

Person County 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

CHAIRMAN:
Hank Bauer

January 10, 2023

COMMISSIONER:
Norman A. Mitchell, Sr.
Charlotte

Person County ABC Board
Michael R. Laws, Chair
712 N. Madison Blvd
Roxboro, NC 27573

Deputy Commissioner:
Mike DeSilva

Chairperson Laws,

LOCATION:
400 East Tryon Road
Raleigh NC 27610

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

MAILING:
4307 Mail Service Center
Raleigh NC 27699-4307

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.

PHONE: (919) 779-0700
<http://abc.nc.gov/>

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

Person County is found in the Piedmont and is included in the Durham-Chapel Hill Metropolitan Statistical Area. The county was named after Brigadier General Thomas Person, a Revolutionary War patriot, who made significant contributions to the county and surrounding areas and was a trustee of the University of North Carolina at Chapel Hill. Currently, the county's largest employers are Duke Energy, Eaton Corp, Georgia-Pacific Corp, and GKN Driveline. The 2020 U.S. Census reflects the county as having an approximate population of 39,097. *The total population has slightly decreased since 2010.*

Chapter 49 of the 1937 Session Law authorized Person County to hold an election for an ABC store. The referendum was held on August 25, 1962, and this passed 2,617 to 2,210. The first sale occurred on November 14, 1962. A mixed beverage election was held on July 20, 2004, and this passed 4,299 to 3,332. Upon election of an ABC store, the city was authorized to create a three-member ABC board consisting of a chairperson and two members to serve for three-year terms.

The Person County ABC board currently operates two (2) retail stores. The board staffs approximately fifteen (15) total employees including a general manager, finance officer, and sales associates. These include seven (7) full-time and eight (8) part-time 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 assist with routine operations of the ABC stores. Sales associate responsibilities include selling products, daily stocking, and floor upkeep & maintenance.

The Person County ABC Board had its last performance audit back in 2014. 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, July 26, 2022, ABC Board Program Analyst Quinn Woolard and Business Manager Christine Twining, visited the Person County ABC Board and interviewed Ben Foti (General Manager), Dale Norris (retiring GM), Tammy Weaver, (Finance Officer), and Michael Laws (Chairman). 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 Person County ABC Board had a profit percentage to sales of 12.63%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales greater than \$2M yet less than \$10M is 6.5%. The Person County ABC Board's gross sales totaled \$5,491,123, which was a 21.81% increase over FY 2019-2020.

The operating cost ratio for the Person County ABC Board was .46 in FY 2020-2021. The NC ABC Commission standard for ABC Boards with one or two stores and MXB sales is .73 or less.

Thus, the Person County ABC Board well exceeded the profitability standards as well as 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	\$1,348,135	\$1,106,694
Income from Operations	\$693,379	\$541,129

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores within a ten to fifteen (10-15) mile range of Person County ABC: Caswell County ABC operates one store within this range.
- An ABC Board's average cost of goods sold (COGS) is between 52% & 54% per year. The Person County ABC Board's cost of goods sold was approximately 52.7% in FY 2020-2021.

- *Mixed beverage sales were 3.4% of total sales in FY-2021, and there are around 15+ mixed beverage permit holders.*

BUDGET ANALYSIS

	FY 2020-2021 Budget Projections	FY2020-2021 Actual	Variance	Variance %
Sales	\$4,704,698	\$5,491,123	\$786,425	16.7%
Total Expenditures (to include Distributions)	\$4,505,768	\$5,407,084	(\$901,316)	20.0%

In reviewing the budget to actual analysis of the FY2020-2021 financial audit, actual sales revenues were over the budgeted projections by 16.7%. However, total expenditures were also over budget for the same period by 20.0%. 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, essentially doubling since FY-2017.*

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, Person County ABC made other statutory distributions totaling \$424,331 (Of this amount, Person County General Fund received \$350,199. *Special note: All net profit distribution funds are given to the county who in turn makes proper distribution to the Roxboro General Fund. This is part of the adherence to net profit distributions under the local enabling act*). The amount of \$1,247,517 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 Person County.

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

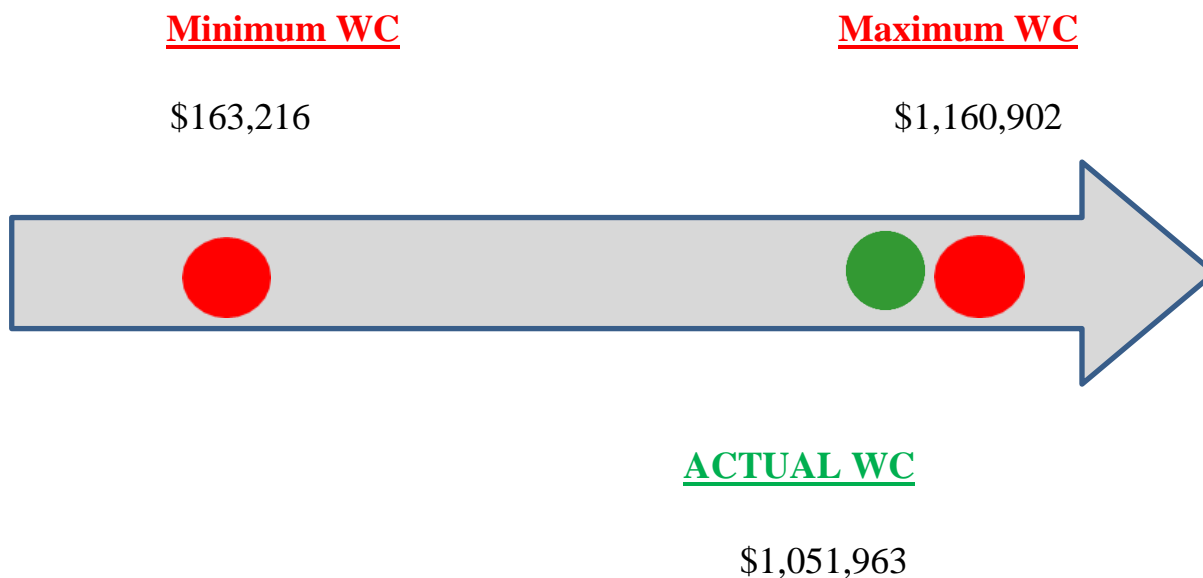
- Seventy percent (70%) of profits to Person County General Fund
- Thirty percent (30%) of profits to Roxboro General Fund

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 Person County ABC Board is required to maintain a minimum working capital of \$163,216 with a maximum working capital amount of \$1,160,902. The Person County ABC Board had a working capital balance of \$1,051,963, 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. Otherwise, excess net profit distributions would be necessary.

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE

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

- The board holds regular board meetings the second Tuesday of each month at 4:00 PM, 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.
- The board has a personnel policy manual and code of ethics policy as required. The personnel manual electronic version was not on file with the Commission.
- In FY 2020-2021, the board exceeded budgeted sales in May 2021. A budget amendment could not be verified as being received in Commission records. Budgeted sales for FY-2021-2022 were exceeded in late June 2022.
- The finance officer is not currently signing checks as required per statute. Invoice records for liquor purchases reflect them as routinely being paid inside of 30 days. Taxes and distributions are paid in a routine and timely manner.
- The finance officer conducts bank reconciliation twice per month. Deposits are made at different times of day by the general manager or other personnel.
- 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 items. The general manager & finance officer provide sales recaps, and other year-to-date (YTD) financial information for board awareness. *Board member compensation adheres to statute and appointing authority approval.*
- Bank deposits are routinely made daily per review of bank statements and discussion.
- Pre-audit certificates are not being routinely stamped on liquor orders at the time they are placed. The disbursement approval certificate statement is also present on blank checks.
- The law enforcement contract on file with the Commission is still valid. However, a new contract will be necessary in 2023 pending the outcome of the sheriff's election.
- Law enforcement (LE) reports are routinely submitted online via the Commission's board website portal. *The reports contain thorough statistical information and clear narratives on various alcohol oversight and enforcement activities.*
- The minimum mandatory net profit distribution to the designated recipients was calculated as being \$156,772 in the FY-2021 CPA annual audit with greater than \$350,000 made in actual distributions. The net profit distribution made to the designated recipients were made in the correct percentages and distributions in recent years have *routinely exceeded* minimum requirements. Alcohol education & law enforcement distributions were distributed at proper percentage minimums.
- Store inventories are conducted monthly whenever possible with intermittent spot checks of inventory.
- The general manager verified that all board members and general manager and finance officer are bonded as required; general manager compensation adheres properly to general statute requirements.

STORE INSIGHT & OVERVIEW

The findings for store insight:

- The Timberlake store has a modern design and layout. There is an approximate mortgage balance of \$400K for this store location. The board is considering strategic relocation of the main Roxboro store to a newly constructed site when the right parcel and purchase opportunity become available.
- The board closes properly on the mandatory five (5) holidays each year.
- The stores visited 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.
- 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 50-60 items was selected to determine if uniform pricing is displayed. Of those items selected at two store locations, all applicable liquor had the proper quarterly or monthly SPA applicable prices posted.

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. *Budget amendment copies should be submitted to the ABC Commission as required per NCGS 18B-702(h), to include a final reconciliation budget amendment for the fiscal year end.*
- Currently, there is a valid law enforcement contract approved by the county sheriff. However, a new law enforcement contract needs to be formally established between the ABC board and newly elected sheriff after the 2022 election reflecting current officials [*per adherence to G.S. 18B-501(f)*]. *When applicable in early 2023, the official contract signed by all applicable parties would need to be forwarded via email to the Commission.*
- Ensure all policies are submitted to the Commission for recordkeeping and review per NCAC 15A .1102 Rule. *Please forward via email an electronic copy of the board's personnel & policy manual 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 both the approval and latest annual travel policy per G.S. 18B-700(g2). If the board still follows the county travel policy, a copy of the policy and county approval needs to be provided to the Commission via email. Special Note: As another option to consider, 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 is a requested administrative action: *A Certificate of Accountability attestation form should be reviewed and signed by applicable personnel. A signed copy should be emailed to Commission.*
- The finance officer is required to sign all checks referenced in the statutes. G.S. 18B-702(p) states, "Except as otherwise provided by law, all checks or drafts on an official depository shall be signed by the finance officer or a properly designated deputy finance officer."
- Checks or drafts must bear a certificate, and the certificate shall take substantially the following form: *"This disbursement has been approved in the manner required by G.S. 18B-702."* This is most applicable for the payment of liquor invoices. Technically, no certificate is required on payroll checks or for expenditures from petty cash of \$50.00 or less per 18B-702(q).
- 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."* Special Note: Going forward, the board can best accomplish this by stamping & finance officer signing the last page of applicable Order Edit Lists from the inventory software.

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 could or could 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.*
- The Board is highly encouraged to closely review financial information and monitor straightforward ways to lower any recurring expenses. *A very tangible way to lower expenses is to take full advantage of buy-ins and monthly special purchase allowance (SPA) liquor products that routinely sell well in the store. By purchasing liquor on sale whenever possible, this will enhance an ABC 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.*
- For awareness, all newly appointed as well as those reappointed board members are required to complete ethics training within one (1) year of their appointment or reappointment date *per G.S. 18B-706(b)*. *Any applicable completion certificates should simply be forwarded via email to the Commission.*
- 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.*
- ABC boards to include all board members 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. Board members could also review periodic inventory variance reports as a good oversight measure.
- 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.
- 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 report & recommendations were presented to the board on October 10, 2022. The board will follow all recommended actions as presented with one exception: The Commission permitted a waiver of the board's finance officer from signing checks per statute due to a relative's employment with the board's banking institution. Thus, the board is working to exercise caution and responsibly ensure that no conflict of interest will be present. The board continues to be vigilant with profitability enhancement and expense reduction while operating modern stores with a robust customer service focus.

APPENDIX B

PERSON COUNTY BOARD OF ALCOHOL CONTROL

712 N. Madison Blvd
Roxboro, NC 27573
Telephone: (336) 599-8294
Fax: (336) 599-8326

12/09/2022

Quinn Woolard
NC ABC Board Auditor
400 East Tryon Road
Raleigh, NC 27610

Dear Mr. Woolard,

We truly appreciate your support and recommendations from the audit recently performed. This performance audit will help us with the areas that need improvement. Please find below our responses to the findings and recommendations. Let me know if you need additional information.

- **Item 1: Budget Amendments**
All recommendations will be followed.
- **Item 2: Meeting Minutes**
All recommendations will be followed.
- **Item 3: Personnel Manual**
Personnel Manual is attached to this report.
- **Item 4: Travel Policy**
A copy of the Person County Government Travel Policy and documents to show Person County Board of Commissioners approval are attached to this report.
- **Item 5: Certificate of Accountability**
An updated Code of Ethics & Certificate of Accountability have been submitted.
- **Item 6: Check Signature from Finance Officer**
Approval was granted by ABC Commission to waive requirement of finance officer to sign checks. Communication outlining that process is attached to this report.
- **Item 7: Pre-audit Statement for Checks/Drafts**
The Board will ensure the pre-audit certificate is present on new checks ordered to adhere to NCGS 18B-702,

➤ **Item 8: Pre-audit Certificate for Liquor Orders**

The Board will ensure the pre-audit certificate and signature are present on liquor orders to adhere to NCGS 18B-702(m).

Sincerely,

A handwritten signature in black ink that reads "Michael R. Laws". The signature is written in a cursive style with a large, stylized initial "M".

Michael R. Laws
Chairman, Person County ABC Board