manual. The procedure for entering into closed session is as follows:*

- 1. When in open session, a motion to enter into closed session stating the specific reason is required.*
- 2. A vote is made and if approved, the board will enter the closed session to discuss the stated topic. No vote can be made while in closed session.*
- 3. To re-enter open session from closed session, a vote is made and if approved, open session is resumed.*

CORRECTIVE ACTION TAKEN: *The board has implemented procedures to ensure the correct practice of entering into closed session.*

SUBSEQUENT EVENTS

The below information was received after the performance audit draft was completed and references the financial audit of FY2018.

In FY2018, the Town of Brunswick ABC Board had a profit percentage of 4.71%, 0.15% decrease over FY2017. In the same year of FY2018, the board's operating cost ratio was 0.79.

See chart below showing the expenses and income (loss) from operations of the previous two years.

	FY2018	FY2017
Expenses less Depreciation	\$90,718	\$92,614
Income (Loss) from Operations	\$23,162	\$25,601

In FY2018, the Town of Brunswick ABC Board distributed the minimum 3 ½% markup tax and bottle charge, \$14,694, to the town and the county and an additional distribution of \$10,500. The ABC Board distributed \$9,600 toward law enforcement and \$957 toward alcohol education.

BUDGET ANALYSIS

In reviewing the budget to actual analysis of the FY2018 financial audit, sales revenue did not meet the budget projections for the year. The board made budget amendments throughout the year to adjust sales appropriations and expenditures. Below is a chart showing the final budget to actual amounts and the variances.

	FY2018 Budget Projections	FY2018 Actual Amounts	Variance (\$)	Variance (%)
Sales	\$555,315	\$492,147	(\$63,168)	-11.4%
Cost of Goods Sold	\$306,450	\$266,447	(\$40,003)	-15%
Total Operating Expenses including Capital	\$528,715	\$467,825	\$60,890	13%

REQUIRED ACTION #11: *Monitor the budget closely to ensure that actual appropriations or expenditures have not exceeded budgeted projections. All ABC Boards are required to operate within a balanced budget. When actual sales have exceeded the budget and expenses have not met budgeted amounts, the board is required to adopt a budget amendment to satisfy this requirement. 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 Commission's concern for inventory management practices produced additional procedures and requirements of the board. With additional requirements, the performance audit fieldwork was extended to ensure that practices would be implemented and improved. Commission representatives visited the ABC store to ensure practices such as shelf management reorganization, inventory management, and policy implementation are practiced. Below are additional recommendations:

- Continue to follow industry recommendations to improve on shelf management and category placement techniques. Changes and improvements need to be made over time to keep up with industry trends.

- Continue conducting inventory checks frequently to ensure an accurate count is noted within the store and within the register. For shipping discrepancies, contact the computer vendor to ensure the best method to adjust inventory. For other discrepancies, continue to document and adjust accordingly.
- The board has indicated that policies will be implemented, adopted, and forwarded to the NC ABC Commission. However, those policies have not been forwarded. The Commission strongly encourages the implementation of policies and procedures to better serve the employees and the operations of the ABC system.

To: Moniqua Mc Lean – ABC Board Auditor with North Carolina ABC Commission

From: Brunswick ABC Board

Brunswick ABC Board Members: Caletta Faulk, Tammy Blackmon and Nancy Hill

Date: July 31, 2017

Subject: Brunswick ABC Board Response to Brunswick ABC Board Performance Audit Report

The Brunswick ABC Board has reviewed the draft of the Brunswick ABC Board Performance Audit Report submitted by the NC ABC Commission. Included are some of the Brunswick ABC Board's Responses to Recommendations in the Report.

Recommendations per Performance Audit Report by NC ABC Commission with Brunswick ABC Board's Responses to Moniqua include the following:

Financial Analysis Recommendations and Responses

- **Recommendation #1: To increase sales, consider effective practices to generate more revenue. Cutting expenses continuously is not recommended for increasing revenue. See Additional recommendations under store appearance. #2: Seek a clarification from the appointing authority approving the board's retention of up to \$10,000 of the excess maximum working capital for a specific improvement plan. #3: Adopt a law enforcement contract between the Brunswick ABC Board and a law enforcement agency that would provide alcohol enforcement within the town limits.**

Response #2 - Due to the increasing costs of asphalt pavement maintenance, the Brunswick ABC Board has decided to earmark the \$10,000 excess maximum working capital fund specifically toward future repair of our Store parking lot. The appointing authority authorized the \$10,000 amount previously and our Finance Officer has tracked this amount in monthly finance reports since then. We are now specifically designating the upkeep of the parking lot as our capital improvement plan.

Response #3 - We have directed the Town Attorney to prepare a Contract for us to review.

Store Appearance Recommendations and Response

- **Recommendation #1: Utilize resources that would provide effective practices, i.e. shelf management, customer service, and inventory management, using the board's sales history. #2: Contact neighboring systems to inquire about selling off discontinued or slow-moving products or ask for a price reduction from the NC ABC Commission.**

Response #1 - Store Supervisor told the Board she has been in contact with Moniqua and a date for the Store's reset has not been scheduled but is in motion. We are currently waiting on a Reset of the Store to be done with Moniqua's assistance.

Response #2 - Store Supervisor told the Board she has been in contact with Marnina Queen, the Chief Executive Officer of New Hanover County ABC Board, about buying various products. The Store Supervisor told the Board that Danny will be picking up some products after August 8th Audit.

Operational and Administrative Compliance Recommendations and Responses

- **Recommendation #1: Adjust the schedule to allow employees to make daily deposits, travel to required trainings and to perform necessary administrative duties outside of the store. #2: 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 within the NC Liquor Quarterly, and/or memorandums. Refer to the ABC Commission's website to verify product pricing. #3: Daily deposits are to be made by persons specifically bonded. #4: Create personnel files on all employees #5: Create specific job descriptions for all employee positions #6: Update the NC ABC Commission's website to include the current appointment and reappointment dates. Have all new and reappointed board members to complete the required ethics training.**

Response #1 -The Store Supervisor told the Board the schedules have been adjusted to allow the Store Supervisor to handle administrative duties, etc. outside of the Store. The Board changed the Store Hours so on Monday - Friday the new Store hours are 10:00am to 9:00pm with Saturday Store Hours remaining the same 9:00am to 9:00pm. The Store Supervisor is allowed on her scheduled work days to come into the Store at 9:00am on her scheduled shift in order to have one hour before the Store opens to for example get mail, pick up bank deposit slips, get accountant package together, talk with accounting person if needed, take care of paperwork needed to be done for the Store, and etc.. A third and fourth employee have been hired.

Response #2 - The Store Supervisor told the Board all product codes and shelf prices have been changed since the Audit was done. The Store Supervisor told the Board they get a list from Raleigh the end of every month with pricing updates and what is on the website is the same as is on the list from Raleigh. She said prices are being monitored on a frequent basis to ensure product pricing accuracy.

Response #3 - Deposits are being made by bonded Brunswick ABC Store Employees on a daily basis.

Response #4 - Personnel files for current Employees are available at the Store in a locked file cabinet. An updated Employee manual will be submitted.

Response #5 - The Store Supervisor continues to work on job descriptions and they will be forwarded to you once approved.

Response #6 - Board Appointment dates in attached copy. The Ethics training was purchased. On July 18, 2017 Caletta Faulk, Tammy Blackmon and Nancy Hill, Board Members; Termika (Shay) Williams, Store Supervisor; and Cheryl Clewis, Clerk, completed the required ethics training. Cheryl Clewis faxed certification copy to Laurie Lee. Cathy Cribb, Finance Officer, was unable to attend on the evening of July 18th. She will schedule a time so she can complete the required ethics training.

- **Recommendation #7: Follow the closed session proceeding as indicated in the ABC Operational Manual.**

Response -The Brunswick ABC Board will comply with the proper guidelines as indicated in the ABC Operational Manual.

**To: Moniqua Mc Lean with NC ABC Commission
From: Brunswick ABC Board**

Date: July 31, 2017

Moniqua,

The summer is flying by. The Board hopes all is well with you and everyone at the North Carolina ABC Commission.

The Brunswick ABC Board appreciated the information provided in the Performance Audit Report regarding specific areas in which there was a need for improvement as well as some additional suggestions and comments that you expressed when you attended the Board meeting. The Board looks forward to a Reset of the Store with your assistance and appreciates your willingness to assist.

Included are 2 pages with some of the Brunswick ABC Board's Responses to Recommendations per the Brunswick ABC Board Performance Audit Report. In addition to information included regarding the Performance Audit Report the Board felt you may be interested in some additional actions taken by the Board which include:

- The Store Supervisor told the Board she has contacted Laurie Lee regarding website domain and Laurie Lee had told her that said she would set up an appointment with the IT Division to get it set up, after that it was easy to maintain.
- At the June Board Meeting Mr. Alan Thompson with Thompson, Price, Scott, Adams and Company presented his Budget recommendation, Proposed Budget, to the Board for FY 2017-2018. The Budget for FY 2017-2018 was adopted.
- The Board was told in addition to the law enforcement distribution requirement the Board is required to expend 7% towards Alcohol Education or Rehabilitation Purposes. The Board is required to distribute towards Alcohol Education in FY2017. At the June Board meeting Mr. Alan Thompson with Thompson, Price, Scott, Adams and Company recommended that the Brunswick ABC Board reduce the amount of money paid each year from Law Enforcement Contribution by 7% to offset the 7% Expenditure toward Alcohol Education or Rehabilitation "mandate/requirement". At the June meeting the Board approved to cover the 7% allotment of the Board's profits to be allocated to the Mandated Alcohol Education or Rehabilitation from the Law Enforcement Contributions made to the Town.
- At the July meeting of the Board a Brunswick ABC Board Travel Policy was adopted that the Board had prepared.
- At the July meeting of the Board a Brunswick ABC Store Dress Code was adopted that the Board had prepared.

Respectfully,


Brunswick ABC Board

Board Members - Caletta Faulk, Chairman, and Tammy Blackmon and Nancy Hill