

Ramseur 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

CHAIRMAN:

A. D. "Zander" GUY, JR.

COMMISSIONER:

Norman A. Mitchell, Sr.
Charlotte

ADMINISTRATOR:

Agnes C. Stevens

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December 12, 2018

James Ray Albright
Chairman
Ramseur ABC Board
104 Weatherly Square
Ramseur, NC 27316

Dear Chairman Albright,

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

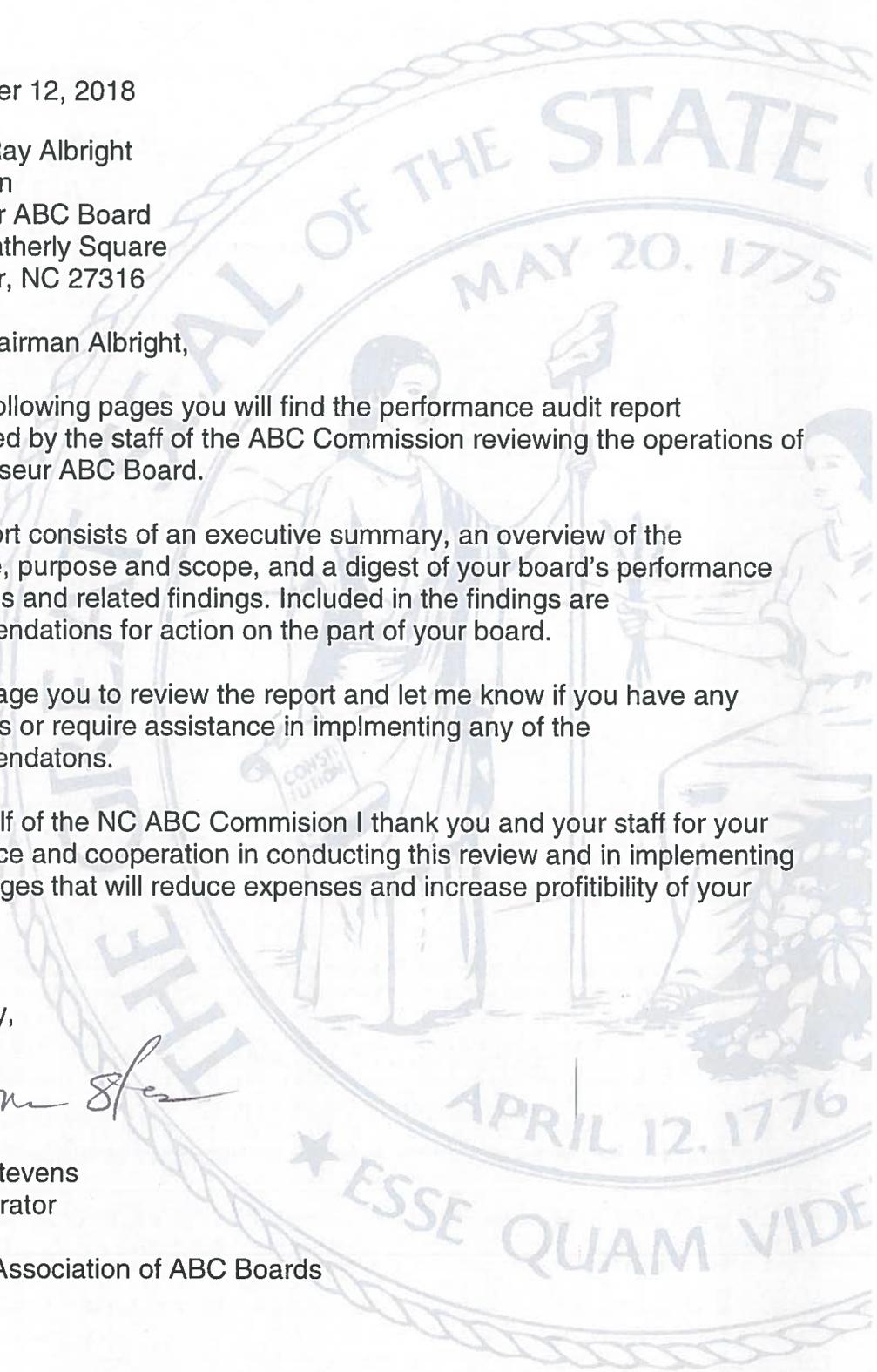
I encourage you to review the report and let me know if you have any questions or require assistance in implementing any of the recommendations.

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,

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 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
- Visit the store(s)
- Interview key ABC board personnel

PROFIT PERCENTAGE TO SALES AND OPERATING COST RATIO

The Ramseur ABC Board opened an ABC store in May 2017 and thus financial statements are only available for May and June 2017. Performance standards are determined using the audited financial statements provided for the time period.

At the end of FY2017, the Ramseur ABC Board had a profit percentage to sales of -15.7%.

BUDGET ANALYSIS

The Ramseur ABC Board did not adopt a budget for the FY2017. However, the ABC Board adopted a budget for FY2018. The projected budget for FY2018 is as follows:

Sales (Retail and Mixed Beverage)	\$685,000
Taxes	\$157,550
Cost of Sales	\$349,800
Total Operating Expenses	\$177,650

As of March FY2018, the unaudited financial statements of the Ramseur ABC Board indicate that total sales are \$437,043. Cost of sales total \$167,082, 41% of total gross sales. The state's average cost of sales percentage is approximately 52% of total gross sales.

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 sales do not meet budget, budget amendments are required.*

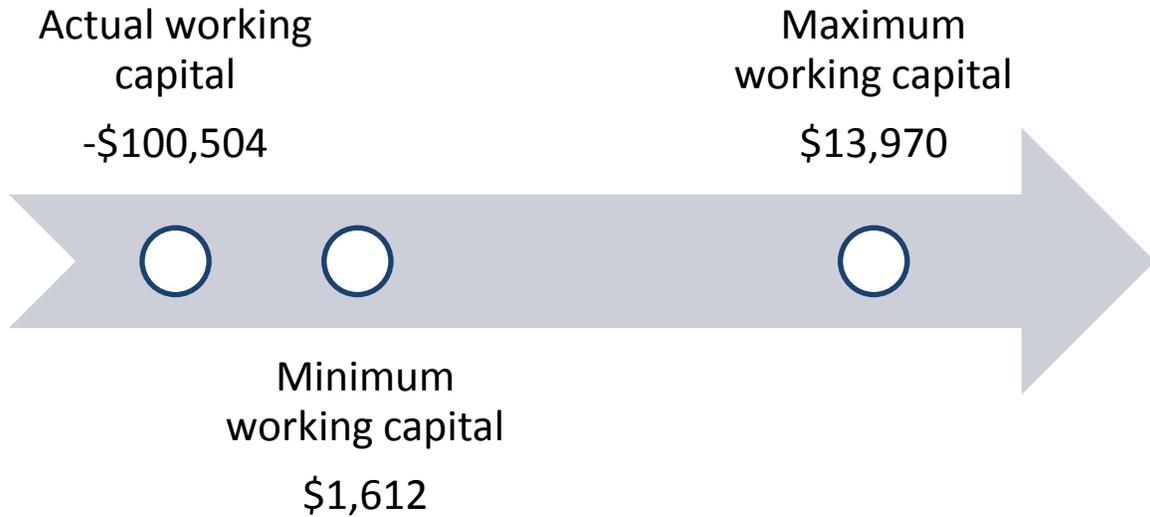
REQUIRED ACTION #2: *With the cost of sales totals lower than the state's average cost of sales, it indicates a potential accounting error. If so, arrangement must be made to correct before the current fiscal year ends.*

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 Ramseur ABC Board is allowed to maintain a minimum working capital of \$1,612 and a maximum working capital of \$13,970. The actual working capital the board has retained in FY2017 is -\$100,504.

The NC ABC Commission has set a working capital standard for boards with gross sales less than \$1.5M to four months of sales revenue.



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, Randolph County and the Town of Ramseur.

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 to the Town of Ramseur.

Revenues Less Taxes and Cost of Sales FY2017	
Sales (Retail and Mixed Beverage)	\$54,052
Excise Tax	\$11,936
Rehabilitation Tax	\$205
Net Sales	\$41,911
Cost of Liquor Sold	\$26,803
Gross Profit	\$15,108
Total Operating Expenses	\$23,604
Loss from Operations	(\$8,496)

Because the board did not make sufficient profits for the remaining FY2017, they were exempt from the minimum distributions as required by G.S. 18B-805.

A contract between the Ramseur ABC Board and the Ramseur 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. The board has not distributed toward law enforcement nor alcohol education.

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 for 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**
- **Taking advantage of Special Purchase Allowance (SPAs) or the buy-in process to provide variety within the store at a reduce cost while increase the profit margin.**

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 consumer loyal 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. Made-in-North Carolina selections is available in a designated area and are within their brand category.

OPERATIONAL AND ADMINISTRATIVE COMPLIANCE

- While inspecting the store, a random sample was collected to determine if uniform pricing is displayed on the shelves. Of those selected, one was incorrect.

REQUIRED ACTION #3: *Conduct a routine check of shelf prices along with the register to ensure accuracy. All prices must match what is in the register, the shelf, and in the NC Liquor Quarterly, and/or memorandums. Refer to the ABC Commission's website to verify product pricing.*

- 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 meeting minutes are available and provide a detailed description of what transpired. However, in reviewing minutes, the approval of salary adjustments is not represented.

REQUIRED ACTION #4: *The board meeting minutes must accurately reflect what has transpired including specific payroll adjustments and the board's approval.*

- The general manager serves as the finance officer for the board. The NC ABC Commission granted a waiver to the board for a period of three years or when the board operates two stores.
- Before fieldwork began, operational and administrative policies were not submitted to the NC ABC Commission. However, the board has since submitted copies of adopted policies.

REQUIRED ACTION #5: *As a reminder, submit policies to the NC ABC Commission prior to adoption. NCAC 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."*

- In reviewing policies within the employee handbook, specific policies are not practiced.

REQUIRED ACTION #6: *Update the employee manual to reflect current operational practices. Once updated and approved, forward policy changes to employees and have an acknowledgement of receipt to be placed within personnel records.*

- The board has not adopted a travel policy that conforms to the NC Office of State Budget and Management or the Town of Ramseur.

REQUIRED ACTION #7: *Seek approval from the town allowing the board to adopt the town's policy. Written approval must be submitted annually. The board can also choose to adopt the state's travel policy. The NC ABC Commission will provide copies of the state's travel policies to all ABC Boards if needed. G.S. 18B-700 (g2) states that "the local board adopts a travel policy that conforms to the travel policy of the appointing authority and such policy is approved*

by the appointing authority. The local board shall annually provide the appointing authority's written confirmation of such approval to the Commission and a copy of the travel policy authorized by the appointing authority."

- The board has a credit card for purchasing store and office supplies. A credit card policy has been adopted by the board. However, additional information should be addressed to reflect personal purchases and alcohol purchases prohibited.

RECOMMENDATION #2: Include additional language regarding personal purchases are prohibited and alcohol purchases are prohibited outside the product knowledge/sampling program.

- Liquor and miscellaneous purchases, are approved in advance by the general manager/finance officer. However, the pre-audit certificate is not found on the orders.

REQUIRED ACTION #8: Place the pre-audit certificate with the finance officer's signature on the orders before the transaction occurs. G.S. 18B-702 (m) state, "...the contract, agreement, or purchase order shall include on its face a certificate stating that the instrument has been pre-audited to assure compliance."

SUBSEQUENT EVENTS

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

In FY2018, the Ramseur ABC Board had a profit percentage to sales of -2.1% while the operating cost ratio is 1.01.

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

	FY2018
Expenses less Depreciation	\$134,792
Loss from Operations	(\$11,679)

In FY2018, the Ramseur ABC Board did not distribute the minimum 3 ½% markup and bottle charge to the county. The board began operations in May 2017 and has not generated sufficient profits to distribute toward the minimum requirements as outlined in G.S. 18B-805.

BUDGET ANALYSIS

In reviewing the budget to actual analysis of the FY2018 financial audit, the Ramseur ABC Board did not meet the original adopted budget. Amendments were 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 %
Sales	\$560,000	\$552,487	(\$7,513)	-1.3%
Total Expenditures	\$617,500	\$588,811	\$28,689	4.9%

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 Ramseur 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 the compliance with the required actions as they are governed by the NC ABC General Statutes.