

Alexander 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

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August 3, 2022

Alexander County ABC Board
Judy Caywood, Chair
9469-A NC Hwy 127
Hickory, NC 28601

Chairwoman Caywood,

On the following pages, you will find the performance audit report conducted by the staff of the ABC Commission reviewing the operations of the Alexander County ABC Board. The report consists of an overview of the objectives & background summary, financial analysis and findings, and a summary of actions recommended based upon your board's performance and related findings. Additional considerations are listed as well to provide further guidance and enhance awareness to promote ABC board success.

Please reach out if you have any questions or require assistance in implementing any of the statute requirements, Commission rules, or other recommendations included in the report. On behalf of the North Carolina ABC Commission, I thank you and your staff for your assistance and cooperation in conducting this periodic review. We appreciate the continued efforts by your board to comply with the performance standards, as well as the board's commitment to increase profitability and reduce expenses.

If we can be of assistance in the future, please do not hesitate to reach out to the Commission staff.

Respectfully,

Terrance L. Merriweather
Deputy Commissioner

cc: North Carolina Association of ABC Boards

OBJECTIVE, PURPOSE & BACKGROUND INFORMATION

In addition to regular and special financial audits, G.S. 18B-705(a) authorizes the NC 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 audit's 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
- Verify compliance with Commission and Board policies
- Verify results of previous performance audit recommendations
- Review ABC Board annual independent financial audits
- Review ABC Board reporting and documentation reports
- Visit the store(s)
- Interview key ABC Board personnel

Alexander County was established in 1847 just ahead of the American Civil War. Linney's Mill, located in the county, was built in 1790 and is one of the few fully operational and producing mills in the entire state. The county's population per the 2020 Census is approximately 36,444 residents reflecting a slight decrease in residents since 2010.

Alexander County ABC Board was organized under the provisions of North Carolina General Statute 18B-601(b) and implemented retail sales on July 27, 2020. A referendum was held November 8, 2016, and the retail sales measure passed with 10,739 votes to 7,375. Mixed beverage sales passed with 10,441 supporting votes to 7,698 nay votes. The Alexander County Board of Commissioners appoints three (3) members to serve on the ABC Board.

The Alexander County ABC board currently operates one (1) retail store. The board staffs approximately nine (9) total employees including a general manager, finance officer, and sales associates. These include a full-time store manager / finance officer and eight (8) part-time personnel. The general manager is responsible for the daily store operations including supervising personnel, inventory management, and various retail functions. The finance officer provides the general manager/budget officer and the board with fiscal management, administrative support, and assist with routine operations of the ABC stores. Sales associate responsibilities include selling products, daily stocking, and floor upkeep & maintenance.

This 2022 performance audit is the first one for the Alexander County ABC Board. The Commission audit serves as a continuous way to provide local boards with information and best practices that target areas for improvement.



OPERATIONAL OBSERVATIONS, FINDINGS, REQUIRED ACTIONS, & RECOMMENDATIONS

On Tuesday, May 3, 2022, ABC Board Program Analyst Quinn Woolard, visited the Alexander County ABC Board and interviewed Ray Abernathy (General Manager) and Karen Haynes (Finance Officer). Below is a financial analysis followed by operation observations, findings, and recommendations related to the performance audit.

FINANCIAL ANALYSIS

PROFIT PERCENTAGE TO SALES & OPERATING COST RATIO

In fiscal year (FY) 2020-2021, the Alexander County ABC Board had a profit percentage to sales of 4.88%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales less than \$2M is 5.0%. The Alexander County ABC Board’s gross sales totaled \$1,032,727, which was the first fiscal year the board was in operation.

The operating cost ratio for the Alexander County ABC Board was .78 in FY 2020-2021. The NC ABC Commission standard for ABC Boards with one or two stores and mixed beverage sales is .73 or less.

Thus, the Alexander County ABC Board did not meet the profitability standards or the operating cost standards set by the NC ABC Commission. Below is a chart showing gross profit on sales and income from operations for the previous two years.

	FY2020-2021	FY2019-2020
Gross Profit on Sales	\$253,502	<i>Not yet operating</i>
Income from Operations	\$50,365	<i>Not yet operating</i>

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores within a fifteen (15) mile range of Alexander County ABC: Catawba County ABC has nine (9) stores operating within range; Granite Falls ABC Board/Store is operating within range.
- An ABC Board’s average cost of goods sold (COGS) is between 52% & 54% per year. The Alexander County ABC Board’s cost of goods sold was approximately 52.4% in FY 2020-2021.

- *Mixed beverage sales were less than 7.4% of total sales in FY-2021, and there are currently around four (4) mixed beverage business customers.*

BUDGET ANALYSIS

	FY 2020-2021 Budget Projections	FY2020-2021 Actual	Variance	Variance %
Sales	\$1,050,000	\$1,032,727	(\$17,273)	1.6%
Total Expenditures (to include Distributions)	\$1,263,430	\$1,091,406	\$172,024	13.6%

In reviewing the budget to actual analysis of the FY2020-2021 financial audit, actual sales revenues were under the budgeted projections by 1.6%. In addition, total expenditures were also under budget for the same period by 13.6%. The chart above shows the final budget to actual amounts and the appropriate positive or negative variances. *The board's FY-2021 ending net position for the first year of operations was \$47,180. Moreover, the board has approximately \$16,000 in financed debt that will be paid off in the coming year.*

DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, and rehabilitation taxes. G.S. 18B-805(c)(2) requires the board to distribute at least five percent (5%) of applicable gross receipts to law enforcement and at least seven percent (7%) for alcohol education. *Before assigning these percentage distributions, G.S. 18B-805(c)(1) requires the board to first make a minimum quarterly distribution of the 3.5% markup & relevant bottle charges to certain county/municipal recipients. Some of these specific recipients are designated by an official local enabling act (and thus will vary).*

In FY 2020-2021, Alexander County ABC made other statutory distributions totaling \$2,539 (Alexander County General fund received no net profit distributions). The amount of \$237,804 in primary distributions and other taxes were paid to the NC Department of Revenue (NCDOR), NC Department of Health & Human Services (NCDHHS), and the county commissioners of Alexander County.

The net profits are to be distributed as follows per the current local enabling act:

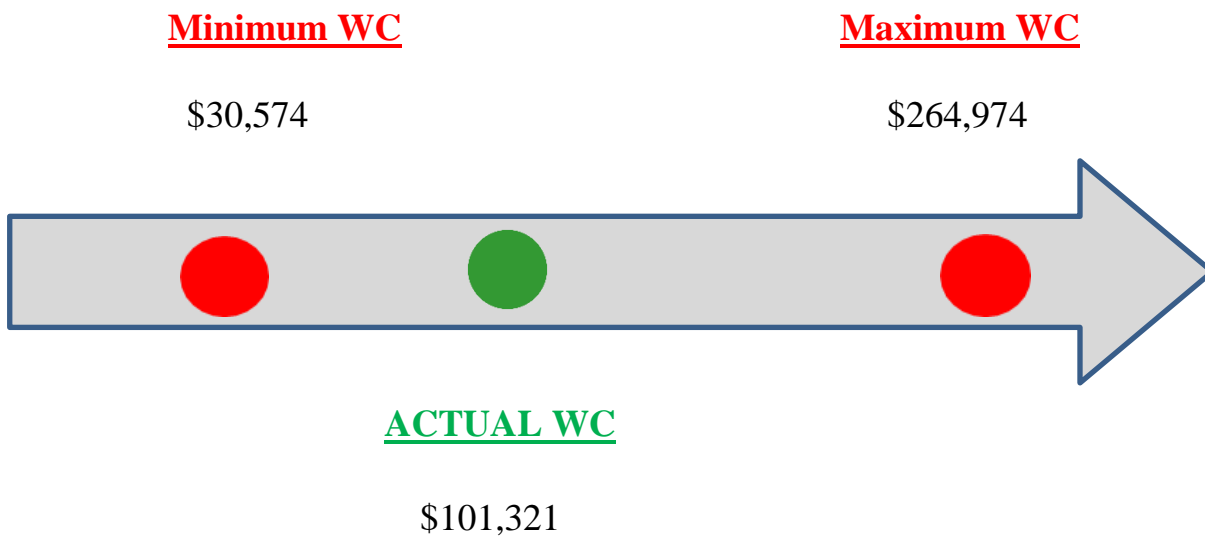
- One hundred percent (100%) of profits to Alexander County General Fund

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 annual gross sales less than \$1.5M an amount equal to four (4) months of sales revenue.

Based upon the existing rules, as of June 30, 2021, the Alexander County ABC Board is required to maintain a minimum working capital of \$30,574 with a maximum working capital amount of \$264,974. The Alexander County ABC Board had a working capital balance of \$101,321, which falls *within* the Commission requirements for this section (*).

*** FY 2020-2021: Working Capital (WC) graphic**



Under 18B-805(d), with approval of the appointing authority for the board, the local board may also set aside a portion of the remaining gross receipts as a fund for specific capital improvements.

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE

The findings for personnel, operational & administrative compliance are as follows:

- The board holds regular board meetings the third Thursday of each month at 7:30 AM, records regular meeting minutes, and provides public notification and awareness of these meetings. The minutes provided do not have the conflict-of-interest disclosure statements and discussion. The meeting minutes are routinely signed and kept in a binder for review. **Special note:** Board members have generously volunteered their time receiving zero financial compensation since the board's creation through May 2022. This measure alone has helped the board to save several thousand dollars in expenses.
- The board has a personnel policy manual which is the Commission template policy, but no copy was formally on file with the Commission. The board does not have an adopted code of ethics policy in place.
- Actual sales for FY-2021 were just under the projected adopted budget sales figures, and the board is set to exceed budgeted sales in FY-2022 before year end.
- The finance officer is signing checks as required per statute. Invoice records for liquor purchases reflect them as being paid inside of 30 days. Taxes and distributions are paid in a routine and timely manner. A local bookkeeper assists with monthly reconciliation, monthly financial statement preparations, and payroll which is processed bi-weekly.
- Board members conduct monthly checks and balances to ensure that cash management practices are upheld, and routinely review financial statements, monthly sales, sales to date, and miscellaneous items. The general manager and finance officer provide inventory system documents and financial statements prepared by the bookkeeper for review. Also, inventory adjustment reports are provided monthly to the board for visibility.
- Bank deposits are routinely made Monday, Tuesday, Wednesday per review of bank statements and discussion with the general manager.
- Pre-audit certificates are being routinely stamped on liquor orders as required by statute. *To increase administrative efficiency, the last page of the Order Edit List may be stamped with these pre-audit certificates.* The disbursement approval certificate statement is also present on blank checks.
- The general manager confirmed the board has a law enforcement contract with the Alexander County Sheriff's Dept, and that a copy will be provided to the Commission in the coming weeks.
- Law enforcement (LE) reports have been submitted routinely yet there are no statistics reflected. The general manager advised he will liaise with the county sheriff's department to communicate obtaining monthly applicable alcohol enforcement metrics. The sheriff's department is providing alcohol enforcement services for the board and compliance checks on local businesses holding retail ABC permits.
- The minimum mandatory net profit distribution to local recipients was calculated as being \$29,209 in the FY-2021 CPA annual audit, and no actual net profit distributions were made. The board is still newly established and is working to reach an eventual solid foundation of financial solvency and profitability. Board members communicate and liaise well with the appointing authority.
- Alcohol education distributions were made to Alexander County; however, the county did not provide any documentation to the ABC board describing how the alcohol education funds were utilized.
- Store inventories are conducted monthly with intermittent spot checks. The general manager prints variance reports monthly for the board members to review.
- The general manager verified that all board members and general manager and finance officer are bonded as required; board members' compensation amounts adhere properly to general statute requirements.

STORE APPEARANCE & INSIGHT

The findings for store appearance are as follows:

- The store is in a shopping center along with a key grocery retailer and sales have increased over the last year and will surpass FY-2022 budget. The rural location offers good opportunities for customers seeking to avoid some traffic congestion found in neighboring Hickory. The board will remain cognizant of opportunities to expand the store footprint into a neighboring suite should it become available at some point.
- Delivery service surveys will be obtained from retail liquor businesses. At the present, there are only three (almost four) mixed beverage permittees. It is anticipated there will be little to no interest among these business customers for the service, particularly due to proximity to the store. Due to being designated a Tier 2 county per NC Dept of Commerce records, the board can request a waiver from the Commission. Otherwise, ABC boards must offer delivery service to MXB customers beginning in July 2022 for Rule 15A . 1903 Delivery of MXB Permittee Orders.
- The store plans to install double doors at the rear of suite location to promote palletized deliveries and increase efficiency of operations. The landlord is supportive of this measure.
- The store was not displaying the required Fetal Alcohol Syndrome poster required by G.S. 18B-808. A poster was provided to immediately remedy.
- North Carolina products have their own section as required by law but are also cross merchandised according to product category.
- Products are placed within the designated categories; premium products are found at eye-level or top shelf. Regular occurrences were found with various bottle sizes of the same products increasing appropriately from left to right. Bottles were fronted and dusted.
- Outside area surrounding the store is well-maintained and free of debris or trash.
- Security systems are in place and functional in all designated areas.
- Sales associate interactions with customers are attentive, courteous, and all are eager to meet the needs of the customers.
- A random sample of roughly 60-70 items was selected to determine if uniform pricing is displayed. Of those selected, only one item had an incorrect price and was immediately corrected.

RECOMMENDED ACTIONS (PER STATUTES OR COMMISSION RULES)

- ABC Boards are required to operate within a balanced budget each fiscal year. Budget amendments must be approved by the board before any funds are transferred between accounts and utilized, occurring at the actual point of time an adjustment of funds is necessary. This would include the point in time during the fiscal year when the board will exceed its annual forecasted sales budget. *Ensure budget amendment copies are submitted to the ABC Commission as required per NCGS 18B-702(h), to include a final reconciliation budget amendment for the fiscal year end.*
- Law enforcement reports must be submitted on the Commission's board website by the 7th of each month referencing G.S. 18B-501(f1). Reports should include as applicable the number of arrests made for ABC law violations, number of agencies assisted with ABC laws, and other metrics for ABC law contribution such as compliance checks and alcohol education classes presented.
- A law enforcement contract copy must be provided to the Commission *per G.S. 18B-501(f)*.
- Cash revenues are to be deposited daily with an official depository per Rule 15A .0905 / Daily Deposits. Alternately, per item (d) of this rule, the board may pursue a waiver through the Commission via *written request where security for the funds involved would include a locked fireproof safe or other container designed for protection of money*. This can be sent directly via email request to Christine Twining.
- Ensure all policies are submitted to the Commission for recordkeeping and review per NCAC 15A .1102 Rule. *When the board has an official delivery service policy for new Commission Rule 15A .1903 – Delivery of Mixed Beverages Permittee Orders, please forward an electronic copy of the board policy to the Commission. Alternately, the board can request an exemption with Commission.*
- Recipients of alcohol education/research funds must annually provide an annual report to the board, describing how the funds were spent [*Referencing 18B-805(h)*]. *Consider the request to obtain documentation before the funds are officially awarded or transmitted to the recipient.*
- Board meeting minutes must have a conflict-of-interest disclosure statement, for proper adherence to G.S. 18B-201 (f)(k) and referencing G.S. 18B-700(h).
- The board must annually obtain approval from the appointing authority to adhere to their local government travel policy and annually provide the Commission a copy of this approval per G.S. 18B-700(g2). **NOTE:** *As another option, the board can alternately adopt the official State of NC government travel policy referenced under G.S. 138-6. This would allow the board an option to eliminate the annual travel policy update requirement by instead formally adopting the State of NC government travel policy during an official board meeting and providing a copy of minutes to the Commission.*
- All reappointed board members (and newly appointed members) are required to complete ethics training within one (1) year of their reappointment date per *G.S. 18B-706(b)*. Per Commission records on recent reappointment in July 2021, Board Member Teague would need to complete the ethics training by August 2022. *Completion certificates should simply be forwarded via email to the Commission.*
- The board need to adopt a code of ethics policy per *G.S. 18B-706* and forward a signed copy to the ABC Commission. The following is an additional needed administrative action: *A Certificate of Accountability attestation form should be reviewed and signed by applicable personnel. A signed copy should be emailed to Commission.*

ADDITIONAL CONSIDERATIONS & GUIDANCE

- The Commission encourages all boards to track and monitor board members' current appointment dates and term expiration dates. This will increase visibility and allow for seamless board member updates with the Commission. *It also allows ABC boards to easily communicate necessary reappointment dates and offer high visibility to the applicable appointing authorities involved, who may or may not be properly tracking ABC board member term expiration dates.*
- The Commission encourages and requests ABC boards to routinely update the Commission's board website when applicable (*referring to where boards log on monthly with password to report sales on the Commission's board website*). Some key pieces of information for updating would include updated board member information such as email addresses, member appointment dates, board member compensation changes, and store location hours changes and interior and exterior pictures of new / remodeled store locations. *Alternately, ABC boards can email communicating on any applicable changes to Commission staff who are ready to assist with processing online updates.*
- The Board is highly encouraged to closely review financial information and monitor straightforward ways to lower any recurring expenses. *A very tangible way to lower expenses is to take full advantage of monthly special purchase allowance (SPA) liquor products that routinely sell well in the store. By purchasing liquor on sale whenever possible, this will enhance the board's posture on lowering cost of goods sold (COGS).* Another way to do this is by limiting the amount of personnel travelling to conference and convention events across the state. Other ways to try to improve expenses include requesting bids annually from various vendors to get the best rates possible on financial audits, various utilities, maintenance contracts, and *credit card processing companies.*
- The board members have been excellent stewards saving thousands of dollars by receiving no financial compensation to date. However, the board is encouraged to consult with the appointing authority to establish some compensation amount going forward. *G.S. 18B-700(g) contains the applicable reference information.*
- ABC boards are encouraged to closely review financial statements monthly, comparing with the annual budget forecast, approving budget amendments when necessary and submitting copies to the Commission.
- Cross training opportunities for personnel should be maximized to ensure solid continuity of operations occurs for ABC boards. Also, training opportunities can work well to develop store employees for increased responsibility roles and serving to make both the routine operations and employee morale stronger.
- NCAC Rule 15A .1701 requires quarterly reports be submitted for any unsaleable merchandise (breakage) and retain original copies for three (3) years. *All breakage reports should only be transmitted via email submission to the Commission; copies should not be mailed.*
- As a reminder, remove all faded posters and replace with new ones when applicable. Reach out to the Commission to provide fetal alcohol syndrome posters, NC Dept of Labor can provide wage & hour posters, and OSHA can provide some applicable federal posters if any are needed.
- ABC boards can explore additional training opportunities periodically available through the ABC Commission as well as partnering with other ABC boards on specific areas such as best retail and marketing practices. **Please reach out to and lean on the Commission when guidance or assistance is needed to support local ABC board mission and success!**

ALEXANDER COUNTY ABC BOARD

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Hickory, NC 28601
abc.alexnc@gmail.com
828-598-0251

July 25, 2022

Quinn Woolard
400 E. Tryon Road
Raleigh, NC 27610

Dear Mr. Woolard,

We appreciate your support and recommendations initiated by the recently completed Performance Audit.

Please find our responses to the recommendations below:

1. Law enforcement reporting – I have contacted the Alexander County Sheriff's Office via Sgt Bill Stamey. He will be collecting and providing information to me monthly so I can fill out the report with more accurate information.
2. Travel policy – The board discussed the travel policy and decided to adhere to the state travel policy
3. Cash deposit waiver – Deposits are being made daily, except for Friday and Saturday. Those deposits are being kept in the new fireproof safe that we purchased until Monday morning when they are deposited. I have already applied for the waiver, but have not heard anything specific, but was told that the way we are doing the deposits would meet all requirements.
4. Conflict statement – The conflict-of-interest statement is now being used at the opening of all meetings.
5. Alcohol education – I have reached out to one of the employees at the county concerning reporting how our alcohol education money has been spent. She will report back as soon as possible.

I hope this satisfies your need and close out our Performance Audit requirements. We are looking forward to seeing you in the future!

Sincerely,

Jacob Ray Abernathy, Jr., GM
Alexander County ABC Board