

Pitt County ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA

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Alcoholic Beverage Control

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August 3, 2022

Pitt County ABC Board
Max R. Joyner, Jr, Chair
PO Box 30340
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Chairman Joyner,

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

Pitt County is in eastern North Carolina, roughly halfway between the state capital and the closest beach. The 2020 U.S. Census reflects the county as having an approximate population of 170,243. The total population has increased by approximately 1.2% since 2010, with the 2010 Census reflecting a 25% population increase since the year 2000.

Chapter 493 of the 1935 Pasquotank Act authorized Pitt County to hold an election for an ABC store. The referendum was held July 6, 1935 and passed 3,469 to 1,171. The date of the first retail sales was July 27, 1935. A mixed beverage election was held for the following: Pitt County on June 8, 1979 and did not pass; City of Greenville on February 17, 1981 passed; Town of Winterville on July 20, 2004 passed; Town of Farmville on November 6, 2007 passed. Upon election of an ABC store, Pitt County was authorized to create an ABC Board consisting of a chairman and two members to serve for three-year terms. House Bill 531 of the 1997 Session Law increased the size of the board to five (5) members.

The Pitt County ABC board operates seven (7) retail stores. The board staffs seventy-one (71) total employees including a general manager, assistant general manager/finance officer, human resources manager, office manager, law enforcement officers, warehouse personnel and sales associates. These include fifty (50) full-time and twenty-one (21) part-time personnel. The general manager is responsible for the daily store operations including supervising personnel, inventory management, and various retail functions. The assistant GM / 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. Law enforcement personnel provide loss prevention services enforcing ABC laws including compliance at businesses holding retail ABC permits.

The Pitt County ABC Board had its last performance audit back in 2012. This follow-up round of performance audits serves as a continuous way for the Commission to provide local boards with information and best practices that target areas for improvement.



OPERATIONAL OBSERVATIONS, FINDINGS, REQUIRED ACTIONS, & RECOMMENDATIONS

On Tuesday, March 29, 2022, ABC Board Program Analyst Quinn Woolard, visited the Pitt County ABC Board and interviewed Adam Sullivan (General Manager), David Byrum (Assistant GM/Finance), and Shannon Holland (Office Manager). 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 Pitt County ABC Board had a profit percentage to sales of 12.89%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales greater than \$10M is 9.0%. The Pitt County ABC Board's gross sales totaled \$28,274,261, which was a 24.13% increase over FY 2019-2020.

The operating cost ratio for the Pitt County ABC Board was .47 in FY 2020-2021. The NC ABC Commission standard for ABC Boards with three or more stores is .63 or less.

Thus, the Pitt County ABC Board well exceeded the profitability standards and met 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	\$7,190,501	\$5,827,234
Income from Operations	\$3,645,083	\$2,818,470

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores within a fifteen to twenty (15-20) mile range of Pitt County ABC: *No other ABC boards are in the county*; two stores operate in neighboring Greene County, one store in neighboring Beaufort County, and one store from Martin County are all within 15-20 miles.

- An ABC Board’s average cost of goods sold (COGS) is between 52% & 54% per year. The Pitt County ABC Board’s cost of goods sold was approximately 51.3% in FY 2020-2021.
 - *Mixed beverage sales were 12.2% of total sales in FY-2021, and the board has 100+ mixed beverage permit holders.*

BUDGET ANALYSIS

	FY 2020-2021 Budget Projections	FY2020-2021 Actual	Variance	Variance %
Sales	\$27,134,000	\$28,274,261	\$1,140,261	4.2%
Total Expenditures (to include Distributions)	\$25,563,500	\$28,204,320	\$2,640,820	(10.3%)

In reviewing the budget to actual analysis of the FY2020-2021 financial audit, actual sales revenues were over the budgeted projections by 4.2%. In addition, total expenditures were also over budget for the same period by 10.3%. 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 is the strongest it has been over the last five (5) years, increasing by 78% during this period.*

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 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, Pitt County ABC made other statutory distributions totaling \$2,206,370 (Pitt County received \$1.5M of this amount in accordance with net profit distributions). The amount of \$6,557,009 in primary distributions and taxes were paid to the NC Department of Revenue (NCDOR), NC Department of Health & Human Services (NCDHHS), and the county commissioners of Pitt County.

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

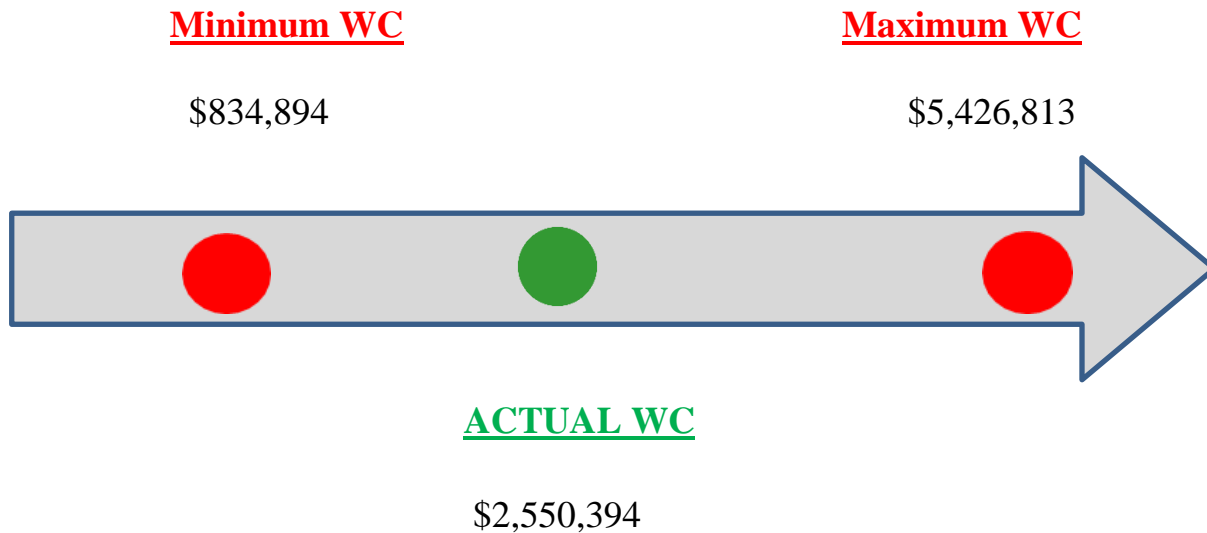
- One hundred percent (100%) of profits to Pitt County General Fund

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 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 Pitt County ABC Board is required to maintain a minimum working capital of \$834,894 with a maximum working capital amount of \$5,426,813. The Pitt County ABC Board had a working capital balance of \$2,550,394, 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 third Monday of each month at 11:30 AM, records regular meeting minutes, and provides public notification and awareness of these meetings. The minutes provide conflict of interest disclosure statements and discussion. The meeting minutes are routinely signed and kept in a binder for review. *It was communicated that all closed session minutes reside solely with the attorney for the board, who is currently Mr. Phil Dixon.*
- Three (3) of the five (5) current ABC board members also serve on the Pitt County Board of Commissioners, which is the appointing authority for the Pitt Co. ABC Board.
- The board has a personnel policy manual and code of ethics policy as required. The personnel manual was previously on file with the Commission, and the board provided an updated version.
- No budget amendments were submitted to the Commission during FY 2020-2021 for projected increase in sales or receipt was unable to be verified. During the visit, it was determined that the amendment had been sent to a Commission employee who had just retired. The board exceeded annual budgeted sales in April 2021. A retrospective copy has been formally added to Commission budget records.
- The finance officer is signing checks as required per statute. Invoice records for liquor purchases reflect them as being paid well inside of 30 days. Taxes and distributions are paid in a routine and timely manner.
- For robust financial oversight, the finance officer routinely tracks credit card transactions for each store daily whenever possible. The office manager receives bank email alerts deposits and uses spreadsheets to track bank deposits versus daily register reports to carefully watch for any potential discrepancies. Also, the officer manager assists the finance officer with overall cash, credit card and EFT monitoring and reconciliation.
- Board members conduct monthly checks and balances to ensure that cash management practices are upheld, and routinely review financial statements, monthly sales, sales to date, and miscellaneous financial documents.
- Bank deposits are routinely made daily per review of bank statements and discussion.
- Pre-audit certificates are not being routinely stamped on liquor orders as required by statute. The disbursement approval certificate statement is also present on blank checks.
- Law enforcement (LE) reports have been routinely submitted as required monthly and contain thorough information. The board has a law enforcement officer.
- The minimum mandatory net profit distribution to the county (as appointing authority) was calculated as being \$791,943 in the CPA annual audit. The distribution made to Pitt County was \$1,500,000 in FY-2021 and these distributions have been vigorous in recent years.
- Most of the recipients of alcohol education distributions are providing documentation to the board describing how the alcohol education funds awarded were utilized. Among the recipients were the Boys & Girls (B&G) Club, Vidant Med Center Foundation, Pitt County SADD, and Center for Family Violence Prevention. East Carolina University (ECU) personnel provided a presentation to the board on use of funds. *It was communicated that B&G Club did not provide documentation and will no longer be considered as a potential recipient.*
- Store inventories are conducted monthly with intermittent spot checks, and the warehouse is inventoried on a weekly basis.
- 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 APPEARANCE & SHELF MANAGEMENT

The findings for store appearance are as follows:

- The stores visited have modern designs and layout. The board location store will have a remodel layout update to routinely allow for more inventory and product variety on the sales floor. The current Farmville store is an older building yet will be moving to a new location in 2022.
- The board is in the process of purchasing a delivery truck to be used for proactive response to the July 2022 Commission Rule 15A .1903 Delivery of Mixed Beverages Permittee Orders. The board has the option to request exemption from delivery due to being a Tier 2 county. However, the board is coordinating with mixed beverage permittees via surveys and follow up to gauge direct interest in deliveries.
- The warehouse is a massive storage area. While the board's inventory turnover for FY-2021 was less than the target of six (6) coming in at 5.4, the board is very savvy with special purchase allowances (SPAs) and this benefit is reflected in 51.3% cost of good sold (COGS) for the fiscal year which is reasonably better than average COGS for boards.
- 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.
- Sales associate interactions with customers are attentive, courteous, and all are eager to meet the needs of the customers.
- While inspecting one store, a random sample of roughly 75 items was selected to determine if uniform pricing is displayed. Of those selected, two items had incorrect prices and were immediately corrected.
- As a reminder, remove all faded posters and replace with new ones when applicable. Please lean on 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.

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.*
- The ABC Commission supports local ABC boards on preventing conflicts of interest in accordance with G.S. 18B-201. Currently, the three of five ABC board members who also serve on the board of the appointing authority represent a quorum of ABC board membership. Due to this dual affiliation, these ABC board members must recuse themselves from voting on any motions involving distribution of funds to the appointing authority. In addition, the ABC board needs to coordinate with the appointing authority on a plan to alleviate these voting limitations.
- Ensure all policies are submitted to the Commission for recordkeeping and review. 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.” *When the board has an official delivery service policy, please forward an electronic copy to the Commission.*
- 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.*” Note: The board can best accomplish this by stamping & finance officer signing the last page of applicable Order Edit Lists from the inventory software.
- Board member terms are not currently staggered per requirements with G.S. 18B-700(a). Three (3) board members will have term expirations in 2024 per board website records. For the best continuity of operations for staggered terms going forward, the board would simply want to explore term realignment to allow for no more than any two (2) members having term expirations in the same year for a five-member board.
- All reappointed board members (and newly appointed 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 in August 2020, Board Member Huggins would need to complete the ethics training as soon as possible. Chairman Joyner and Board Member Fitzpatrick would need to complete the training by summer of 2022. Completion certificates should be forwarded to the Commission.
- 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 and latest annual travel policy per G.S. 18B-700(g2). Note: *As another option, the board can alternately move to 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.*
- The board has a code of ethics policy per G.S. 18B-706, and ABC Commission has a copy. The following are needed administrative action: A Certificate of Accountability form declaring the statutory duties of the board have been properly performed needs to be signed and copy forwarded to the Commission. *The COA form has been forwarded to the board.*

ADDITIONAL CONSIDERATIONS & GUIDANCE

- The Commission encourages all boards to track and monitor board members' current appointment dates and term expiration dates. 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 properly tracking ABC board member term expiration dates.*
- The Commission encourages and requests ABC boards to routinely update the Commission's board website when applicable (*the Commission's board website referring to where boards log on monthly with password to report monthly sales*). 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 online updates.*
- ABC boards are highly encouraged to explore reasonable ways to lower any recurring expenses. One approach would be by limiting the amount of personnel travelling to conference and convention events across the state. Other ways to try to improve expenses might come from 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. The NC General Assembly routinely requests sales forecast data figures from the Commission.
- Cross training opportunities for personnel should continue to be maximized to ensure solid continuity of operations occurs for ABC boards. Also, training opportunities can work well to develop store employees for promotions, increased responsibility roles, and serving to make both the routine operations and overall employee morale stronger.
- 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 April 18, 2022. The board agrees with all recommendations as presented and attests to their implementation. The board continues to be vigilant with profitability enhancement and expense reduction while operating modern stores with a robust customer service focus.