

Northampton 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

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October 26, 2022

Northampton County ABC Board
Mr. Teddy M. Sumner, Chair
PO Box 277
Jackson, NC 27845

Chairman Sumner,

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

Northampton County sits on the Virginia and North Carolina border between Hertford and Halifax counties. The closet metropolitan area is Roanoke Rapids in Halifax County. Northampton County has a rural landscape with no large urban centers. The 2021 estimated population is just over 19,000 residents, which is roughly a 14% decrease in population from the 2010 US Census estimate of 22,000 residents.

Chapter 493 of the 1935 Pasquotank Act authorized Northampton County to hold an election. The referendum was held on August 14, 1965. The vote for an ABC store passed 2,922 to 2,092. The date of the first retail sales was October 1, 1965. A mixed beverage election was held on May 6, 2014. This measure was passed with 3,075 supporting votes and 1,652 opposing votes. Upon election of an ABC store, the county was authorized to create an ABC Board consisting of a chairperson and two members.

The Northampton County ABC board operates four (4) retail stores located in Gaston, Jackson, Rich Square, and Conway, NC. The board staffs eleven (11) total employees including a general manager, finance officer, sales associates, and warehouse/delivery personnel. The general manager is full-time and the remaining ten (10) employees are part-time personnel. The general manager currently serves primarily as the finance officer also and is responsible for the daily store operations including supervising personnel, inventory management, and various retail functions. In addition, the general manager provides the board with fiscal management, administrative support, and assists with routine operations of the ABC store. The additional finance officer is part-time and assists with financial management of the board. Sales associate responsibilities include selling products, daily stocking, and floor upkeep & maintenance. Warehouse personnel make deliveries between the stores and assist with miscellaneous duties.

The Northampton 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 Thursday, March 10, 2022, ABC Board Program Analyst Quinn Woolard, visited the Northampton County ABC Board and interviewed Kathy Gephart, General 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 Northampton County ABC Board had a profit percentage to sales of 8.26%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales less than \$2M is 5.0%. The Northampton County ABC Board's gross sales totaled \$1,644,766, which was a 21.53% increase over FY 2019-2020.

The operating cost ratio for the Northampton County ABC Board was .65 in FY 2020-2021. The NC ABC Commission standard for ABC Boards with three or more stores is .63 or less.

Thus, the Northampton County ABC Board well exceeded the profitability standards yet did not 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	\$400,754	\$324,951
Income from Operations	\$135,808	\$86,066

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores within a ten to fifteen (10-15) mile range of any Northampton County ABC operated stores include: Two stores operated by Halifax County ABC Board. For reference, most of the Northampton County ABC stores are located within 15 miles of the Virginia border.

- An ABC Board’s average cost of goods sold (COGS) is between 52% & 54% per year. The Northampton County ABC Board’s cost of goods sold was approximately 53.1% in FY 2020-2021.
 - *Mixed beverage sales were zero of total sales in FY-2021, yet there are two mixed beverage businesses with retail liquor permits. These businesses purchase from other boards due to convenience.*

BUDGET ANALYSIS

	FY 2020-2021 Budget Projections	FY2020-2021 Actual	Variance	Variance %
Sales	\$1,535,600	\$1,644,766	\$109,166	7.1%
Total Expenditures (to include Distributions)	\$1,534,400	\$1,502,060	\$32,340	2.1%

In reviewing the budget to actual analysis of the FY2020-2021 financial audit, actual sales revenues were over the budgeted projections by 7.1%. In addition, total expenditures were under budget for the same period by 2.1%. 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 seven (7) years.*

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, Northampton County ABC made distributions totaling \$10,520 (the designated county and town recipients received no profit distributions in FY-2021). The amount of \$370,165 in excise and other taxes were paid to the NC Department of Revenue (NCDOR) and the county commissioners of Northampton County.

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

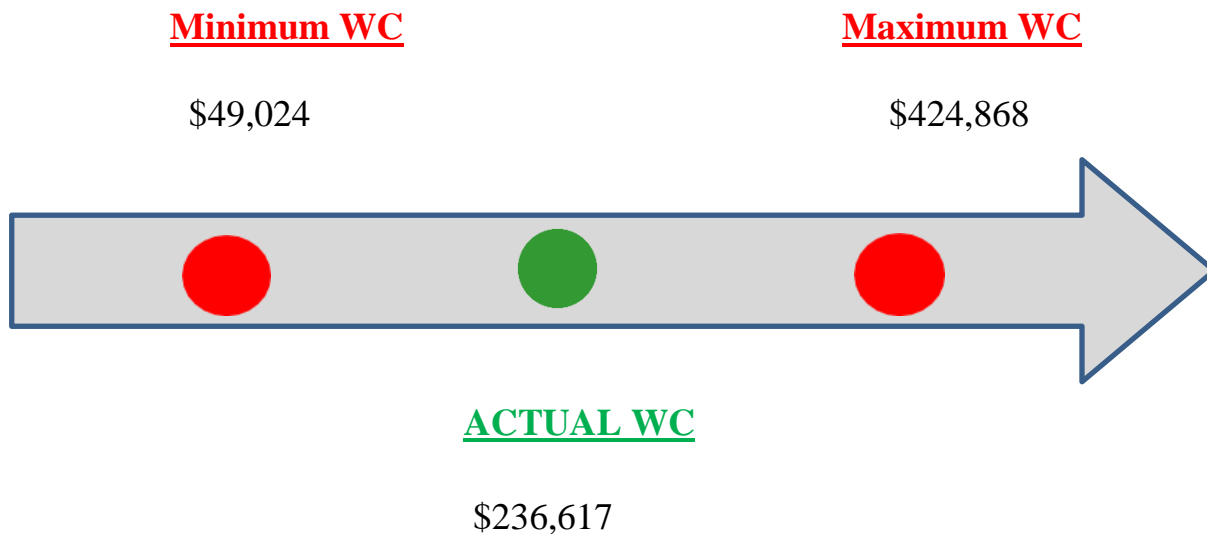
- Twenty-five percent (25%) of profits from stores in towns to applicable general funds of municipalities
- Remainder percentage to Northampton County General Fund

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 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 Northampton County ABC Board is required to maintain a minimum working capital of \$49,024 with a maximum working capital amount of \$424,868. The Northampton County ABC Board had a working capital balance of \$236,617, 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 board meetings the third Tuesday of every other month at 2:00 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 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 (electronic copy) was not previously on file with the Commission and has been forwarded. The board has a vehicle to make deliveries to store locations but does not have a vehicle policy in place. The board has no mixed beverage permit customers due to it not being economically viable on providing service. The two active mixed beverage permittees buy from a neighboring county ABC board, and prior approval from ABC Commission was in effect. Documentation was secured to add to Commission portal documents for recordkeeping and awareness.
- No budget amendments were submitted to the Commission during FY 2020-2021 for projected increase in sales or their receipt was unable to be verified in Commission records. The board exceeded annual budgeted sales in March 2021.
- 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.
- The general manager has meticulous oversight and processes in place with all routine financial records such as payroll, personnel files, and payments for invoices and taxes. The system in place is largely focused on paper copies and recordkeeping which have worked well for the board. However, the general manager and board recognize the need to modernize and upgrade more processes with electronic recordkeeping over the next couple of years.
- For financial oversight, the board members review bank statements and financial records monthly along with the 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.
- Pre-audit certificates have not been routinely stamped on liquor orders as required by statute. The disbursement approval certificate is present on blank checks.
- Law enforcement (LE) reports have been submitted monthly as required, however none of the reports contain any information and reports have all zeros in all categories. The general manager discussed that police department(s) are reluctant to assist with enforcement actions against shoplifters.
- Law enforcement contracts were put in effect many years ago and new contracts will likely be necessary.
- Profit distributions to the county and municipalities were zero in FY-2021, and partial distributions were made in FY-2020. The board has just begun to have a healthier net position over the last few fiscal years.
- For inventory management, the general manager advised monthly inventory is conducted normally on the 4th Saturday of the month.
- The general manager verified that all board members and general manager are bonded as required; all board members' compensation amounts adhere properly to general statutes. The general manager is aware to ensure the new finance officer becomes properly bonded.

STORE APPEARANCE & SHELF MANAGEMENT

The findings for store appearance are as follows:

- The Jackson store & board location was the only store location visited, and all four (4) retail store locations are counter stores. The general manager discussed a survey being given to customers with an overwhelming response communicating that many patrons prefer counter stores to self-service stores in Northampton County. The business model of the counter stores worked very well during the initial COVID pandemic.
- The store displayed the required Fetal Alcohol Syndrome poster required by G.S. 18B-808 and the general manager stated all other stores have posters displayed.
- Outside area surrounding the store is properly maintained and free of debris or trash.
- Security systems are in place and functional in all designated areas, with Jackson having a new security system in place.
- Sales associate interactions with customers are attentive, courteous, and all are eager to meet the needs of the customers.
- The board was very strategic in increasing operational efficiency by purchasing a forklift after consultation with LB&B Associates. This benefited the board and truck drivers in reducing unloading time. Furthermore, it provided the board the means to receive trucks earlier in the day; previously the board was routinely receiving late trucks due to their deliveries being consolidated with another ABC board.
- The general manager stated the Gaston store location has been painted outside and has new LED lighting in place as well as a new safe. *The Gaston store is being considered for a possible conversion to a self-service store, and it is the most profitable and busiest store location.*
- The Jackson store interior needs overall rejuvenation and has a noticeable crack which extends from the ceiling down to the floor.
- The board does not have an inventory scanner currently and prices are hand-written.
- While inspecting the store, a random sample of roughly 50 items was selected to determine if uniform pricing is displayed. Of those selected, two had incorrect prices listed on the shelf and were promptly corrected.
- As a reminder, remove all faded posters and replace with new ones when applicable. 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 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 amendments are submitted to the ABC Commission as required per NCGS 18B-702(h), to include a final reconciliation budget amendment for the FY 2021-2022 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.” *The board is recommended to adopt a vehicle use policy, and a sample template has been forwarded for consideration.*
- New law enforcement contract(s) reflecting current agency officials must be adopted and copies provided to the Commission *per G.S. 18B-501(f)*. The contracts on file with the Commission are all outdated.
- The board shall submit a copy of the law enforcement report to the appointing authority and the Commission by the 5th business day of each month *per G.S. 18B-501(f1)*. Reports have been submitted regularly online but none over the last two years reference any data or statistics. If current law enforcement agencies are not completing ABC enforcement law activities on behalf of the board, it is recommended for the board to consider entering a contract with a suitable agency such as Alcohol Law Enforcement (ALE) state agency or the county sheriff’s department.
- 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 reappointed board members (and newly appointed members) are required to complete ethics training within one (1) year of their appointment date *per G.S. 18B-706(b)*. General managers and finance officers also complete a one-time training per Commission requirements. Per records review, all board members are current on training. *A finance officer was recently hired who must complete the training by May 2022, and completion certificate then forwarded to the Commission.*

RECOMMENDED ACTIONS (PER STATUTES OR COMMISSION RULES)

- A travel policy for the current fiscal year and approval documentation from the appointing authority must be forwarded to the Commission. Annually, the board must obtain approval from the appointing authority to adhere to their local travel policy and provide the Commission a copy of the policy and approval 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 board has the option to follow the state policy. If this option was elected, the board would only need to make a one-time motion and include documentation in the meeting minutes, forward to the Commission if applicable.
- Quarterly distributions of profits must occur (per G.S. 18B-805(c)(e) *unless the appointing authority approves of a different distribution schedule*). Because the board has not been making quarterly distributions, documentation from the appointing authority needs to be forwarded stating that an annual or other distribution schedule is acceptable.
- 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 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 BOARD CONSIDERATIONS

- The general manager has a tremendous workload and very heavy responsibility and is the only full-time employee of the board. While a part-time finance officer has been hired, the board must strongly consider long-term continuity of operations for the ABC system in Northampton County for continued planning and growth. This would include grooming more current employees for increased responsibility and recruiting personnel both internally and externally from other boards.
- The board should consider holding monthly board meetings for better oversight of board operations.
- 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 not be automatically tracking this information.
- 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 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*.
- The board is recommended to update and modernize the interior of the Jackson store location. There is great improvement in appearance and direct marketing opportunity by painting the interior as well as repairing the ceiling to floor cracks, which would make the store more inviting to shoppers. Investing back in the store locations is critical for store improvements and marketability to customers as whole. While the other store locations were not visited, the board must heavily consider investing back in the stores for improvement and updating to make the stores appealing.
- The board is recommended to consider inventory scanners to improve inventory management and efficiency; the current inventory software provider could serve as a consultant guiding the board on best options. Updating the shelf prices with product codes and bar codes would increase efficiency for sales associates as well as expedite inventory checks.
- The board can update exterior pylon signs to a modern design making for a fresher appearance and fostering better marketing and for all store locations.
- When applicable, ensure unsaleable merchandise (breakage) reports are submitted via email 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.
- Cross training opportunities for personnel should be maximized to ensure solid continuity of operations occurs for ABC boards during any absence of the general manager or finance officer. 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.
- 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.

RECAP: 2012 COMMISSION RECOMMENDATIONS & SUGGESTIONS

The below recommendations from the 2012 audit have not been applied, and they are still applicable for consideration in 2022:

- Convert as many stores as possible to self-service, particularly the Gaston store which sells to tourists as well as residents. ***It is proven that self-service stores generate 10% more in profits.***
- Close the Conway store. There is another ABC store within seven miles of this one.
 - Update for consideration in 2022: The Conway store has consistently exceeded Jackson store sales over the last 10 years, apart from FY-2021. The board should still consider the feasibility of closing one of these two stores. Customer surveys would be a good option as well on considering if patrons would visit the other county stores or if the sales would instead be picked up by neighboring ABC boards.
 - The Gaston & Rich Square stores have been accounting for roughly 70% of the store sales for the board over the last several fiscal years.
- Open the wall between the office and Jackson store location. This would allow office personnel to also staff the store during the least busy hours, increase visibility, and provide quicker access to the store.
 - Update for consideration in 2022: Having a door in between the store / board office at Jackson would be beneficial and less costly to implement.
- Use office computer to print shelf tags for a more professional look.

APPENDIX A

Program Analyst's Summary

The performance audit recommendations were presented to the board on April 19, 2022. The board agrees with all recommendations as presented. The board continues to focus on enhancing profitability and reducing expenses when possible.

Northampton County ABC Board
205 E. Jefferson Street
Jackson, NC 27845

October 18, 2022

Quinn Woolard
ABC Board Auditor
400 E. 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.

Item 1: Budget Amendments

All recommendations will be followed

Item 2: Vehicle Use Policy

Policy is attached

Item 3: Law Enforcement Contracts

Copies of all Law Enforcement Contracts Attached

Item 4: Law Enforcement Reports

All recommendations will be followed

Item 5: Purchase Orders

All recommendations will be followed

Item 6: Ethics Training

Ethics Training has been completed

Item 7: Travel Policy

Travel Policy is attached

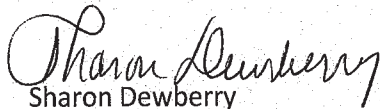
Item 8: Distributions

Letter of waiver attached

Item 9: Certificate of Accountability

Certificate attached

Sincerely,



Sharon Dewberry
Finance Officer