

Mt. Pleasant 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

Herman Watts
Chairman
Mount Pleasant ABC Board
PO Box 476,
Mount Pleasant, NC 28124

ADMINISTRATOR:

Agnes Stevens

Dear Chairman Watts,

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 Mount Pleasant 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 Mt. Pleasant ABC Board had a profit percentage to sales of 4.3%. The initial performance audit conducted in FY2013 concluded a profit percentage to sales of -0.89%. The NC ABC Commission profit percentage to sales standard for ABC Boards with gross sales less than two million dollars (\$2M) is targeted at 5%.

The operating cost ratio for the Mt. Pleasant ABC Board was 0.82 in FY2018. Mt. Pleasant ABC Board's operating expenses increased 5.7% over FY2017. The NC ABC Commission standard for ABC boards with one or two stores with mixed beverage sales is less than 0.73.

Factors affecting profitability and cost include:

- Town residents elected to have mixed beverage sales, resulting in one mixed beverage permitted establishment
- Traffic patterns from neighboring area stores shifted sales to the Mt. Pleasant location
- Local distillery within a two mile radius
- Mixed beverage sales began in December 2017

Despite all of these positives and an increase in sales, the Mt. Pleasant ABC Board did not meet profitability and operating cost standards as determined 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	\$173,386	\$164,007
Income from Operations	\$37,319	\$16,699

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, Cabarrus County and the Town of Mt. Pleasant.

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 following the local enabling act, S.L. 1967-196:

- Seventy-five (75%) to the Town of Mount Pleasant General Fund
- Twenty-five (25%) to the Cabarrus County General Fund

Revenues Less Taxes and Cost of Sales FY2018	
Sales (Retail and Mixed Beverage)	\$862,302
Excise Tax	\$189,142
Mixed Beverage Combined Tax	\$4,363
Rehabilitation Tax	\$2,805
Net Sales	\$665,992
Cost of Liquor Sold	\$454,814
Gross Profit	\$211,178

	FY2018 Minimum Distribution Calculation	FY2018 Actual Distributions
Gross Profit	\$211,178	
Total Operating Expenses	\$175,180	
Income from Operations	\$35,998	
Change in Net Position Before Distributions	\$37,319	
3 ½% Minimum Distribution	Total \$24,961	Total \$25,000
<ul style="list-style-type: none"> • 75% to the Town of Mount Pleasant General Fund • 25% to the Cabarrus County General Fund 	<ul style="list-style-type: none"> • \$18,721 to the Town of Mount Pleasant General Fund • \$6,240 to the Cabarrus County General Fund 	<ul style="list-style-type: none"> • \$18,750 to the Town of Mount Pleasant General Fund • \$6,250 to the Cabarrus County General Fund
Law Enforcement	\$618	\$1,865
Alcohol Education	\$865	\$870

Between the initial audit in FY2013 and the audit of FY2018, the Mount Pleasant ABC Board did not make distributions. However, as the above chart indicates, the board distributed in excess of the minimum 3 ½% distribution, law enforcement, and alcohol education for FY2018.

A contract is in effect between the Town of Mount Pleasant and the Mount Pleasant ABC Board to provide law enforcement and requires the board to distribute at least five percent (5%) of profits if warranted. The town contracts with the Cabarrus County Sheriff’s Department. In addition to the law enforcement distribution, the board is required to expend at least seven percent (7%) towards alcohol education or rehabilitation purposes.

BUDGET ANALYSIS

In reviewing the budget-to-actual analysis of the FY2018 financial audit, sales revenues exceeded the budgeted projections by 0.27%. Total operating expenditures were within budget for the same period. The below chart shows the final budget to actual amounts and the variances.

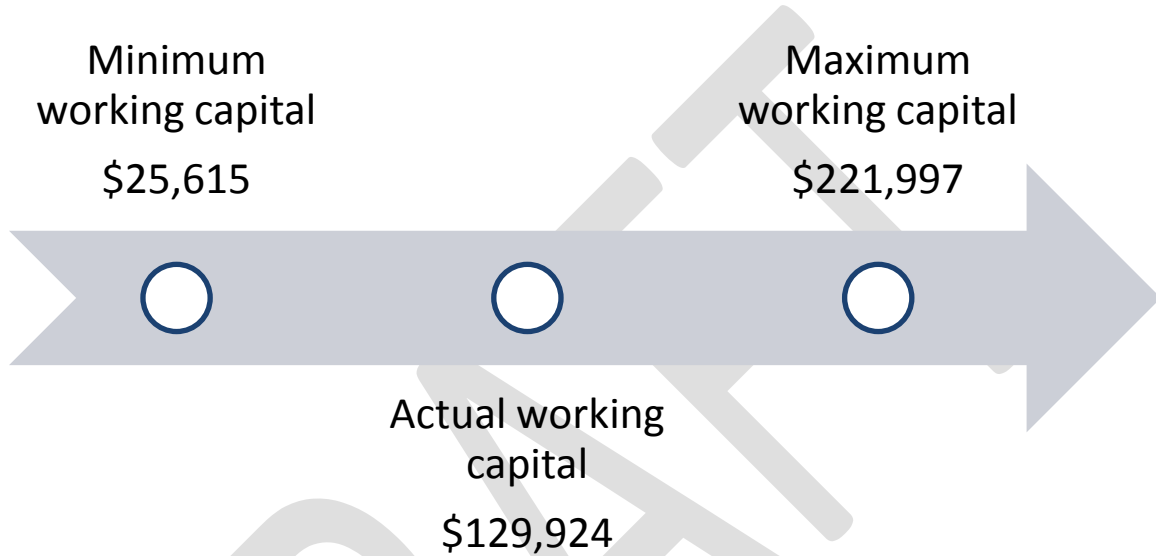
	FY2018 Budget Projections	FY2018 Actual	Variance \$	Variance %
Sales	\$860,000	\$862,302	\$2,302	0.27%
Total Expenditures	\$845,250	\$823,383	(\$21,867)	-2.6%

REQUIRED ACTION #1: *All ABC Boards are required to operate within a balanced budget. When sales projections exceed actual amounts, amend the budget to adjust for the increase. 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 less than \$1.5M an amount equal to four months of sales revenue.

Based upon the existing rules, the Mt. Pleasant ABC Board is allowed to maintain a minimum working capital of \$25,615 and a maximum working capital of \$221,997, equivalent to four months' gross sales. The board retained an actual working capital of \$129,924 in FY2018 and so, is in compliance.



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.

RECOMMENDATIONS: *Consider utilizing resources that would create a shelf management system that is conducive to industry norms, and considers sales history and trends.*

OPERATIONAL AND ADMINISTRATIVE COMPLIANCE

- While inspecting the store, a random sample of approximately 95 items was selected to determine if uniform pricing is displayed. Of those selected, all were correct.
- 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 Mount Pleasant for three-year staggered appointment terms. The appointing authority has since increased board membership from three to five members. Board members are required to complete the NC ABC Commission ethics training within one year of appointment or reappointment status.

REQUIRED ACTION #2: *As a reminder, have all board members who have been initially appointed and reappointed to complete the required ethics training within one year of appointment status. Once completed, forward a copy of the certificate to the NC ABC Commission.*

CORRECTIVE ACTION TAKEN: *Since the audit fieldwork in February 2019, the appointing authority appointed two additional board members to the ABC Board. Those board members have not yet completed the ethics training.*

- The employee manual does not reflect current practices of the board. Specific revisions relating to the vacation policies have been amended. However, the revisions have not been forwarded to the NC ABC Commission for approval. Employees are not notified of the changes and have not been forwarded copies of the employee manual.

REQUIRED ACTION #3: *The NC 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, such as benefits offered, disciplinary actions, board operations, etc. Update the employee manual to reflect current practices.*

REQUIRED ACTION #4: *As a reminder, submit policies to the NC ABC Commission prior to 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."*

CORRECTIVE ACTION TAKEN: *Management and the board are currently updating the employee manual to reflect current practices and laws. Once completed, the board will submit to the NC ABC Commission for review.*

ABC Board of the Town of Mount Pleasant
P.O. Box 476
Mt. Pleasant, NC 28124

April 9, 2019

This is the response by the ABC Board of the Town of Mount Pleasant to the performance audit report.

1. Budget amendments are being prepared for the current year.
2. Currently all board members have met the ethics training requirement.
3. An updated employee manual is in process.
4. The new employee manual will be submitted to the NC ABC Commission.

Sincerely,

Herman Watts
Chairman
ABC Board of the Town of Mount Pleasant