

Tyrrell 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

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March 2, 2017

Tyrrell County ABC Board
Mr. Carl Willis, Chairman
PO Box 449
Columbia, NC 27925-0449

Dear Chairman Willis,

We are pleased to submit this second performance audit report on the Tyrrell 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 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. Please continue to complete the required actions that are noted within the report.

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 ANALYSIS

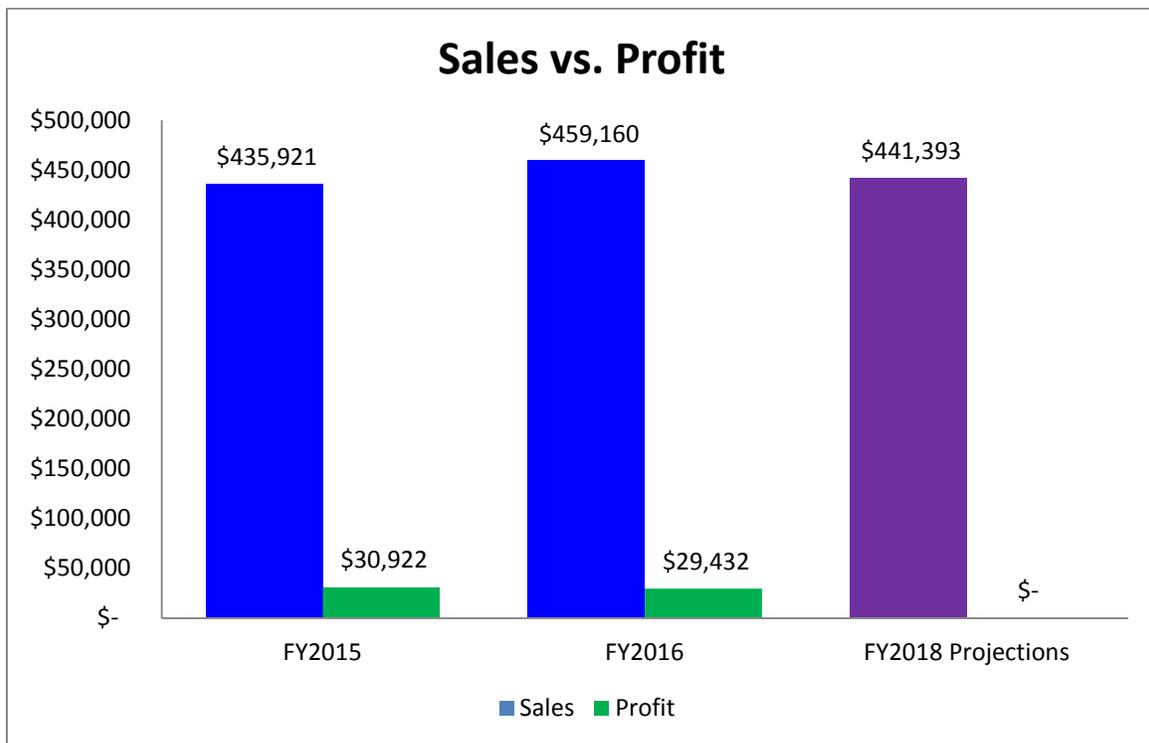
In FY2016, the Tyrrell County ABC Board had a profit percentage to sales of 6.41%, a 0.68% decrease since FY2015. In FY2015, the Tyrrell County ABC Board had a profit percentage to sales of 7.09%. The ABC Commission profit percentage to sales standards for ABC Boards with gross sales less than \$2M is targeted at 5% or higher. Thus, the Tyrrell County ABC Board met the targeted percentage.

The operating cost ratio for Tyrrell County was 0.64 in FY2016. The ABC Commission standard operating cost ratio for ABC Boards with one or two stores with mixed beverage sales is less than 0.73. Thus, the Tyrrell County ABC Board has met the standards.

Factors affecting sales and profit percentage include the following:

- Relocated the store in September 2012
- Sales increased approximately 40% since the store relocation in 2012

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



Tyrrell County's overall expenses increased 5.7% since FY2015. Below is a chart showing the expenses and the income from operations for the previous two years.

	FY2016	FY2015
Expenses excluding Depreciation	\$73,941	\$69,309
Income from Operations	\$29,432	\$30,922

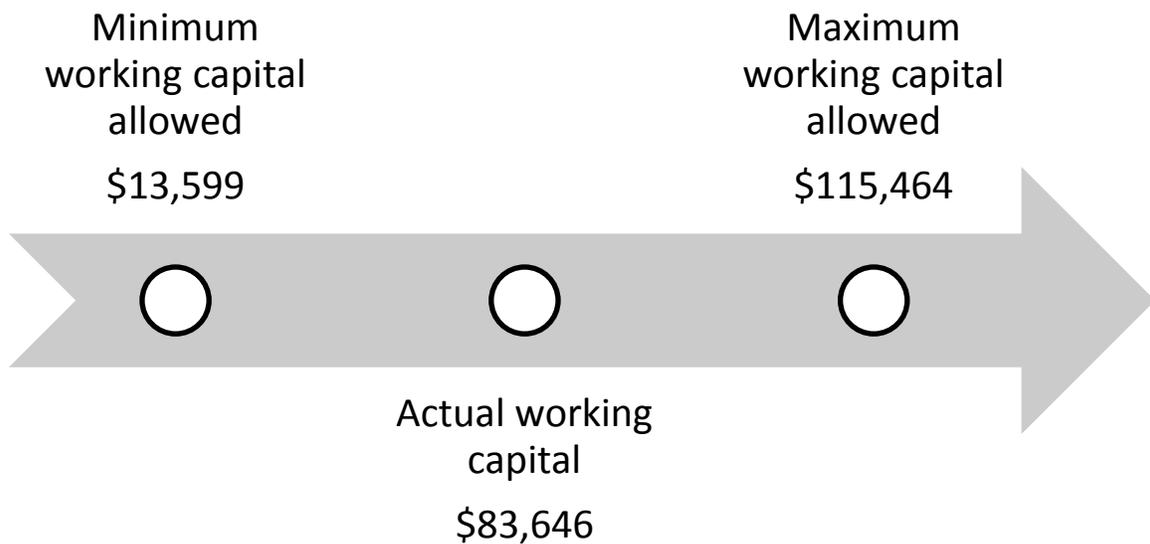
In analyzing the FY2016 budget with the actual sales and expenses, the Tyrrell County ABC Board did not meet sales budget projections.

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 Tyrrell County ABC Board is allowed to set a minimum working capital of \$13,599 and a maximum working capital of \$115,464. The actual working capital the board has retained is \$83,646.

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, and Tyrrell 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. 1937- requires the board to distribute the following net profits:

- Up to \$1,200 to the Board of Education to supplement teacher salaries
- Remainder to the Tyrrell County General Fund

Revenues Less Taxes and Cost of Sales FY2016	
Sales	\$459,160
Excise Tax	\$110,367
Mixed Beverage Tax (\$0.01 and \$0.05)	\$926
Rehabilitation Tax	\$1,475
Gross Profit on Sales	\$346,392

	FY2016 Required Distributions	Actual Distributions Made	Differences +/-
Gross Profit (Taken from above chart)	\$346,392		
Total Operating Expenses	\$85,698		
Income from Operations	\$29,432		
Income Before Distributions	\$23,807		
Law Enforcement (5%)	\$525	\$512	(\$13)
Alcohol Education (7%)	\$734	\$716	(\$18)
3 ½% Minimum Distribution	\$13,316	\$ -	(\$13,316)

The board did not make the minimum distribution to the appointing authority. The financial audit referenced a “mutual agreement between the Board and the County/Town that no distributions be made. It was agreed to put excess monies into a building fund to help with the construction of the new store.”¹

A copy of the most recent approval states that the board has been authorized to retain profits for the construction project for the period of July 1, 2014 to June 30, 2015. Since the period has ended, there have been no new approvals for the retention of profits granted to the ABC Board.

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.

¹ FY2016 Financial Audit for the Tyrrell County ABC Board, prepared by Thompson, Price, Scott, Adams & Co., P.A.

FINANCIAL ANALYSIS RECOMMENDATIONS

Required Action #1: *Either begin making distribution payments according to the distribution schedule in place or seek approval from the appointing authority asking to retain profits for a specified time period or until a certain level of working capital is attained.*

Corrective Action Taken: *The Tyrrell County ABC Board forwarded an approval from the appointing authority allowing the board to withhold the distribution payments until FY2026. A copy of the approval has been forwarded to the NC ABC Commission.*

Required Action #2: *Update the law enforcement contract to specify distributions will be made if profits are generated.*

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 that there was no shelf management system in place. Since then, improvements were made as a result of the relocation of the store. The current shelf management system follows guidelines specified in the NC ABC Commission rules and industry standards. 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 the largest size on the left followed by the smaller size options. A North Carolina product selection is available as well as co-mingled within their category.

OPERATIONAL AND ADMINISTRATIVE COMPLIANCE

- While inspecting the store, the ABC Auditor randomly selected approximately thirty-five product codes to determine if uniform pricing is displayed on the shelves. Of those product codes 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 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.

Required Action#7: 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.

- The board has submitted an employee manual. However, the manual is for county employees instead of board employees.

Required Action #8: Adopt an employee manual for board employees. The NC ABC Commission rules state, "Each local board shall establish policies and rules governing each of the following:

- 1) Initial employment of employees, including qualifications and requirements for new employees;***
- 2) Compensation and benefits***
- 3) Hours and days of work, holidays, vacation, sick leave and other matters pertaining to the conditions of employment;***
- 4) Promotion, transfer, demotion and suspension of employees;***
- 5) Separation or termination of employees;***
- 6) Granting of salary increases;***
- 7) Employee grievance procedures; and***
- 8) Any other programs or procedures as may be necessary to promote efficiency and to provide for a fair and reasonable system of personnel administration.***

A local board is encouraged to model its personnel policies and procedures after those adopted by the county or municipality in which it operates.

SUBSEQUENT EVENTS

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

In FY2017, the Tyrrell County ABC Board had a profit percentage of 5.7%, a 0.71% decrease over FY2016. In the same year of FY2017, the operating cost ratio increased to 0.67.

See chart below showing the expenses and income (loss) from operations of the previous two years.

	FY2017	FY2016	Percentage Change
Expenses less Depreciation	\$76,718	\$73,941	3.8%
Income (Loss) from Operations	\$26,364	\$29,462	-10.5%

In FY2017, the Tyrrell County ABC Board did not distribute the minimum 3 ½% markup tax and bottle charge to the county. However, the ABC Board received an approval from the appointing authority allowing the board to withhold distributions until FY2026 in order to repay debt acquired for the new store construction. The ABC Board distributed \$302 toward law enforcement and \$423 toward alcohol education.

BUDGET ANALYSIS

In reviewing the budget to actual analysis of the FY2017 financial audit, sales revenue did not meet the budget projections for the year. The board did not make budget amendments throughout the year to adjust sales appropriations and expenditures. Below is a chart showing the final budget to actual amounts and the variances.

	FY2017 Budget Projections	FY2017 Actual Amounts	Variance (\$)	Variance (%)
Sales	\$483,516	\$460,792	(\$22,724)	-4.7%
Cost of Sales	\$265,775	\$229,112	\$36,663	16.0%
Total Operating Expenses including Capital	\$101,151	\$87,624	\$13,527	15.4%

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 Tyrrell County ABC Board has not responded to the performance audit required action steps except for the above noted corrective action. 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.