

Newton Grove 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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January 10, 2023

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

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

Newton Grove, a town chartered in 1879, is found in Sampson County at the crossroads of three major highways: US-701, US-13, and NC-55. The town's population per the 2020 Census is approximately 565 residents. *The total population is virtually unchanged since the 2010 Census.*

Chapter 181 of the 1971 Session Law authorized the town to hold an election for an ABC store upon receipt of a petition signed by 15% of registered voters. The referendum was held on July 10, 1971 and passed 110 to 47. The first retail sales were on October 1, 1971, with sales totaling over \$106,000 for the first year. A mixed beverage election was held on November 8, 2005. The election passed 103 to 59. Even though the election was held in 2005, the first mixed beverage sales did not occur until July 2011. While the county is dry, four municipalities have voted in beer, wine, and ABC stores: Clinton, Garland, Newton Grove, and Roseboro. The town council appoints three (3) members to serve on the Newton Grove ABC Board.

The Newton Grove ABC board currently operates one (1) retail store. The board staffs approximately six (6) total employees including a general manager, finance officer, and sales associates. The general manager is full-time, and all other employees are part-time. 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 Newton Grove 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 Wednesday, April 27, 2022, ABC Board Program Analyst Quinn Woolard, visited the Newton Grove ABC Board and interviewed Stanley Futrell (General Manager), and Paula Best (Finance Officer). Below is a financial analysis followed by operation observations, findings, and recommendations related to the performance audit.

FINANCIAL ANALYSIS

PROFIT PERCENTAGE TO SALES & OPERATING COST RATIO

In fiscal year (FY) 2020-2021, the Newton Grove ABC Board had a profit percentage to sales of 6.44%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales less than \$2M is 5.0%. The Newton Grove ABC Board's gross sales totaled \$859,027, which was a 20.14% increase over FY 2019-2020.

The operating cost ratio for the Newton Grove ABC Board was .69 in FY 2020-2021. The NC ABC Commission standard for ABC Boards with one or two stores and mixed beverage sales is .73 or less.

Thus, the Newton Grove ABC Board met the profitability standards 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	\$203,557	\$190,475
Income from Operations	\$55,283	\$43,754

Factors affecting profitability and cost include:

- *No other ABC boards within a ten (10) mile range.* Surrounding areas with other ABC Boards operating stores within a fifteen to twenty (15-20) mile range of Newton Grove ABC: Clinton ABC has one store in a 15-20 mile range; Wayne County ABC has one store in this range; Dunn ABC has two stores in range as does Johnston County ABC with two stores operating in Benson, NC.
- An ABC Board's average cost of goods sold (COGS) is between 52% & 54% per year. The Newton Grove ABC Board's cost of goods sold was approximately 54% in FY 2020-2021.

- *Mixed beverage sales were less than 1% of total sales in FY-2021, and there is currently only one (1) mixed beverage business customer.*

BUDGET ANALYSIS

	FY 2020-2021 Budget Projections	FY2020-2021 Actual	Variance	Variance %
Sales	\$732,000	\$859,027	\$127,027	17.4%
Total Expenditures (to include Distributions)	\$709,686	\$752,515	(\$42,829)	6.0%

In reviewing the budget to actual analysis of the FY2020-2021 financial audit, actual sales revenues were over the budgeted projections by 17.4%. In addition, total expenditures were also over budget for the same period by 6.0%. 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 at \$251k, reflecting an increase of over 50% since FY-2017 net position.*

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 [unless an ABC board has a specific local act otherwise establishing these amounts]. *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, Newton Grove ABC made other statutory distributions totaling \$16,141 (Newton Grove received \$12,500 of this amount in accordance with net profit distributions). The amount of \$191,262 in primary distributions and other taxes were paid to the NC Department of Revenue (NCDOR), NC Department of Health & Human Services (NC DHHS), and the county commissioners of Sampson County.

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

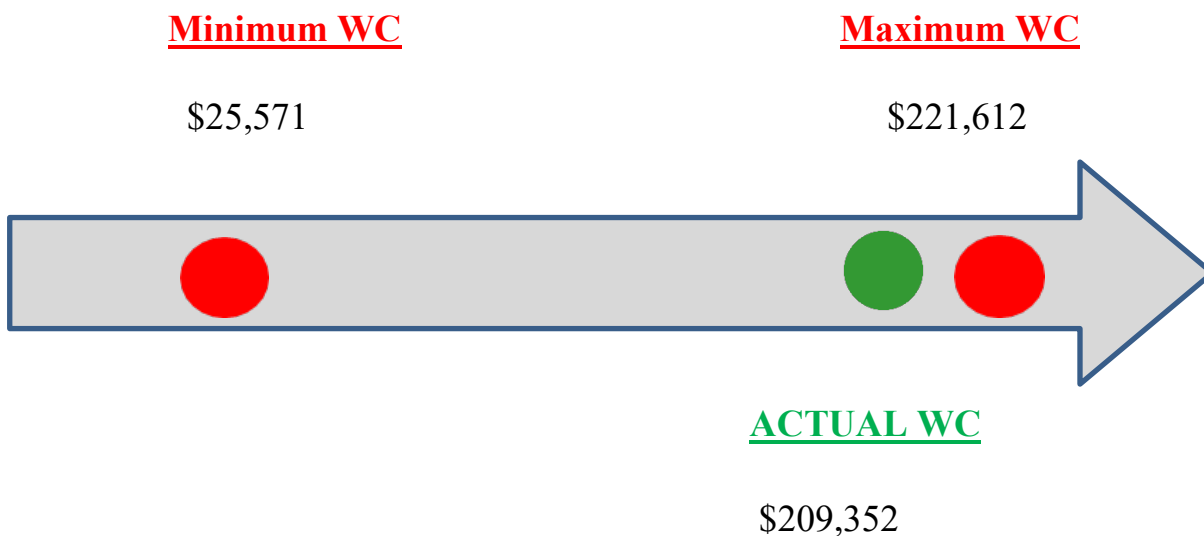
- One hundred percent (100%) of profits to Newton Grove General Fund

WORKING CAPITAL

G.S. 18B-805(d) allows the board to set aside a portion of the remaining gross receipts, within the limits set by the rules of the Commission, as cash to operate the ABC system. The NC ABC Commission has set a working capital standard for boards with annual gross sales less than \$1.5M an amount equal to four (4) months of sales revenue.

Based upon the existing rules, as of June 30, 2021, the Newton Grove ABC Board is required to maintain a minimum working capital of \$25,571 with a maximum working capital amount of \$221,612. The Newton Grove ABC Board had a working capital balance of \$209,352, which falls *within* the Commission requirements for this section (*).

* FY 2020-2021: *Working Capital (WC) graphic*



Under 18B-805(d), with approval of the appointing authority for the board, the local board may also set aside a portion of the remaining gross receipts as a fund for specific capital improvements.

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE

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

- The board holds regular board meetings the second Tuesday of each month at 7:00 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 was not previously on file with the Commission and is an old and outdated manual. The Commission template policy has been forwarded to the board to use.
- The board had exceeded original FY-2021 budgeted sales in early May 2021. A budget amendment had not been adopted by the board or forwarded to the Commission. Currently, the board is not on track to meet annual budgeted sales and a budget amendment will likely be necessary.
- 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 financial oversight, the finance officer does a weekly reconciliation and bank deposits are made up by the sales associates and general manager as needed. The finance officer manages a bi-weekly payroll process. Since the store upgraded POS/inventory software with Carolina Data Systems, there have been glitches regarding store inventory numbers at times as well as scanning issues at the cash register.
- 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 finance officer provides financial documents for board review and consideration. *Board members are also encouraged to do inventory spot checks during monthly board meetings.*
- 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 present on blank checks as required.
- Law enforcement (LE) reports have been submitted each month and reports routinely have zeros listed in every category. This is because the local police department has been providing no information to the board on alcohol enforcement metrics.
- The board has a law enforcement contract that is no longer valid due to the town having a new police chief since adoption of the original contract.
- The minimum mandatory net profit distribution to the Town of Newton Grove (as appointing authority) was calculated as being \$24,940 in the FY-2021 CPA annual audit with \$12,500 made in actual net profit distributions. *The net profit distribution made to the town was greater than the minimum calculation in FY-2020.*
- The recipient of alcohol education distributions is providing documentation to the board describing how the alcohol education funds awarded were utilized. The board recently made distributions to Sampson County Substance Abuse Coalition.
- Store inventories are conducted monthly with intermittent spot checks, and the warehouse is inventoried more frequently.
- The last breakage reports forwarded to the Commission occurred in June 2021 with no reports received since then.
- 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 & AWARENESS

The findings for store awareness are as follows:

- The store is in the heart of town just adjacent to a busy traffic circle. Parking spots are limited with a small parking lot footprint off the busy road with other surrounding businesses.
- The interior walls have been painted yellow since the last audit. The store would benefit from new shelving and flooring. While the board has already considered these upgrades, the challenges involve finding available contractors to complete the work at a reasonable price.
- Shelf tags are outdated with only plastic numbers being displayed for product codes and prices. *However, the store does utilize an inventory scanner system.*
- The board had wooden shelves constructed in the warehouse space to keep inventory off the floor and increase ease of access to products for inventory and restocking purposes.
- The board only has one mixed beverage business customer currently and may request exemption from delivery service requirements due to being a Tier 1 county per NC Dept of Commerce records. Otherwise, the board must offer delivery service to any applicable MXB customers beginning in July 2022 to adhere to Rule 15A .1903 Delivery of MXB Permittee Orders.
- The store displayed the required Fetal Alcohol Syndrome poster required by G.S. 18B-808.
- As a savvy proactive measure, the board places a second mixed beverage tax stamp on the bottom of liquor bottles. While the board only has one mixed beverage permittee, this is a very strategic action to directly ensure business customers avoid any problems with alcohol law enforcement agents on missing stamps.
- 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 to help stimulate sales.
- The store does not have a shelf management system in place; bottle sizes do not increase in size from left to right and a product code number sequence instead is utilized. Most bottles were fronted and dusted however there were some open spaces reflecting out-of-stock inventory. Some of the liquor product that the store has been ordering is in stock at the state warehouse but unfortunately some of these products are not being routinely shipped. The program analyst has sent an email to Commission management personnel elevating this issue for awareness.
- 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 highly 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 selected, two items had incorrect prices and were immediately corrected.

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 sales adjustment for current fiscal year sales estimates.*
- Due to new law enforcement officials, a new law enforcement contract must be enacted and adopted as soon as possible reflecting the current police chief for Newton Grove. *Please note the board has the authority to work with Alcohol Law Enforcement (ALE) agency as an alternative if the local police have not been providing alcohol enforcement data to the board.* A signed copy of the contract must be provided to the Commission per *G.S. 18B-501(f)*.
- Local boards shall establish and maintain a shelf management plan per *Commission Rule 15A .1708 Shelf Management*. The board needs to work to rearrange the liquor inventory on the shelves to follow shelf management requirements instead of following product code numbers. The board can take advantage of a category management review through Republic National Distributing Company out of Charlotte, NC to assist with this requirement.
- Ensure all policies are submitted to the Commission for recordkeeping and review per NCAC 15A .1102 Rule. *When the board has an official delivery service policy for new Commission Rule 15A .1903 – Delivery of Mixed Beverages Permittee Orders, please forward an electronic copy of the board policy to the Commission. Alternately, the board may request an exemption through the ABC Commission for the delivery service rule.*
- The board has a code of ethics policy per *G.S. 18B-706*, and ABC Commission now has a copy. The following are needed administrative actions: *An adoption page should be signed by the board for the Code of Ethics and a Certificate of Accountability verification form should be reviewed and signed by applicable board personnel. Then, the two signed copies only need to be emailed to the Commission.*
- Law enforcement reports must be submitted on the Commission’s board website by the 7th of each month referencing *G.S. 18B-501(f1)*. Reports should include as applicable the number of arrests made for ABC law violations, number of agencies assisted with ABC laws, and any other identifiable metrics for ABC law contribution such as compliance checks on businesses holding retail ABC permits.
- 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 could be placed on Order Edit Lists and should read, *“This instrument has been pre audited in the manner required by G.S. 18B-702.”*
- 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 sent via email submission to the Commission; copies should never be mailed.*

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.*
- 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).* 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*. Another strategy to use is limiting the amount of personnel travelling to conference and convention events across the state.
- To improve inventory turnover ratios, boards can monitor sales data to best plan orders. Also, boards can identify dead stock inventory and move these products to a more visible location or request price reductions to move the product more quickly.
- 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.
- 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.
- ABC boards should consider replacing older shelving for a more modern appearance and making their store an inviting and appealing atmosphere for customers. New flooring would have a positive impact as well. By updating the shelf tag pricing system with a smoother number display, it will increase efficiency for inventory as well as easier to read prices for customers.
- 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 recommendations were presented to the Newton Grove ABC Board on May 9, 2022. The ABC board agrees with the recommendations as presented and has met all tangible actions. Going forward, the board continues to work on improving shelf management and updating store appearance. Providing excellent customer service along with enhancing profitability and reducing expenses all continue to be the paramount focus.