

Hamlet 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.

January 6, 2020

COMMISSIONERS:

Norman A. Mitchell, Sr.
Charlotte

Jerry Thomas,
Chairman
Hamlet ABC Board
921 Hamlet Avenue
Hamlet, NC 28345

Karen L. Stout
Black Mountain

ADMINISTRATOR:

Agnes Stevens

Dear Chairman Thomas,

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 Hamlet 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,

A handwritten signature in black ink, appearing to read "Agnes Stevens".

Agnes Stevens
Administrator

cc: NC Association of ABC Boards

OBJECTIVE, PURPOSE, AND SCOPE

In addition to regular and special financial audits, G.S. 18B-705 (a) authorizes the N.C. ABC Commission to conduct performance audits of all local ABC boards in the state. Performance audits are examinations of existing operating policies, practices, controls, and activities to determine those areas in which there may be a need for improvement.

The audits are designed to ensure that all local ABC Boards comply with established performance standards pursuant to G.S. 18B-203 (a) (20). The audits' scope addresses compliance with ABC laws and rules, store appearance, operating efficiency, solvency, and customer service.

To achieve the objectives of the audit, auditors:

- Review applicable General Statutes, ABC Commission Rules, and Administrative Policies
- Review applicable reports and studies of ABC boards with similar size and geography
- Consult with specialists at the UNC School of Government
- Verify compliance with Commission and Board policies
- Verify results of previous performance audit recommendations
- Review organizational chart and job descriptions
- Review ABC board annual independent financial audits
- Visit the store(s)
- Interview key ABC board personnel.

The initial round of performance audits for the local ABC Boards concluded in 2016 and provided a comprehensive overview of the operations of the local boards. The follow-up round of performance audits now under way is designed to provide local boards with information that targets specific areas for improvement. Board activities that meet or exceed current performance standards are not included as areas recommended for corrective action and so are not included in the attached summary report and recommendations.

PROFIT PERCENTAGE TO SALES AND OPERATING COST RATIO

In FY2018, the Hamlet ABC Board had a profit percentage to sales of 5.2%. The NC ABC Commission profit percentage to sales standards for ABC Boards with gross sales less than \$2M is 5%. The initial performance audit conducted in FY2012 concluded a profit percentage to sales of 4.44%. The Hamlet ABC Board's gross sales totaled \$1, 125,196, a 6.5% increase over FY2017.

The operating cost ratio for the Hamlet ABC Board was 0.74 in FY2018. Hamlet ABC Board's operating expenses increased by 1.8% over FY2017. The NC ABC Commission standard for ABC boards with one store and mixed beverage sales is less than 0.77.

Thus, the Hamlet ABC Board met the profitability and operating cost standards set by the NC ABC Commission. Below is a chart showing expenses and income from operations for the previous two years.

	FY2018	FY2017
Expenses excluding Depreciation	\$186,717	\$183,398
Income from Operations	\$59,055	\$61,412

Factors affecting profitability and cost include:

- The board operates a single store with mixed beverage; Total sales are \$1,125,196
- The ABC Board owns the current building, which decreases overhead expenses
- An ABC Board's average cost of goods sold is between 52-54% per year. The Hamlet ABC Board's cost of goods sold is approximately 54.9%. in FY2018.
- Mixed beverage sales total approximately 2.9% in FY2018.
- The closest neighboring ABC Board with a retail location, Rockingham ABC, is within a 5-mile radius.

BUDGET ANALYSIS

The NC ABC Commission audits and compares all ABC Boards' monthly sales with the submitted adopted budgets. In reviewing the ABC board budget, the financial audit displays a budget that does not reflect the budget submitted to the NC ABC Commission. Below is a comparison between what was submitted and what was presented in the financial audit.

	Approved Budget	Financial Audit Presented Budget
Sales	\$1,119,000	\$1,066,200
Taxes	\$244,600	\$244,600
Cost of Goods Sold	\$594,000	\$594,000
Operating Expenses	\$227,700	\$227,600
Distributions	\$52,700	\$ -

The below chart shows the final budget to actual amounts and the variances in the financial audit of FY2018.

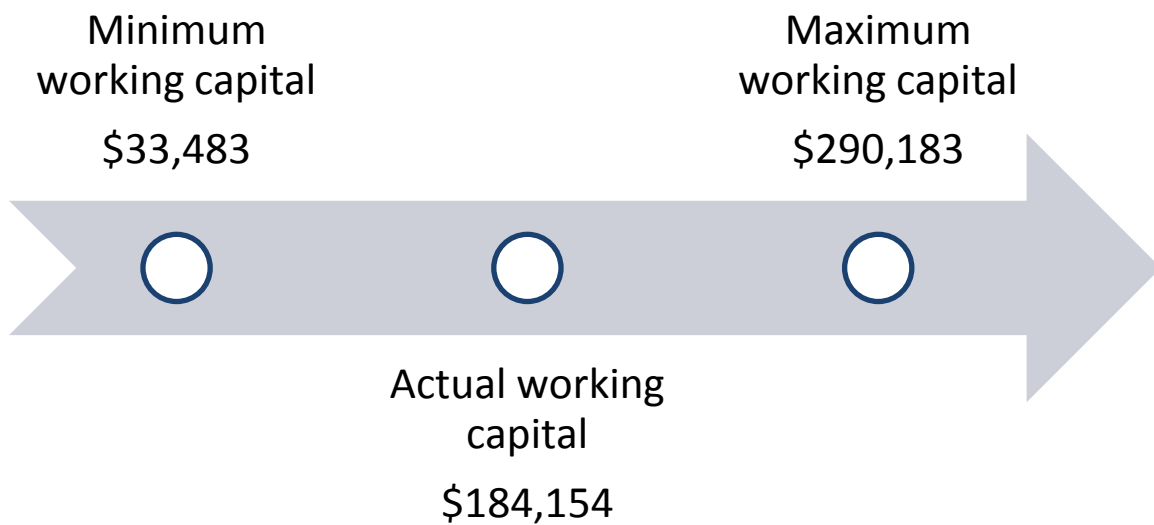
	FY2018 Budget Projections	FY2018 Actual	Variance \$	Variance %
Sales	\$1,066,200	\$1,125,196	\$58,996	5.5%
Total Operating Expenses	\$1,066,200	\$1,059,272	\$6,928	0.7%
Total Expenditures and Distributions	\$1,066,200	\$1,113,327	(\$47,127)	-4.2%

REQUIRED ACTION #1: *Ensure that all parties receive the budget as adopted. If amendments are needed, distribute the amendments to the appropriate parties as required in G.S.18B-702(h) and with the financial audit. Upon completion of the financial audit, review all the financial statements and supporting schedules to verify amounts correspond with the financial documents presented to the auditor and to the NC ABC 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. NCAC 15A .0902 (b) states, "A local board shall set aside its working capital requirements at not less than two weeks' average gross sales of the latest fiscal year." The NC ABC Commission has set a maximum working capital standard for boards with gross sales less than \$1.5M an amount equal to four months of sales revenue.

Based upon the existing rules, the Hamlet ABC Board is required to maintain a minimum working capital of \$33,483 and a maximum working capital of \$290,183, equivalent to four months' gross sales. The board retained an actual working capital of \$184,154, and is therefore in compliance.



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, Richmond County, and the Town of Hamlet.

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 Hamlet General Fund.

Revenues Less Taxes and Cost of Sales FY2018	
Sales (Retail and Mixed Beverage)	\$1,125,196
Excise Tax	\$246,922
Mixed Beverage Tax (Combined)	\$3,265
Rehabilitation Tax	\$4,441
Net Sales	\$870,568
Cost of Liquor	\$617,784
Gross Profit	\$252,784

	FY2018 Minimum Distribution Calculation	FY2018 Actual Distributions	Variance \$	Variance %
Gross Profit (Taken from Above)	\$252,784			
Total Operating Expenses	\$193,747			
Income from Operations	\$59,037			
Income (Loss) Before Distributions	\$59,055			
3 ½ Minimum Distribution	\$33,371	\$53,055	\$19,684	59%
Law Enforcement	\$1,284	\$1,000	-\$284	-22%
Alcohol Education	\$1,798	\$ -		

A contract between the Town of Hamlet and the Hamlet Police Department is in effect and requires the board to distribute at least 5% of profits, if warranted. Referenced in the above chart, the Hamlet ABC Board made a law enforcement distribution totaling \$1,000. In addition to the law enforcement distribution, the board is required to expend at least seven percent (7%) towards alcohol education or rehabilitation purposes. The Hamlet ABC Board has not distributed funds for this purpose.

REQUIRED ACTION #2: *Begin distributing toward alcohol education/rehabilitation programs as required by G.S. 18B in FY2019 and future years. G.S. 18B-805 (c) (3) states that the local board shall spend, or pay to the county commissioners to spend, for the purposes stated an amount set by the board which shall be at least seven percent (7%) of the gross receipts remaining. G.S. 18B-805 (h) states that funds distributed shall be spent for the treatment of alcoholism or substance abuse, or for research or education on alcohol or substance abuse. Any agency or person receiving funds from the county commissioners or local board shall submit an annual report to the board of county commissioners or local board from which funds were received, describing how the funds were spent.*

STORE APPEARANCE

The findings for store appearance are as follows:

- The required Fetal Alcohol Syndrome poster is displayed as required by G.S. 18B-808.
- A North Carolina product selection is available within its own section.
- Products are placed within designated categories; premium products are found at eye-level or top shelf. A consistent size flow shows a pattern from largest size on the right and smaller size on the left. New products and bestselling items are located at the front of the store on end caps or where space allows. Products made in North Carolina are displayed within their own section or within the brand category.

OPERATIONAL AND ADMINISTRATIVE COMPLIANCE

1. While inspecting the store, a random sample of approximately 50 items was selected to determine if uniform pricing is displayed. Of those selected, all were correct.
2. The board follows the requirements of G.S. 18B-700 (k) whereas the board does not employ members of the immediate family of the general manager and/or board members.
3. Board members are appointed by the Town of Hamlet for three-year staggered appointment terms. Board members are required to complete ethics training provided by the NC ABC Commission within one year of appointment or reappointment. One board member has been reappointed and has not yet completed the required ethics training.

REQUIRED ACTION #3: *As a reminder, board members who have been newly appointed or reappointed must complete the required ethics training within one year of appointment status.*

4. A conflict of interest statement is not read by the board chairman at the beginning of monthly meetings.

STRONGLY RECOMMENDED: *To impress transparency, it is encouraged that at every board meeting, the board chairman read a conflict of interest statement and ask other board members if there are conflicts related to what is to be discussed. A conflict of interest statement should contain the following, "In accordance with General Statute 18B-201, it is the duty of every Board member to avoid both conflicts of interest and appearances of conflicts. Does any member have any known conflict of interest or appearance of conflict with respect to any matters coming before the Board today?"*

5. ABC Boards are required to remit distiller payments within thirty (30) days of receiving the product. Supplier accounts receivable departments occasionally notify NC ABC Commission staff of past due invoices from ABC Boards. The NC ABC Commission has received notifications regarding late payments specifically by the Hamlet ABC Board. These notifications are forwarded to the general manager and in turn to the finance officer. The current process for disbursements is as follows:
 - a. The general manager receives invoices electronically from the warehouse vendor, LB&B
 - b. Invoices are printed and forwarded to the finance officer
 - c. The finance officer updates the accounting records and processes invoices for payments.Oftentimes, invoices become misplaced, which delays payment processing.

STRONGLY RECOMMENDED: To ensure that invoices are being processed within thirty (30) days, forward all invoiced received electronically to the finance officer upon receipt.

SUBSEQUENT EVENTS

The below information was received after the performance audit draft was completed and references the financial audit of FY2019. In FY2019, the Hamlet ABC Board had a profit percentage to sales of 7.2%, a 2% increase over FY2018. The operating cost ratio was 0.67 for the same fiscal year.

In FY2019, the Hamlet ABC Board made the minimum 3 ½% distribution of \$39,210 plus an additional distribution of \$43,609. Law enforcement and alcohol education distributions totaled \$4,734.

BUDGET ANALYSIS

In reviewing the budget to actual analysis of the FY2019 financial audit, the Hamlet ABC Board exceeded the sales budget as adopted. Amendments were not adopted to adjust for the increase of sales and applicable expenses.

	FY2019 Budget Projections	FY2019 Actual	Variance \$	Variance %
Sales	\$1,199,500	\$1,284,641	\$85,141	7.1%
Total Expenditures	\$1,141,500	\$1,185,327	(\$43,827)	-3.7%

REQUIRED ACTION #4: All ABC Boards are required to operate within a balanced budget. When actual sales exceed sales projections, amend the budget to adjust for the increase. ABC Boards cannot appropriate items or spend money not included in the budget. 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."

OTHER MATTERS

The Hamlet ABC Board did not submit a response to the NC ABC Commission as to the required actions or recommendations to be implemented. The NC ABC Commission strongly encourages compliance with the required actions as they are governed by the NC ABC General Statutes.