

# Tryon ABC Board

## Performance Audit Report



Alcoholic Beverage Control Commission  
400 East Tryon Road, Raleigh, NC 27610  
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**ABC**  
COMMISSION  
NORTH CAROLINA

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# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

**CHAIRMAN:**

A. D. "Zander" Guy, Jr.

April 16, 2020

**COMMISSIONERS:**

Norman A. Mitchell, Sr.  
Charlotte

Karen L. Stout  
Black Mountain

Lynn Sessoms  
Chairperson, Tryon ABC Board  
PO Box 284  
Tryon, NC 28782

**ADMINISTRATOR:**

Agnes Stevens

Dear Chairperson Sessoms,

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

**LOCATION:**

400 East Tryon Road  
Raleigh NC 27610

The report consists of an executive summary, an overview of the objective, purpose and scope, and a digest of your board's performance standards and related findings. Included in the findings are recommendations for action on the part of your board.

**MAILING:**

4307 Mail Service Center  
Raleigh NC 27699-4307

I encourage you to review the report and let me know if you have any questions or require assistance in implementing any of the recommendations.

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

On behalf of the NC ABC Commission I thank you and your staff for your assistance and cooperation in conducting this review and in implementing the changes that will reduce expenses and increase profitability of your board.

Sincerely,

Agnes Stevens  
Administrator

cc: NC Association of ABC Boards

## OBJECTIVE, PURPOSE, AND SCOPE

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In addition to regular and special financial audits, G.S. 18B-705 (a) authorizes the N.C. 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 audits' 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
- Consult with specialists at the UNC School of Government
- Verify compliance with Commission and Board policies
- Verify results of previous performance audit recommendations
- Review organizational chart and job descriptions
- Review ABC board annual independent financial audits
- Visit the store(s)
- Interview key ABC board personnel.

The initial round of performance audits for the local ABC Boards concluded in 2016 and provided a comprehensive overview of the operations of the local boards. The follow-up round of performance audits now under way is designed to provide local boards with information that targets specific areas for improvement. Board activities that meet or exceed current performance standards are not included as areas recommended for corrective action and so are not included in the attached summary report and recommendations.

## PROFIT PERCENTAGE TO SALES AND OPERATING COST RATIO

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The NC ABC Commission profit percentage to sales standards for ABC Boards with gross sales less than \$2M is 5%. In FY2019, the Tryon ABC Board had a profit percentage to sales of 5.2%, a 1.8% decrease over FY2018. The initial performance audit conducted in FY2012 concluded a profit percentage to sales of -3.79%.

The operating cost standard for ABC Boards with one or two stores with mixed beverage sales is less than 0.73. The operating cost ratio for the Tryon ABC Board was 0.77 in FY2019. The Tryon ABC Board's operating expenses increased 18.6% over FY2018.

Thus, the Tryon ABC Board met the profitability standard but did not meet the cost standard set by the NC ABC Commission. Below is a chart showing expenses and income from operations for the previous two years.

	FY2019	FY2018
<b>Expenses excluding Depreciation</b>	\$106,123	\$89,460
<b>Income from Operations</b>	\$29,206	\$34,887

Factors affecting profitability and sales:

- Neighboring ABC Board, Columbus ABC, is within a 5-mile radius of the Tryon ABC Board and South Carolina border within one mile of the store
- Mixed beverage sales totaled \$244,801, a 43.3% of total gross sales
- Average ABC Board's cost of goods sold percentage is between 52-54% of gross sales per year. The Tryon ABC Board's cost of goods sold percentage is approximately 51% of total gross sales.
- Average ABC Board's tax percentage is between 21-23% of gross sales per year. The Tryon ABC Board's tax percentage is approximately 24% of total gross sales. The FY2019 financial audit indicated tax penalties as a result of late tax payments.

## RECOMMENDATIONS

To reduce the operating cost levels, the board will need to increase gross sales by 1.6% to \$575,000. To achieve this goal, consider effective practices that would generate more revenue such as:

- Partnering with distilleries to showcase product as long as it meets the NC ABC Commission's promotion requirements
- Creating recipe cards, displays, and other marketing techniques to further enhance customer shopping experience
- Borrowing common marketing strategies from suppliers and other boards for best practices in shelf management, customer service, and inventory management
- Contacting neighboring systems to inquire about selling off discontinued or slow-moving products or ask for a price reduction from the NC ABC Commission
- Taking advantage of Special Purchase Allowance (SPAs) or the buy-in process to provide variety within the store at a reduce cost while increase the profit margin.

## BUDGET ANALYSIS

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The NC ABC Commission audits and compares all ABC board monthly sales with the submitted adopted budgets. In reviewing the budget to actual analysis of the FY2019 financial audit for the Tryon ABC Board, sales revenues did not meet budgeted projections. Total expenditures were within budget projections. However, many expenditures were not budgeted for the respective year. Amendments were not adopted by the board to adjust specific line items.

The below chart shows the final budget to actual amounts and the variances in the Tryon ABC Board financial audit.

	FY2019 Budget Projections	FY2019 Actual	Variance \$	Variance %
Sales	\$591,560	\$566,002	(\$25,558)	-4.5%
Total Expenditures and Distributions	\$585,560	\$539,273	\$46,287	8.6%

**REQUIRED ACTION:** *All ABC Boards are required to operate within a balanced budget. When actual sales exceed budget projections, amend the budget to adjust for the increase. If budgeted line items are not balanced, adopt budget amendments to correct specific items or add omitted line items. G.S. 18B-702(h) states, "Except as otherwise restricted by law, the local board may amend the budget at any time after adoption, in any manner, so long as the budget, as amended, continues to satisfy the requirements of this section...Amendments to the adopted budget shall also be provided to the appointing authority and the Commission."*

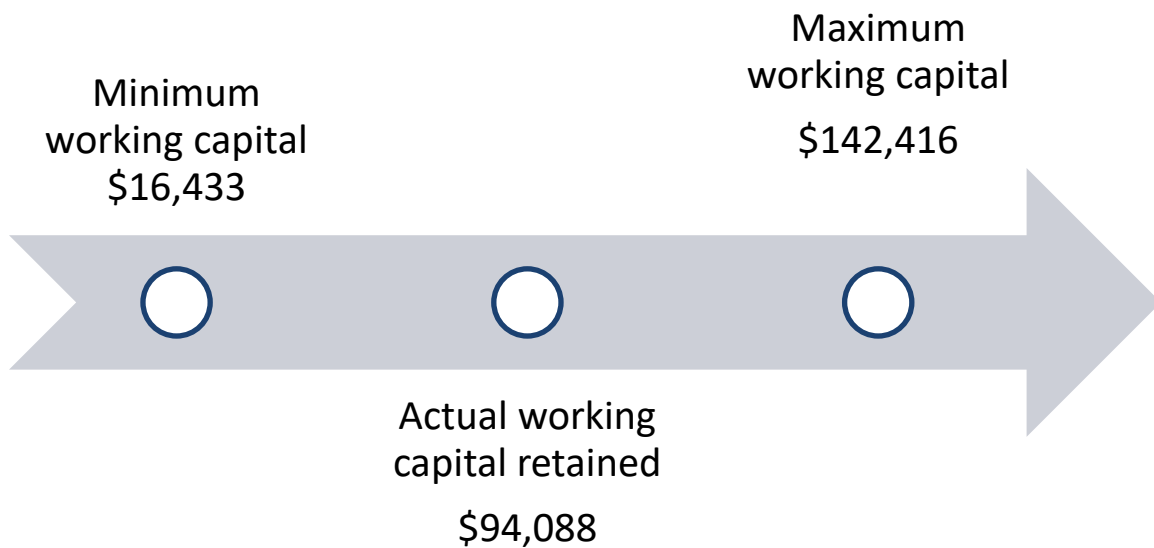
**Corrective Action Taken:** Management and the board has implemented procedures to ensure the budget process included adopting budget amendments when line items are balanced. Procedures include forwarding budget amendments to appropriate authorities.

## WORKING CAPITAL

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*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 gross sales less than \$1.5M an amount equal to four months of sales revenue.*

Based upon the existing rules, the Tryon ABC Board is allowed to maintain a minimum working capital of \$16,433 and a maximum working capital of \$142,416. The board retaining an actual working capital of \$94,088.



## DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts all expenses, mixed beverage and bottle taxes. G.S. 18B-805 (c) requires the board to make a minimum quarterly distribution of the 3 ½% markup and .01/.05 cent bottle tax to the Town of Tryon and the county. Below is a chart of taxed paid to the NC Department of Revenue and the Town of Tryon.

G.S. 18B-805 (c) (2) and (3) requires the board to distribute quarterly at least five percent (5%) of profits to law enforcement and at least seven percent (7%) of profits toward alcohol education. Additional legislation, S.L. 1981-295 requires the board to distribute five percent (5%) to the Harmon Field Commission for capital improvements useful in recreation. The remaining profits are to be distributed as follows:

- Seventy percent (70%) to the Town of Tryon General Fund
- Thirty percent (30%) to the Harmon Field Commission for maintenance and current operations of its recreational activities and programs.

### **Revenues Less Taxes and Cost of Sales FY2019**

<b>Sales (Retail, Mixed Beverage, and Wine)</b>	\$566,002
<b>Excise Tax</b>	\$116,163
<b>Mixed Beverage Tax (Combined)</b>	\$20,757
<b>Rehabilitation Tax</b>	\$1,518
<b>Wine Sales Tax</b>	\$316
<b>Net Sales</b>	\$427,248
<b>Cost of Liquor Sold</b>	\$289,007
<b>Gross Profit</b>	\$138,241

	<b>FY2019 Minimum Distribution Calculation</b>	<b>FY2019 Actual Distribution</b>
<b>Gross Profit (Taken from Above)</b>	\$138,241	
<b>Total Operating Expenses</b>	\$109,035	
<b>Income from Operations</b>	\$29,206	
<b>3 1/2% Minimum Distribution</b>	\$15,074	\$2,400
<b>Law Enforcement</b>	\$707	\$ -
<b>Alcohol Education</b>	\$989	\$ -

As referenced in the above chart, the Tryon ABC Board did not meet the required 3 ½% minimum distribution or make law enforcement distributions. However, the board did meet the alcohol education distributions as required in G.S. 18B-805. A law enforcement contract is not in effect.

**REQUIRED ACTION:** Adopt a law enforcement contract with an enforcement agency. G.S. 18B-501 (f) states, "Instead of hiring local ABC officers, a local board may contract to pay its enforcement funds to a sheriff's department, city police department, or other local law-enforcement agency for enforcement of the ABC laws with the law-enforcement agency's territorial jurisdiction..."



**CORRECTIVE ACTION TAKEN: Management and the board's finance officer are updating the law enforcement contract. Once the contract is updated and approved, it will be forwarded to the NC ABC Commission.**

## FINDINGS AND RECOMMENDATIONS

### STORE APPEARANCE

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1. The findings for store appearance are as follows:
  - The required Fetal Alcohol Syndrome poster is displayed as required by G.S. 18B-808.
  - A North Carolina product selection is displayed separately within its own section and products are also displayed within their respective categories
  - Products are placed following industry standards and guidelines that would increase profit and encourage more impulse shopping. Examples are that of the following:
    - Products are placed within designated categories; premium products are found at eye-level and value-added products are placed on the lower shelves.
    - A consistent size flow shows a pattern from largest size on the right and smaller size on the left.

**STRONGLY RECOMMENDED: Consider utilizing resources that would create a shelf management system that is conducive to industry norms but considers sales history and trends.**

2. While inspecting the store, a random sample of approximately fifty items was selected to determine if uniform pricing is displayed. Of those selected, one was incorrect.

**REQUIRED ACTION: Conduct a routine check of shelf prices along with the register to ensure accuracy. All prices must corroborate with the point-of-sale system (POS), the store shelf, the NC Liquor Quarterly, and/or memorandums. Refer to the NC ABC Commission's website to verify product pricing.**

**CORRECTIVE ACTION TAKEN: Management has implemented procedures that will incorporate routine shelf price audits. Any discrepancies thereafter will follow the price discrepancy policy.**

### OPERATIONAL AND ADMINISTRATIVE COMPLIANCE

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1. The board follows the requirements of G.S. 18B-700 (k) whereas the board does not employ members of the immediate family of the general manager and/or board members.
2. Board members are appointed by the Town of Tryon for three-year staggered appointment terms. Members are required to complete ethics training provided by the NC ABC Commission within one year of appointment or reappointment. According to the Commission records, documentation acknowledging the board member training has not been forwarded to the Commission.

**REQUIRED ACTION: Board members must complete ethics training within one year of appointment or reappointment status. Once completed, forward a copy of the training confirmation to the NC ABC Commission.**

**CORRECTIVE ACTION TAKEN: As of April 2020, all board members, finance officer and general manager have not completed the required ethics training.**

3. In review of a physical disbursement check, the document did not show the approved certificate as required by G.S. 18B-702. The check signatures utilized are of the general manager and the assistant manager.

**REQUIRED ACTION: Display on each disbursement check, other than payroll, the approved certificate specifics as required by G.S. 18B-702 (q). All checks must be signed by the finance officer and the board chairman or a deputy**

finance officer. G.S. 18B-702 (q) states, "Each check or draft on an official depository shall bear on its face a certificate signed by the finance officer or a deputy finance officer approved for this purpose by the local board (or signed by the chairman some other member of the board pursuant to subsection (o) of this section).

**CORRECTIVE ACTION TAKEN: Management has implemented procedures to ensure disbursement authorization is being practiced and conform to the general statute.**

4. In the initial performance audit conducted in FY2012, the findings indicated that various operational and personnel policies were not adopted. The board has acquired a credit card to purchase store and office supplies but has not put policies in place to address the authorized user, who will reconcile the statement, etc. Although the board and staff rarely travel for business purposes, the board has not adopted a travel policy in the event this will occur. The Commission has provided sample policies to the board for use.

**REQUIRED ACTION: Adopt a personnel manual and operational policies that incorporate board practices. Policies such as a credit card usage, travel policy, and others must clearly state the authorization and reimbursement requirements. The ABC Commission encourages ABC boards to model personnel policies and procedures after those of the appointing authority. However, certain ABC procedures must be clearly presented in the employee manual. Additional policies such as the travel policy and the code of ethics are required by G.S. 18B. G.S. 18B-700 (g2) states, "Approved travel on official business by the members and employees of local boards shall be reimburse pursuant to G.S. 138-6 unless the local board adopts a travel policy that conforms to the travel policy of the appointing authority and such policy is approved by the appointing authority. The local board shall annually provide the appointing authority's written confirmation of such approval to the Commission and a copy of the travel policy authorized by the appointing authority." Additionally, G.S. 18B-706 (a) states, "Each local board shall adopt a policy containing a code of ethics consistent with the provisions of G.S. 18B-201, to guide actions by the local board members and employees of the local board in the performance of official duties."**

**REQUIRED ACTION: As a reminder, submit policies to the NC ABC Commission prior to adoption. 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."**

**CORRECTIVE ACTION TAKEN: Management and the board have adopted the policies specified in the finding and additional policies to ensure effective and friendly customer service practices. The employee handbook continues to be updated. Once sufficiently updated, the board will follow the approval process as outlined in the above rule.**

03/25/2020

**Tryon ABC Performance Audit 2020 Response**

**To Whom It May Concern:**

**In response to our 2020 Performance Audit conducted on 01/14/2020 we have implemented the following:**

- 1. A budget amendment was presented to the Board and signed on 02/12/2020 to include the new POS system purchase and medical insurance for the new full time General Manager that had not been accounted for in the 2019-2020 budget.**
- 2. Adoption of the following policies have been approved by the board and by Laurie Lee at the ABC Commission: Certificate of Accountability, Code of Ethics, Travel Policy, Credit Card Policy, Allocated/Special Product Policy and MXD Beverage Policy. The Employee Manual is being updated and will be submitted to the ABC Commission upon completion. The Law Enforcement Contract is also being updated by Zack Ollis, Finance Officer and will also be submitted to the ABC Commission upon completion.**
- 3. On February 12, 2020, a motion was made by Jeffrey Close and seconded by Lynn Sessoms, Board Chair, to have Heather Ravan, GM also elected as the Deputy Finance Officer to allow purchasing and daily business to be conducted without prior approval from the Finance Officer. All invoices and purchases will still be reviewed and audited by Zack Ollis, Finance Officer. Additionally, any purchase over \$100.00, other than store inventory, would still need prior approval from the Board which is also included in the Credit Card Policy.**
- 4. An entire store review was completed by Sheri Rardin, Store Clerk, to verify product pricing accuracy in accordance with the shelf tags, the NC Liquor Quarterly and the POS system. Routine checks will continue to ensure accurate pricing and all store personnel have been informed of the Price Discrepancy Policy which is posted at the register.**
- 5. All physical disbursement checks are now being stamped with, "THIS DISBURSEMENT HAS BEEN APPROVED PER G.S. 18B-702" until new checks are ordered with this statement included on the check. Checks are being audited and signed by Zack Ollis, Finance Officer and Heather Ravan, GM and Deputy Finance Officer.**
- 6. Zack Ollis, Finance Officer, Heather Ravan, GM and Deputy Finance Officer, and Jeffrey Close, Board Member, have completed the most current ethics training and submitted their certificates. Lynn Sessoms, Board Chair, and Dennis Durham, Board Member, are completing the most current ethics training and will submit their certificate once completed.**

**In summation, the Tryon ABC Board would like acknowledge several barriers that we personally face in our effort to increase sales. The first being our location on the North Carolina and South Carolina state line. Due to South Carolina's ability to set their own pricing and the fact that we have 4 other**

liquor stores within 5 miles of our store, increasing sales is very difficult without the ability to advertise. We also have a large percentage of our walk-in customers requesting allocated or hard to find bourbon as well as receiving numerous calls per day requesting the same. With only 1 employee in the store at a time, it is very difficult to monitor the ABC Commission Website all day searching for these items. The First Come First Serve Policy that is now in effect, has eliminated the opportunity for our store to receive these items as allocated.

Another barrier we face as a small store is the requirement to purchase a case of product for every customer who requests it and then being “stuck” with the rest of the case if we are even lucky enough for them to return and purchase a bottle by the time we receive our truck. Most of the time, the customers go to one of the 3 South Carolina stores that are within 5 miles of our store and purchase the product right away and when the product comes in a week or so later, the customer never comes back. This leaves us with product we cannot move and although we do have the bulletin board, almost all of the products listed are nowhere near our store location. A store our size cannot afford to “sit” on any product that is not moving.

With this being said, we will certainly consider all suggestions provided in our audit to increase our sales. We simply wanted to voice our concerns and would welcome any suggestions to overcome these barriers.

We appreciate the efforts of the ABC Commission to assist us in growing our business and becoming more profitable.

Thank you for your time and consideration,

Heather Ravan, GM, Deputy Finance Officer

Tryon ABC Board