

Fairmont 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

TABLE OF CONTENTS

ABC Commission Statement	3
Objective, Purpose & Background Information	4
Financial Analysis, Observations & Findings	6
Recommended Actions & Additional Considerations	11
Fairmont ABC Board Response	14



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

CHAIRMAN:
Hank Bauer

COMMISSIONERS:
Norman A. Mitchell, Sr.
Charlotte

Karen L. Stout
Black Mountain

Deputy Commissioner:
Terrance L. Merriweather

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/>

March 22, 2022

Fairmont ABC Board
Cynthia Dudley, Chair
200 N. Walnut St
Fairmont, NC 28340

Chairwoman Dudley,

On the following pages, you will find the performance audit report conducted by the staff of the ABC Commission reviewing the operations of the Fairmont 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

Located in the southern part of Robeson County, the Town of Fairmont was originally founded on the site of the Ashpole Institute which was a small private academy and then chartered in 1899 as Union City. The community changed names to Ashpole in 1901 and then became formally known as Fairmont in 1907. Tobacco markets played a central role in the earlier history of the town. In 2020, The Town of Fairmont was listed by the US Census Bureau as having a population of 2,507 residents.

S.L 1967-405 authorized the town to hold an election for an ABC store upon a petition signed by at least 25% of registered voters. The referendum was held on August 28, 1970 and passed 493 to 245. A subsequent mixed beverage election was held on November 5, 2002 and passed 482 to 378. Upon election of an ABC store, the town was authorized to create an ABC board consisting of a chairman and two board members to serve for three-year staggered terms.

The Fairmont ABC Board operates one (1) retail store with mixed beverage sales. The board staffs four (3) full-time, three (4) part-time employees, and occasional warehouse clerks. The general manager is responsible for the daily store operations including supervising personnel, inventory management, and various retail functions; the finance officer provides routine financial transactions and oversight including paying liquor invoices. The board has hired an external accountant to provide sufficient checks and balances and other financial duties as required by ABC statutes and Commission rules. Clerk responsibilities include selling products, daily stocking, and store upkeep.

The Fairmont ABC Board had its last performance audit back in 2016. This follow-up round of performance audits 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 February 8, 2022, ABC Board Program Analyst Quinn Woolard, visited the Fairmont ABC Board and interviewed Melvin Ellison, General Manager. 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 Fairmont ABC Board had a profit percentage to sales of 4.01%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales less than \$2M is 5.0%. The Fairmont ABC Board's gross sales totaled \$1,127,638, which was a 27.92% increase over FY 2019-2020.

The operating cost ratio for the Fairmont ABC Board was .81 in FY 2020-2021. The NC ABC Commission standard for ABC Boards with 1 or 2 stores and mixed beverage sales is .73 or less.

Thus, the Fairmont 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	\$272,820	\$222,651
Income from Operations	\$45,203	\$2,650

Factors affecting profitability and cost include:

- Surrounding municipalities with other ABC Boards operating stores within a fifteen (15) mile range include: One (1) store operated by Rowland ABC.
- The ABC Board currently owns the board / main store location and has no financed debt.
- The board anticipates neutral sales growth due to population stagnation in the area.

- An ABC Board’s average cost of goods sold (COGS) is between 52% & 54% per year. The Fairmont ABC Board’s cost of goods sold was approximately 53.3% in FY 2020-2021.
 - *Mixed beverage sales were less than 1% of total sales in FY 2020-2021, and currently there are two mixed beverage permittees served by the board.*

BUDGET ANALYSIS

	FY 2020-2021 Budget Projections	FY2020-2021 Actual	Variance	Variance %
Sales	\$900,000	\$1,127,638	\$227,638	25.3%
Total Expenditures (to include Distributions)	\$887,740	\$1,141,323	\$253,583	(28.6%)

In reviewing the budget to actual analysis of the FY2020-2021 financial audit, actual sales revenues were over the budgeted projections by 25.3%. In addition, total expenditures were also well over budget for the same period by 28.6%. The chart above shows the final budget to actual amounts and the appropriate positive or negative variances.

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, Fairmont ABC made distributions totaling \$63,040 (Town of Fairmont general received \$37,859 of this and Robeson County general fund received \$20,386 of this). The amount of \$254,031 in excise and other taxes were paid to the NC Department of Revenue (NCDOR), NC Department of Health and Human Services (NCDHHS), and the county commissioners of Robeson County.

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

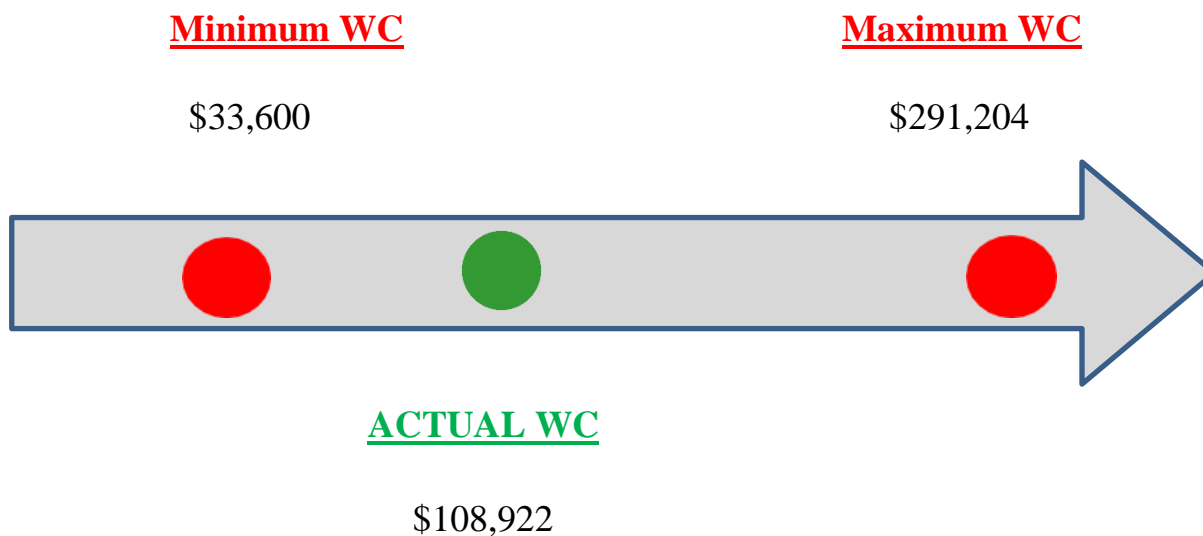
- Sixty-five (65%) percent to Fairmont General Fund
- Thirty-five (35%) percent to Robeson County General Fund

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 Fairmont ABC Board is required to maintain a minimum working capital of \$33,600 with a maximum working capital amount of \$291,204. The Fairmont ABC Board had a working capital balance of \$108,922 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 meetings the last Tuesday of each month normally at 6:00 PM, records regular meeting minutes. The board had not been routinely providing public notification and awareness of these meetings; however, notices have now been posted at the store entrance. The minutes on file were not signed by the Chair or other board member leading the meeting.
- The board has a personnel policy manual and code of ethics policy as required. The personnel manual is on file with the Commission, and there is a newer version available that will be forwarded to the board, along with a Certificate of Accountability form.
- The board has a business credit card but no policy for the card on file.
- No budget amendments were submitted to the Commission during FY 2020-2021 or were not located in Commission records.
- The finance officer is signing checks as required per statute.
- Checks for liquor invoices do not currently bear a disbursement certificate required by statute; orders for liquor do not bear the required pre-audit certificate and finance officer signature. The general manager stated that no pre-audit certificates have been routinely stamped on liquor orders as required by statute.
- For financial oversight, the board members review bank statements and financial records monthly along with the general manager and finance officer. Board members are encouraged to conduct monthly checks and balances to ensure that cash management practices are upheld.
- Bank deposits are routinely made daily per review of bank statements.
- An accounting firm, S. Preston Douglas & Associates, provides regular oversight to the board including monthly bank reconciliation. Records reviewed display evidence of timely payment for invoices and taxes.
- The general manager discussed a third full-time employee who can keep operations on track during scheduled and contingency absences of the general manager and finance officer.
- Law enforcement (LE) reports have not been submitted routinely over the last three (3) years. Six reports have been filed since April 2019. The LE contract on file is from 2010 and does not reflect the current town official(s).
- Profit distributions to the City of Fairmont have been below the minimum mandatory distribution over the past few years as the board has worked to become more financially solvent and profitable. *For FY-2021, the board made generous distributions well above the minimum.*
- The recipient of alcohol education funds did not provide any documentation to the board describing how the funds were utilized.
- For inventory management, the general manager advised the board conducts quarterly inventory. The store is working to obtain a second Zebra scanning device to expedite inventory receiving for truck orders and during inventory periods and miscellaneous. Currently, the board is receiving trucks twice per month.
- All board members and general managers are bonded as required; board members and general manager compensation adhere properly to general statutes.

STORE APPEARANCE & SHELF MANAGEMENT

The findings for store appearance are as follows:

- Shelf tags are outdated with plastic numbers displayed essentially, and there are plans to update tags to increase expediency and efficiency on price updates and verifications. A Zebra scanner was obtained in 2021, and the general manager plans to explore purchasing one more to improve efficiency in operations and accounting for inventory.
- The store did not have the required Fetal Alcohol Syndrome poster displayed in the store and required by G.S. 18B-808. A poster was provided to the board which was immediately placed on the wall.
- During the visit, it was noticed that North Carolina products are carried in the store but do not have their own section as required by law. Several green NC product tags were left with the board personnel and a general discussion of the requirement was provided. Following the visit, the store now has a section for NC products.
- In 2019, the general manager saw an opportunity for improvement by replacing the exterior Fairmont ABC store sign. Also, another exterior ABC sign was added to the side of the building. This was strategically done to increase store visibility as vacationers travel through the area to Myrtle Beach, and the store is located at the corner of an intersection.
- The store replaced store flooring in 2021 with vinyl, to provide increased durability and longevity. The board plans to replace flooring in the office area in the future.
- The board has ample warehouse space for storage.
- The board is considering replacement of some outdated and worn shelves in the store.
- 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.
- Store clerks' interactions with customers are attentive, courteous, and all are eager to meet the needs of the customers.
- While inspecting the store, a random sample of roughly 75 items was selected to determine if uniform pricing is displayed. Of those selected, all had the correct pricing but six items, and they were all properly corrected.
- As a reminder, remove all faded posters and replace with new ones. The ABC Commission can 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.

REQUIRED / RECOMMENDED ACTIONS (PER STATUTES OR 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. *Ensure budget amendments are submitted to the ABC Commission as required per NCGS 18B-702(h), to include a final reconciliation budget amendment for the FY 2020-2021 period.*
- Ensure all policies are submitted to the Commission prior to official board approval. Currently, an electronic copy of the policy & procedures manual is on file with the Commission and an updated version is available. The board should consider adopting the updated version. Also, a credit card policy should be updated, and a sample policy has been forwarded to the board for 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.”
- Ensure all purchase orders to include obligations evidenced by a contract or agreement requiring the payment of money, shall include or bear a certificate stating that the instrument (or order) has been pre-audited to ensure compliance with G.S. 18B-702(m) with a signature by the finance officer. The specific statement should read, *“This instrument has been pre audited in the manner required by G.S. 18B-702.”*
- Checks or drafts must bear a certificate, and the certificate shall take substantially the following form: “This disbursement has been approved in the manner required by G.S. 18B-702.” *No certificate however is required on payroll checks or for expenditures from petty cash of \$50.00 or less per 18B-702(q).*
- Due to new city or law enforcement officials involved, a new law enforcement contract reflecting current city officials must be adopted and a copy provided to the Commission *per G.S. 18B-501(f).*
- The board shall submit a copy of the law enforcement report to the appointing authority and the Commission by the 10th business day of each month per G.S. 18B-501(f1).
- Recipients of alcohol education/research funds must annually provide an annual report to the Fairmont ABC 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.*
- Each ABC store shall display spirits which are distilled in North Carolina in an area dedicated solely to North Carolina products, per G.S. 18B-801(e). The store needs to set up a small section of assorted liquor categories to display NC products to comply with the statute. The products can also be cross merchandised in their regularly displayed area of the store utilizing the green NC product tags throughout the store to help stimulate sales.

RECOMMENDED ACTIONS (PER STATUTES OR COMMISSION RULES)

- Board member terms for the three-member board are not currently staggered in accordance with 18B-700(a). Two (2) board members have been appointed/reappointed in the same calendar year of 2021 with the third member up for potential reappointment in 2022. Ideally, for the best continuity of operations, the board would want to consider eventual term “realignment” to allow for each board member having term expirations which are approximately one (1) year apart (or as close as possible). *One strategy that would immediately aid in improving staggered terms is to consider having the member up for reappointment in 2022 be reappointed for only one year through 2023. Then, if or when appointment is necessary again in 2024, the member could be appointed for three years again, and it aids the board in having better sequential term expirations.*
- All reappointed board members are required to complete ethics training within one (1) year of their reappointment date per *G.S. 18B-706(b)*. Per Commission records, the Chairman and Board Member Lennon would need to complete the training before the end of the 2022 calendar year.
- The Board has a code of ethics policy per G.S. 18B-706, and ABC Commission already has a copy. The following is a necessary administrative action:
 - The Board should complete a Certificate of Accountability form declaring the statutory duties of the board have been properly performed.

ADDITIONAL CONSIDERATIONS & RECOMMENDATIONS

- The Board should consider listing board member term expiration dates on board meeting minutes. This will allow high situational awareness for the board, and it serves to allow for efficient updates on communicating with the Commission.
- To improve operating cost ratios, the board can request bids annually from various vendors to get the best rates possible on financial audits, specific utilities, maintenance contracts, and credit card processing fees. *In addition, closely monitor and take advantage of monthly special purchase allowances (SPAs) to reduce the cost of goods sold on any applicable items that will sell well in the store.*
- The Board is highly encouraged to closely review financial statements monthly, comparing with the annual budget forecast, approving budget amendments when necessary and submitting copies to the Commission.
- To continue enhancing the store's modernization and layout, the board should consider replacing older, worn perimeter shelving. By updating the shelf tag pricing system with a smoother number display, it will increase efficiency for inventory as well as better visual appeal for customers.
- Inventory turnover for FY-2021 was 4.5 times for year, and the Commission standard for twice a month delivery is five (5) times or more per year. To improve inventory turnover, the board should more heavily analyze sales data to plan orders. Also, moving dead stock to a visible location or requesting price reductions from the Commission to move old product is a practical option.
- The Board should consider drafting a telework policy if any employees will be allowed to work remotely for any reason (especially with COVID and other related medical scenarios).
- 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 the routine operations and employee morale stronger.
- Quarterly distributions of profits must occur (per G.S. 18B-805(c)(e), *unless the applicable distribution recipients approve of distributions made otherwise.*
- Consider using existing liquor inventory to fill in empty sections as applicable, until out of stock product or new product inventory has been established in the store and shelf space.
- When applicable, ensure unsaleable merchandise (breakage) reports are submitted to the Commission quarterly. NCAC Rule 15A .1701 requires quarterly reports be submitted for any unsaleable merchandise and retain original copies for three (3) years.
- The Board 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.

Fairmont ABC Board
200 North Walnut Street
Fairmont, North Carolina 28340
910-628-7747
fairmontabc@gmail.com

To: Alcohol Beverage Control Commission

SUBJECT: Recent Audit

On February 10, 2022, Commissioner Quinn Woolard conducted an audit of the Fairmont 31 store. Mr. Quinn visit was very educational and formal. Some of things that he brought to our attention was contract with our Fairmont police department, the recipient of the alcohol education funds provide documentation to the board, describing how the funds are utilized. It was educational to find out when the town of Fairmont A B C Board was established in August 28, 1970 by at least 25% of the registered voter.

On February 22, 2022 we held our monthly meeting. Mr. Quinn joined us by telephone conversation and had the opportunity to meet with the board members. I, Cynthia Dudley along with the rest of the board, Mr. Melvin Ellison want to personally thank you for our most resent audit. Mr. Quinn did an amazing job. Please feel free to call on me or our manager at any time needed.

Chair Lady Cynthia Dudley,

Board member Dwayne McCormick

Board Member Bagley Lennon

Store Manager: Melvin Ellison