

Mount Airy 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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January 11, 2023

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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 Airy 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,

Michael DeSilva
Deputy Commissioner

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

The City of Mount Airy was incorporated in 1885. The city lies in the foothills of the Blue Ridge Mountains and is just a few miles from the Virginia border. A long history with bluegrass and old-time music is relevant and the city hosts a yearly Autumn Leaves Festival attracting nearly 200,000 people. The area has the world's largest open faced granite quarry. Andy Griffith, the actor, was born here and the town is the basis and setting for The Andy Griffith Show and Mayberry RFD. A local museum dedicated to the actor and TV show attracts roughly 200 visitors per day. In 2020, the town's population per the Census was approximately 10,676 residents reflecting a slight increase since 2010.

Chapter 426 of the 1971 Session Law authorized the municipality to hold an election for an ABC store upon a petition of at least 15% of voters. The referendum was held in September 1978. The vote for an ABC store passed 796 to 754. The date of the first retail sales occurred on April 2, 1979. A mixed beverage election was held on July 29, 2003 and passed 1,114 to 807. The City of Mount Airy appoints a chairperson and two (2) board members to serve for three-year terms on the ABC board.

The Mount Airy ABC Board currently operates one (1) retail store. The board staffs approximately nine (9) total employees including a general manager, assistant GM, finance officer, and sales associates. These include six (6) full time employees and three (3) part-time personnel. The general manager / asst. GM 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.

The last performance audit for the Mount Airy ABC Board occurred in 2012. 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 Wednesday, June 8, 2022, ABC Board Program Analyst Quinn Woolard, visited the Mount Airy ABC Board and interviewed Betty Hamm (General Manager) and Jeff Harvey (Assistant GM). 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 Mount Airy ABC Board had a profit percentage to sales of 11.19%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales greater than \$2M is 6.5%. The Mount Airy ABC Board's gross sales totaled \$3,531,113, which was a 15.38% over the previous fiscal year.

The operating cost ratio for the Mount Airy ABC Board was .54 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 Mount Airy ABC Board well exceeded the profitability standards and 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	\$897,808	\$779,839
Income from Operations	\$395,220	\$300,508

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores within a ten to fifteen (10-15) mile range of Mount Airy ABC: Pilot Mountain ABC Board & Dobson ABC Board each operate one store and they are also located in Surry County.
- An ABC Board's average cost of goods sold (COGS) is between 52% & 54% per year. The Mount Airy ABC Board's cost of goods sold was approximately 51.6% in FY 2020-2021.
 - *Mixed beverage sales were roughly 9.7% of total sales in FY-2021, and there are currently close to twenty (20) mixed beverage business customers.*

BUDGET ANALYSIS

	FY 2020-2021 Budget Projections	FY2020-2021 Actual	Variance	Variance %
Sales	\$3,531,112	\$3,531,112	None	N/A
Revenue over Expenditures	\$18,582	\$18,582	-	-

In reviewing the budget to actual analysis of the FY2020-2021 financial audit, actual sales revenues were fully reconciled to the budgeted projections resulting in no variance. In addition, revenues over expenditures were reflected as \$18,582 for the fiscal year period. 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 was around \$490k; the net position has remained stable over the last five (5) fiscal years with generous net profit distributions occurring routinely.*

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, Mount Airy ABC made other statutory distributions totaling \$396,902 (Net profit distribution recipients received \$376,440 of this). The amount of \$808,564 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 Surry County.

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

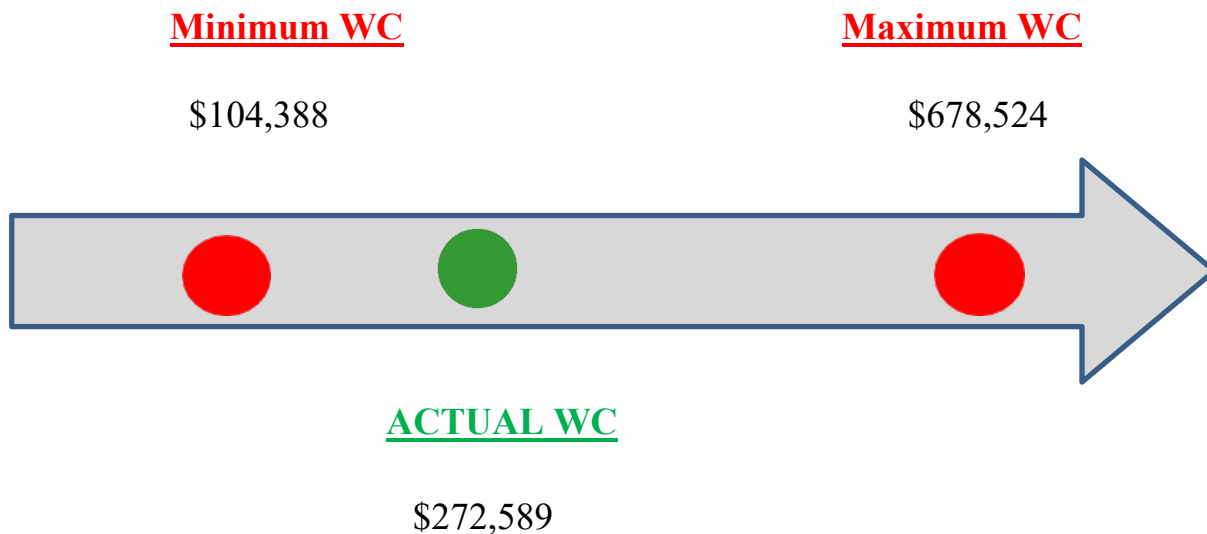
- Seventy percent (70%) to Mount Airy general fund
- Ten percent (10%) to Mount Airy general fund *specifically for parks & recreation*
- Five percent (5%) to Mount Airy Library Foundation
- Five percent (5%) to Reeves Community Center
- Five percent (5%) to Surry Arts Council
- Five percent (5%) toward Alcohol Education

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 greater than \$1.5M yet less than \$50M an amount equal to three (3) months of sales revenue.

Based upon the existing rules, as of June 30, 2021, the Mount Airy ABC Board is required to maintain a minimum working capital of \$179,287 with a maximum working capital amount of \$1,165,367. The Mount Airy ABC Board had a working capital balance of \$722,669, 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 whenever working capital is exceeded.

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE

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

- The board holds *quarterly* board meetings the second Tuesday of each third month at 2:30 PM, records regular meeting minutes, and provides public notification and awareness of these meetings. The minutes provided have the conflict-of-interest disclosure statements and discussion. The meeting minutes are organized in a binder for review. *The ABC Commission encourages ABC Boards to meet monthly whenever possible.*
- The board has a personnel policy manual; no copy was formally on file with the Commission. The board has an adopted code of ethics policy in place.
- The board exceeded original budgeted sales in FY-2021 during the month of April 2021; a budget amendment was adopted by the board, but a budget amendment copy could not be verified in Commission records. Currently, the board is on track to reach and potentially exceed FY-2022 budgeted sales in June 2022.
- 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. Bank reconciliation was stated to occur monthly. The board uses QuickBooks for journal entries as well as processing payroll twice per month.
- The general manager stated board members conduct quarterly checks and balances to ensure that cash management practices are upheld, and review financial statements, monthly sales, sales to date, and miscellaneous items.
- Bank deposits are routinely made daily per review of bank statements and discussion with the general manager and assistant GM.
- Liquor orders are being signed by the finance officer, however there is no pre-audit certificate stamped or present on the orders. The disbursement approval certificate statement is present on blank checks.
- The board has a law enforcement contract from 2011 with the Mount Airy Police Dept, and the contract is valid due to the same police chief heading the department over the years.
- Law enforcement (LE) reports have been submitted routinely on the board website with regular statistics being listed.
- The minimum mandatory net profit distribution to local recipients was calculated as being \$93,044 in the FY-2021 CPA annual audit, and \$376,440 were made in distributions. *Over the past few fiscal years, distributions have routinely well exceeded minimum calculations. Law enforcement distributions and alcohol education distributions have been paid in accordance with statute requirements and at times they have exceeded percentage requirements in a positive capacity.*
- Alcohol education distributions were made to Hope Valley; the recipient provided documentation to the ABC board describing how the alcohol education funds were utilized.
- Store inventories are conducted monthly with intermittent spot checks whenever possible.
- 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 INSIGHT & OVERVIEW

The findings for store insight & overview are as follows:

- The store is located on the edge of the city less than four miles from the Virginia border. The board will continue to remain cognizant of opportunities to relocate the ABC store to a more strategic location should the right opportunity arise for land purchase.
- The store has a welcoming foyer. The store was expanded approximately 1,000 square feet in 2015 along with expanded the dock area to enhance delivery operations.
- Delivery service surveys will be obtained from retail liquor businesses. Due to being designated a Tier 2 county per NC Dept of Commerce records, the board is allowed to request a waiver from delivery service to its retail liquor business customers beginning in July 2022, referencing Rule 15A . 1903 Delivery of MXB Permittee Orders.
- Along with closing on the five required annual holidays, the board chooses to also close on Memorial Day and Easter Monday.
- The store was displaying the required Fetal Alcohol Syndrome poster required by G.S. 18B-808.
- 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, all liquor items reflected the correct price.

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.*
- Ensure all new policies or updated policies are submitted electronically 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. Policy templates can potentially be forwarded upon request.*
- 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.*”
- All board members (and newly appointed members) may serve for three-year maximum terms. All members are required to complete ethics training within one (1) year of their initial appointment and each subsequent appointment date per G.S. 18B-706(b). *Completion certificates should be forwarded to the Commission via email. Documentation showing BM term appointment and term expiration should be forwarded via email to the Commission after consulting with the appointing authority.*
 - Reappointment necessary: Per Commission records, Board Member Sanders was appointed March 2019 and has not been formally reappointed again in 2022 (or no oaths of office were available to verify). Reappointment would need to occur as soon as possible.
 - Ethics training: Chairman Brannock & Board Member Sutphin would need to complete the ethics training immediately due to May 2021 reappointment date and no record of training completion available. Members (and newly appointed members) are required to complete ethics training within one (1) year of their initial appointment and each subsequent appointment date per G.S. 18B-706(b). *Completion certificates should be forwarded to the Commission via email.*
 - Realignment of board member terms: Chairman Brannock’s term expires October 2023 with other board member terms having a March 2024 and March 2025 expiration. The board will want to explore term realignment. Upon potential reappointment of the Chairman in October 2023, the board can work with the City to ensure term expiration occurs in March 2026 to keep the board member terms effectively staggered one year apart.
- 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.*

ADDITIONAL CONSIDERATIONS & GUIDANCE

- The Commission encourages ABC boards to meet monthly for the best formal oversight and review of board operations. All boards are encouraged to track and monitor board members' current appointment dates and term expiration dates. *Oaths of office documents for board members should be available at the board.* 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 maintaining awareness.*
- The Commission encourages and requests ABC boards to routinely update the Commission's board website when applicable (*the same general online location 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.*
- ABC boards are highly encouraged to find 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.*
- 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!**

APPENDIX A

Program Analyst's Summary

The performance audit recommendations were presented to the board on June 20, 2022. Mount Airy ABC Board agrees with all recommendations as presented, has met compliance on tangible actions, and will work to meet compliance on other routine items going forward. The board continues to be vigilant with profitability enhancement and expense reduction while providing a pleasant store atmosphere with a robust customer service focus.