

# Lincolnton ABC Board

## Performance Audit Report



Alcoholic Beverage Control Commission  
400 East Tryon Road, Raleigh, NC 27610  
p: 919-779-0700 | f: 919-661-5927 | <http://abc.nc.gov>



**ABC**  
COMMISSION  
NORTH CAROLINA

# TABLE OF CONTENTS

---

ABC Commission Statement.....	3
Objective, Purpose, and Scope.....	4
Performance Standards and Findings.....	5



# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

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

COMMISSIONER:  
Norman A. Mitchell, Sr.  
Charlotte

ADMINISTRATOR:  
Agnes C. Stevens

LOCATION:  
400 East Tryon Road  
Raleigh NC 27610

MAILING:  
4307 Mail Service Center  
Raleigh NC 27699-4307

PHONE: (919) 779-0700  
<http://abc.nc.gov/>

December 12, 2018

Mike Owen  
Chairman  
Lincolnton ABC Board  
105 Stanford Rd.  
Lincolnton, NC 28092

Dear Chairman Owen,

On the following pages you will find the second performance audit report conducted by the staff of the ABC Commission reviewing the operations of the Lincolnton ABC Board.

The report consists of an executive summary, an overview of the objective, purpose and scope, and a digest of your board's performance standards and related findings. Included in the findings are recommendations for action on the part of your board.

I encourage you to review the report and let me know if you have any questions or require assistance in implementing any of the recommendations.

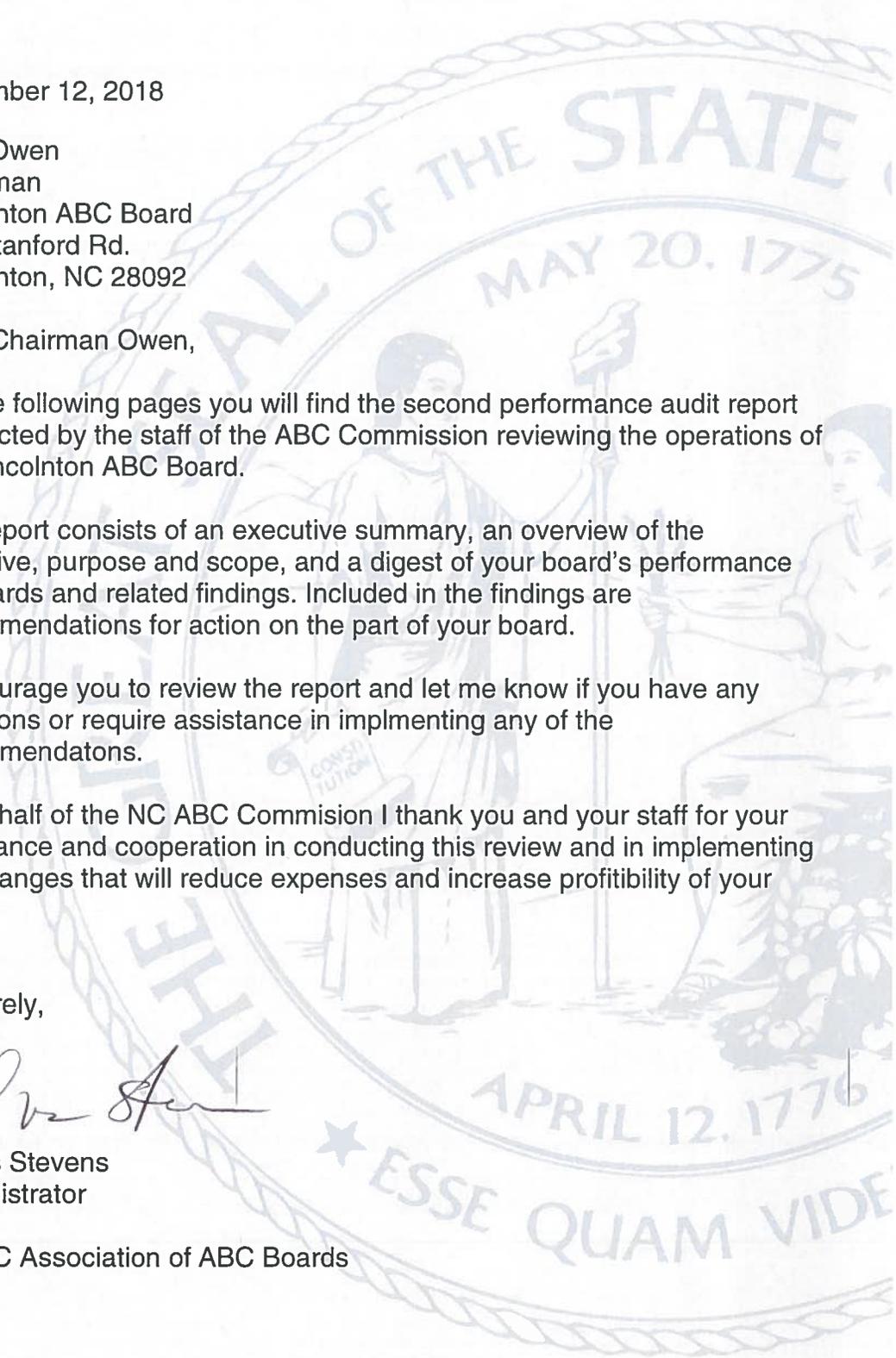
On behalf of the NC ABC Commission I thank you and your staff for your assistance and cooperation in conducting this review and in implementing the changes that will reduce expenses and increase profitability of your board.

Sincerely,

A handwritten signature in black ink, appearing to read "Agnes Stevens".

Agnes Stevens  
Administrator

Cc: NC 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 FY2017, the Lincoln ABC Board had a profit percentage to sales of 1.3%, a 0.79% decrease over FY2016. In FY2016, the Lincoln ABC Board had a profit percentage to sales of 2.09%. In the initial performance audit of FY2014, the ABC Board had a profit percentage to sales of 3.87%. The ABC Commission profit percentage to sales standard for ABC Boards with gross sales between \$2M and \$10M is targeted at 5% or higher. Thus, the Lincoln ABC Board did not meet the targeted profit percentage.

The operating cost ratio for Lincoln ABC Board was 0.87. The ABC Commission standard for ABC Boards with one or two stores with mixed beverage sales is less than 0.73. Thus, the Lincoln ABC Board did not meet the standard.

Lincoln ABC Board's operating expenses increased 12.7% over FY2016. The income from operations decreased 34.2% 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	\$558,898	\$495,818	12.7%
Income from Operations	\$35,813	\$54,408	-34.2%

## BUDGET ANALYSIS

---

In reviewing the budget to actual analysis of the FY2017 financial audit, sales revenues were below budgeted projections by 1.5%. Although overall expenses were within budget for the same time period, specific line items exceeded budgeted projections. The below chart shows the final budget to actual amounts and the variances.

	FY2017 Budget Projections	FY2017 Actual	Variance \$	Variance %
Sales	\$2,785,000	\$2,742,727	(\$42,273)	-1.5%
Total Operating Expenses including Capital Outlay	\$2,733,500	\$2,660,691	\$72,809	2.7%

**REQUIRED ACTION #1: 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

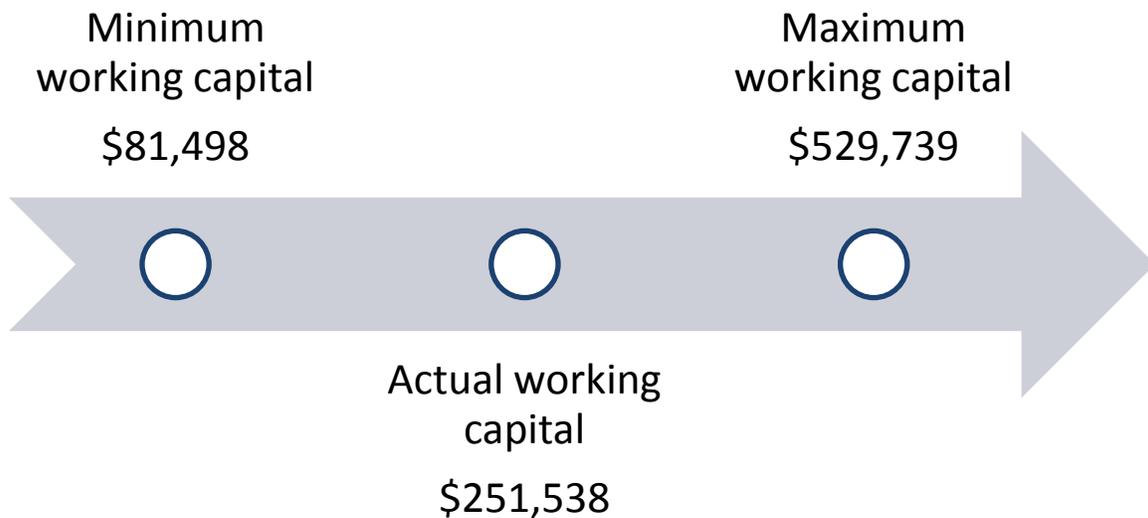
---

*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 Lincolnton ABC Board is allowed to maintain a minimum working capital of \$81,498 and a maximum working capital of \$529,739. The actual working capital the board has retained in FY2017 is \$251,538.

*Note: The board's financial audit of FY2017 incorrectly calculates the maximum working capital calculation being \$706,319 equivalent to four months gross sales revenue.*

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, Lincoln County and the Town of Lincolnton.

G.S. 18B-805 (c) (2) and (3) requires the board to distribute quarterly at least five percent of profits to law enforcement and at least seven percent (7%) of profits toward alcohol education or rehabilitation. Remaining profits are to be distributed as follows:

- Fifteen percent (15%) to the Lincoln County General Fund
- Eighty-five percent (85%) to the Town of Lincolnton General Fund

Revenues Less Taxes and Cost of Sales FY2017	
Sales (Retail and Mixed Beverage)	\$2,744,937
Excise Tax	\$600,624
Mixed Beverage Tax Combined	\$15,571
Rehabilitation Tax	\$9,786
<b>Net Sales</b>	<b>\$2,118,956</b>
Cost of Liquor Sold	\$1,473,698
<b>Gross Profit</b>	<b>\$645,257</b>

	FY2017 Calculations	Actual Distributions
<b>Gross Profit (Taken from Above)</b>	\$645,257	
<b>Total Operating Expenses</b>	\$609,445	
<b>Income from Operations</b>	\$35,813	
<b>Income (Loss) Before Distribution</b>	\$33,603	
<b>3 ½% Minimum Distribution</b>	\$80,193	\$ -
<b>Law Enforcement</b>	\$2,329	\$40,000
<b>Alcohol Education</b>	\$3,261	\$ -

The Lincolnton ABC Board did not make the minimum distributions as required by G.S. 18B-805. However, the board distributed \$40,000 toward law enforcement according to the contract with the Lincolnton Police Department.

**REQUIRED ACTION #2: Before distributing towards law enforcement or alcohol education, the 3 ½% minimum distributions should be dispersed following the distribution schedule in the enabling act. In addition to the minimum distribution law enforcement and alcohol education distributions must be made if profits are warranted.**

## 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 both store locations, a random sample of approximately 80 items was selected to determine if uniform pricing is displayed. 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.
- Board members are appointed by the Town of Lincolnton for three year appointment terms. Board members are required to complete the NC ABC Commission ethics training within one year of appointment or reappointment. One board member has since been reappointed and has not yet completed the required ethics training.

**REQUIRED ACTION #3: *As a reminder, board members who have been initially appointed and reappointed must complete the required ethics training within one year of appointment status.***

- Management continues to cross train employees in some areas to strengthen internal controls and provide assurance that operations will continue should the manager be unavailable.

**RECOMMENDATION #1: *Extend additional training opportunities to all staff in areas of customer service, Responsible Alcohol Sellers training, etc. The NC ABC Commission approved selected training courses in these areas.***

- The ABC Board has submitted an employee manual and a mixed beverage policy to the NC ABC Commission. However, specific policies do not coordinate with the practices of the ABC Board.

**REQUIRED ACTION #4: *Adopt a personnel manual and/or policies that incorporate board practices. The ABC Commission encourages ABC boards to model personnel policies and procedures after those of the appointing authority. However, certain ABC procedures must be clearly presented in the employee manual.***

- The initial performance audit of FY2014 recommended the board adopt a board credit card usage policy. A policy has not been adopted.

**REQUIRED ACTION #5: *To ensure stronger internal controls of credit card purchases, adopt a written credit card usage policy. Document procedures for the usage that includes:***

- ***Authorization of use***
- ***Specific items required for purchases***
- ***Acknowledgement of personal purchases and alcoholic beverages are prohibited***
- ***An itemized receipt is required for all transactions***
- ***Additional specifics may include:***
  - ***Maximum limit allowed on purchases prior to board approval***
  - ***Receipt submission is required within a minimum time frame***

*Other control parameters is to require someone other than the person purchasing reconcile the credit card statements and have a board member(s) review credit card statements on a regular basis.*

- In reviewing the board meeting minutes, procedures for entering into closed session were not followed.

**REQUIRED ACTION #6:** *Follow the closed session proceedings as indicated in the ABC Operations Manual. The procedure for entering into closed session is as follows:*

- 1. When in open session, a motion to enter into closed session stating the specific reason is required.*
- 2. A vote is taken and if approved, the board will enter the closed session to discuss the stated topic. No vote can be taken while in closed session.*
- 3. To re-enter open session from closed session, a vote is taken and if approved, open session is resumed.*

## SUBSEQUENT EVENTS

---

The below information was received after the performance audit draft was completed and references the financial audit of FY2018.

In FY2018, the Lincoln ABC Board had a profit percentage to sales of 6.7%, a 5.4% increase over FY2017. The operating cost ratio for the respective year is 0.68, a 0.19 decrease over FY2017.

See the below reference chart showing expenses and the income (loss) from operations of FY2018.

	FY2018
<b>Expenses less Depreciation</b>	\$502,059
<b>Income from Operations</b>	\$195,345

In FY2018, the Lincoln ABC Board made the minimum 3 ½% markup and bottle charge distribution totaling \$155,345, respectively to the city and county. Law enforcement distributions totaled \$40,000. The board did not distribute towards alcohol education for the fiscal year.

**REQUIRED ACTION:** *Follow the above required actions as it relates to the distribution requirements. ABC Boards are required to distribute at least 5% toward law enforcement and at least 7% toward alcohol education.*

## BUDGET ANALYSIS

---

In reviewing the budget to actual analysis of the FY2018 financial audit, the Lincoln ABC Board did not meet the original adopted budget. Amendments were not adopted to adjust sales and applicable expenses. Although total expenditures are within budgeted projections, some individual line items exceeded the budget.

	FY2018 Budget Projections	FY2018 Actual	Variance \$	Variance %
<b>Sales</b>	\$2,785,000	\$2,926,732	\$141,732	5.1%
<b>Total Expenditures</b>	\$2,733,500	\$2,680,830	\$52,670	2.0%

**REQUIRED ACTION:** *All ABC Boards are required to operate within a balanced budget. When sales projections exceed actual amounts, amend the budget to adjust for the increase. 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."*

## OTHER MATTERS

---

The Lincoln ABC Board did not submit a response to the NC ABC Commission as to the required actions or recommendations to be implemented. The NC ABC Commission strongly encourages compliance with the required actions as they are governed by the NC ABC General Statutes.