

Rockingham ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA

TABLE OF CONTENTS

ABC Commission Statement	3
Objective, Purpose & Background Information	4
Financial Analysis, Observations & Findings	6
Recommended Actions & Additional Considerations	11
Appendix A – Program Analyst’s Summary	13



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

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April 25, 2022

Rockingham ABC Board
Mr. Malcolm McLester, Chair
PO Box 625
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Chairman McLester,

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

Located in Richmond County, Rockingham is well-known for its natural wildlife. It is home to the Rockingham Speedway and Rockingham Dragway which often bring thousands of people to the area. It is approximately twelve miles from the South Carolina border. Surrounding towns with ABC boards include Hamlet and Wadesboro, NC. The US Census Bureau reports a population 9,558 in 2010.

Chapter 199 of the 1965 Session Law authorized the City of Rockingham to hold an election upon a signed petition of fifteen percent of voters. The referendum was held on July 6, 1965 and passed 516 to 507. The first retail sales date was on December 13, 1965. A mixed beverage election was held on September 19, 2000 and passed 1360 to 682.

Upon election of an ABC store, the City of Rockingham was authorized to establish an ABC Board consisting of a chairman and two (2) members to serve for three-year terms.

The Rockingham ABC Board operates two (2) retail stores and employs five full-time and two part-time employees. The general manager is responsible for the daily store operations including supervising personnel, inventory management, and various retail functions. The board has hired a CPA firm to assist with management of internal finance officer functions. Clerk responsibilities include selling products, daily stocking, and floor upkeep.



OPERATIONAL OBSERVATIONS, FINDINGS, REQUIRED ACTIONS, & RECOMMENDATIONS

On Thursday, January 19, 2022, ABC Board Program Analyst Quinn Woolard, visited the Rockingham ABC Board and interviewed Mack Odom, General Manager. Below is a financial analysis followed by operation observations, findings, and recommendations related to the performance audit. For reference, the last ABC Commission audit occurred in 2012.

FINANCIAL ANALYSIS

PROFIT PERCENTAGE TO SALES & OPERATING COST RATIO

In fiscal year (FY) 2020-2021, the Rockingham ABC Board had a profit percentage to sales of 10.38%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales greater than \$2M yet less than \$10M is 6.5%. The Rockingham ABC Board's gross sales totaled \$3,530,841, which was a 14.63% increase over FY 2019-2020.

The operating cost ratio for the Rockingham ABC Board was .55 in FY 2020-2021. The NC ABC Commission standard for ABC Boards with 1 or 2 stores and mixed beverage sales is .73 or less.

Thus, the Rockingham ABC Board met both 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	\$839,993	\$722,011
Income from Operations	\$366,648	\$291,536

Factors affecting profitability and cost include:

- Surrounding municipalities with other ABC Boards operating stores within a fifteen (15) mile range include: One (1) store operated by Hamlet ABC.
- The ABC Board currently owns the board / main store location and has no financed debt. The second store is leased in a shopping center.

- An ABC Board’s average cost of goods sold (COGS) is between 52% & 54% per year. The Rockingham ABC Board’s cost of goods sold was approximately 53.4% in FY 2020-2021.
 - *Mixed beverage sales were 5.1% of total sales in FY 2020-2021.*

BUDGET ANALYSIS

	FY 2020-2021 Budget Projections	FY2020-2021 Actual	Variance	Variance %
Sales	\$3,725,000	\$3,530,841	\$194,159	(5.2%)
Total Expenditures (to include Distributions)	\$3,461,800	\$3,145,491	\$316,309	9.1%

In reviewing the budget to actual analysis of the FY2020-2021 financial audit, actual sales revenues were under the budgeted projections by 5.2%. In addition, total expenditures were under budget for the same period by 9.1%. The chart above shows the final budget to actual amounts and the appropriate positive or negative variances.

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, Rockingham ABC made distributions totaling \$356,648 (City of Rockingham received \$325,318 of this). The amount of \$804,777 in excise and other taxes were paid to the NC Department of Revenue (NCDOR), the NC Department of Health and Human Services (NCDHHS), and the county commissioners of Richmond County.

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

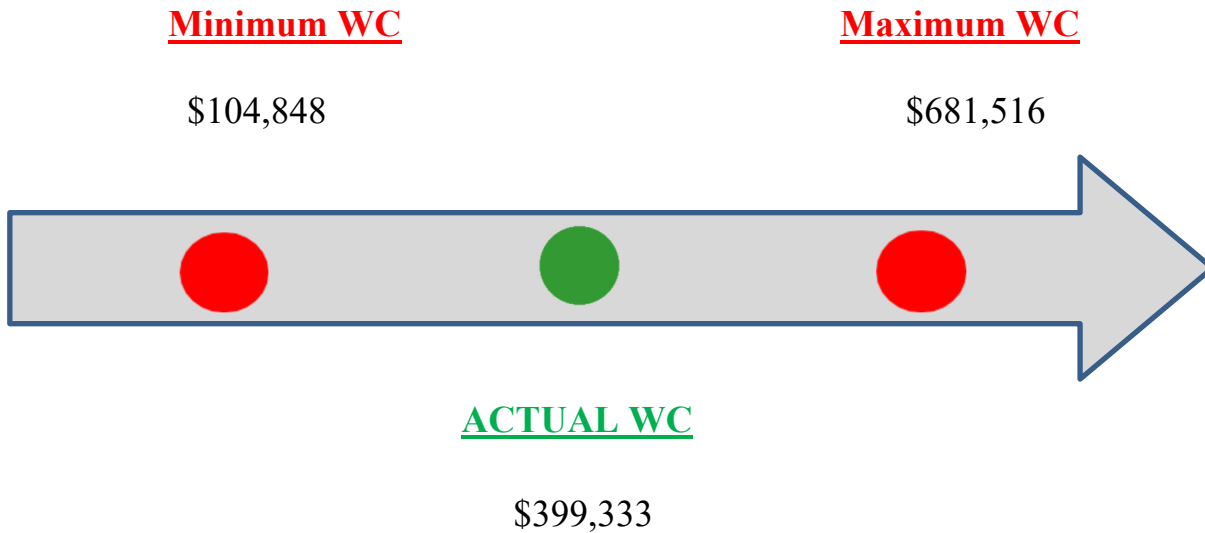
- One hundred percent (100%) to Rockingham General Fund

WORKING CAPITAL

G.S. 18B-805(d) allows the board to set aside a portion of the remaining gross receipts, within the limits set by the rules of the Commission, as cash to operate the ABC system. The NC ABC Commission has set a working capital standard for boards with annual gross sales greater than \$1.5M yet less than \$50M an amount equal to three (3) months of sales revenue.

Based upon the existing rules, as of June 30, 2021, the Rockingham ABC Board is required to maintain a minimum working capital of \$104,848 with a maximum working capital amount of \$681,516. The Rockingham ABC Board had a working capital balance of \$399,333 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 meetings the second Tuesday of each month at 12:30 PM, records regular meeting minutes, and provides public notification and awareness of these meetings.
- The board has a personnel policy manual and code of ethics policy as required. The personnel manual is not on file with the Commission, and the code of ethics do not have a signature page per Commission records.
- No budget amendments were submitted to the Commission during FY 2020-2021, yet the board did approve and amend the budget once during the fiscal year.
- The board's general manager (GM) also serves as the finance officer. The finance officer is signing checks as required per statute. The board had not received prior Commission approval or was able to provide any documentation showing the GM has been approved to serve as finance officer within the last 36 months. However, a drafted and signed letter was reviewed.
- For financial oversight, the board members review bank statements and financial records monthly along with the general manager and assistant 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.
- In July 2021, the finance officer resigned from the board. For continuity and to ensure proper management of financial requirements, Ozqueen CPA has been hired to pay obligations for the board to include taxes, invoices, and other monies owed, as well as complete bank reconciliations and process weekly payroll. The monthly service fee is \$750.00 and has proven to be a beneficial opportunity for the board to manage salaries and benefits. Records reviewed showed routinely timely payment for invoices and taxes.
- The general manager discussed the ongoing training of the assistant GM to properly be able to keep the board operations on track when the GM is on leave and other unforeseen absences.
- The general manager stated that no pre-audit certificates have been routinely stamped on liquor orders as required by statute.
- Law enforcement (LE) reports have been submitted monthly as required and contain appropriate information. However, the LE contract on file is from 2011 and does not reflect the current town official(s).
- Profit distributions to the City of Rockingham have been generous and well above the minimum mandatory distribution over the past few years.
- The recipient of alcohol education distributions was the county commissioners in Richmond County. The county did not provide any documentation to the board describing how the funds were utilized.
- For inventory management, the general manager advised they conduct daily spot checks of rotating liquor categories and quarterly conduct a full inventory. The store is looking to upgrade to a scanning inventory system.
- All board members and general managers are bonded as required; board members and general manager compensation adhere properly to general statutes.

STORE APPEARANCE & SHELF MANAGEMENT

The findings for store appearance are as follows:

- The main store and board location interior has been updated since the 2012 audit.
- The second store location has older carpet in need of repair, and the board plans to replace carpet there following the winter season.
- The stores displayed the required Fetal Alcohol Syndrome poster required by G.S. 18B-808.
- North Carolina products have their own section as required by law but are also cross merchandised according to product category. Green North Carolina product tags are displayed on the shelves throughout the stores to help stimulate sales.
- Products are placed within the designated categories; premium products are found at eye-level or top shelf. Regular occurrences were found with various bottle sizes of the same products increasing appropriately from left to right. Bottles were fronted and dusted.
- Outside area surrounding the store is well-maintained and free of debris or trash.
- Security systems are in place and functional in all designated areas.
- Store clerks' interactions with customers are attentive, courteous, and all are eager to meet the needs of the customers.
- While inspecting the store, a random sample of roughly 75 items was selected to determine if uniform pricing is displayed. Of those selected, all had the correct pricing but three items, and they have all been corrected.
- As a reminder, remove all faded posters and replace with new ones. 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. *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 2020-2021 period.*
- Ensure all policies are submitted to the Commission prior to official board approval. Currently, an electronic copy of the policy & procedures manual needs to be adopted by the board and submitted to the Commission. 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.”
- 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.*”
- Referencing G.S. 18B-702(j), the board must request reapproval through the Commission for the General Manager to continue filling the dual-role of Finance Officer. As applicable, this approval should be obtained every 36 months from the Commission.
- Recipients of alcohol education/research funds must annually provide an annual report to the Rockingham ABC Board, describing how the funds were spent [*Referencing 18B-805(h)*]. *Consider the request to obtain documentation before the funds are officially awarded or transmitted to the recipient.*
- All reappointed board members are required to complete ethics training within one (1) year of their reappointment date per *G.S. 18B-706(b)*. Per Commission records, the Chairman would need to complete the training before August 2022.
- Due to new city or law enforcement officials involved, a new law enforcement contract reflecting current city officials must be adopted and a copy provided to the Commission *per G.S. 18B-501(f)*.
- The Board has a code of ethics policy per G.S. 18B-706, and ABC Commission already has a copy. The following is a necessary administrative action:
 - The Board should complete a Certificate of Accountability form declaring the statutory duties of the board have been properly performed.

ADDITIONAL CONSIDERATIONS

- The Board has made very generous donations to the City of Rockingham over the last few years that were well above the minimum mandatory amounts, and the board has good financial solvency. Because of these factors and to explore an opportunity for better efficiency in operations, the Board should examine the feasibility of expanding the warehouse at the board's main store location. A larger warehouse would allow for palletized deliveries that would reduce both board and truck driver time involved in unloading trucks. Also, having a bigger warehouse space will allow for better inventory management. While the board's working capital is very healthy, Rockingham ABC could work with the city on a capital improvement plan setting aside funds for this purpose. The terms in any offsetting distributions amounts could be agreed upon as applicable.
- The Board should consider moving ahead with procuring an upgraded inventory system to better use technology and efficiency on inventory management.
- The pylon shopping center sign by the highway for the second store location is faded. The board could enhance marketing for the store by working to have the sign replaced.
- The Board should consider listing board member term expiration dates on board meeting minutes. This will allow high situational awareness for the board as whole and efficient updates with Commission.
- The Board should consider drafting a telework policy and maternity leave policy.
- To improve operating cost ratios, request bids annually from various vendors to get the best rates possible on financial audits, specific utilities, maintenance contracts, and credit card processing fees.
- The Board is 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 the routine operations and employee morale stronger.
- Quarterly distributions of profits must occur (per G.S. 18B-805(c)(e), *unless the applicable distribution recipients approve of distributions made otherwise*).
- Consider using existing liquor inventory to fill in empty sections as applicable, until out of stock product or new product inventory has been established in the store and shelf space.
- When applicable, ensure unsaleable merchandise (breakage) reports are submitted 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.
- 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.

APPENDIX A

Program Analyst's Summary

The performance audit recommendations were presented to the board on February 8, 2022. While the board has not provided a formal response letter, the board agrees with all recommendations as presented. In addition, the board has essentially completed all recommended actions and deliverables. The board continues to focus on enhancing profitability and reducing expenses when possible.