

Morganton 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

Steve Gregory
Chairman
Morganton ABC Board
PO Box 96
Morganton, NC 28680

Dear Chairman Gregory,

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 Morganton 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.

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 ANALYSIS

In FY2017, the Morganton ABC Board had a profit percentage to sales of 11.6%, a 0.2% decrease over FY2016. In FY2016, the Morganton ABC Board had a profit percentage to sales of 11.8%. The ABC Commission profit percentage to sales standard for ABC Boards with gross sales between \$2M and \$10 is targeted at 6.5% or higher. Thus, the Morganton ABC Board met the targeted profit percentage.

The operating cost ratio for Morganton ABC Board was 0.51 in FY2017. The ABC Commission operating cost standard for ABC Boards with one or two stores and with mixed beverage sales is less than 0.73. Total operating expenses less depreciation totaled \$401,713 in FY2017 and \$390,505 in FY2016, a 2.9% increase. Gross profit totaled \$785,571 and \$768,574 in FY2017 and FY2016 respectively. Gross profit increased 2.2% over FY2016. Thus, the Morganton ABC Board met the targeted profit percentage to sales set by the NC ABC Commission.

BUDGET TO ACTUAL ANALYSIS

In reviewing the budget to actual analysis of the FY2017 financial audit, sales revenues exceeded budget projections by 3.9%. Total operating expenses exceeded budget projections by 0.2% for the same time period. Although the financial audit shows an amended budget, amendments were not submitted to the NC ABC Commission. The below chart shows the final budget to actual amounts and the variances.

	FY2017 Budget Projections	FY2017 Actual	Variance \$	Variance %
Sales	\$3,112,640	\$3,232,508	\$75,666	3.9%
Total Operating Expenses including Capital	\$431,056	\$404,142	\$26,914	0.2%

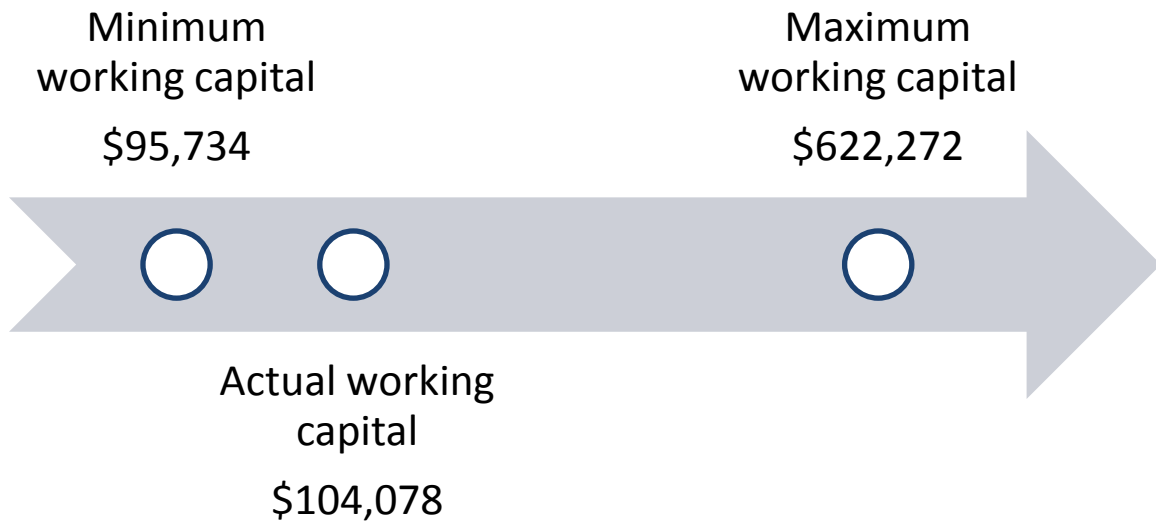
REQUIRED ACTION: *All ABC Boards are required to operate within a balanced budget. When sales projections exceed actual amounts, amend the budget to adjust for the increase. If budgeted line items are not balanced, adopt budget amendments to correct specific items or add omitted line items. G.S. 18B-702(h) 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.

Based on the existing rules, the Morganton ABC Board is allowed to maintain a minimum working capital of \$95,734 and a maximum working capital of \$622,272. The actual working capital the board has retained in FY2017 is \$104,078.

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. The board's actual capital has met the standard set by the NC ABC Commission.



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, Burke County and the City of Morganton.

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 as follows:

- Seventy-five percent (75%) to the City of Morganton General Fund
- Twenty-five percent (25%) to the Burke County General Fund for public schools.

Revenues Less Taxes and Cost of Sales FY2017	
Sales (Retail, Mixed Beverage, and Wine Sales)	\$3,231,787
Excise Tax	\$701,203
Mixed Beverage Tax (Combined)	\$31,367
Rehabilitation Tax	\$10,130
Net Sales	\$2,489,087
Cost of Liquor Sold	\$1,703,515
Gross Profit	\$785,571

	FY2017 Calculations	Actual Distributions	Variance \$	Variance %
Gross Profit (Taken from Above)	\$785,571			
Total Operating Expenses	\$410,496			
Income from Operations	\$375,076			
Income (Loss) Before Distributions	\$375,796			
3 ½ Minimum Distribution	\$92,784	\$312,964	\$220,180	237% in total excess
<ul style="list-style-type: none"> • Seventy-five percent (75%) to City of Morganton • Twenty-five percent (25%) to Burke County 	<ul style="list-style-type: none"> • \$69,588 to City of Morganton General Fund • \$23,196 to Burke County 	<ul style="list-style-type: none"> • \$234,723 to City of Morganton • \$78,241 to Burke County 	<ul style="list-style-type: none"> • \$165,135 in excess to City of Morganton • \$55,045 in excess to Burke County 	
Law Enforcement	\$14,151	\$33,468	\$19,317	137% in total excess
Alcohol Education	\$19,811	\$29,365	\$9,554	48%

A contract between the City of Morganton ABC Board and the North Carolina Department of Public Safety, State Bureau of Investigation, Alcohol Law Enforcement Branch, is in effect and required the board to distribute in total \$16,200 or in quarterly installments of \$4,050 each.

In addition to the law enforcement distribution required, the board is required to expend at least seven percent (7%) towards alcohol education or rehabilitation purposes. The Morganton ABC Board has distributed towards alcohol education to various agencies. Below is a list of agencies and the amounts awarded.

FY2017 Alcohol Education Recipients and Awards	
Burke County Council on Alcoholism	\$11,452
Flynn Christian Home	\$12,920
Western Piedmont Community College	\$1,469
Queen Street	\$3,524

REQUIRED ACTION: *As a reminder, when distributing to alcohol education agencies, request an annual report detailing how funds were spent. G.S. 18B-805 (h) states, "...Any agency or person receiving funds from the county commissioners or local board under this subsection 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 store displayed the required Fetal Alcohol Syndrome poster 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. In some instances consumer loyal products are placed on the top shelves rather than mid to lower shelves, which is the norm.
- 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.

RECOMMENDED ACTION: *Borrow common marketing strategies from suppliers and other boards for best practices in shelf management, customer service, and inventory management.*

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.
- The ABC Board has a dated employee manual on file with the NC ABC Commission. However, specific operational policies have been submitted to the NC ABC Commission.

REQUIRED ACTION: *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.*

REQUIRED ACTION: *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."*

- Management continues to cross train key employees in some areas to strengthen internal controls and provide assurance that operations will continue should the manager be unavailable.

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

- G.S. 18B-702 requires an ABC Board to designate a part-time or full-time employee of the board other than the general manager to serve as the finance officer. Currently, one board member serves in this capacity. A waiver from the NC ABC Commission has not been granted to the ABC Board.

REQUIRED ACTION: *Ask for a waiver from the NC ABC Commission to allow the board member to serve as the finance officer up to three (3) years.*

REQUIRED ACTION: *Appoint a finance officer other than the general manager duties to perform essential financial functions relating to ABC Laws and NC ABC Commission rules. Once appointed, have the finance officer complete the required ABC ethics training or any Commission approved training course. NCAC 15A .2001 states, "All finance officers and general managers shall complete a Commission training course for local boards within 12 months of their initial employment. After taking the initial Commission training course for local boards, all finance officers and general managers shall complete a Commission training course for local boards every three years that they are employed by a*

local board.” NCAC 15A .2002 states, “All Commission training courses for local boards shall consist of two hours of ethics as a subject matter and no more than two hours of other subject matter.”

- Liquor and miscellaneous purchases are approved in advance by the general manager and the finance officer and indicated through use of the pre-audit certificate. The pre-audit certificate is not found on the other orders, such as credit card purchases.

REQUIRED ACTION: *Place the pre-audit certificate with the finance officer’s signature on the orders before the transaction occurs. G.S. 18B-702 (m) state, “...the contract, agreement, or purchase order shall include on its face a certificate stating that the instrument has been pre-audited to assure compliance.”*

- The ABC Board has acquired four (4) credit cards issued to all board members and the general manager. Currently, only the general manager utilizes the credit card to purchase store and office supplies. A board credit card policy has not been adopted.

REQUIRED ACTION: *To ensure stronger internal controls of credit card purchases, adopt a written credit card usage policy. Document procedures for the usage that includes:*

- *Authorization of use*
- *Specific items required for purchases*
- *Acknowledgement of personal purchases and alcoholic beverages are prohibited*
- *An itemized receipt is required for all transactions*
- *Additional specifics may include:*
 - *Maximum limit allowed on purchases prior to board approval*
 - *Receipt submission is required within a minimum time frame*

Another control parameter is to require someone other than the person purchasing to reconcile the credit card statements and have a board member(s) review credit card statements on a regular basis.

RECOMMENDED ACTION: *Reduce the number of cards available. Have one card with one authorized user that adheres to the credit card policy. Document acknowledgement from employee and place in personnel file.*

- Payments are made using an electronic payment process, 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 general manager is able to process payments. Because the ABC system, does not utilize physical checks to pay vendors, the approved certificate along with the finance officer’s signature is found on documentation.
- While inspecting the store, a random sample was collected to determine if uniform pricing is displayed on the shelves. Of those selected, all were correct.

SUBSEQUENT EVENTS

The below information was received after the performance audit draft was completed and references the financial audit of FY2018. In FY2018, the Morganton ABC Board had gross sales of \$3,447,069, with a profit percentage to sales of 13.8%. The operating cost ratio is 0.86 for the same time period. Although the ABC Board met the profit percentage standard, the operating cost ratio was not met. In order to meet the operating cost ratio, the above recommendations will need to be met.

See below the reference chart showing expenses and the income (loss) from operations of FY2018.

	FY2018
Expenses less Depreciation	\$388,061
Income from Operations	\$455,037

In FY2018, the Morganton ABC Board made the minimum 3 ½% mark-up bottle charge distribution totaling \$100,327, with an additional distribution of \$293,143 to the city and the county. Distributions increased 25.7% over FY2017. Law enforcement distributions totaled \$23,350 and alcohol education distributions totaled \$35,369.

BUDGET ANALYSIS

In reviewing the budget to actual analysis of the FY2018 financial audit, the Morganton ABC Board exceeded the original budget in gross sales. Amendments were not adopted to adjust sales and applicable expenses.

	FY2018 Budget Projections	FY2018 Actual	Variance \$	Variance %
Sales	\$3,156,842	\$3,447,712	\$290,870	9.2%
Total Expenditures	\$2,843,157	\$2,985,670	(\$142,513)	-4.8%

REQUIRED ACTION: *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. Refer to the above recommendations.*

OTHER MATTERS

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