

Belmont 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

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April 3, 2019

Joseph S. Stowe
Chairman
Belmont ABC Board
c/o The UPS Store
6428 Wilkinson Blvd
Belmont, NC 28012

Dear Chairman Stowe,

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 Belmont 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.

PROFIT PERCENTAGE TO SALES AND OPERATING COST RATIO

Note: The Belmont ABC Board opened in December 2017. The financial analysis will be based on a partial year. In FY2018, the Belmont ABC Board had a profit percentage to sales of 3.8%. 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 Belmont ABC Board was 0.93 in FY2018. The NC ABC Commission standard for ABC boards with one or two stores with mixed beverage sales is less than 0.73.

Thus, the Belmont ABC Board did not meet the profitability and operating cost standards set by the NC ABC Commission. Below is a chart showing expenses and income from operations for the 30 weeks of operation in FY2018.

	FY2018
Expenses excluding Depreciation	\$292,263
Income from Operations	\$47,089

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 did not meet budgeted projections by 19.1%. Overall expenses exceeded the budget projections by 57.8%. Amendments were adopted by the board. However, the amendments were not submitted to the NC ABC Commission.

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

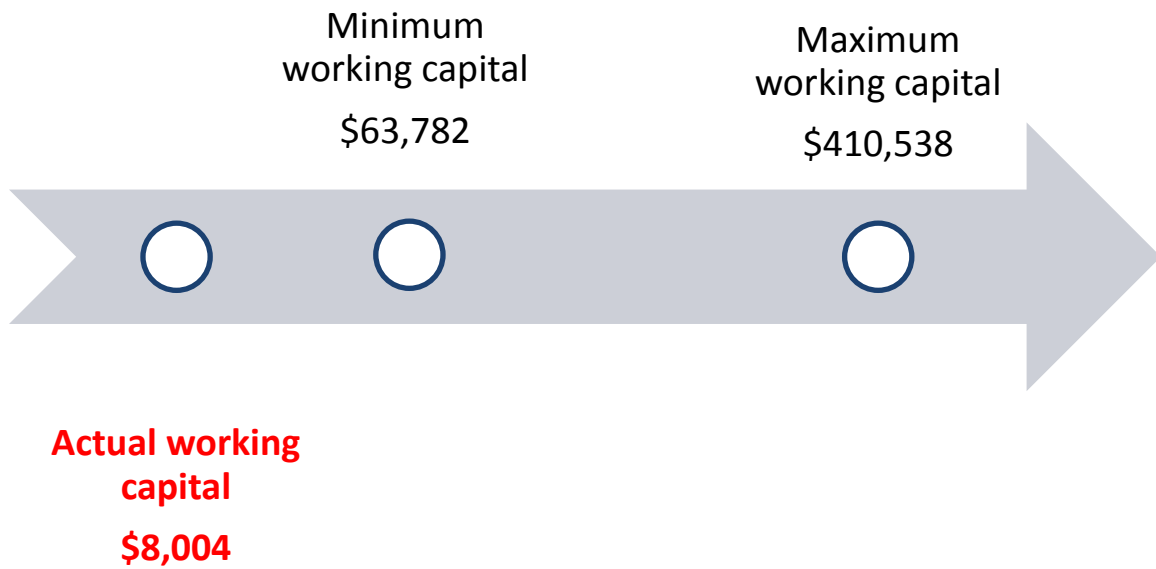
	FY2018 Budget Projections	FY2018 Actual	Variance \$	Variance %
Sales	\$1,547,000	\$1,251,944	(\$295,056)	-19.1%
Total Operating Expenses including Capital Outlay and Debt Service	\$283,380	\$671,031	(\$387,651)	-57.8%

REQUIRED ACTION #1: *All ABC Boards are required to operate within a balanced budget. When sales projections exceed or are not expected to meet actual sales, amend the budget to adjust for the difference. 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 greater than \$1.5M but less than \$50M an amount equal to three months of sales revenue.

Note: The working capital calculation is based on 30 weeks of operation. The calculation also includes a portion of long-term debt as current. Based upon the existing rules, the Belmont ABC Board is allowed to maintain a minimum working capital of \$63,782 and a maximum working capital of \$410,538, equivalent to three months' gross sales. The board retained an actual working capital of \$8,004 in FY2018.



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, Robeson County, and the Town of Belmont.

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 Belmont General Fund.

Revenues Less Taxes and Cost of Sales FY2018	
Sales (Retail, Mixed Beverage, and Mixer)	\$1,251,944
Excise Tax	\$268,173
Mixed Beverage Tax Combined	\$22,338
Rehabilitation Tax	\$3,509
Net Sales	\$957,924
Cost of Liquor Sold	\$642,689
Gross Profit	\$315,235

The ABC board has not distributed toward the required minimum 3 ½% distribution. Discussions indicate that the board has received approval from the appointing authority allowing the board to withhold distributions until debt is minimal and the board is profitable. The NC ABC Commission does not have a copy of the approval on file. The Belmont ABC Board does not have a contract with a law enforcement agency. Thus, law enforcement and alcohol education distributions have not been expended.

REQUIRED ACTION #2: *Submit a copy of the agreement between the appointing authority and the board allowing the board to withhold distribution for the specific reasons indicated.*

REQUIRED ACTION #3: *Have a law enforcement agreement between the board and a law enforcement agency. 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. Enforcement agreements may be made with more than one agency at the same time."*

CORRECTIVE ACTION: *The Belmont ABC Board has contracted with the Belmont Police Department to provide enforcement within the city limits of Belmont. A copy of the contract has not been forwarded to the NC ABC Commission.*

STORE APPEARANCE

Management has incorporated a shelf management or category management plan that follows guidelines specified in the NC ABC Commission rules and incorporated industry standards to maintain and increase profits. Products are placed within designated categories; premium products are found at eye-level or top shelf 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 and bestselling items are available and displayed throughout the store using displays and additional gondolas. A made-in-North Carolina selection is available in a designated area and also co-mingled within their 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 Belmont for three year appointment terms. Board members are required to complete the NC ABC Commission ethics training within one year of appointment or reappointment. All have completed the required training.
- Management continues to cross train employees in some areas to strengthen internal controls and provide assurance that operations will continue should the manager be unavailable.

RECOMMENDATION #1: *Extend additional training opportunities to all staff in areas of customer service, Responsible Alcohol Sellers training, etc. The NC ABC Commission approved selected training courses in these areas.*

- The ABC Board has submitted employee manual and additional policies to the NC ABC Commission. However, specific policies do not align with the practices of the ABC Board.

REQUIRED ACTION #4: *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. Include steps the board will take in the event employees were to sell to a minor.*

REQUIRED ACTION #5: *Submit policies to the NC ABC Commission before adoption procedures takes place. NC AC 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: *The board has adopted a personnel policy manual. A copy has been forwarded to the NC ABC Commission.*

- The Belmont ABC Board has elected to adopt the travel policy of the appointing authority. A copy of the travel policy is provided in the employee manual. However, the board has not obtained approval from the appointing authority. While reviewing travel expenses of board members and/or employees of the board, documentation was not available.

REQUIRED ACTION #6: *All ABC Boards are required to adopt a travel policy that conforms to the appointing authority or the Office of State Budget and Management. If the board elects to adopt a travel policy that conforms with the appointing authority, the board must submit a copy of the appointing authority's written minutes as to the travel policy and the board's travel policy annually. G.S. 18B-700(g2) states, "Approved travel on official business by the members and employees of local boards shall be reimbursed pursuant to G.S. 138-6 unless the local board adopts a*

travel policy that conforms to the travel policy of the appointing authority and such policy is approved by the appointing authority. The local board shall annually provide the appointing authority's written confirmation of such approval to the Commission and a copy of the travel policy authorized by the appointing authority."

REQUIRED ACTION #7: Retain all documentation pertaining to travel and other expenses according to the Records Retention Schedule. The Records Retention Schedule is found in the NC ABC Commission Operations Manual for ABC Boards.

CORRECTIVE ACTION TAKEN: The board has adopted the travel policy of the appointing authority. Copies of the travel policy of the appointing authority, the written approval from the appointing, and the board's travel policy have been forwarded to the NC ABC Commission.

CORRECTIVE ACTION TAKEN: Management has implemented procedures to retain the travel documentation as required by the travel policy.

- Payments are made using an electronic payment process, such as BillPay, provided by the local banking 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 accountant is able to process payments. The banking system does not have the mechanism to provide summary of transactions paid after processing. Because the ABC system, does not utilize physical checks to pay vendors, signatures are not located on inventory documentation.

REQUIRED ACTION #8: *Utilize the order acknowledgement and/or the order edit list to affix the pre-audit and approved certificate. G.S. 18B-702(m) and (q) states, "...If an obligation is evidenced by a contract or agreement requiring the payment of money or by a purchase order for supplies and material, the contract, agreement, or purchase order shall include on its face a certificate stating that the instrument has been preaudited to assure compliance with this subsection...A local board may not pay a bill, invoice, salary, or other claim except by a check or draft on an official depository or by a bank wire transfer from an official depository. Except as provided in this subsection, 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 or some other member of the board pursuant to subsection (o) of this section)."*

CORRECTIVE ACTION TAKEN: Management has implemented procedures to utilize the pre-audit certificate within the ordering process.

- The general manager serves as the finance officer. An approval from the NC ABC Commission has not been awarded.

REQUIRED ACTION #9: *Submit a written request to the NC ABC Commission allowing the general manager to serve as the finance officer. G.S. 18B-702(j) states, "The Commission, for good cause shown, may grant a waiver to allow the general manager of a board also to be the finance officer. Good cause includes, but is not limited to, the fact that the board operates no more than two stores, and any approval for the general manager also to be the finance officer shall apply until the board operates more than two stores; in any event, the approval shall be effective for 36 months. The Commission may grant one or more waivers to a board."*

CORRECTIVE ACTION TAKEN: The board has received an approval from the NC ABC Commission granting the general manager to serve as the finance officer as permitted in the general statutes.

- While inspecting the store, a random sample of approximately 95 items was selected to determine if uniform pricing is displayed. Of those selected, two were incorrect.

REQUIRED ACTION #9: *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. To further strengthen these controls, perform spot checks at random times for inventory control and price management. Refer to the ABC Commission's website to verify product pricing.*

CORRECTIVE ACTION TAKEN: Management has implemented procedures for performing routine pricing checks on the shelves and with the register.

Belmont ABC Board Performance Audit Report Response

Note: The Belmont ABC Board opened in December of 2017 (FY 2018) We have adopted measures to make sure our budget amendments are within accepted tolerance levels and that these amendments will be sent in the appropriate time window. The ABC Commission has accepted Budget amendments into August which in this case would be 2019.

In May of 2018 the Belmont ABC Board and our appointing authority made an agreement that we would postpone disbursements for 8-10 months until debt is minimal and the Board is profitable. In November of 2018 we contracted with the Belmont Police Department for law enforcement

G.S. 18B-805 (c) (2) and (3) requires the board to distribute at least 5% of profits to law enforcement and at least 7% of profits toward alcohol education. 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 3.5% markup and .01/.05 cent bottle tax to the city. Our first distributions were presented to our appointing authority for the first 2 quarters of FY 2019 on February 4th, 2019 and they are as follows:

The minimum contribution to the City of Belmont was \$16,294.85 for the first quarter of FY 2019.

The minimum contribution to the City of Belmont was \$20,660.43 for the second quarter of FY 2019.

The minimum contribution to the Belmont Police department for the second quarter was \$1810.93

The minimum contribution for alcohol education will be given to a suitable candidate at a later date and the amount will be \$2535.30

At our January 28th Board meeting the board adopted our personnel manual. NC AC 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."

G.S. 18B-700(g2) states, "Approved travel on official business by the members and employees of local boards shall be reimbursed pursuant to G.S. 138-6 unless the local board adopts a travel policy. The Belmont ABC Board has elected to adopt the travel policy that was approved by the appointing authority on February 4th, 2019. The local board shall annually provide the appointing authority's written confirmation of such approval to the Commission and copy of the travel policy authorized by the appointing authority.

The Belmont ABC Board will retain all documentation pertaining to travel and other expenses according to the Records retention schedule which currently states 3 years for such travel and expense documents.

G.S. 18B-702(j) states, "If an obligation is evidenced by a contract or agreement requiring the payment of money or by a purchase order for supplies and material, the contract, agreement, or purchase shall include on its face a certificate stating that the certificate has been pre-audited to assure compliance with this subsection. The Belmont ABC Board has been using the order acknowledgement to affix the pre-audit and approved certificate.

G.S. 18B-702(j) states, "The commission, for good cause shown, may grant a waiver to allow the general manager of a board also to be the finance officer. Good cause includes, but is not limited to, the fact that the board operates no more than 2 stores, and any approval for the general manager also to be the finance officer shall apply until the board operates more than two stores; in any event, the approval shall be effective for 36 months. The Commission may grant one or more waivers to a board. The ABC board received an approval from the NC ABC Commission which allows the general manager to serve as the finance officer in December of 2018.

The Belmont ABC board has agreed to perform routine pricing checks 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.

In closing, The ABC Board received a recommendation to extend additional training opportunities to all staff in areas of customer service, RASP (Responsible Alcohol Sellers Program training. We hosted a RASP event on February 13, 2019 with our staff and several Mixed Beverage permittees. The Belmont ABC Board will continue to develop our employees through training, product knowledge and employee development programs.