

Tabor City 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:
MICHAEL C. HERRING
West Jefferson

ADMINISTRATOR:
ROBERT A. HAMILTON

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/>

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

June 18, 2018

Tabor City ABC Board
Mr. W. Bernice Gerald, Chairman
P.O. Box 496
Tabor City, NC 28463

Dear Chairman Gerald,

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,

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 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

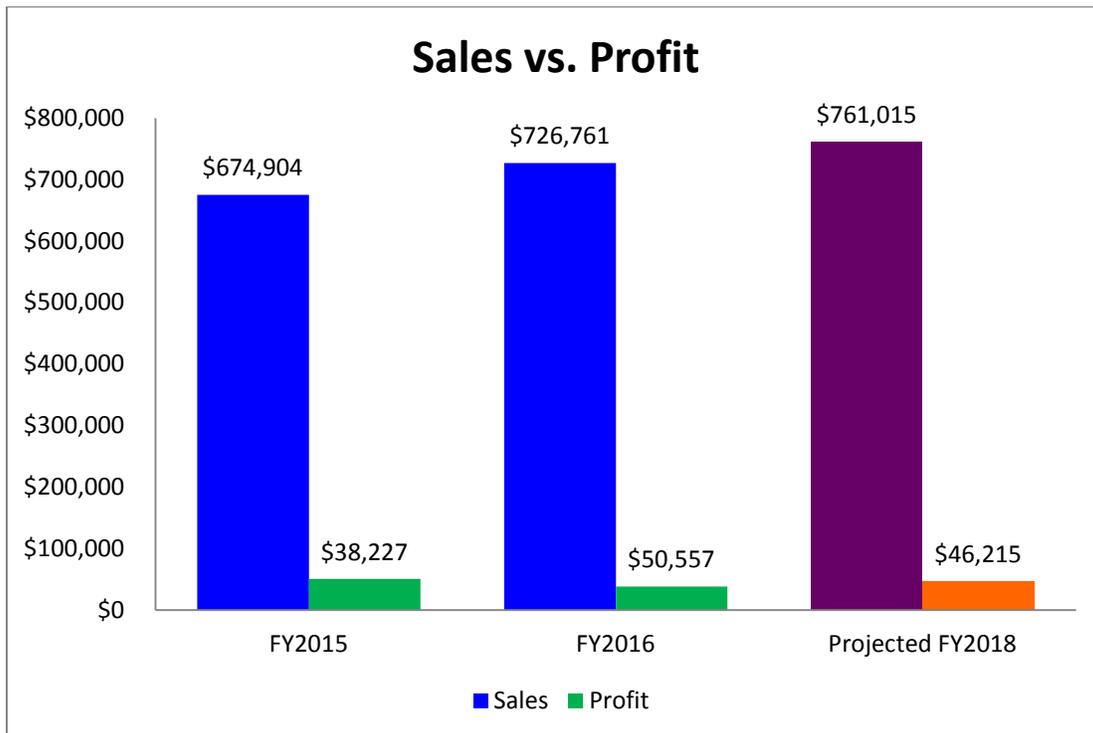
The initial round of performance audits for the local ABC Boards concluded in 2016 and provided a comprehensive overview of the operations of the local boards. The follow-up round of performance audits now under way is designed to provide local boards with information that targets specific areas for 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 ANALYSES

In FY2016, the Tabor City ABC Board had a profit percentage to sales of 6.96%, a 1.3% increase over FY2015. In FY2015, the Tabor City ABC Board had a profit percentage to sales of 5.66%. The ABC Commission profit percentage to sales standards for ABC Boards with gross sales less than \$2M is targeted at 5% or higher. Thus, the Tabor City ABC Board met the targeted percentage.

The operating cost ratio for Tabor City was 0.68 in FY2016. The ABC Commission standard operating cost ratio for ABC boards with one or two stores without mixed beverage sales is less than 0.85. Thus, the Tabor City ABC Board has met the standard.

Below is a chart analyzing sales for two fiscal years and sales projections for FY2018.



Tabor City’s overall expenses increased 0.4% since FY2015. Below is a chart showing the expenses and the income from operations of the previous two years.

	FY2016	FY2015
Expenses excluding Depreciation	\$117,481	\$116,007
Income from Operations	\$50,557	\$38,227

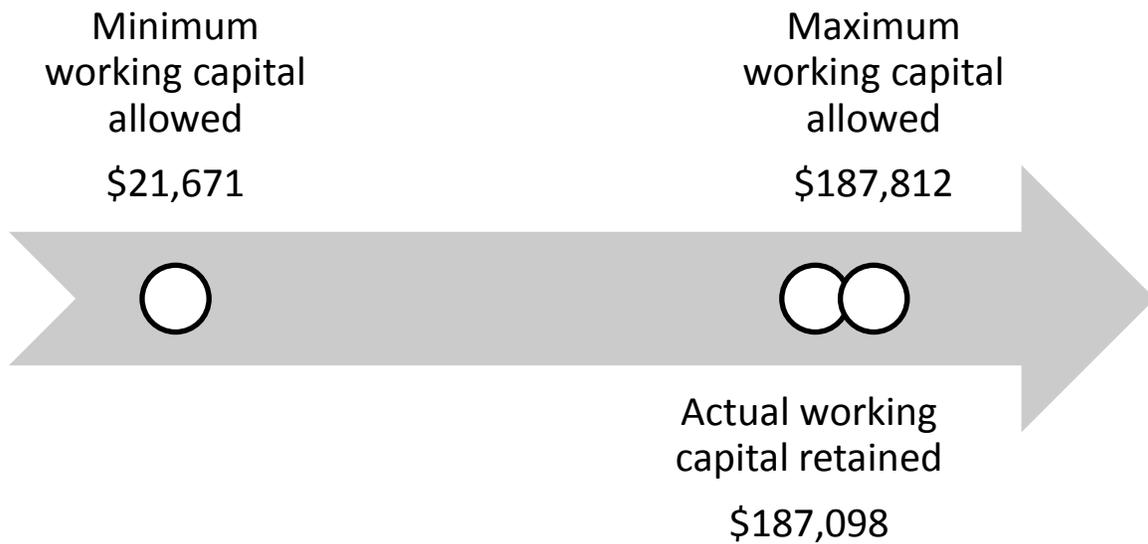
In analyzing the FY2016 budget with the actual sales and expenses, the Tabor City ABC Board exceeded budget projections in sales and expenses. Actual sales exceeded projections by 17.2%.

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 Tabor City ABC Board is allowed to set a minimum working capital of \$21,671 and a maximum working capital of \$187,812. The actual working capital the board has retained is \$187,098.

The NC ABC Commission has set a working capital and efficiency 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 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, the Town of Tabor City, and Columbus County.

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

S.L. 1967-540 requires the board to distribute the following net profits:

- Five percent (5%) to the Tabor City General Fund for the Fire Department
- Fifty percent (50%) to the Tabor City General Fund for any public purpose
- Forty-five percent (45%) to the Columbus County General Fund to be allocated equally to the board of education of any school unit in which an ABC store is located.

Revenues Less Taxes and Cost of Sales FY2016	
Sales	\$726,761
Excise Tax	\$163,326
Rehabilitation Tax	\$2,922
Cost of Sales	\$390,751
Gross Profit on Sales	\$172,684

	FY2016 Required Distributions	Actual Distributions Made	Difference +/-
Gross Profit (Taken from above chart)	\$172,684		
Total Operating Expenses	\$122,127		
Income from Operations	\$50,557		
Law Enforcement (5%)	\$1,472	\$1,472	\$ -
Alcohol Education (7%)	\$2,061	\$ -	(\$2,061)
Required 3 ½% Minimum Distribution	\$21,636		
• Tabor City Fire Department (5%)	\$1,082	\$1,582	\$500
• Tabor City General Fund (50%)	\$10,818	\$15,823	\$5,005
• Columbus County General Fund (45%)	\$9,736	\$14,240	\$4,504
Total Profit Distribution	\$21,636	\$31,645	\$10,009

A law enforcement contract has been submitted to the NC ABC Commission. However, in reviewing the details, the wording of the contract goes against the specifics of the ABC statute requiring all ABC boards to distribute at least five (5%) toward law enforcement.

In addition to the law enforcement distribution requirement, the board is required to expend at least seven percent (7%) towards alcohol education or rehabilitation purposes. The Tabor City ABC Board has not distributed towards alcohol education and is required to do so in FY2017 if there are sufficient profits.

FINANCIAL ANALYSIS RECOMMENDATIONS

REQUIRED ACTION: *Begin establishing a plan when the board exceeds the working capital limitations. Because the analysis is based on historical data, it is projected that the working capital retained will exceed the maximum amount. Any excess is required to be distributed to the appointing authority 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: *Update the law enforcement contract to specify distributions will be made if profits are generated.*

REQUIRED ACTION: *Begin making distributions toward alcohol education purposes if there are sufficient profits. Contact the NC ABC Commission for additional resources to aide in alcohol education distributions efforts.*

REQUIRED ACTION: *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

The ABC Board Auditor visited the store to evaluate store appearance. The findings are as follows:

- The initial performance audit of 2012 stated the shelf management system being in place. However, the bottom shelves are inefficiently used.

RECOMMENDATION: *Incorporate the initial performance audit recommendations of 2014 for a more efficient shelf management system. Practices, at minimum, must follow the NC ABC Commission rule. Also, consider additional methods that would generate more revenue and provide customers an easier shopping experience. Additional methods are as follows:*

- *Placing products within designated and brand specific areas*
- *Aligning products by specific flavor and profit rather than product code number*
- *Utilizing end caps to highlight new, seasonal, and sale products on a rotating basis*

OPERATIONAL AND ADMINISTRATIVE COMPLIANCE

- While inspecting stores, the ABC Auditor randomly selected approximately twenty- seven product codes to determine if uniform pricing is displayed on the shelves. Of those product codes selected, one was incorrect.

REQUIRED ACTION: *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 within the NC Liquor Quarterly, and/or memorandums. Refer to the ABC Commission's website to verify product pricing.*

- Board member appointment dates have not been updated with the NC ABC Commission. According to the NC ABC Commission records, board members have not yet been reappointed.

REQUIRED ACTION: *Ask the appointing authority for current appointment dates for all board members. Once received, update the NC ABC Commission's website to include current appointment dates. 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."*

- 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, pertinent subjects were not included, such as employee job descriptions, Equal Employment Opportunity guidelines, etc. A sample employee manual has been forwarded to the board for review.

REQUIRED ACTION: *Update the employee manual to include the mandatory and pertinent 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)).*

- In reviewing orders placed, the pre-audit certificate has not been utilized; referencing the item is available in the budget.

REQUIRED ACTION: *All orders and purchases must be pre-audited by the finance officer before the transaction occurs. This method is indicated through the use of a pre-audit certificate stamped on all orders and signed by the finance officer. G.S. 18B-702 states, "No obligation may be incurred in a program, function, or activity accounted for in a fund included in the budget unless the budget includes an appropriation authorizing the obligation and an unencumbered balance remains in the appropriation sufficient to pay in the current fiscal year the sums obligated by the transaction for the current fiscal year...If an obligation is evidence by a contract or agreement requiring the payment of money, or by a purchase order for supplies and material, the contract, agreement, or purchase order shall include on its face a certificate stating that the instrument has been preaudited to assure compliance with this subsection."*

SUBSEQUENT EVENTS

The below information was received after the performance audit draft was completed and references the financial audit of FY2017.

In FY2017, the Tabor City ABC Board had a profit percentage of 7.0%, a 0.04% increase over FY2016. In the same year of FY2017, the operating cost ratio remained steady at 0.68. See the chart below showing the expenses and income (loss) from operations of the previous two years.

	FY2017	FY2016	Variance \$	Variance %
Expenses Less Depreciation	\$126,103	\$117,481	\$8,622	7.3%
Income (Loss) from Operations	\$55,247	\$50,557	\$4,690	9.3%

In FY2017, the Tabor City ABC Board made the required minimum 3 1/2% distribution plus additional distribution totaling \$32,036. Law enforcement distributions totaled \$16,980 and alcohol education distributions totaled \$2,772.

BUDGET TO ACTUAL ANALYSIS

In reviewing the budget to actual analysis of the FY2017 financial audit, sales revenues exceeded the budgeted projections for the year by 3.9%. The board did not make budget amendments to reflect the sales increase. Actual expenses exceeded the amended budget projections by 0.2% overall. Below is a chart showing the final budget to actual amounts and the variances.

	FY2017 Budget Projections	FY2017 Actual Amounts	Variance (\$)	Variance (%)
Sales	\$755,000	\$784,559	\$29,559	3.9%
Cost of Goods Sold	\$415,000	\$422,338	(\$7,338)	-1.7%
Total Operating Expenses including Capital Outlay	\$714,800	\$727,193	(\$12,393)	-1.7%

REQUIRED ACTION: *Monitor the budget closely to ensure that actual appropriations or expenditures have not exceeded budgeted projections. 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."*

ADDITIONAL NOTES

The Tabor City ABC Board has not responded to the performance audit required action steps except for the above noted corrective action. A follow up visit will be scheduled to verify if action steps have taken place on other required actions. The NC ABC Commission strongly encourages the board to implement the required action steps to ensure compliance with the NC ABC statutes and the NC ABC Commission rules.