

Statesville ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
400 East Tryon Road, Raleigh, NC 27610
p: 919-779-0700 | f: 919-661-5927 | <http://abc.nc.gov>



ABC
COMMISSION
NORTH CAROLINA

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ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

CHAIRMAN:
Hank Bauer

April 27, 2023

COMMISSIONER:
Norman A. Mitchell, Sr.
Charlotte

Statesville ABC Board
Ron Matthews, Chair
311 S. Center St
Statesville, NC 28677

Chairperson Matthews,

Deputy Commissioner:
Mike DeSilva

LOCATION:
400 East Tryon Road
Raleigh NC 27610

MAILING:
4307 Mail Service Center
Raleigh NC 27699-4307

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

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

Statesville, NC was established in 1789 by the NC Legislature, and the city has a long-time connection to hot air ballooning. The Governor Zebulon Vance House & Museum is located here along with the Iredell Museums, Heritage Museum, and Children’s Museum. Mitchell Community College was the first community college in the country to be accepted into NASA’s University Student Launch Initiative competition during the 2008-2009 academic year. In 2020, the city’s population per the Census was approximately 28,000 residents which increased nearly 16% since 2010.

Chapter 534 of the 1965 Session Law authorized Statesville to hold an election for an ABC store. While no election was held, House Bill 1092 passed in 1973 requiring the city to hold a referendum. This vote was held on September 11, 1973, and it passed 2,200 to 1,586. The first retail sales then occurred on December 1, 1973. A mixed beverage referendum was held May 8, 1986, and this passed 2,832 to 2,775. *Currently, the City of Statesville appoints a chairperson and two (2) additional board members to serve on the ABC board.*

The Statesville ABC Board currently operates two (2) retail stores. The board staffs approximately thirty-five (35) total employees. These include seven (7) full-time employees and twenty-eight (28) part-time personnel. The general manager and assistant general manager are 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 assists with routine operations of the ABC stores. Sales associate responsibilities include selling products, daily stocking, and floor upkeep & maintenance.

The last performance audit for the Statesville ABC Board occurred in 2011. The Commission audit serves as a continuous way to provide local boards with information and best practices that target areas for improvement.



OPERATIONAL OBSERVATIONS, FINDINGS, REQUIRED ACTIONS, & RECOMMENDATIONS

On Tuesday, April 11, 2023, ABC Board Program Analyst Quinn Woolard, visited the Statesville ABC Board and interviewed Tip Nicholson (General Manager), Paulette Inscoc (Asst GM) and Bryan Starrette (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) 2021-2022, the Statesville ABC Board had a profit percentage to sales of 12.27%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales more than \$2M but less than \$10M is 6.5%. The Statesville ABC Board's gross sales totaled \$8,889,012, which was a 4.38% increase from the previous fiscal year.

The operating cost ratio for the Statesville ABC Board was .49 in FY 2021-2022. The NC ABC Commission standard for ABC Boards with one or two stores and mixed beverage sales is .73 or less.

Thus, the Statesville ABC Board well exceeded both the profitability standard and the operating cost standard set by the NC ABC Commission. Below is a chart showing gross profit on sales and income from operations for the previous two years.

	FY 2021-2022	FY 2020-2021
Gross Profit on Sales	\$2,267,702	\$2,147,323
Income from Operations	\$1,090,631	\$898,744

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores within an approximate fifteen to twenty (15-20) mile range of Statesville ABC: Mooresville ABC operating three stores, Troutman ABC, and Catawba County ABC operating one store within range.
- An ABC Board's average cost of goods sold (COGS) is between 52% & 54% per year. The Statesville ABC Board's cost of goods sold was approximately **51.6%** in FY 2021-2022.
 - *Mixed beverage sales were roughly 8.5% of total sales in FY-2022, and there are currently around thirty (30) active mixed beverage customers.*

BUDGET ANALYSIS

	FY 2021-2022 Budget Projections	FY2021-2022 Actual	Variance	Variance %
Sales	\$8,889,012	\$8,889,012	-	-
Revenue over or (under) Expenditures		\$93,924		

In reviewing the budget to actual analysis of the FY 2021-2022 financial audit, actual sales revenues were locked on meticulously with budgeted projections. In addition, revenue exceeded expenditures by \$93,924 and the net income change during the fiscal year was \$85,687. *The board's collective net position on June 30, 2022, was around \$1.7M; the net position has steadily increased over the last five (5) fiscal years, and the FY-2022 figure reflects the board's highest overall net position during the five-year period.*

DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, and rehabilitation taxes. G.S. 18B-805(c)(2) requires the board to typically distribute at least five percent (5%) of applicable gross receipts to law enforcement and typically 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 distribution percentages are designated by an official local enabling act (and thus distribution requirements and recipients are subject to vary).***

In FY 2021-2022, Statesville ABC made other statutory distributions totaling \$1,006,597 (Net profit distribution recipients received \$873,917 of this). The amount of \$2,032,692 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 Iredell County.

Per the local enabling act, the distribution formula for recipients of net profits is as follows:

- Forty percent (40%) to City of Statesville
- Twenty-five percent (25%) to Iredell-Statesville Schools
- Twenty-five percent (25%) to Mitchell Community College
- Ten percent (10%) to Iredell Museums

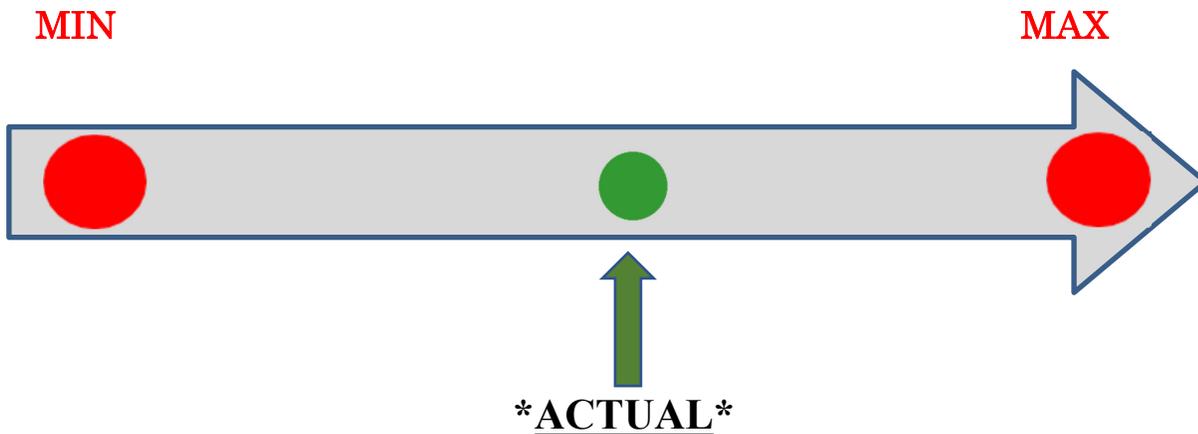
- Mixed Beverage Profits: One hundred percent (100%) to City of Statesville

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, 2022, the Statesville ABC Board is required to maintain a minimum working capital of \$263,344 with a maximum working capital amount of \$1,711,673. The Statesville ABC Board had a working capital balance of \$1,085,380, which falls within the Commission requirements for this section (*).

*** FY 2021-2022: *Working Capital (WC) graphic***



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

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE

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

- The board holds board meetings the fourth Tuesday of each month at 11:00 AM, records regular meeting minutes, and provides public notification and awareness of these meetings. The meeting minutes are organized in a folder for review. *The minutes provided have the conflict-of-interest disclosure statements referenced and are signed by all board members in attendance.*
 - Training records review: Board members and personnel are compliant on ethics training.
 - Board member compensation & General Manager (GM) salary: Board member compensation fully adheres to statute requirements as does the GM salary.
 - Board website review: The board's login website was updated by the Commission in 2022 for board member term tenure information (*begin dates & end dates*). **Special note**: As part of a revalidation effort, the Commission has worked to revalidate term tenure information for all ABC boards across the state, working directly with the appointing authorities and ABC boards in some cases. As a value-added measure for all ABC boards and Commission records tracking in summer 2022, the term begin dates as well as term end dates were entered on all individual ABC board websites.
 - *The expectation going forward is that ABC boards will continue to update this information online on the Commission's board website, and work to communicate with the Commission particularly when new members are added, or whenever any current serving members resign before a term has ended.*
 - Board Personnel & Board Members: The general manager, assistant GM, and finance officer provide board members with monthly sales information and previous year's applicable sales and operational concerns. Various financial reports are provided for the board's review; among these are spreadsheets and profit & loss statements. Board members are heavily encouraged by the Commission to use checks and balances to ensure that cash management practices are upheld and review any notes and recommendations provided by the CPA firm on annual audits. Board members have a combination of experience ranging from business ownership to financial planning and retail sales.
- POLICIES: The board has a personnel policy manual, and an electronic version was forwarded to the Commission. The board adheres to the local appointing authority travel policy, and documentation has been provided. The board has a credit card & conducts policies but currently does not have policies in place. The Commission has forwarded templates that could be used as a good reference.
- BUDGETS: In FY-2022, the board exceeded budgeted sales in May 2022. While a budget amendment could not be located within Commission records, the CPA audit reflects and validates full reconciliation of the revised budget and actual budget figures. *Based on sales trajectory for the current fiscal year and with 67% of the current budget year completed, the board is already tracking at 75% of annual budgeted sales. Thus, a budget amendment will potentially be needed in May if sales continue a strong trend.*
- FINANCIAL INSIGHT: The finance officer is signing checks as required per statute with the General Manager or the Chairman / Board Member as secondary signature. Invoice records for recent liquor purchases reflect them as being paid routinely well inside of 30 days. Taxes and distributions are paid in a routine and timely manner. The board uses Sage Peachtree for routine journal entries.

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- Bank deposits are routinely made each business day per review of bank Statements and discussion with the finance officer. For safeguard measures and adherence to *Commission rule 15A .0905 Daily Deposits*, the board utilizes a locked fireproof safe for integrity of funds that remain at the board at any given time.
- Payroll is processed bi-weekly and direct deposited by the general manager through Sage Peachtree. The assistant GM will compile and review timecards for employees as part of the process.
- The pre-audit certificate is not stamped on the liquor orders at the time they are placed; however, board checks bear the statute disbursement certificate.
- All board members and applicable personnel are each bonded for \$50,000 per G.S. 18B-700(i).
- The annual CPA audit was received and logged by the Commission on September 22, 2022.
- CPA will reconcile checking account and closes the previous month for the board.

➤ **STATUTORY DISTRIBUTIONS:**

- **Net Profit Distributions** - The Statesville ABC board has made robust distributions to all the designated recipients over the last five years which have well exceeded the minimum referenced in GS 18B-805(c)(1). **The table below references distributions calculated by CPA on the left and total distributions made by the ABC Board for the last five (5) years on the right.**
- **Law Enforcement Distributions:** Have been properly disbursed at or above the 5% statute amount over the last five (5) fiscal years.
- **Alcohol Education Distributions:** Have been properly disbursed above the regular 7% statute amount. Over the last five (5) fiscal years, this distribution category has been generous averaging 11-12% annually. The recipients have been providing documentation to the board on how these funds are spent in connection with NCGS 18B-805(h).

NC GENERAL STATUTE: 18B-805 (c)(1)			
Calculation of Minimum Mandatory Distribution for Net Profit to Designated Recipients		Statesville ABC Board Net profit distribution made annually by fiscal year	
<i>Note: Referencing CPA Audit Reports</i>			
CPA Calculated Amount		Total paid to recipient(s)	
FY-2022	\$252,285	FY-2022	\$873,917
FY-2021	\$242,222	FY-2021	\$650,000
FY-2020	\$212,233	FY-2020	\$479,749
FY-2019	\$189,160	FY-2019	\$477,585
FY-2018	\$178,430	FY-2018	\$509,745

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- **LAW ENFORCEMENT (LE) REPORTS:** Reports are being submitted routinely and they are current to date as well. Reports contain relevant statistics and data for alcohol related enforcement & training.
- **LAW ENFORCEMENT (LE) CONTRACT:** The board has a law enforcement contract with Statesville Police Department. The Commission did not have an electronic file previously, and a hard copy was provided that has been scanned into Commission's electronic records.
- **INVENTORY:** The board works to do a monthly inventory whenever possible. In addition, inventory spot checks in certain categories are conducted periodically. The inventory turns over moderately well at the store with a 4.7 turnover ratio for the last fiscal year.
- **INTERNAL CONTROLS:**
 - The board has an assistant manager to support the general manager.
 - The CPA does a monthly reconciliation for the board.
 - Invoice information is entered into Sage Peachtree, cash requirements are printed for the truck shipments and the Purchase Orders History from BOSS is utilized to balance totals to make sure invoices / inventory match the system.
 - Board members routinely review financial statements and monthly reconciliations. The current board members have a combination of experience involving business ownership, financial planning, and retail sales background.
- **EXPENSES:**
 - Total expenses decreased roughly five percent (5%) from the last fiscal year.
 - Board payroll was roughly 6.9% of total annual sales. Payroll decreased roughly three percent (3%) from the previous fiscal year.
 - Cost of Goods Sold (COGS) was 51.6% for the fiscal year. With the ample warehouse space, the board has done well to take advantage of buy-ins to strongly reduce liquor costs.

STORE INSIGHT & OVERVIEW

The findings for store insight & overview are as follows:

- The main store location (ABC Board office) has a modern layout and located in a highly visible downtown location adjacent to the civic center. The second store location is located on a busy thoroughfare in the city adjacent to Interstate 77 (I-77), and it has extensive retail space and a very modern atmosphere.
- December 2021 – Resulted in the first \$1M sales month in the history of the board.
- Sales associate interactions with customers are attentive, courteous, and all are eager to meet the needs of the customers.
- The board has around thirty (30) MXB customers as of February 2023. None of the business customers are really interested in delivery service. However, the board has provided a delivery service policy to the Commission - Referencing Rule 15A . 1903 Delivery of MXB Permittee Orders.
- A random sample of approximately 100 items were selected to determine if uniform pricing is displayed. Of those selected, every item had accurate quarterly or monthly SPA prices reflected at both store locations.
- Besides closing on the five (5) required annual holidays and every Sunday, the board is considering closing on Memorial Day.
- The stores both display the required Fetal Alcohol Syndrome posters required by G.S. 18B-808.
- North Carolina products are cross merchandised according to product category.
- Products are placed within the designated categories; premium products are found at eye-level or top shelf. Bottles were fronted and dusted. *Some occurrences were found with various bottle sizes of the same products increasing appropriately from left to right. Some sections of the store have product size increasing from right to left.*
- 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 and alarm system is in place.
 - *Sixteen (16) cameras work to cover the property footprint.*
 - *Safety bollards are present in front of the store.*
 - *The board added more safety bollards to protect mailbox and a water backflow prevention device.*

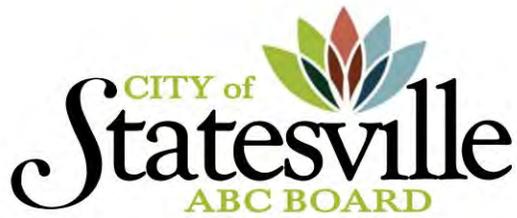
RECOMMENDED ACTIONS (PER STATUTES OR COMMISSION RULES)

- ABC Boards are required to operate within a balanced budget each fiscal year. Budget amendments must be approved by the board before any funds are transferred between accounts and utilized, occurring at the actual point of time an adjustment of funds is necessary. This would include the point in time during the fiscal year when the board will exceed its annual forecasted sales budget. *Ensure budget amendment copies are submitted to the ABC Commission as required per NCGS 18B-702(h), to include a final reconciliation budget amendment for the fiscal year end.*
- Please ensure all newly adopted policies or any updated policies are submitted electronically to Commission personnel for recordkeeping and review per NCAC 15A .1102 Rule. A credit card policy for use of the board's card and a tasting policy are recommended.
- 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: This would be most reasonably accomplished by signing & stamping the summary total of the Order Edit List from inventory system before any liquor orders are placed with state warehouse.
- Local boards shall establish and maintain a shelf management plan *per Commission Rule 15A .1708 Shelf Management*. The board needs to work to rearrange liquor inventory on the shelves to follow shelf management requirements, in particular ensuring bottles increase in size from left to right.
- In connection with the periodic audit, a Certificate of Accountability attestation form should be reviewed and signed by board members and applicable personnel. A signed copy would then only need to be emailed to Commission personnel for recordkeeping.
- ABC board members must complete ethics training within one (1) year of each appointment and again following all reappointments. *General managers, finance officers (and any applicable deputies) have a one-time training requirement for ethics training yet are highly encouraged to complete training periodically as a good refresher along with any other personnel interested.*

ADDITIONAL CONSIDERATIONS & GUIDANCE

- The Commission's primary focus for ABC board members:
 - ABC board members are highly encouraged to meet monthly for the best formal oversight and review of board operations, routinely recording meeting minutes (*adhering to closed meeting requirements where applicable*) and ensuring either no conflicts of interest are present or that they are addressed appropriately when presented. Monthly sales should be reported to the Commission at beginning of next month, providing annual budgets, budget amendments, miscellaneous financial reporting to Commission following timelines, and ensuring Commission has annual CPA audits by Oct 1st.
 - ABC boards are highly encouraged to keep term begin dates & term end dates updated on the Commission's board login website for all ABC board members and other information such as store hour changes, pictures, email updates, etc. *Moreover, liaising with the Commission when new members are appointed or when members resign early before term has ended is very important for recordkeeping efforts of the Commission.*
- ABC boards are highly encouraged to find straightforward ways to lower any recurring expenses. *A very tangible way to lower operating costs is to fully maximize monthly special purchase allowance (SPA) liquor products that routinely sell well in the store to lower cost of goods sold (COGS).* ABC Boards can limit the number 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*.
- 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 for anticipated sales increases as well as other adjustments for budgeted accounts.
- Law enforcement reports must be submitted on the Commission's board website by the 7th of each month referencing G.S. 18B-501(f1). ABC Boards should make sure reports are in a "Final Submitted" status and not just in saved status. *For any saved reports, the only transaction necessary is to click the preview button and then click the submit button for the reports.*
- 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.
- 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 Commission staff; copies should not be mailed.*
- 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 network with the ABC Commission whenever needed for guidance and assistance to support local ABC board mission and success.



APPENDIX A

Quinn Woolard
ABC Board Auditor
400 E. Tryon Rd.
Raleigh, NC 27610

April 25, 2023

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: Meeting Minutes

All recommendations will be followed.

Item 3: Ethics Training

All recommendations will be followed.

Item 4: Policies

Our Business Credit Card Policy was submitted to the ABC Commission on 4-25-23.
Our Tastings Policy was submitted to the ABC Commission on 4-25-23.

Item 5: Alcohol Education/Research Funds

All recommendations will be followed per NCGS 18B-805(h).

Statesville ABC Board

Tel 704-873-5078
Fax 704-873-8127

PO Box 902
Statesville, NC 28687

statesvilleabc.com
statesvilleabc120@gmail.com

Item 6: Pre-audit certificates on liquor orders

The board will ensure pre-audit certificates are present on liquor orders to adhere to NCGS 18B-702(m).

Item 7: Certificate of Accountability (COA) form

The board has signed the COA form and submitted it on 4-25-23.

Sincerely,

A handwritten signature in black ink that reads "Tip Nicholson". The signature is written in a cursive style with a horizontal line at the end.

Tip Nicholson, General Manager
Statesville ABC Board