

Maxton ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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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
Appendix A – Program Analyst’s Summary	14



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

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April 29, 2022

Maxton ABC Board
Larry Graham, Chair
703 W. Martin Luther King Jr Drive
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Chairman Graham,

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

Maxton, NC sits on the county line between Robeson and Scotland counties. It is home to the first college in the state known as Floral College which was established to grant degrees to women. This is the hometown of Angus W. McLean, Governor of North Carolina from 1924-1928. The Maxton ABC store is approximately 17 miles from the South Carolina border. The 2020 census reflects a population of 2,110 residents.

Chapter 405 of the 1967 Session Law authorized the Town of Maxton to hold an election upon a petition signed by at least 25% of the registered voters. The referendum was held on January 30, 1968. The vote for an ABC store passed 296 to 243 with the first retail sales occurring on April 11, 1968. Upon authorization of the liquor store, the town was required to appoint a three-member board consisting of a chairman and two (2) board members serving for a period of three years. Chapter 15 of the 1987 General Assembly increased the membership to four (4) members serving three-year terms.

A mixed beverage referendum was held on March 6, 2001 and passed 153 to 139. Even though the election was held in 2001, the first mixed beverage sales took place in fiscal year 2004.

The Maxton ABC board operates one (1) retail store. The store staffs one full-time manager, one part-time finance officer, four (4) part-time clerks, and two (2) security personnel. The general manager 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 assists with routine operations of the ABC store. Clerk responsibilities include selling products, daily stocking, and floor upkeep & maintenance. Security personnel are responsible for ensuring loss prevention management of liquor inventory and miscellaneous taskings.

The Maxton ABC Board had its last performance audit back in 2011. 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 Wednesday, February 2, 2022, ABC Board Program Analyst Quinn Woolard, visited the Maxton ABC Board and interviewed Katrine Vincent, General Manager, and Cheralyn Williams, Finance Officer. 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 Maxton ABC Board had a profit percentage to sales of 4.41%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales less than \$2M is 5%. The Maxton ABC Board's gross sales totaled \$1,272,691, which was a 22.73% increase over FY 2019-2020.

The operating cost ratio for the Maxton ABC Board was .82 in FY 2020-2021. The NC ABC Commission standard for ABC Boards with 1 or 2 stores without mixed beverage sales is .85 or less.

Thus, the Maxton ABC Board did not meet the profitability standards, yet did meet 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	\$321,718	\$232,019
Income from Operations	\$56,166	\$22,284

Factors affecting profitability and cost include:

- Surrounding municipalities with other ABC Boards operating stores within a ten (10) mile range include: One (1) store in Laurinburg operated by Scotland County ABC.
- The ABC Board currently owns the board / main store location and has no financed debt.

- An ABC Board’s average cost of goods sold (COGS) is between 52% & 54% per year. The Maxton ABC Board’s cost of goods sold was approximately 52.2% in FY 2020-2021.
 - *Mixed beverage sales are allowed in Maxton, yet there are no mixed beverage permittees as of FY-2021.*

BUDGET ANALYSIS

	FY 2020-2021 Budget Projections	FY2020-2021 Actual	Variance	Variance %
Sales	\$1,253,600	\$1,272,691	\$19,091	1.5%
Total Expenditures (to include Distributions)	\$1,248,200	\$1,215,587	\$32,613	2.6%

In reviewing the budget to actual analysis of the FY2020-2021 financial audit, actual sales revenues were over the budgeted projections by 1.5%. In addition, total expenditures were under budget for the same period by 2.6%. 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, Maxton ABC made distributions totaling \$12,341 (Town of Maxton general fund received \$6,500 of this, and Robeson County general fund received \$3,500 of this). The amount of \$286,851 in excise and other taxes were paid to the NC Department of Revenue (NCDOR) and the county commissioners of Robeson County.

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

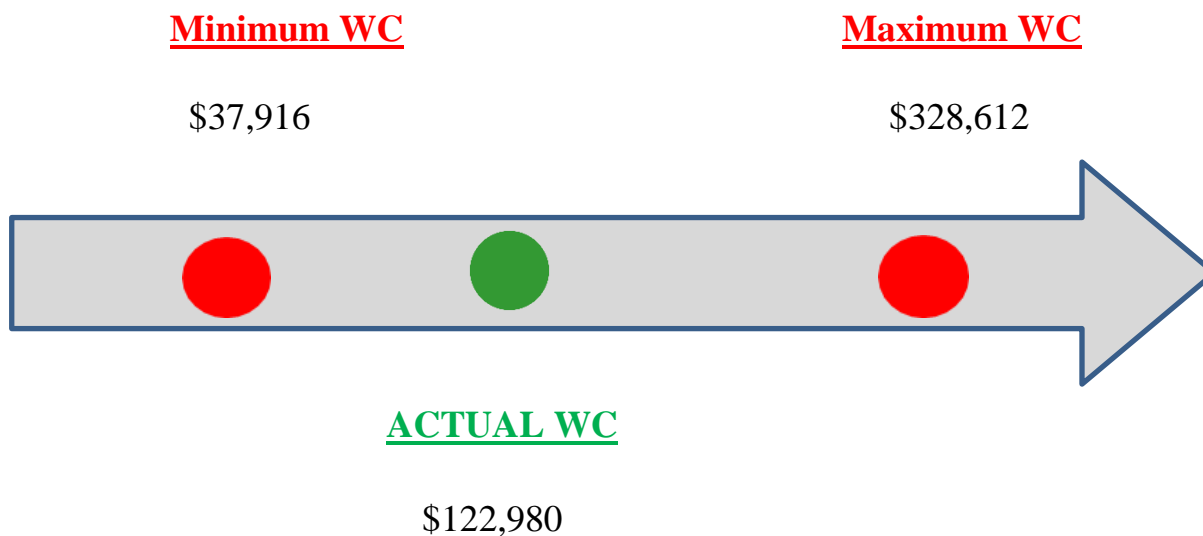
- Sixty-five percent (65%) to Maxton General Fund
- Thirty-five percent (35%) to Robeson County General Fund

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 Maxton ABC Board is required to maintain a minimum working capital of \$37,916 with a maximum working capital amount of \$328,612. The Maxton ABC Board had a working capital balance of \$122,980 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 board meetings the second Saturday of each month at 10:30 AM, records regular meeting minutes, and provides public notification and awareness of these meetings. Recent meeting records show the minutes are not routinely referencing conflict of interest disclosure statements. The meeting minutes were not signed by Chairman or other board member presiding over the meetings.
- The board has a personnel policy manual and code of ethics policy as required. The personnel manual was not previously on file with the Commission, and the code of ethics on file with the Commission is incomplete.
- One budget amendment was submitted to the Commission during FY 2020-2021 in June 2021 for projected increase in sales, yet the board had exceeded budgeted sales by April 2021.
- The finance officer is signing checks as required per statute. Invoice records for liquor purchases reflect them as most being paid inside of 30 days. Some invoices reviewed reflect as being paid greater than 30 days. The board is not distributing profits quarterly and no letter could be located from the Town of Maxton or Robeson County approving a different schedule.
- For financial oversight, the board members review bank statements and financial records monthly along with the general manager and assistant general manager. 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.
- The general manager stated that no pre-audit certificates have been routinely stamped on liquor orders as required by statute. The disbursement approval certificate is present on blank checks.
- The board receives routine oversight on finances from S. Preston Douglas & Associates CPA firm. The CPA firm coordinates with the board on paying taxes and bank reconciliations and provides overall financial oversight.
- Law enforcement (LE) reports have been submitted monthly as required and contain appropriate information. However, the LE contract on file is from 2011 and does not reflect the current town official(s).
- Profit distributions to the local town and county have routinely been below the minimum mandatory distribution over the past several years, as the board works to increase its net position and financial solvency.
- The recipient of alcohol education distributions has not provided any documentation to the board describing how the alcohol education funds were utilized.
- For inventory management, the general manager advised quarterly inventory is conducted.
- The general manager could not verify that all board members and general managers are bonded as required; besides the Chairman, all board members and general manager compensation adhere properly to general statutes. The Chairman's compensation exceeds statute amount and no documentation letter for the compensation is on file with the Commission.
- Board member terms are not properly staggered, with three (3) members having terms expiring in 2022.

STORE APPEARANCE & SHELF MANAGEMENT

The findings for store appearance are as follows:

- The store displayed 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. Green North Carolina product tags are displayed on the shelves throughout the stores to help stimulate sales.
- 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, roughly 12 had incorrect prices listed on the shelf. The general manager explained efforts working to increase the price turnover process at the beginning of the month and challenges encountered to get these items changed more rapidly.
- The general manager has identified value-added improvements including potential to repave the store's parking lot and replace the flooring.
- 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. This would include the point in time during the fiscal year when the board will exceed its annual forecasted sales budget. *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. 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.” An updated policy & procedure manual template will be forwarded to the board, and once the board adopts the manual an electronic copy must be forwarded to the Commission.
- Each local board member, general manager, and finance officer shall be bonded for \$50,000 minimum per G.S. 18B-700(i). This information must be verified with documentation provided to the Commission showing a policy in effect for the board.
- 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.”*
- Recipients of alcohol education/research funds must annually provide an annual report to the Maxton 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.*
- 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 on recent reappointment, the Chairman and BM McCrimmon would need to complete the training before November 2022 with three other members potentially needing to complete training by summer 2023 if all reappointed.
- 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)*.
- Quarterly distributions of profits must occur per G.S. 18B-805(c)(e), *unless the applicable distribution recipients approve of distributions made otherwise.*

REQUIRED / RECOMMENDED ACTIONS (PER STATUTES OR RULES)

- The board has a code of ethics policy per G.S. 18B-706, and ABC Commission has an incomplete copy. The following are needed administrative actions:
 - A full copy of the code of ethics policy needs to be forwarded to the Commission.
 - A Certificate of Accountability form declaring the statutory duties of the board have been properly performed needs to be completed and copy forwarded to the Commission.
- The board must make statute distributions to law enforcement and alcohol education recipients per G.S. 18B-805(c)(2)(3). The respective amounts for these specific statutory distributions are 5% for law enforcement and 7% for alcohol education. Because the profit subject to these expense percentages varies and is offset by the 3.5% tax & bottle charge, boards must ensure they are expending the proper minimum amount. *Note: Exceptions to making these distributions would occur if a negative number is involved in the calculation figures, or if the board has direct approval from the recipients to withhold distributions (~ Reference page 26 of the FY-2020 CPA audit report for a good example ~). However, the board is required to have a law enforcement contract with an agency and should be cognizant of the requirements within their contract for proper stewardship.*
- The local enabling act of the board reflects the board as being permitted to have four (4) members, yet the board currently has (5) serving members. The board must secure a documentation letter from the Town of Maxton formally stating the board has been approved to increase to five members and forward a copy to the Commission. *Reference G.S. 18B-700(a)*
- Board member terms for the board are not currently staggered in accordance with 18B-700(a). Two (2) board members were reappointed in November 2021, with three (3) other members all having term expirations in summer 2022 per Commission records. Ideally, for the best continuity of operations, the board would want to consider eventual term realignment to allow for no more than two (2) board members having a term expiration within the same one-year timeframe. *If the three current board members with terms expiring in 2022 are all reappointed, the board should coordinate with the Town of Maxton as appropriate to ensure at least one (1) and possibly (2) of these members be reappointed for a term of only one year. Then, the member(s) could be reappointed for a three-year term following completion of the one-year term to help properly stagger the board. Because the other two board members have already been recently reappointed, this strategy would ensure board member terms are more properly staggered going forward, allowing for better continuity of ABC board operations.*
- As required by G.S. 143-318.10-12, boards are to keep full and accurate meetings of all official meetings (including closed sessions). The board minutes should be maintained in a book and approved at the beginning of the next meeting and routinely signed by the Chairman. *A good business practice to increase situational awareness for the board would be to list board member term expiration dates on board meeting minutes, as well as documenting the conflict-of-interest disclosure occurred during each board meeting. It will allow the board easier means to update information with the ABC Commission via the online board login website.*
- Local board member compensation shall not exceed one hundred fifty dollars (\$150.00) per board meeting without appointing authority approval per G.S. 18B-700(g). The board needs to secure a documentation letter from the Town of Maxton which approves the Chairman's level of compensation above the regular maximum allowed amount.

ADDITIONAL CONSIDERATIONS & RECOMMENDATIONS

- The board has worked to establish a healthier net position over the last few years which was approximately \$139,000 and working capital was roughly \$85,000 above the minimum required at the end of FY-2021. To explore an opportunity for enhancing and improving the store's appearance, the board should examine the feasibility of paving the parking lot, enhancing the shelving, and replacing the flooring.
- The board is highly encouraged to closely review financial information and consider ways to lower 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*.
- A heavy-duty safe is recommended for the store location to offer better protection for money held on the premises between the Friday morning deposit and Monday morning deposit. Currently, money is held inside a locked filing cabinet which does not offer very strong protection of these funds.
- The Board is 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 the routine operations and employee morale stronger.
- 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.

APPENDIX A

Program Analyst's Summary

The performance audit recommendations were presented to the board on February 19, 2022. The board has not provided a formal response, yet the board agrees with all recommendations as presented. The board continues to focus on enhancing profitability and reducing expenses when possible.