

Angier 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

June 18, 2018

CHAIRMAN:
A. D. "ZANDER" GUY, JR.

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MICHAEL C. HERRING
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Moniqua S. McLean
ABC Board Auditor
(919)779-8365

Town of Angier ABC Board
Mr. Jerry Hockaday, Chairman
PO Box 788
Angier, NC 27501

Dear Chairman Hockaday,

We are pleased to submit this second performance audit report on the Town of Angier ABC Board. The objective of this audit was to examine existing policies, practices, and controls and to provide recommendations on methods to improve operating efficiency at the ABC Board in accordance with the existing legislative mandates.

The report consists of an executive summary, background information, operational findings and recommendations along with your response to our recommendations. This report will be posted on the Commission's public web site.

Once again we would like to thank you, the ABC Board and your staff for the assistance and cooperation provided to us during this second audit. Additionally, we appreciate the continued efforts by your Board to comply with the performance standards and to complete the suggested recommendations. Thank you for your continued efforts to increase profitability and reduce expenses.

If we can be of assistance in the future, please advise.

Respectfully,

Robert A. Hamilton
Administrator

Cc: North Carolina Association of ABC Boards

OBJECTIVE, PURPOSE, AND SCOPE

In addition to regular and special financial audits, G.S. 18B-705 (a) authorizes the N.C. ABC Commission to conduct performance audits of all local ABC boards in the state. Performance audits are examinations of existing operating policies, practices, controls, and activities to determine those areas in which there may be a need for improvement.

The audits are designed to ensure that all local ABC Boards comply with established performance standards pursuant to G.S. 18B-203 (a) (20). The audits' scope addresses compliance with ABC laws and rules, store appearance, operating efficiency, solvency, and customer service.

To achieve the objectives of the audit, auditors:

- Review applicable General Statutes, ABC Commission Rules, and Administrative Policies
- Review applicable reports and studies of ABC boards with similar size and geography
- Consult with specialists at the UNC School of Government
- Verify compliance with Commission and Board policies
- Verify results of previous performance audit recommendations
- Review organizational chart and job descriptions
- Review ABC board annual independent financial audits
- Visits the store(s)
- Interview key ABC board personnel.

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

PROFIT PERCENTAGE TO SALES AND OPERATING COST RATIO

In 2017, the Angier ABC Board had a profit percentage to sales of 7.23%, a 2.83% decrease over FY2016. In FY2016, the Angier ABC Board had a profit percentage to sales of 10.06%. In the initial performance audit of FY2011, the ABC Board had a profit percentage to sales of 0.14% and has since increased the profit percentage by 7.09%. The ABC Commission profit percentage to sales standard for ABC Boards with gross sales less than \$2M is targeted at 5% or higher. Thus, the Angier ABC Board met the targeted profit percentage.

The operating cost ratio for Angier ABC Board was 0.63. The ABC Commission standard for ABC Boards with one or two stores with mixed beverage sales is less than 0.73. Thus, the Angier ABC Board met the standard.

Angier ABC Board's operating expenses increased 6.4% over FY2016. The income from operations decreased 21.3% over FY2016. Below is a chart showing the change of expenses and income from operations for the previous two years.

	FY2017	FY2016	Percent Change
Expenses excluding Depreciation	\$273,041	\$256,628	6.4%
Income (Loss) from Operations	\$139,791	\$177,626	-21.3%

BUDGET ANALYSIS

In reviewing the budget to actual analysis of the FY2017 financial audit, sales revenues were below budgeted projections by 0.1%. Overall expenses were within budget for the same time period. The below chart shows the final budget to actual amounts and the variances.

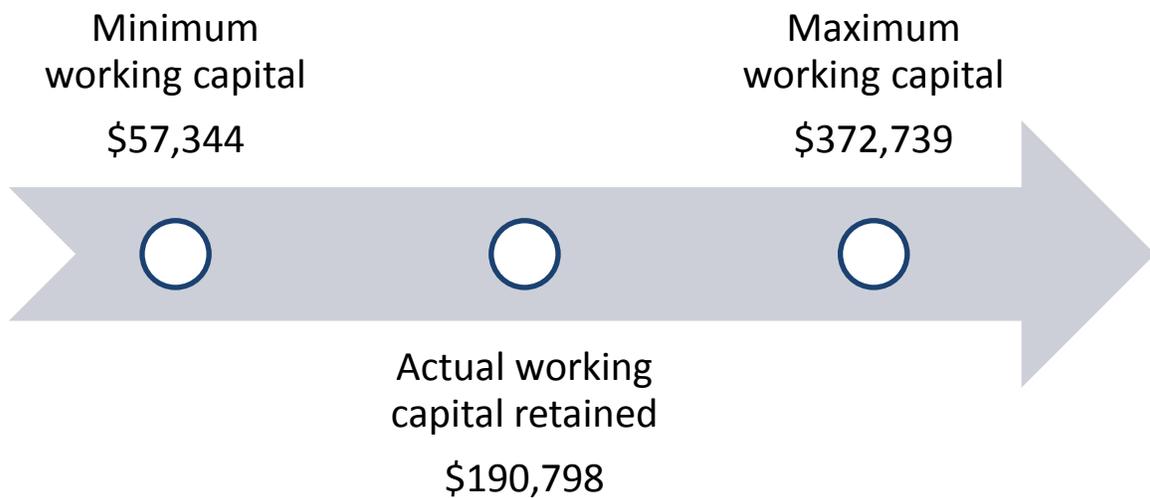
	FY2017 Budget Projections	FY2017 Actual	Variance \$	Variance %
Sales	\$1,933,994	\$1,932,639	(\$1,355)	-0.1%
Total Operating Expenses including Capital Outlay	\$1,871,443	\$1,844,457	\$26,986	1.5%

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.

Based on the existing rules, the Angier ABC Board is allowed to maintain a minimum working capital of \$57,344 and a maximum working capital of \$372,739. The actual working capital the board has retained is \$190,798.

The NC ABC Commission has set a working capital standard for boards with gross sales less than \$50M and greater than or equal to \$1.5M to three months of sales revenue. The board's actual working capital has met the standard set by the NC ABC Commission.



DISTRIBUTIONS

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

G.S. 18B-805 (c) (2) requires the board to distribute quarterly at least five percent (5%) of profits to law enforcement. S.L. 1969-626 requires the board to distribute quarterly the following:

- Twenty-five percent (25%) to the Angier Community Library
- Ten percent (10%) of the remaining seventy-five percent (75%) may be used for alcohol education and rehabilitation programs
- Remaining profits to the Town of Angier General Fund of which up to twenty-five percent (25%) may be used for recreational programs.

Revenues Less Taxes and Cost of Sales FY2017	
Sales (Retail, Mixed Beverage, and Wine)	\$1,932,639
Excise Tax	\$427,386
Mixed Beverage Tax Combined	\$432
Rehabilitation Tax	\$6,065
Net Sales	\$1,498,586
Cost of Liquor Sold	\$1,062,382
Gross Profit	\$436,204

	FY2017 Calculations	Actual Distributions
Gross Profit (Taken from Above)	\$436,204	
Total Operating Expenses	\$296,413	
Income from Operations	\$139,791	
Income (Loss) Before Distribution	\$139,994	
3 ½% Minimum Distribution	\$55,927	\$55,927
• Angier Community Library		• \$5,593
• Alcohol Education		• \$5,593
• Town of Angier		• \$44,741
Law Enforcement	\$4,203	\$4,203

A contract between the Angier ABC Board and the Town of Angier Police Department is in effect and requires the board to distribute at least five percent (5%) of profits in quarterly installments if profits are generated.

STORE APPEARANCE

Management has incorporated a shelf management or category management plan that follows guidelines specified in the NC ABC Commission rules and incorporated industry standards to maintain and increase profits. Products are placed within designated categories; premium products are found at eye-level or top shelf and value-added products are placed on the lower shelves. A consistent size flow shows a pattern from largest size on the right and smaller size on the left. New products and bestselling items are available and displayed throughout the store using displays and additional gondolas. A made-in-North Carolina selection is available in a designated area and co-mingled within their brand category.

OPERATIONAL AND ADMINISTRATIVE COMPLIANCE

- While inspecting the store, the ABC Auditor randomly selected approximately sixty items to determine if uniform pricing is displayed on the shelves. Of those selected, all were correct.
- The board follows the requirements of G.S. 18B -700 (k) whereas the board does not employ members of immediate family of the general manager and/or board members.
- Management continues to cross train key employees in some areas to strengthen internal controls and provide assurance that operations will continue should the manager be unavailable.
- Two board members have recently been reappointed to the board. Board members have not yet completed the required ethics training.

Recommendation #1: Board members who have been newly appointed or reappointed must complete the required ethics training within one year of appointment status.

TOWN OF ANGIER ABC BOARD

**P.O. Box 788
Angier, N. C. 27501
(919) 639-4881**

Jerry Hockaday, Board Chairman

**Thomas Taylor, Board Member
Colin R. Collins, Board Member
Steve Adams, Board Member
Philip Allen, Board Member**

Shirley Brinkley, General Manager

March 13, 2018

Moniqua McLean, MAFM
ABC Board Auditor
4307 Mail Service Center
Raleigh, NC 27699-4307

Dear Ms. McLean:

This letter is in response to the Angier ABC Board Performance Audit Report. The audit report contained performance findings and recommendation(s) for the board from your visit on January 10, 2018.

While we accept your findings and recommendation(s), we continue to comply with the policies and procedures set forth by the NC ABC Commission and G.S.18B.

We are continuing to reduce operating costs in every way possible. Due to continuing bank payments for the new store built in 2007, overhead expenses may continue to run higher. We are expecting to fulfil the bank obligation by year 2021 while paying additional principal each month.

With sales increasing, we are doing our best to keep inventory and operating costs at a minimum. Our profit percentage decreased a small percentage over the previous year while working capital continued to improve; both met the requirements set forth.

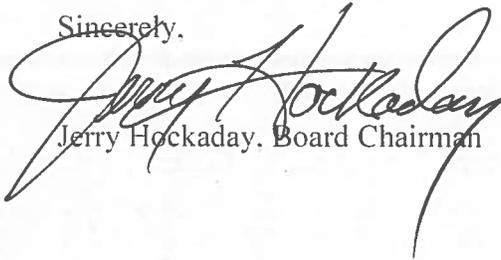
Our store appearance and customer service remains to be good with all employees putting forth efforts in good customer service, the cleanliness of the store, and shelf management.

Internal control recommendations from our previous audit has been met with placement of a finance officer in 2017. However, cross training has and continues to take place on key functions necessary to maintain daily and monthly operation requirements.

Two board members were recently reappointed to the board and will complete the required ethnics training this year.

We will continue to strive in meeting the recommendations and requirements by compliance set forth to us.

Sincerely,

A handwritten signature in black ink, appearing to read "Jerry Hockaday". The signature is fluid and cursive, with a large initial "J" and "H".

Jerry Hockaday, Board Chairman