

Yadkin Valley 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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May 16, 2022

Yadkin Valley ABC Board
Robin Turner, Chair
612 C.C. Camp Road
Elkin, NC 28261

Chairperson Turner,

On the following pages, you will find the performance audit report conducted by the staff of the ABC Commission reviewing the operations of the Yadkin Valley 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 Merriweather
Deputy Commissioner

cc: North Carolina Association of ABC Boards

OBJECTIVE, PURPOSE AND 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

The Board was established by resolutions of the Towns of Elkin and Jonesville. Effective July 1, 2015, the Elkin ABC Board, which was established on May 3, 1982, merged into the newly formed Yadkin Valley ABC Board, which would serve the towns of Elkin and Jonesville. This merger resulted in the dissolution of the Elkin ABC Board and the establishment of the new Yadkin Valley ABC Board. All assets and liabilities of the Elkin ABC Board transferred to the new Yadkin Valley ABC Board effective July 1, 2015. On June 10, 2015, the NC ABC Commission approved the acquisition of land and the construction of a new store to be built at a location which will better serve both towns. Distributable profits of the Board will be distributed 75% to the Town of Elkin and 25% to the Town of Jonesville until such time as the Town of Elkin has been compensated for the value of assets merged into the new ABC Board. After this value has been paid in full, profits of the Board will be distributed equally between the two towns. The Board consists of a chairperson and four (4) board members.

The Yadkin Valley ABC Board currently operates one (1) retail store. The general manager is primarily responsible for overseeing the daily operations pertaining to the store including personnel management, inventory management, and various administrative functions. Store clerks (two full-time and two part-time currently) are responsible for providing customer-friendly service, store upkeep, and stock maintenance.

This is the first performance audit of the Yadkin Valley ABC Board (*with the former Elkin ABC Board last having an audit back in 2012*). This performance audit 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 & RECOMMENATIONS:

On Tuesday, June 8, 2021, ABC Board Auditor Quinn Woolard, visited the Yadkin Valley ABC Board and interviewed Cory Vestal, General Manager. 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) 2019-2020, the Yadkin Valley Board had a profit percentage to sales of 11.7%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales greater than \$2M but less than \$10M is 6.5%. The Yadkin Valley ABC Board's gross sales totaled \$2,380,871, a 19.1% increase over FY 2018-2019.

The operating cost ratio for the Yadkin Valley ABC Board was .47 in FY 2019-2020. The NC ABC Commission standard for ABC Boards with 1 or 2 stores and mixed beverage sales is .73 or less. The Yadkin Valley ABC Board well met this Commission standard.

Thus, the Yadkin Valley ABC Board met the profitability and operating cost standards set by the NC ABC Commission. Below is a chart showing expenses and income from operations for the previous two years.

	FY2019-2020	FY2018-2019
Gross Profit on Sales	\$585,476	\$492,486
Income from Operations	\$278,477	\$211,687

Factors affecting profitability and cost include:

- The only surrounding town/board within a fifteen (15) mile range with ABC stores is the Dobson ABC Board/Store, also located in Surry County.
- Long-term financed debt is in effect for the building and improvements including extra principal payments which is part of the capital improvements plan.

- An ABC Board’s average cost of goods sold (COGS) is between 52% & 54% per year. *The Yadkin Valley ABC Board’s cost of goods sold was approximately 52.7% in FY 2019-2020.*
- *Mixed beverage sales total approximately 4.1% in FY 2019-2020.*

BUDGET ANALYSIS

	FY2019-2020 Budget Projections	FY2019-2020 Actual	Variance	Variance %
Sales	\$2,450,000	\$2,380,871	(\$69,129)	(2.9%)
Total Expenditures	\$2,316,202	\$2,257,770	\$58,432	2.5%

In reviewing the budget to actual analysis of the FY 2019-2020 financial audit, actual sales revenues were under the budgeted projections by 2.9%. Yet, total operating expenses were also below budget for the same period. The chart above shows the final budget to actual amounts and 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 2019-2020, Yadkin Valley ABC made distributions totaling \$106,989 (with \$50,000 to Town of Elkin and \$25,000 to Town of Jonesville). The amount of \$540,659 in excise and other taxes were paid to the NC Department of Revenue (NCDOR), the NC Department of Health and Human Services (NCDHHS), and county commissioners of Surry County.

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

- Seventy-five percent (75%) to the Town of Elkin General Fund
- Twenty-five percent (25%) to the Town of Jonesville General Fund

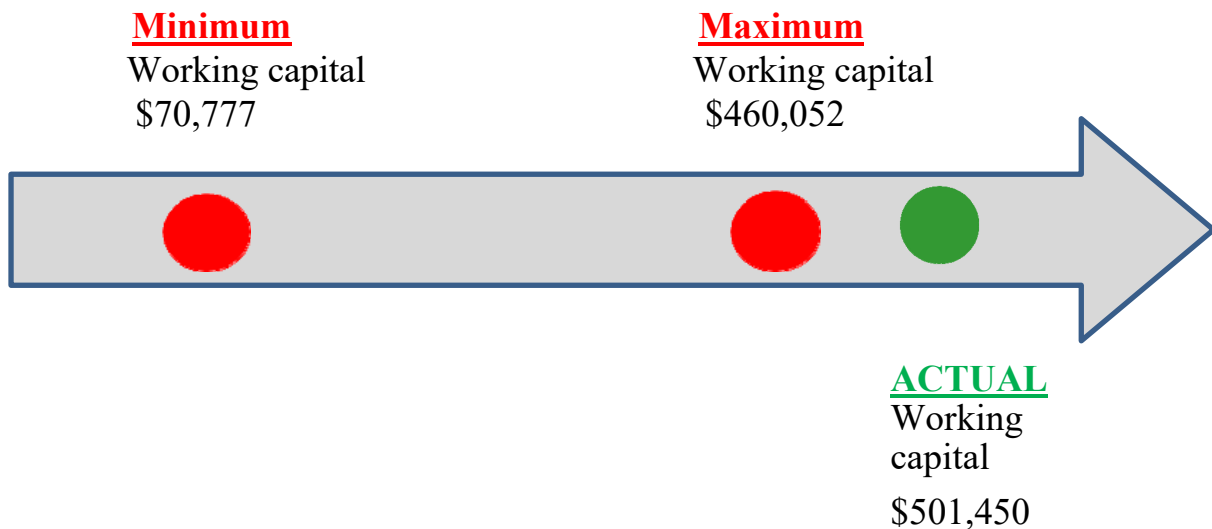
Special Note: *When the Town of Elkin has been compensated for the value of their assets which were merged into the new ABC Board, profits of the Board will then be distributed equally between the two towns.*

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 but less than \$50M an amount equal to three (3) months of sales revenue.

Based upon the existing rules, as of June 30, 2020, the Yadkin Valley ABC Board is required to maintain a minimum working capital of \$70,777 with a maximum working capital amount of \$460,052. The Yadkin Valley ABC Board currently has a working capital balance of \$29,443 which is *above* the Commission requirements for this section. (*)

* FY 2019-2020 Working Capital graphic



The Board has approved maintaining excess working capital to ensure available resources for debt service resulting from the construction of a new facility placed in service in the year ended June 30, 2017. Under 18B-805(d), with approval of the appointing authority for the board, the local board can set aside a portion of the remaining gross receipts as a fund for specific capital improvements.

PERSONNEL, POLICY AND ADMINISTRATIVE COMPLIANCE

- The board holds regular meetings the fourth Friday of each month at 11:30 AM, records regular meeting minutes, and provides public notification and awareness of these meetings.
- Presently, the general manager also serves as the finance officer as required by G.S. 18B-702(j), and the board obtained approval from the Commission upon board creation. Approval is allowed up to three (3) years, and reapproval is then required every three years. No documentation could be located for reapproval.
- The general manager has been training a full-time employee to strengthen continuity of operations for the board during vacation periods and other periods he could potentially be away from the store/board.
- The board has not previously submitted a personnel manual yet is currently working on an update.
- The board did not have a Code of Ethics policy available for review, however, it was discussed that a board member(s) could have possession of this item.
- The Commission does not have a copy of the most recent capital improvement plan approval.
- The Chairperson compensation is reflected as being \$200 per meeting. Without appointing authority approval, the statute maximum is \$150 per meeting for any board member. No documentation was able to be located showing appointing authority approval to exceed this amount.
- In general, board members are expected to conduct checks and balances to ensure that cash management practices are upheld. The board is currently and routinely drafting checks with proper signatures included. As key oversight, board members will periodically verify and review bank statements, and monthly financial statements, as well as historical sales figures that the general manager organizes.
- The Yadkin Valley ABC Board holds regular meetings as required by G.S. 143, has appropriate copies of board meeting minutes, and has been providing sufficient public notifications.
- Board members may have completed the required ethics training as required by G.S. 18B-706(b), however Commission records reflect some potential training records updates and appointment date updates are needed. The board member appointment dates provided via board meeting minute notes do not match Commission records, and no recent ethics training certificates were able to be located.
- All board members and general manager are bonded as required; board members and general manager compensation adhere properly to general statutes.
- Alcohol education funds distributions were made to Elkin Elementary School and the Town of Jonesville per the FY 2019-2020 CPA audit. However, the recipients did not provide an annual report to the board, describing how the received funds were spent.
- Law enforcement reports have been properly submitted, and a current law enforcement contract is in place with the Elkin Police Department. Yet, the reports for the last two fiscal years do not reflect regulatory activity and training being provided by the Elkin Police Dept.

STORE APPEARANCE & SHELF MANAGEMENT

The findings for store appearance are as follows:

- The store 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.
- Rearrangement of dead stock is done to increase visibility of product and improve sales potential.
- 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.
- The store clerks were professional and friendly. While observing the clerk interacting with customers, they not only exhibited a high-level customer service excellence but a genuine friendly and helpful attitude during the encounters.
- While inspecting the store, a random sample of approximately 75 items were selected to determine if uniform pricing is displayed. Of those selected, all had the correct pricing.
- SCRC is the point-of-sale system, with the vendor based in Statesville, NC.

RECOMMENDED ACTIONS (PER STATUTE OR RULES)

- ABC Boards are required to operate within a balanced budget each fiscal year. Budget amendments must be submitted 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)*.
- A Code of Ethics policy should be forwarded also as soon as possible [*Referencing G.S. 18B-706*]. Following update of the personnel manual this summer, a copy of this should be emailed to the Commission, and a business credit card use policy is recommended. *NCAC Rule 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.*”
- A copy of the latest board capital improvement plan should be forwarded to the Commission, *per 18B-805(d) section*.
- 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)*. This would primarily be applicable for liquor orders, and the stamp could be placed on applicable Order Acknowledgement Forms. The specific statement should read, “*This instrument has been preaudited in the manner required by G.S. 18B-702.*”
- A letter from the appointing authority approving any board member compensation over \$150 per meeting needs to be obtained and provided to the Commission [*Referencing G.S. 18B-700(g)*].
- The Board must request reapproval through the Commission for the General Manager to continue filling the Finance Officer position. As applicable, this approval should be obtained every 36 months [*Referencing G.S. 18B-702(j)*].
- Recipients of alcohol education/research funds must provide an annual report to the Yadkin Valley ABC Board, describing how the funds were spent [*Referencing 18B-805(h)*].
- Law enforcement reports must reflect and capture applicable occurrences of regulatory activity and training providing by contracted law enforcement agencies per *G.S. 18B-501(f1)*.
- 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, at least one member does not reflect as current on this training.

ADDITIONAL CONSIDERATIONS

- Board member information on the Commission website does not reflect current board members' last appointment dates. It is recommended to update the Commission website to include all board members' latest appointment dates.
- Quarterly distributions of profits must occur, *unless the applicable distribution recipients approve of distributions made otherwise.*
- The Board is encouraged to review financial statements monthly, comparing with the annual budget forecast, and submit budget amendments to the Commission when applicable.
- As applicable annually, the Board should be receiving the appointing authority's approval on travel policy and providing the Commission documentation of this approval and travel policy itself per G.S. 18B-700(g2). *If the board ever decided to instead adhere to the official state government travel policy, then the travel policy requirement would automatically be met and would not require annual approval through the local appointing authority.*
- 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.

YADKIN VALLEY ABC STORE

612 CC CAMP RD

ELKIN NC 28621

336-353-3450

May 16 2022

Mr. Quinn Woolard

ABC Board Auditor

400 E. Tryon Rd

Raleigh NC 27610

Dear Mr. Woolard

The Yadkin Valley ABC Board would like to thank you for being professional and Straight forward on your recommendations from the audit you recently performed. The findings in this audit will greatly help us in the areas we need to improve. Please find our responses to the findings below.

ITEM 1: Approval from town for board members salary

All recommendations have been followed.

ITEM 2: Adopted code of ethics be signed and forwarded to commission.

All recommendations have been followed

Item 3: Final personnel manual to be forwarded to commission

All recommendations have been followed

Item 4: Purchase orders to be stamped and signed with statute certificate

All recommendations will be followed

Sincerely,

Cory Vestal , GM

Yadkin Valley ABC Board