

Pittsboro 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
Pittsboro ABC Board Response.....	13



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

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February 16, 2022

Pittsboro ABC Board
Mr. Hugh Harrington, Chairman
PO Box 624
Pittsboro, NC 27312

Chairman Harrington,

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

I encourage you to review the report and let me know if you have any questions or require assistance in implementing any of the statute requirements, Commission rules, or other recommendations included. 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 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

Chapter 365 of the 1967 Session Laws authorized the Town of Pittsboro to hold an election. The referendum was held on August 14, 1971 and passed 294 to 201. The first retail sales occurred on October 13, 1971. A mixed beverage election was held on May 5, 2009 and passed 5,187 to 2,756. Upon election of an ABC store, the Town of Pittsboro was authorized to create an ABC Board consisting of a chairman and two members to serve for three-year terms.

The Pittsboro ABC Board operates one (1) retail store. The general manager serves as the budget officer and is responsible for the efficient operation of the store and personnel to include inventory management and administrative functions. The finance officer provides the general manager/budget officer and the board with fiscal management, administrative support, and assists with the day-to-day operations of the Pittsboro ABC system. The clerk duties include various retail functions such as selling products, customer service, inventory management, and store upkeep. Overall, the board employs three (3) full-time personnel and two (2) part-time personnel as of September 2021.

The Pittsboro ABC Board had its last audit in 2013. This performance 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, September 8, 2021, ABC Board Auditor Quinn Woolard, visited the Pittsboro ABC Board and interviewed Brittany McDaniel, General Manager, Faye Ward, Finance Officer, and Board Member Jamie Fiocco. 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 Pittsboro Board had a profit percentage to sales of 13.16%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales greater than \$2M is 6.5%. The Pittsboro ABC Board's gross sales totaled \$2,015,088, which was an 3.69% increase over FY 2019-2020.

The operating cost ratio for the Pittsboro ABC Board was .45 in FY 2020-2021. The NC ABC Commission standard for ABC Boards with 1 or 2 stores and mixed beverage sales is .73 or less.

Thus, the Pittsboro ABC Board exceptionally met the profitability 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	\$498,156	\$477,031
Income from Operations	\$265,136	\$252,993

Factors affecting profitability and cost include:

- Surrounding municipalities with other ABC Boards operating stores within a twenty (20) mile range include: Three stores operated by Chatham County ABC; Two stores operated by Orange County ABC; One store operated by Siler City ABC.
- The ABC Board owns the store location, and currently has no long-term debt.
- An ABC Board's average cost of goods sold (COGS) is between 52% & 54% per year. The Pittsboro Board's cost of goods sold was approximately 52.3% in FY 2020-2021.
- *Mixed beverage sales were 9.8% of total sales in FY 2020-2021.*

BUDGET ANALYSIS

	FY2020-2021 Budget Projections	FY2020-2021 Actual	Variance	Variance %
Sales	\$2,099,000	\$2,015,088	\$83,912	(4.0%)
Total Expenditures (to include Distributions)	\$1,971,382	\$1,823,167	\$148,215	7.5%

In reviewing the budget to actual analysis of the FY2020-2021 financial audit, actual sales revenues were under the budgeted projections by 4.0%. Total expenditures and distributions were under budget for the same period by 7.5%. 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, Pittsboro ABC made required primary distributions and paid taxes as applicable in the amount of \$463,382 to the NC Department of Revenue (NCDOR), the NC Department of Health and Human Services (NCDHHS) and county commissioners of Chatham County. Other statutory distributions totaling \$81,637 were also made (Town of Pittsboro received \$56,582 of these funds).

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

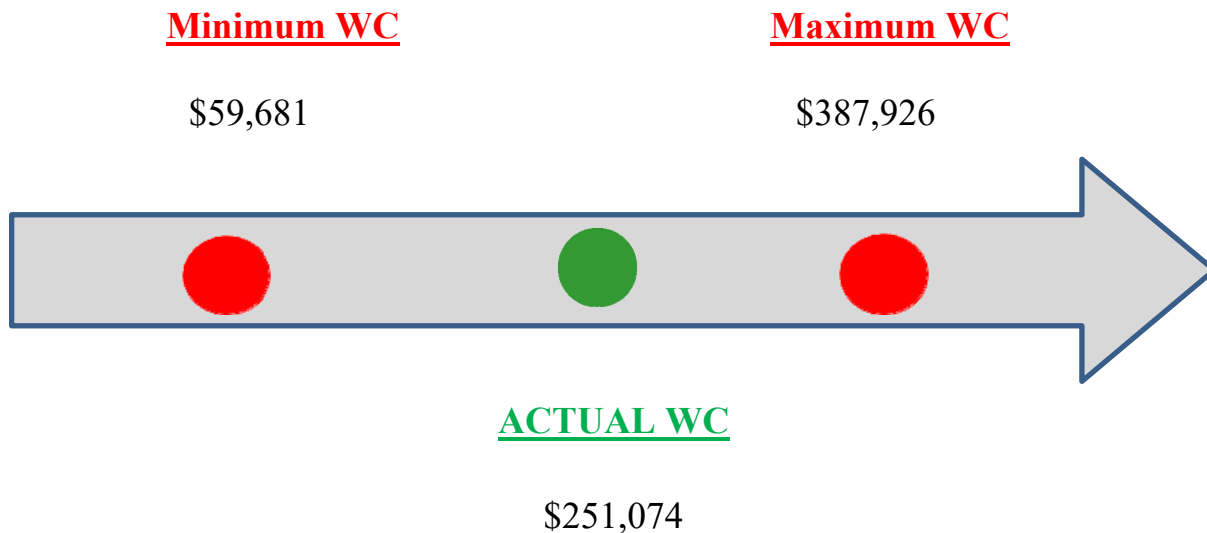
- One hundred percent (100%) to Town of Pittsboro general fund

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

Based upon the existing rules, as of June 30, 2021, the Pittsboro ABC Board is required to maintain a minimum working capital of \$59,681 with a maximum working capital amount of \$387,926. The Pittsboro ABC Board had a working capital balance of \$251,074 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 meetings the fourth Thursday of each month at 5:30pm, records regular meeting minutes, and provides public notification and awareness of these meetings. The board meeting minutes reflected proper disclosures for conflicts of interest.
- The board has a personnel policy manual and code of ethics policy as required. The personnel manual was last updated in 2013 and the code of ethics has a resolution date of 2013 signed by former chairman and board members.
- The finance officer is signing checks as required per statute with proper certificates listed, and liquor orders routinely bear the necessary pre-audit certificate statement.
- Budget amendments were not completed for the FY 2020-2021. Previous, recent fiscal years also had no budget amendments approved by the board and forwarded to the Commission.
- For financial oversight, the board members review bank statements and financial records monthly. Board members are encouraged to conduct monthly checks and balances to ensure that cash management practices are upheld.
- Bank deposits are typically made daily which corresponds with review of bank statements.
- Liquor invoices reviewed were all paid within 30 days and all taxes owed were routinely paid monthly.
- Law enforcement contract on file was signed and effective in January 2012 with the Pittsboro Police Department but does not reflect the current police chief.
- The alcohol education recipient receiving alcohol education distributions has been providing documentation to the board regarding utilization of funds.
- All board members and general managers are bonded as required; board members and general manager compensation adhere properly to general statutes.
- The board does not currently have a remote work or telecommuting policy. Thus, concerns were brought to the attention of board members and the Commission regarding the validity of the general manager being allowed to work remotely from home during maternity leave in July and August 2021; the general manager was appointed in June 2021. The general manager, finance officer, and one board member were all interviewed individually during the audit visit to gather additional information and thoroughly investigate. Employee work time and payroll records were also properly reviewed. The board member advised that the general manager remained in routine contact with store employees and the board members to ensure success on continuity of operations. During the above period, there were no setbacks or disruptions to store operations that were identifiable or communicated.

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. The store will soon be upgrading the current security system to greatly enhance video quality and overall functionality.
- 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 100 items was selected to determine if uniform pricing is displayed. Of those selected, all had the correct pricing.
- As a reminder, remove any 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.

RECOMMENDED ACTIONS PER STATUTE 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. When forecasted annual sales are exceeded or budget expenditures are exceeded, a budget amendment is necessary. *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.*
- The board should immediately work to draft a remote work / telecommuting policy to enhance personnel policy and better clarify the execution of store operations. A final copy (electronic) would need to be submitted to the Commission for review. *NCAC Rule 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."*
- Due to new town / law enforcement officials involved, a new law enforcement contract reflecting current town officials needs to be drafted and a signed copy provided to the Commission *per G.S. 18B-501(f).*
- The board must annually obtain approval from the appointing authority to adhere to their travel policy and yearly provide the Commission a copy of this approval and policy *per G.S. 18B-700(g2)*. NOTE: *If the board ever decided to instead adhere to the official State of NC government travel policy, then the travel policy requirement would automatically be met with the initial recorded documentation of such (and would not require annual approval through the local appointing authority, and thus, no extra board action would be necessary).*
- 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, the Chairman would need to complete the training before January 2022.
- The Board has a code of ethics policy *per G.S. 18B-706*, and ABC Commission already has a copy. Yet, the Board should consider signing a new acknowledgment / approval document which reflects the current chairman.
- The Board should complete a Certificate of Accountability form declaring the statutory duties of the board have been properly performed.
- A copy of the latest board capital improvement plan approved by the appointing authority should be forwarded to the Commission, *per 18B-805(d) section.*

ADDITIONAL CONSIDERATIONS

- 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.
- Quarterly distributions of gross receipts distributions must occur per G.S. 18B-805(c)(e), *unless the applicable distribution recipients approve of distributions made otherwise.*
- 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.
- Continue to 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). The specific statement should read, *“This instrument has been pre audited in the manner required by G.S. 18B-702.”*
- The Board is encouraged to review financial statements monthly, comparing with the annual budget forecast, and submit any budget amendments to the Commission when applicable.
- 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.

**Pittsboro ABC Board
70 Sanford Road
Pittsboro, NC 27312**

07 December, 2021

Mr. Quinn Woolard
Program Analyst, Local ABC Board Audit
North Carolina ABC Commission
400 E. Tryon Rd, Raleigh, NC 27610

Re: Pittsboro ABC performance audit

Dear Mr. Woolard,

Thank you for your feedback on the performance of our Pittsboro ABC store. In particular, we recognize the need to address items you noted in the "Recommended Actions" section of your report. Some have been addressed informally by clarifying Board expectations, but we recognize the need to update the Commission about any policies that become formalized as part of store operations, and expect to do so promptly when they are.

Feel free to contact me if there are questions or any additional follow-up.

Best Regards,

Hugh Harrington
Pittsboro ABC Board Chair