

# Dunn 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

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**ABC Board Auditor**  
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City of Dunn ABC Board  
Mr. Dal Snipes, Chairman  
PO Box 70  
Dunn, NC 28335

Dear Chairman Snipes,

We are pleased to submit this second performance audit report on the City of Dunn 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 your positive responses 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

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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

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In 2017, the Dunn ABC Board had a profit percentage to sales of 7%. In FY2016, the Dunn ABC Board had a profit percentage of 7%. The ABC Commission profit percentage to sales standard for ABC Boards with gross sales greater than \$2M is targeted at 6.5% or higher. Thus, the Dunn ABC Board met the targeted profit percentage.

An analysis of revenue per store is shown below for the two previous fiscal years.

Store Location	Gross Sales in FY2017	Gross Sales in FY2016	Variance \$	Variance %
Store #1	\$829,242	\$777,418	\$51,824	6.7%
Store #2	\$1,402,585	\$1,299,753	\$102,832	7.9%
Mixed Beverage Sales	\$95,640	\$96,677	(\$1,037)	-1.1%

The operating cost ratio for Dunn ABC Board was 0.69. The ABC Commission standard for ABC Boards with one or two stores with mixed beverage sales is less than 0.73. Thus, the Dunn ABC Board met the standard.

Dunn ABC Board's operating expenses increased 7.6% over FY2016. Below is a chart showing the change of expenses and income from operations for the previous two years.

	FY2017	FY2016
Expenses excluding Depreciation	\$385,844	\$358,542
Income (Loss) from Operations	\$161,843	\$152,678

## BUDGET ANALYSIS

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In reviewing the budget to actual analysis of the FY2017 financial audit, sales revenues exceeded the budgeted projections by 7.6%. Overall expenses exceeded budgeted projections by 5.7% 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	\$2,181,996	\$2,327,467	\$145,471	6.7%
Total Operating Expenses including Capital Outlay	\$2,041,598	\$2,157,574	(\$115,976)	-5.4%

**REQUIRED ACTION:** *All ABC Boards are required to operate within a balanced budget. ABC Boards cannot appropriate items or spend money not included in the budget. If budgeted line items are not balanced, adopt budget amendments to correct specific items or add omitted line items. G.S. 18B-702(h) states, "Except as otherwise restricted by law, the local board may amend the budget at any time after adoption, in any manner, so long as the budget, as amended, continues to satisfy the requirements of this section...Amendments to the adopted budget shall also be provided to the appointing authority and the Commission."*

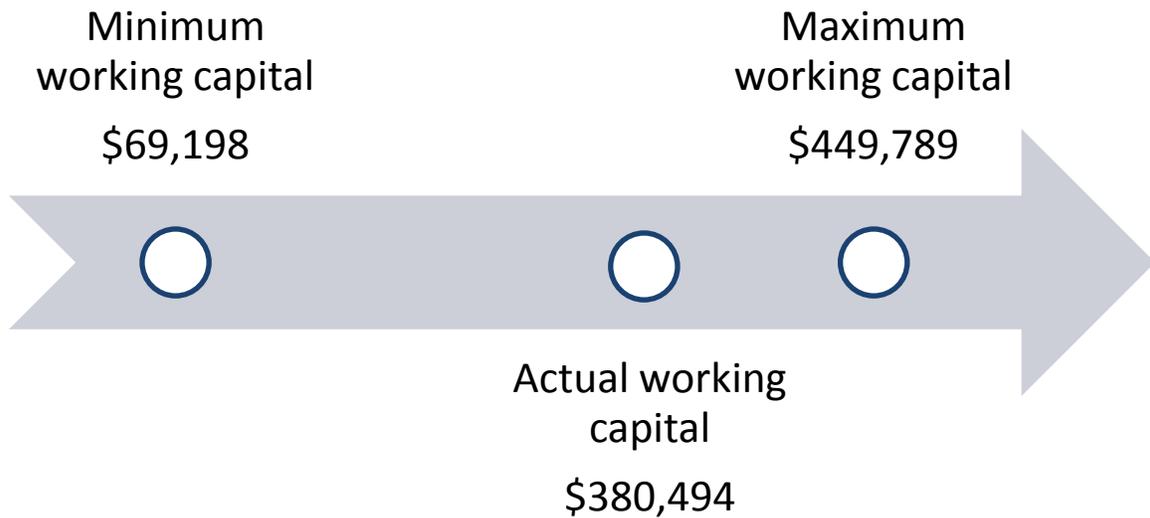
## WORKING CAPITAL

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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.*

Based on the existing rules, the Dunn ABC Board is allowed to maintain a minimum working capital of \$69,198 and a maximum working capital of \$449,789. The actual working capital the board has retained is \$380,494.

The NC ABC Commission has set a working capital standard for boards with gross sales greater than \$1.5M but less than \$50M an amount equal 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 and the City of Dunn.

G.S. 18B-805 (c) (2) and (3) requires the board to distribute quarterly at least five percent (5%) of profits to law enforcement and at least seven percent (7%) of profits toward alcohol education.

S.L. 1949-1147 requires the board to distribute quarterly one-hundred percent (100%) of net profits of which not less than ten percent (10%) and not more than twenty-five percent (25%) allocated to the Board of Trustees of the Betsy Johnson Memorial Hospital.

Revenues Less Taxes and Cost of Sales FY2017	
<b>Sales (Retail and Mixed Beverage)</b>	\$2,327,467
<b>Excise Tax</b>	\$511,143
<b>Mixed Beverage Tax Combined</b>	\$9,116
<b>Rehabilitation Tax</b>	\$8,053
<b>Net Sales</b>	\$1,799,155
<b>Cost of Liquor Sold</b>	\$1,241,918
<b>Gross Profit</b>	\$557,237

	FY2017 Calculations	Actual Distributions	Percentage Variance
<b>Gross Profit (Taken from Above)</b>	\$557,237		
<b>Total Operating Expenses</b>	\$401,526		
<b>Income from Operations</b>	\$155,711		
<b>Income (Loss) Before Distribution</b>	\$161,843		
<b>3 ½% Minimum Distribution</b>	\$67,882	\$125,000	84.1%
<b>Law Enforcement</b>	\$4,698	\$8,000	70.3%
<b>Alcohol Education</b>	\$6,577	\$13,525	106%

A contract between the City of Dunn ABC Board and the City of Dunn Police Department is in effect and requires the board to distribute \$8,000 of profits.

In addition to the law enforcement agreement, the board is required to expend at least seven percent (7%) towards alcohol education or rehabilitation purposes. The Dunn ABC Board awarded \$1,425 to the City of Dunn school system, \$500 to the Triton Newspaper, and \$2,400 to the Dunn AA Group. The ABC Board partners with neighboring systems in the county to provide funding for the Sold Out Youth Ministries. The board's contribution totals \$5,000. A financial report from the agencies is not provided to the board. *A detailed list of recipients is found in the Appendix.*

**REQUIRED ACTION:** *Require any agency receiving funds for alcohol education/rehabilitation purposes to provide the board a report annually detailing how the funds were spent.*

## STORE APPEARANCE

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The ABC Board Auditor visited both stores to evaluate store appearance. Below are the findings:

- The exterior parking areas have accumulated trash and used bottles thrown in the area.
- Shelf management continues to follow the minimal trend as in previous years. Products are arranged with value added products on the bottom shelves and more premium products at eye-level or top shelves. However, empty shelves and display cases continue to be underutilized.

**RECOMMENDED ACTION:** *Consider the following to increase traffic flow in both stores:*

- *Utilizing resources that would provide effective practices, i.e. shelf management, customer service, and inventory management, using the board's sales history*
- *Modernizing both locations to generate more traffic and to further enhance customer shopping experiences and increase profits.*

## OPERATING AND ADMINISTRATIVE COMPLIANCE

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- While inspecting stores, the ABC Auditor randomly selected approximately seventy items to determine if uniform pricing is displayed on the shelves. Of those selected, all were correct.
- ABC Board meetings are not posted notifying the public of when, where, and the location in which meetings are held.

**REQUIRED ACTION:** *All ABC Board meetings are required to be noticed to the public. Post signage at the store locations or with the city administrative offices.*

- The board has adopted the City of Dunn's personnel manual. Specific policies and language do not coordinate with the practices of the ABC board.

**RECOMMENDED ACTION:** *Adopt a personnel manual that incorporates board practices. The ABC Commission encourages ABC boards to model personnel policies and procedures of the appointing authority. However, certain ABC procedures must be clearly presented in the employee manual.*

- In reviewing the law enforcement activity reports, the board has not submitted reports since December 2016.

**REQUIRED ACTION:** *Submit the require law enforcement activity information on the NC ABC Commission's website. If no information is available, submit "0" for all fields. In the future, all ABC boards are required to obtain law enforcement activity reports for agencies. G.S. 18B-501 (f) states "...every local board's ABC officers and those law enforcement agencies subject to an enforcement agreement entered into pursuant to subsection (f) of this section shall report to the local board, by the fifth business day of each month... The local board shall submit a copy of the enforcement report to the appointing authority and the Commission not later than five business days after receipt of the enforcement report by the local board."*

CITY OF DUNN ABC BOARD

AUDIT RESPONSE

February 14, 2018

Required Action:

All ABC Boards are required to operate within a balanced budget. ABC Boards cannot appropriate items or spend money not included in the budget. If budgeted line items are not balanced, adopt budget amendments to correct specific items or add omitted line items.

Response:

The Board will work to continue to improve the budget process by amending the budget to insure that items omitted and items over or under budget are corrected.

Required Action:

Require any agency receiving funds for alcohol education or rehabilitation purposes to provide the board a report annually detailing how the funds were spent.

Response:

The Board has contacted all agencies receiving alcohol or rehabilitation funds and will insure that a report is received annually.

Recommended Action:

Consider the following to increase traffic flow in both stores:

Utilizing resources that would provide effective practices, i.e. shelf management, customer service, and inventory management, using the board's sales history.

Modernizing both locations to generate more traffic and to further enhance customer shopping experiences and increase profits.

Response:

The Board will continue to improve strategies for shelf management, customer service and inventory management. Modernizing stores depend on available funds but will be considered but the board.

Required Action:

All ABC Board meetings are required to be noticed to the public.

Response:

Meeting notices have been posted in each store noting the date, location, and time of each meeting.

Recommendation:

Adopt a personnel manual that incorporates board practices.

Response:

The will review any ABC practices that are different from the City of Dunn's personnel manual and note these changes in the manual.

Required Action:

Submit the required law enforcement activity information to the NC ABC Commission..

Response:

The Board will insure that law enforcement activity is received and reported.

Approved by the Dunn ABC Board this 20<sup>th</sup> day of February, 2018.

## APPENDIX

<b>Alcohol Education Recipients</b>	<b>Amounts</b>
<b>School Teachers</b>	
Wayne Avenue School	\$175.00
Triton High School	\$175.00
Dunn Middle School	\$175.00
Harnett Primary School	\$175.00
Erwin Elementary School	\$175.00
Gentry Elementary School	\$175.00
Coats-Erwin Middle School	\$175.00
Program Director	\$200.00
<b>Total</b>	<b>\$1,425.00</b>
<b>Triton High School Newspaper</b>	<b>\$500.00</b>
<b>Dunn AA Group</b>	<b>\$2,400.00</b>
<b>Sold Out Youth Ministries</b>	<b>\$5,000.00</b>