

# Reidsville 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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Charlotte

February 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 Reidsville 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

Reidsville, originally known as Wright’s Crossroads, is in Rockingham County situated approximately 23 miles from the Virginia border. The city was incorporated in 1873 and has a rich history in agriculture. Following the departure of textile mills, the community has enjoyed renewal as a sleeper city supplying a source of rural development for surrounding larger cities. The 2020 U.S. Census reflects the city as having an approximate population of 14,583. *The total population has increased by approximately 0.4% since 2010.*

Chapter 650 of the 1965 Session Law authorized the Town of Reidsville to hold an election for an ABC store upon a written petition signed by at least 15% of voters. The referendum was held on October 23, 1965, and the measure passed very narrowly by 1,659 to 1,628 votes. Upon election of an ABC store, the Town of Reidsville was authorized to create an ABC Board consisting of a chairperson and two (2) members to serve for three-year terms.

The Reidsville ABC board currently operates two (2) retail stores. The board staffs approximately seven (7) total employees including a general manager, finance officer, and sales associates. These include six (6) full-time and one (1) part-time personnel. 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 Reidsville 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, May 11, 2022, ABC Board Program Analyst Quinn Woolard, visited the Reidsville ABC Board and interviewed Jodi Langel (General Manager), and Wendy Moss (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 Reidsville ABC Board had a profit percentage to sales of 9.93%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales greater than \$2M is 6.5%. The Reidsville ABC Board's gross sales totaled \$3,568,249, which was a 17.89% increase over FY 2019-2020.

The operating cost ratio for the Reidsville ABC Board was .57 in FY 2020-2021. The NC ABC Commission standard for ABC Boards with one or two stores and having mixed beverage sales is .73 or less.

Thus, the Reidsville ABC Board well exceeded 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
<b>Gross Profit on Sales</b>	\$870,466	\$738,898
<b>Income from Operations</b>	\$354,492	\$234,672

*Factors affecting profitability and cost include:*

- Surrounding areas with other ABC Boards operating stores within a fifteen to twenty (15-20) mile range of Reidsville ABC: Eden ABC Board operates in the same county; Caswell County operates two stores within range; Greensboro ABC, Randleman ABC, and Gibsonville ABC each operate one ABC store within the range of 15-20 miles.

- An ABC Board’s average cost of goods sold (COGS) is between 52% & 54% per year. The Reidsville ABC Board’s COGS was approximately 52.8% in FY 2020-2021.
  - *Mixed beverage sales were 5.5% of total sales in FY-2021, and there are around ten (10) mixed beverage permit holders.*

## BUDGET ANALYSIS

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	FY 2020-2021 Budget Projections	FY2020-2021 Actual	Variance	Variance %
<b>Sales</b>	\$3,505,000	\$3,568,249	\$63,249	1.8%
<b>Revenue over Expenditures</b>	-	\$50,218	-	-

In reviewing the budget to actual analysis of the FY2020-2021 financial audit, actual sales revenues were over the budgeted projections by 1.8%. In addition, revenue exceeded expenditures by \$50,218. The chart above shows the final budget to actual amounts and the appropriate positive or negative variances. *The board’s FY-2021 ending net position is the strongest it has been over the last seven (7) years, reflecting reasonable incremental annual increases.*

## DISTRIBUTIONS

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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, Reidsville ABC made other statutory distributions totaling \$266,500 (net profit distributions received \$225,801 of this). The amount of \$813,404 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 Rockingham County.

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

- Eighty-three percent (83%) of profits to Reidsville General Fund
- Seven percent (7%) to Rockingham County General Fund
- Five percent (5%) to Annie Penn Hospital
- Five percent (5%) to Rockingham Library

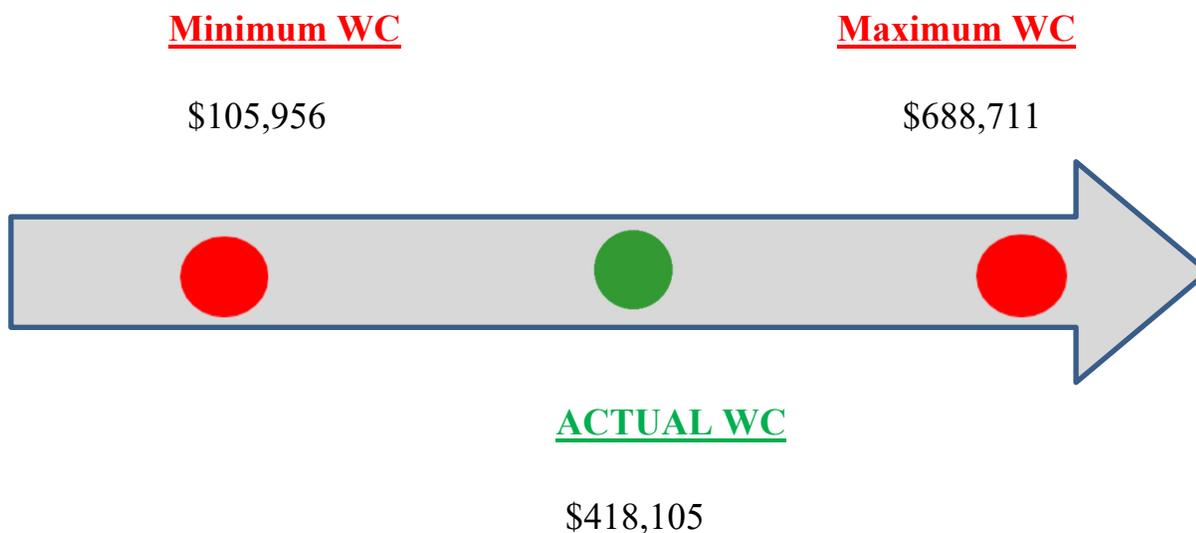
## WORKING CAPITAL

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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 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 Reidsville ABC Board is required to maintain a minimum working capital of \$105,956 with a maximum working capital amount of \$688,711. The Reidsville ABC Board had a working capital balance of \$418,105, 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**

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

- The board holds regular board meetings the fourth Thursday of each month at 9:00 AM, 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. *Special note: Reidsville City Council (as the appointing authority) only allows board members to serve a maximum of two (2) consecutive three-year terms. Since November 2020, the three board members currently serving are all new to the ABC board.*
- 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 the board is working with a consultant to update the document.
- The board adopted a budget amendment in June 2021 for increase in forecasted sales that occurred in the same month and a copy was forwarded to the Commission.
- The finance officer is signing checks as required per statute. Invoice records for liquor purchases reflect them as being paid inside of 30 days. Taxes and distributions are paid in a routine and timely manner.
- For financial oversight measures, the general manager utilizes Sage for accounting entries and bookkeeping serving also as the deputy finance director. The finance officer focuses heavily on inventory oversight and placing liquor orders along with paying invoices. GM oversees store operations and has been involved in timekeeping duties for all personnel and approves employee time on bi-weekly payroll processing.
- 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 GM provides several documents for board review and consideration. Board members are not current receiving inventory variance reports.
- Bank deposits are routinely made daily per review of bank statements and discussion.
- Pre-audit certificates are being routinely stamped on liquor orders as required by statute. The disbursement approval certificate statement is also present on blank checks.
- Law enforcement (LE) reports have not been submitted routinely since October 2019. The general manager explained a key person who was providing report information left the Reidsville Police Department in the same year and continuity of reporting with the police department simply has not occurred. The board also has an outdated LE contract under a former mayor and a new contract will be necessary. *Routinely, the board makes law enforcement distributions that far exceed percentage requirements due to a long-term \$25,000 annual contract.*
- The net profit distributions made in recent fiscal years have routinely exceeded the minimum calculated amounts in a positive capacity. *However, the profit distributions have not been expended according to percentage formulas designated by the local enabling act. The City of Reidsville has been receiving a greater offsetting percentage distribution than the other listed recipients.*
- The recent recipients of alcohol education distributions were listed as the Reidsville Police Dept. The general manager explained that no documentation or report has been submitted to the board describing how the alcohol education funds awarded were utilized in recent years.
- Store inventories are conducted monthly to also include intermittent spot checks, and the warehouse is inventoried more frequently when possible.
- The general manager verified that all board members and general manager and finance officer are bonded as required; board members' compensation and general manager compensation adhere properly to general statute requirements.

## STORE APPEARANCE & INSIGHT

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*The findings for store insight and operations are as follows:*

- A second store location just opened in May 2022. This is a stand-alone store located adjacent to a Love's Travel Stop. The board is limited on employees currently having only seven (7) total employees to use for operations at both store locations.
- Both stores have modern designs and layouts and good product variety.
- Currently, the board does not deem it beneficial and feasible to offer delivery service having only a few mixed beverage permittees. Due to being a Tier 1 county per NC Dept of Commerce listings, the board is pursuing a waiver to delivery service with the Commission. *Otherwise, ABC boards must offer delivery service to MXB customers beginning in July 2022 for Rule 15A . 1903 Delivery of MXB Permittee Orders.*
- 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. This section features product information to educate the public on locations of various distillers throughout the state for a very tasteful personal touch.
- 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.
- Some shelf spaces were empty in the Durwood Court location, and some of this is attributed to products ordered that reflect as being in stock at the state warehouse yet are not being received.
- Security systems are in place and functional in all designated areas.
- Sales associate interactions with customers are attentive, courteous, and all are eager to meet the needs of the customers.
- A random sample of roughly 60-70 items was selected to determine if uniform pricing is displayed. Of those selected at the two stores, three items had incorrect prices and were immediately corrected. *The new store opened on May 2 and personnel did an excellent job to get nearly all prices in order reflecting the quarterly listings beginning on May 1.*

## RECOMMENDED ACTIONS (PER STATUTES OR COMMISSION RULES)

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- 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.*
- Law enforcement reports must be submitted on the Commission's board website by the 7<sup>th</sup> 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 other metrics for ABC law contribution such as compliance checks and alcohol education classes presented. *A template spreadsheet has been forwarded to facilitate data capture.*
- For the Reidsville ABC Board, there currently is not a valid, signed law enforcement contract approved by any current City of Reidsville officials. Thus, a new law enforcement contract must be formally established between the ABC board and municipality for law enforcement services reflecting current officials *per G.S. 18B-501(f)*. *The official contract signed by all applicable parties would need to be forwarded via email to the Commission for recordkeeping.* *Special note: As another option, the board has the authority to instead establish a new contract with Alcohol Law Enforcement (ALE) state agency for law enforcement services.*
- Over the last several years, the net profit distributions made to designated local enabling act recipients have surpassed minimum requirements in a positive capacity. These distributions are also known as *Minimum Mandatory Distributions*. However, the distributed amounts have not been following percentage distribution formula requirements set in the local enabling act. Referencing G.S. 18B-805(c)(1) for *Other Statutory Distributions* and (e) *Other Distributions*, ABC boards shall set aside the clear proceeds of 3.5% markup and additional bottle charge to be distributed as part of remaining gross receipts to recipients following the local enabling act for net profit distribution. *Going forward, the board must be cognizant to distribute net profit distributions following the designated percentages in the local enabling act.*
- Ensure all policies are submitted to the Commission for recordkeeping and review per NCAC 15A .1102 Rule. *The board is recommended to draft a Mixed Beverage Customer ordering procedures policy and email a copy to the Commission. When the board has an updated personnel manual available, please forward a copy of the policy via email to the Commission.*
- The board must annually obtain approval from the appointing authority to adhere to their local government travel policy and annually provide the Commission a copy of this approval and latest annual travel policy per G.S. 18B-700(g2). Note: *As another option, the board can alternately move to adopt the official State of NC government travel policy referenced under G.S. 138-6. This would allow the board an option to eliminate the annual travel policy update requirement by instead formally adopting the State of NC government travel policy during an official board meeting and provide documentation evidence to the Commission.*
- All reappointed board members (and newly appointed members) are required to complete ethics training within one (1) year of their reappointment date per *G.S. 18B-706(b)*. Per board records on recent appointment in March 2021, Board Member Almond is overdue for the training and BM Wilson would need to complete the ethics training by November 2022. *Completion certificates should then simply be forwarded via email to the Commission.*
- The recipients of alcohol education distributions must provide annual documentation to the board describing the activity for which these awarded funds are spent *per G.S. 18B-805(h)*. *The board may want to consider obtaining documentation before the funds are officially awarded / transmitted to any recipients.*
- The board has a code of ethics policy per *G.S. 18B-706*, and ABC Commission has a copy. The following are needed administrative actions: *A Certificate of Accountability attestation form should be reviewed and signed by applicable personnel. A signed copy should be emailed to Commission.*

## **ADDITIONAL CONSIDERATIONS & GUIDANCE ....**

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- 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).* Another way to do this is by limiting the amount of personnel travelling to conference and convention events across the state. Other ways to try to improve expenses include requesting bids annually from various vendors to get the best rates possible on financial audits, various utilities, maintenance contracts, and *credit card processing companies.*
- 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.
- 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 the Commission; copies should not be mailed.*
- 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.
- 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

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### Program Analyst's Summary

The board did not provide a response to the Commission audit. However, the board agrees with all recommendations as presented and will work toward compliance. The board continues to be vigilant with profitability enhancement and expense reduction while operating modern stores with a robust customer service focus.