

Alamance Municipal ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
400 East Tryon Road, Raleigh, NC 27610
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ABC
COMMISSION
NORTH CAROLINA

TABLE OF CONTENTS

ABC Commission Statement.....	3
Objective, Purpose, and Scope.....	4
Performance Standards and Findings.....	5
Alamance Municipal ABC Board Response.....	11



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

CHAIRMAN:

A. D. "Zander" GUY, JR.

August 30, 2019

COMMISSIONERS:

Norman A. Mitchell, Sr.
Charlotte

Karen Stout
Black Mountain

Chip Foushee
Chairman
Alamance Municipal ABC Board
603 W Harden St,
Graham, NC 27253

ADMINISTRATOR:

Agnes Stevens

Dear Chairman Foushee,

LOCATION:

400 East Tryon Road
Raleigh NC 27610

On the following pages you will find the performance audit report conducted earlier this year by the staff of the ABC Commission reviewing the operations of the Alamance Municipal ABC Board.

MAILING:

4307 Mail Service Center
Raleigh NC 27699-4307

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.

PHONE: (919) 779-0700

<http://abc.nc.gov/>

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 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
- Visit 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 FY2018, the Alamance Municipal ABC Board had a profit percentage to sales of 8.7%, a 1.8% increase over FY2017. The initial performance audit conducted in FY2012 concluded a profit percentage to sales of 4.93%. The NC ABC Commission profit percentage to sales for ABC Boards with gross sales greater than \$10M is 9%.

The operating cost ratio for the Alamance Municipal ABC Board was 0.63 in FY2019. The board's operating expenses decreased by 2.8% over FY2018. The NC ABC Commission standard for ABC boards with three or more stores with mixed beverage sales is less than 0.63.

Thus, the Alamance Municipal ABC Board did not meet the profitability standard but met the operating cost standard set by the NC ABC Commission. Below is a chart showing expenses and income from operations for the previous two years.

	FY2018	FY2017
Operating expenses excluding Depreciation	\$2,153,865	\$2,216,940
Income from Operations	\$3,431,346	\$3,164,789

Factors affecting profitability and cost include:

- The board has six retail locations with total gross sales of \$13,887,641.
- All retail locations are owned by the ABC board. Therefore, overhead expenses are reduced.
- Average ABC Board's cost of goods sold is between 52-54% per year. The Alamance-Municipal ABC Board's cost of goods sold is approximately 52%.
- Mixed beverage sales total approximately 15% of total gross sales.
- The closest neighboring ABC Board with a retail location, Orange County, is within a 5-mile radius of the Mebane store location.

BUDGET ANALYSIS

The NC ABC Commission audits and compares all ABC Board monthly sales with the submitted adopted budgets. In reviewing the budget to actual analysis of the FY2018 financial audit, sales revenues exceeded the budgeted projections by 5.9%. Although total operating expenses were below budgeted projections by 5.8%, total expenditures and distributions exceeded budgeted projections by 3.8%. Amendments were not adopted by the board.

The below chart shows the final budget to actual amounts and the variances in the financial audit of FY2018.

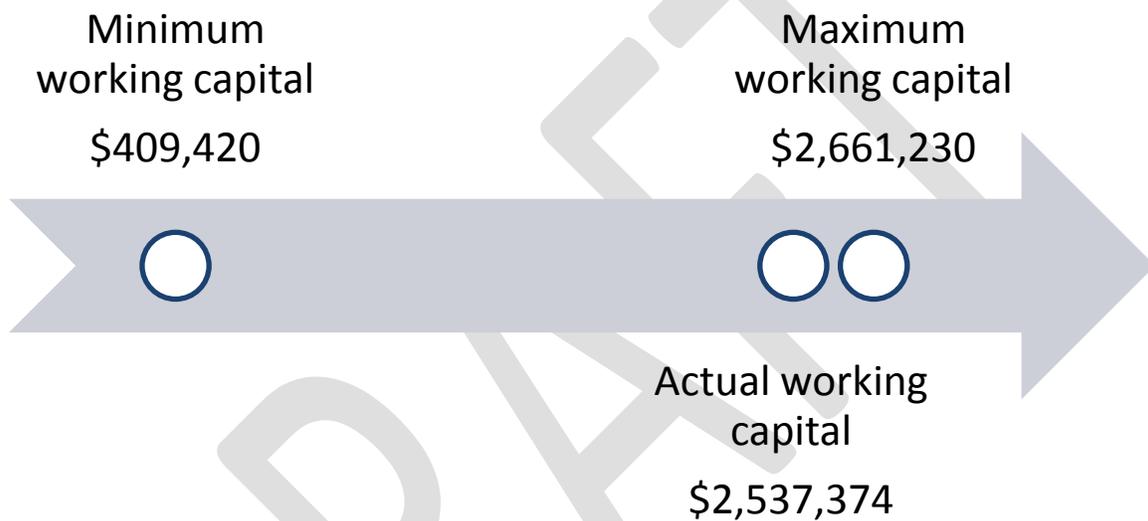
	FY2018 Budget Projections	FY2018 Actual	Variance \$	Variance %
Sales	\$13,109,300	\$13,887,641	\$778,341	5.9%
Total Operating Expenses	\$2,285,700	\$2,153,865	(\$131,835)	-5.8%
Total Expenditures and Distributions	\$12,839,500	\$13,690,056	\$850,556	6.6%

REQUIRED ACTION #1: *All ABC Boards are required to operate within a balanced budget. When sales projections exceed actual amounts by two percent (2%), a budget amendment is required to show how the additional funds will be spent. 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. NCAC 15A .0902 (b) states, A local board shall set aside its working capital requirements at not less than two weeks' average gross sales of the latest fiscal year. The NC ABC Commission has set a maximum working capital standard for boards with gross sales greater than \$1.5M but less than \$50M an amount equal to three months of sales revenue.

Based upon the existing rules, the Alamance Municipal ABC Board is required to maintain a minimum working capital of \$409,420 and a maximum working capital of \$2,661,230, equivalent to three months' gross sales. The board retained an actual working capital of \$2,537,374.



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, Gaston County, and the Town of Cramerton.

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. Multiple bills have been passed altering distribution schedules since the formation of the ABC system and the merged system. A resolution in 1991 was adopted and approved that determines the current distribution schedule being as follows:

- Eighty percent (80%) to the general funds of each municipality on the basis of population according to the federal census
- Twenty percent (20%) to be paid to the administrative schools within Alamance County

Revenues Less Taxes and Cost of Sales FY2018	
Sales (Retail and Mixed Beverage)	\$13,887,641
Excise Tax	\$2,991,368
Mixed Beverage Tax (Combined)	\$209,589
Rehabilitation Tax	\$41,764
Net Sales	\$10,644,920
Cost of Liquor Sold	\$7,213,574
Gross Profit on Sales	\$3,431,346

	FY2018 Minimum Distribution Calculation	FY2018 Actual Distribution	Variance \$	Variance %
Gross Profit (Taken from Above)	\$3,431,346			
Total Operating Expenses*	\$2,234,525			
Income from Operations	\$1,196,821			
Income before Distributions**	\$1,202,216			
3 ½ Minimum Distribution	\$395,283	\$922,473		
Law Enforcement	\$40,347	\$83,959	\$43,612	108%
Alcohol Education	\$56,485	\$73,464	\$16,979	30.1%

*Total operating expenses includes depreciation expenses. Depreciation expense is not calculated for budget purposes.

**Income before distributions considers interest income or expense.

The Alamance-Municipal ABC Board does not have in effect a law enforcement contract. However, the board partners with local law enforcement of the municipalities. In addition to the law enforcement distribution, the board is required to distribute at least seven percent (7%) towards alcohol education or rehabilitation purposes. The Alamance-Municipal made these distributions as required by G.S. 18B-805.

STORE APPEARANCE

The findings for store appearance are as follows:

- The required Fetal Alcohol Syndrome poster is displayed as required by G.S. 18B-808.
- Shelf management or shelf placement does not follow industry trends. Products are placed within code number order in most locations. Using this method allows for premium or high-priced product located on lower shelves.
- A North Carolina product selection is displayed separately within its own section and products are also displayed within their respective categories.

REQUIRED ACTION #2: *ABC Boards are required to have a shelf management plan that utilizes industry trends. Shelf management plans that reflect code number sequence does not qualify as a legitimate plan. Shelf management plans should reflect the following, but not limited to:*

- *Utilizing resources that would provide effective practices, i.e. shelf management, customer service, and inventory management, using the board's sales history*
- *Modernizing both locations to generate more traffic and to further enhance customer shopping experiences and increase profits.*

CORRECTIVE ACTION TAKEN: *The ABC Board will implement policies that will reflect the items stated in the NC ABC Commission rule.*

OPERATING AND ADMINISTRATIVE COMPLIANCE

- While inspecting stores during the fieldwork, the ABC Auditor randomly selected approximately seventy items to determine if uniform pricing is displayed on the shelves. Of those selected, two were 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.*

CORRECTIVE ACTION TAKEN: *Management has implemented practices and procedures that will ensure accurate pricing.*

- A law enforcement contract has not been established between the ABC Board and a law enforcement agency.

REQUIRED ACTION #4: *Adopt a law enforcement contract with an enforcement agency. ABC Boards are required to have an agreed upon law enforcement contract as required by ABC statute and may have agreements with more than one agency. G.S. 18B-501 (f) states, "Instead of hiring local ABC officers, a local board may contract to pay its enforcement funds to a sheriff's department, city police department or other local law-enforcement agency for enforcement of the ABC laws within the law-enforcement agency's territorial jurisdiction. Enforcement agreements may be made with more than one agency at the same time."*

CORRECTIVE ACTION TAKEN: *The board is updating the law enforcement contract as indicated in the ABC Board's response.*

- The initial performance audit indicated the board chairman receives a different level of compensation that exceeds the maximum limit of \$150 as required in the general statutes. An approval from the appointing authority has not been received by the NC ABC Commission. Remaining board members receive compensation in accordance with G.S. 18B-700 (g1).

REQUIRED ACTION #5: *Ask the appointing authority for a written authorization setting a different compensation amount for the chairman retroactive to the start of the increase in compensation. G.S. 18B-700 (g1) states, "A local board member shall receive compensation in an amount not to exceed on hundred fifty dollars (\$150.00) per board meeting unless a different level of monetary compensation is approved by the appointing authority. If a different level is approved by the appointing authority, the appointing authority shall notify the Commission of the approved level of compensation in writing."*

CORRECTIVE ACTION TAKEN: *The chairman's compensation has been reduced to that of the maximum amount of \$150.00.*

- In the initial performance audit conducted in FY2012, the findings instructed the board to complete an employee manual. Once approved, the board is required to forward to the NC ABC Commission for approval. The finding is still outstanding as of the current performance audit to date; the board has not completed and approved an employee manual. Additional policies, such as a mixed-beverage and travel policy have not been adopted.

REQUIRED ACTION #6: *Adopt a personnel manual and 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.*

REQUIRED ACTION #7: *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."*

CORRECTIVE ACTION TAKEN: *The board is updating board policies and procedures to reflect what is being practiced. Once completed, copies will be forwarded to the NC ABC Commission for review and approval.*

Alamance Municipal ABC Board

603 West Harden Street

Graham, North Carolina 27253

Telephone (336) 226-6882

Fax (336) 226-7093

Chip Foushee
Chairman

Larry Brooks
Executive Director

July 15th, 2019

ABC Commission North Carolina
Attention: Ms. Monique S. McLean
4307 Mail Service Center
Raleigh, NC. 27699-4307

Dear Ms. McLean

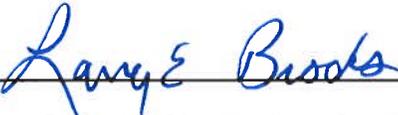
RE. Cycle Two of Performance Audit

We are responding to the above audit. The Board wishes to thank Ms. McLean and the ABC Commission for presenting the audit findings. The Board has reviewed the Performance Audit and have responses attached.

We have corrected, and are in the process of correcting all findings.

We appreciate your work on the audit and working with our employees. Our Board strives to make our system as efficient as possible and to maximize profits for the local appointing authority.

We appreciate the time and effort that was required by you to prepare the Performance Audit. Thanks again for the information that needs attention. Should you have any questions regarding any of the responses, please contact me.


Executive Director Larry Brooks

Item 1: Profit Percentage

With Alamance County and the areas surrounding experiencing higher unemployment, as well as other negative economic consequences similar to the entire country, our profit percentage has increased 3.77% in five years. Although our percentage is .03 less than what the NC ABC Commission suggests for Boards over \$10M. If we could get what is ordered from the State warehouse and not be shorted estimate 75 to 125 cases an order, we could increase profit.

We have reduced operating cost by installing LED lighting, changing the communication system, changing our stores accounting system and we are in the processed of changing our financial system.

As stated previously, we are proud and excited that our sales were \$778,341 over budget and that our expenses were \$131,835 under estimate, resulting in a net of \$850,556.

We do operate under a balanced budget. Salaries are another large factor of operating expense. A large percentage of our employees have significant longevity with the system. We must be competitive to keep and attract dedicated, reliable and professional employees. We have very little turnover.

Item 2: Shelf Management

We will adopt a shelf management plan to reflect items in Rule 15A.1708 shelf management.

Item 3: Items with wrong prices

Employees have been instructed to routinely check shelf prices with the registers. Employees have been instructed to conduct more frequent price checks to ensure prices are correct.

Item 4: Law Enforcement Contracts

Our Board has contracts with the Local Enforcement with the Cities of Burlington, Graham and Mebane. Our profits are required to be distributed to these law enforcement agencies based on population. For our fiscal year ending June 30th, 2019, we distributed \$83,959 for Law enforcement and \$73,464 Alcohol Education. We are in the process of having new contracts drafted to be signed by the police departments of the three Municipalities that are our appointing Board.

Item 5: Board Fees

The chairman's fee has been changed to one hundred fifty dollars (\$150.00) per month. All board members and chairman receive the same amount.

Item 6: Personnel Manual

When first contacted about the Performance audit, I stated that we were working to update this. I have three appointing municipalities and their policies are similar but different. We are trying to adopt local policies and procedures recommended by the ABC Commission and Local appointing Boards.

Item 7: Rules or Amendments

We will comply with NCAC 15A.1102. Local Rules