

# Greene County 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.

COMMISSIONER:  
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West Jefferson

ADMINISTRATOR:  
ROBERT A. HAMILTON

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**ABC Board Auditor**  
**(919)779-8365**

Greene County ABC Board  
Mr. Robert Taylor, Jr, Chairman  
217 SE Second Street  
Snow Hill, NC 28580

Dear Chairman Taylor,

We submit to you this second performance audit report on the Greene County 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. Your Board did not provide a response in reference to the findings and 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. Thank you for your efforts to increase profitability and reduce expenses.

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

Respectfully,

A handwritten signature in black ink, appearing to read "R.A. Hamilton".

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 ANALYSIS

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In 2017, the Greene County ABC Board had a profit percentage of 2.59%, a 1.50% increase over FY2016. 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 Greene County ABC Board did not meet the targeted profit percentage. In FY2016, the Greene County ABC Board had a profit percentage to sales of 1.09%.

The operating cost ratio for Greene County ABC was 0.86 in FY2017. The ABC Commission standard operating cost for ABC boards with one or two stores without mixed beverage sales is less than 0.85. Thus, the Greene County ABC Board did not meet the standard.

Greene County ABC Board's operating expenses increased 5.13% over FY2016. Below is a chart showing the expenses and the income from operations for the previous two years.

	FY2017	FY2016
<b>Expenses excluding Depreciation</b>	\$169,117	\$160,684
<b>Income (Loss) from Operations</b>	\$19,691	\$8,053

## BUDGET ANALYSIS

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In reviewing the budget to actual analysis of the FY2017 financial audit, sales revenue did not meet the budgeted projections for the year. The board made budget amendments throughout the year to increase sales and adjust expenses. The below chart shows the final budget to actual amounts and the variances.

	FY2017 Budget Projections	FY2017 Actual Amounts	Variance
<b>Sales</b>	\$784,750	\$760,893	<b>(\$23,857)</b>
<b>Total Operating Expenses including Capital</b>	\$220,650	\$186,336	\$34,314

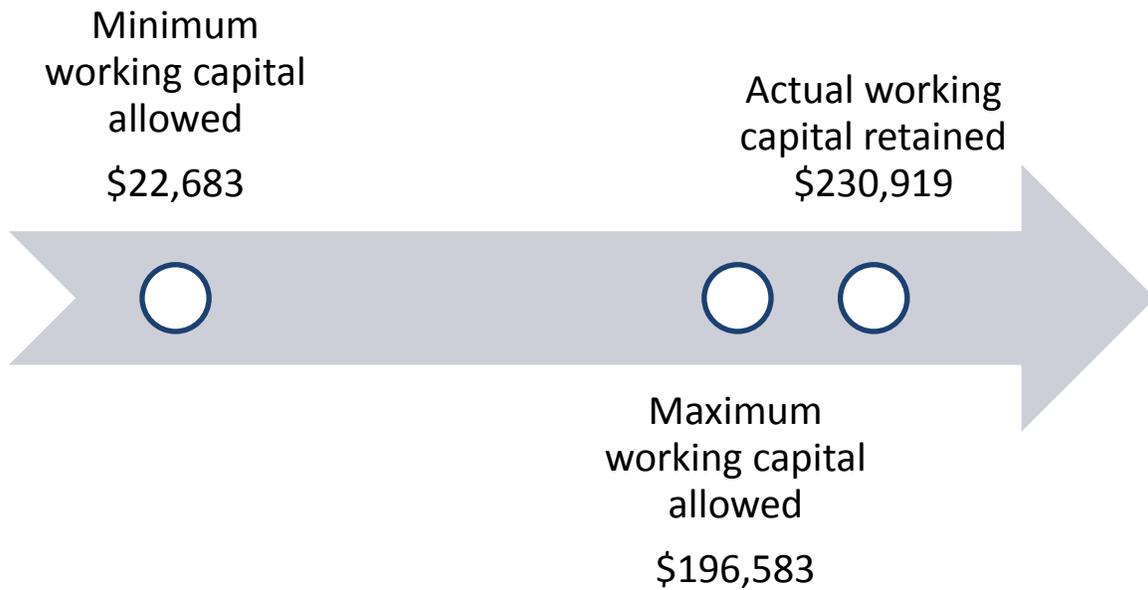
## WORKING CAPITAL

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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 Greene County ABC Board is allowed to maintain a minimum working capital of \$22,683 and a maximum working capital of \$196,583. The actual working capital the board has retained is \$230,919. The board has obtained approval from the appointing authority allowing the excess to be retained for a capital improvements plan.

The NC ABC Commission has set a working capital goal for boards with gross sales less than \$1.5M an amount equal to four months of sales revenue. The board's actual working capital has exceeded 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, the Town of Tabor City, and Columbus County.

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. 1935-493 requires the board to distribute quarterly the following net profits:

- Twenty percent (20%) of the Snow Hill store profit to the Snow Hill General Fund
- Eighty percent (80%) to the Greene County General Fund

Revenues Less Taxes and Cost of Sales FY2017	
Sales	\$760,628
Excise Tax	\$168,255
Rehabilitation Tax	\$2,623
<b>Net Sales</b>	<b>\$589,750</b>
Cost of Liquors	\$394,165
<b>Gross Profit</b>	<b>\$195,585</b>

	FY2017 Required Distribution	FY2017 Actual Distributions
<b>Gross Profit (Taken from Above)</b>	\$195,585	
<b>Total Operating Expenses</b>	\$176,159	
<b>Income from Operations</b>	\$19,691	
<b>Income Before Distributions</b>	\$19,773	
<b>3 ½% Minimum Distribution</b>	\$22,253	Total - \$19,773
<ul style="list-style-type: none"> <li>• <b>20% to Snow Hill General Fund</b></li> <li>• <b>80% to Greene County General Fund</b></li> </ul>	<ul style="list-style-type: none"> <li>• \$4,451 to the Town of Snow Hill General Fund (20%)</li> <li>• \$17,802 to the Green County General Fund (80%)</li> </ul>	<ul style="list-style-type: none"> <li>• \$2,068 to the Town of Snow Hill General Fund (20%)</li> <li>• \$15,000 to the Greene County General Fund (80%)</li> </ul>
<b>Law Enforcement (5%)</b>	\$124	\$ -
<b>Alcohol Education (7%)</b>	\$ -	\$ -

Although there is an approval from the Greene County Commissioners allowing the board to distribute annually, there is not an approval from the Town of Snow Hill.

A contract between the Greene County ABC Board and the Greene County Sheriff's Department is in effect and requires the board to distribute at least five percent (5%) in quarterly installments if profits are generated. In addition to the law enforcement requirement, the board is required to expend at least seven percent (7%) towards alcohol education or rehabilitation purposes. The Greene County ABC Board did not distribute towards law enforcement or alcohol education in FY2017.

## FINANCIAL ANALYSIS RECOMMENDATIONS

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**Recommendation #1:** *To increase sales, consider effective practices to generate more revenue such as:*

- *Partnering with distilleries to showcase product as long as it meets the NC ABC Commission's promotion requirements*
- *Creating recipe cards, displays, and other marketing techniques to further enhance customer shopping experience*
- *Borrowing common marketing strategies from suppliers and other boards of best practices in shelf management, customer service, and inventory management*
- *Contacting neighboring systems to inquire about selling off discontinued or slow-moving products or ask for a price reduction from the NC ABC Commission.*

**Recommendation #2:** *Consider consolidating the two older stores into one modernized self-service to reduce expenses and to increase overall sales profit.*

**Required Action #1:** *Begin establishing a plan when the board exceeds the working capital limitations. Any excess is required to be distributed to the appointing authorities following the distribution schedules. The board is able to seek approval from the appointing authority to set up a fund for a specific capital improvement purpose.*

**Required Action #2:** *Request an approval from the Town of Snow Hill allowing the board to distribute annually.*

**Required Action #3:** *All ABC Boards are required to operate within a balanced budget. When actual sales have exceeded the budget and expenses have not met budgeted amounts, the board is required to adopt a budget amendment to satisfy this requirement. 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."*

## STORE APPEARANCE

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The ABC Board Auditor visited both store locations to evaluate store appearance. Since the initial performance audit in 2012, both locations have been updated. Both locations were clean, neat, and clutter-free. A shelf management system has been utilized for the self-service location. The system clearly defines areas for efficient product placements with limited shelf space.

***Additional recommendations that would create a greater shopping experience and increase sales are found under Recommendation #1.***

## OPERATINGAL AND ADMINISTRATIVE COMPLIANCE

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- While inspecting the store, the ABC Auditor randomly selected approximately forty items to determine if uniform pricing is displayed on the shelves. Of those selected, all were correct.
- The board has adopted an employee manual since the initial performance audit and a copy has been forwarded to the NC ABC Commission. However, in reviewing the manual specific subjects were not specifically addressed, such as selling to an underage or intoxicated person.

***Required Action #4: Update the employee manual to the specifics to the subjects as indicated in the finding. Each ABC Board is encouraged to model their personnel policies and procedures after those adopted by the county or municipality in which they operate (NCAC 15A .1006 (b)). Prior to adoption, submit the policies to the NC ABC Commission for approval.***

- Board member appointment dates have been updated with the NC ABC Commission. However, board members who have been reappointment have not completed the required ethics training.

***Required Action #5: Have all reappointed board members complete the required ethics training. G.S. 18B-706 (b) states, "Each member of a local board shall receive a minimum of two hours of ethics education within 12 months after initial appointment to the office and again within 12 months after each subsequent appointment to the office. The ethics education shall cover laws and principles that govern conflicts of interest and ethical standards of conduct for local ABC boards."***

## **ADDITIONAL NOTES**

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The Greene County ABC Board has not responded to the performance audit required action steps. The NC ABC Commission strongly encourages the board to implement the required action steps to ensure compliance with the NC ABC General Statutes and the NC ABC Commission rules.