

Davidson 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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February 16, 2022

Davidson County ABC Board
Mr. Kenny Meredith, Chairman
12201 N. NC Highway 150
Suite 20
Winston-Salem, NC 27127

Chairman Meredith,

On the following pages, you will find the performance audit report conducted by the staff of the ABC Commission reviewing the operations of the Davidson County ABC Board. The report consists of an overview of the objectives & background summary, financial analysis and findings, and a summary of actions recommended based upon your board's performance and related findings. Additional considerations are listed as well to provide further guidance and enhance awareness to promote ABC board success.

I encourage you to review the report and let me know if you have any questions or require assistance in implementing any of the statute requirements, Commission rules, or other recommendations included. On behalf of the North Carolina ABC Commission, I thank you and your staff for your assistance and cooperation in conducting this periodic review. We appreciate the continued efforts by your board to comply with the performance standards, as well as the board's commitment to increase profitability and reduce expenses.

If we can be of assistance in the future, please do not hesitate to reach out to the Commission staff.

Respectfully,

Terrance Merriweather
Deputy Commissioner

cc: North Carolina Association of ABC Boards

OBJECTIVE, PURPOSE AND BACKGROUND INFORMATION

In addition to regular and special financial audits, G.S. 18B-705(a) authorizes the NC 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 audit's 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
- Verify compliance with Commission and Board policies
- Verify results of previous performance audit recommendations
- Review ABC Board annual independent financial audits
- Review ABC Board reporting and documentation reports
- Visit the store(s)
- Interview key ABC Board personnel

Davidson County ABC Board was organized under the provisions of General Statute 18B-601(b) and implemented by a County-wide election held in Davidson County on November 1, 2016. The first day of sales occurred on August 1, 2019. The County appointed three (3) individuals to serve on the Board to include a Chair.

The Davidson County ABC Board operates one (1) retail store with mixed beverage sales. The general manager is primarily responsible for overseeing the daily operations pertaining to the store including personnel management, inventory management, and various administrative functions. Store clerks are responsible for providing customer-friendly service, store upkeep, and stock maintenance.

This 2021 performance audit is the first audit for the Davidson County ABC Board. The Commission audit serves as a continuous way to provide local boards with information and best practices that target areas for improvement.



OPERATIONAL OBSERVATIONS, FINDINGS, REQUIRED ACTIONS & RECOMMENATIONS:

On Wednesday, May 26, 2021, ABC Board Auditor Quinn Woolard, visited the Davidson County ABC Board and interviewed Eric Sparks, General Manager. Below is a financial analysis followed by operation observations, findings, and recommendations related to the performance audit.

FINANCIAL ANALYSIS

PROFIT PERCENTAGE TO SALES & OPERATING COST RATIO

In fiscal year (FY) 2019-2020, the Davidson County Board had a profit percentage to sales of 13.82%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales greater than \$2M but less than \$10M is 6.5%. The Davidson County ABC Board's gross sales totaled \$2,814,285 and has already surpassed this previous gross sales total in FY 2020-2021.

The operating cost ratio for the Davidson County ABC Board was .39 in FY 2019-2020. The NC ABC Commission standard for ABC Boards with 1 or 2 stores and mixed beverage sales is .73 or less. The Davidson County ABC Board met and well exceeded this Commission standard.

Thus, the Davidson County ABC Board met the profitability and operating cost standards set by the NC ABC Commission. Below is a chart showing expenses and income from operations for fiscal year 2019-2020.

	FY2019-2020
Operating Expenses (excluding Depreciation)	\$264,863
Income from Operations	\$401,719

Factors affecting profitability and cost include:

- Surrounding towns within a fifteen (15) mile range with ABC stores include nine (9) Winston-Salem area stores, as well as Lewisville and Clemmons all operated under the Triad Municipal ABC Board.
- The ABC Board currently has a lease agreement that will begin increasing progressively near the end of 2022 (*currently the board is subleasing through Davidson County until late 2022*). For the FY 2022-2023 period, rental expense will increase by 45% over current category expense.

- An ABC Board’s average cost of goods sold (COGS) is between 52% & 54% per year. The Davidson County ABC Board’s COGS was approximately 53.11% in FY 2019-2020.
- *Mixed beverage sales total approximately 1.9% in FY 2019-2020.*

BUDGET ANALYSIS

	FY2019-2020 Budget Projections	FY2019-2020 Actual	Variance	Variance %
Sales	\$2,850,000	\$2,814,285	(\$35,715)	(1.3%)
Total Expenditures (to include Capital Outlay)	\$2,887,610	\$2,703,981	\$53,758	1.9%

In reviewing the budget to actual analysis of the FY2019-2020 financial audit, actual sales revenues were under the budgeted projections by 1.3%. Total operating expenses were below budget for the same period. The chart above shows the final budget to actual amounts and the appropriate positive or negative variances.

DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, and rehabilitation taxes. G.S. 18B-805(c)(2) requires the board to distribute at least five percent (5%) of applicable gross receipts to law enforcement and at least seven percent (7%) for alcohol education. *Before assigning these percentage distributions, G.S. 18B-805(c)(1) requires the board to first make a minimum quarterly distribution of the 3.5% markup & relevant bottle charges to certain county/municipal recipients.* Some of these specific recipients are designated by an official local enabling act (*and thus will vary*).

In FY 2019-2020, Davidson County ABC made distributions totaling \$117,200 (Davidson County received \$80,000 of this). The amount of \$636,233 in excise and other taxes were paid to the NC Department of Revenue (NCDOR), the NC Department of Health and Human Services (NCDHHS), and county commissioners of Davidson County.

The remaining profits are to be distributed as follows per the current local enabling act:

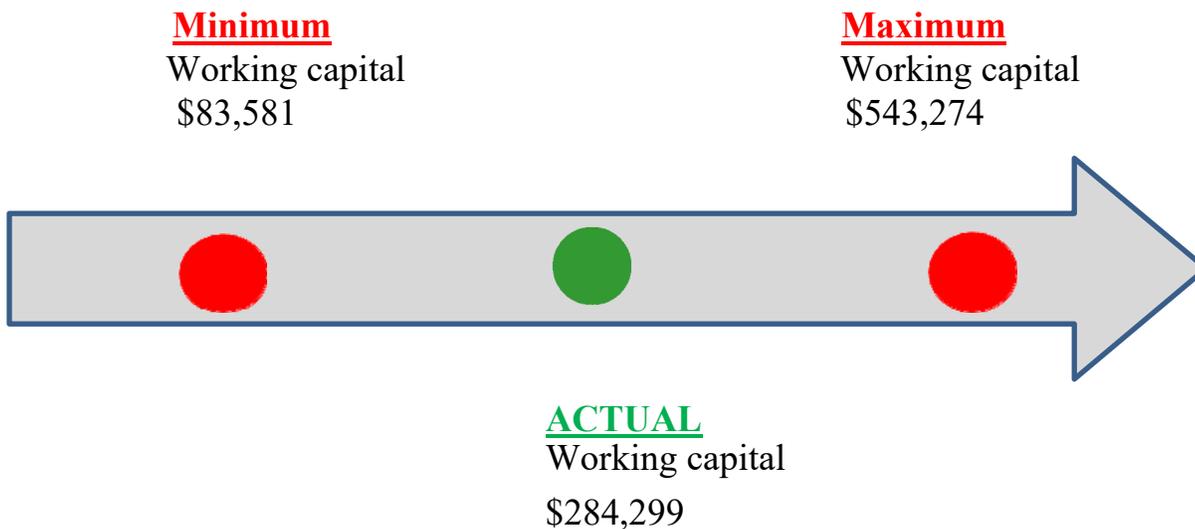
- One hundred percent (100%) to Davidson County General Fund

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. The NC ABC Commission has set a working capital standard for boards with annual gross sales more than \$1.5M but less than \$50M an amount equal to three (3) months of sales revenue.

Based upon the existing rules, as of June 30, 2020, the Davidson County ABC Board is required to maintain a minimum working capital of \$83,581 with a maximum working capital amount of \$543,274. The Davidson County ABC Board currently has a working capital balance of \$284,299 which falls within the Commission requirements for this section (*).

* FY 2019-2020 Working Capital graphic



Under 18B-805(d), with approval of the appointing authority for the board, the local board may also set aside a portion of the remaining gross receipts as a fund for specific capital improvements.

Davidson ABC board has been in a very good solvency position on working capital due to a current low operating cost ratio and is well meeting working capital requirements for the current fiscal year. The board has established a capital improvement fund not to exceed \$500,000, with no more than \$150,000 being accrued in any fiscal year. The specific purpose is planning for future expansion efforts due to the strong revenues of the current store. *NOTE: The Davidson County ABC Board currently carries no financed debt.*

PERSONNEL & POLICY, OPERATIONAL & ADMINISTRATIVE COMPLIANCE

- The board holds regular meetings the third Tuesday of each month at 3:00 pm, records regular meeting minutes, and provides public notification and awareness of these meetings. The board meeting minutes reviewed did not have a conflict-of-interest disclosure statement.
- Presently, the general manager also serves as the finance officer as required by G.S. 18B-702(j), and the board obtained approval from the Commission allowing this for up to three (3) years (effective through August 2022). However, one of the full-time employees has been trained to potentially assume the finance officer role to strengthen operations management and delegation of duties.
- The board has submitted a personnel manual and code of ethics policy. These items were not submitted to the Commission prior to their approval.
- The board is currently and routinely drafting checks with proper signatures included. As key oversight, one of the current board members will periodically verify and review bank and monthly reconciliations, with the board conducting general checks and balances on cash management.
- The Davidson County ABC Board holds regular meetings as required by G.S. 143, has appropriate copies of board meeting minutes, and has been providing sufficient public notifications.
- Board members have completed the required ethics training as required by G.S. 18B-706(b). The three-year term of the board chairman will expire in July 2021. If reappointment occurs, ethics training must be completed within one year of reappointment, as required by statute.
- Through June 2020, the Board had not been making quarterly distributions or remitting the mixed beverage tax to the Department of Health & Human Services (DHHS). Yet, both items have been corrected and are being paid in a timely manner, per review of financial statements at time of this performance audit.
- The mandatory alcohol education distribution goes for the benefit of the schools in connection with alcohol education to students. However, no documentation was able to be located from the recipient describing how the funds were spent.
- Law enforcement reports have been properly submitted online since April 2021 and a law enforcement contract is in place with Alcohol Law Enforcement (ALE) as of March 25, 2021. Prior to this date, no law enforcement contract was in effect, and as a result, no reports were available or had been submitted online to the Commission. The board had previously attempted to secure a contract with the Davidson County Sheriff's Office; unfortunately, the law enforcement agency declined to participate in an official contract with the board.
- All board members and general manager are bonded as required; board members and general manager compensation adhere properly to general statutes.
- The board offers extra service for its mixed beverage permittee customers by offering delivery of liquor orders, with an online system for submitting all orders.

STORE APPEARANCE & SHELF MANAGEMENT

The findings for store appearance are as follows:

- The store displayed the required Fetal Alcohol Syndrome poster required by G.S. 18B-808.
- North Carolina products have their own section as required by law but are also cross merchandised according to product category. Green North Carolina product tags are displayed on the shelves throughout the stores to help stimulate sales.
- Products are placed within the designated categories; premium products are found at eye-level or top shelf. Regular occurrences were found with various bottle sizes of the same products increasing appropriately from left to right. Bottles were fronted and dusted.
- Outside area surrounding the store is well-maintained and free of debris or trash.
- Security systems are in place and functional in all designated areas.
- Store clerks' interactions with customers are attentive, courteous, and all are eager to meet the needs of the customers.
- While inspecting the store, a random sample of 50 items was selected to determine if uniform pricing is displayed. Of those selected, all had the correct pricing.

RECOMMENDED ACTIONS (APPLICABLE PER STATUTE OR RULES)

- ABC Boards are required to operate within a balanced budget each fiscal year. Budget amendments must be submitted before any funds are transferred between accounts and utilized, occurring at the actual point of time an adjustment of funds is necessary. Ensure budget amendments are submitted to the ABC Commission as required per NCGS 18B-702(h).
- Any agencies receiving distributed funds from the ABC Board for the treatment of alcoholism or substance abuse, or alcohol education or substance abuse research must submit an annual report to the board describing how the funds were spent, as required by G.S.18B-805(h).
- Ensure all policies are submitted to the Commission prior to official board approval. NCAC Rule 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.”
- Board meeting minutes must have a conflict-of-interest disclosure statement, for proper adherence to G.S. 18B-201 (f)(k).
- Ensure unsaleable merchandise (breakage) reports are submitted to the Commission quarterly. NCAC Rule 15A .1701 requires quarterly reports be submitted for any unsaleable merchandise and retain original copies for three years.
- Law enforcement reports must be submitted online by the fifth (5th) business day of each month to the Commission per G.S. 18B-501(f1).
- All reappointed board members are required to complete ethics training within one (1) year of their reappointment per G.S. 18B-706(b).

ADDITIONAL CONSIDERATIONS

- Quarterly distributions of profits must occur per G.S. 18B-805(g), unless the applicable distribution recipients approve of distributions made otherwise periodically.
- The Board is encouraged to review financial statements monthly, comparing these with the annual budget forecast, and approving budget amendments with copies forwarded to the Commission whenever necessary.
- The Board should consider listing board member term expiration dates on board meeting minutes. This will allow high situational awareness for the board, and it serves to allow for efficient updates on communicating with the Commission.
- As applicable annually, the Board should be receiving the appointing authority's approval on travel policy and providing the Commission documentation of this approval and travel policy itself per G.S. 18B-700(g2). *If the board ever decided to instead adhere to the official state government travel policy, then the travel policy requirement would automatically be met and would not require annual approval.*
- The Board should consider drafting a telework policy if any employees will be allowed to work remotely for any reason (especially with COVID and other related medical scenarios).
- The Board can explore additional training opportunities periodically available through the ABC Commission as well as partnering with other ABC boards on specific areas such as best retail and marketing practices.



DAVIDSON COUNTY ABC BOARD
Post Office Box 358
Lexington, North Carolina 27293

Kenny Meredith, Chairman
Lori Clement
Sherry Piotti

July 20, 2021

Mr. Quinn Woolard
North Carolina ABC Commission
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Raleigh, NC 27699-4307

RE: Response to May 26, 2021 Performance Audit Report

Dear Mr. Woolard:

On behalf of the Davidson County ABC Board members and staff, I would like to thank you for taking the time during our June 15, 2021 Board meeting to speak with us about the May 26, 2021 Performance Audit of the Davidson County ABC Store. We will use your recommendations and comments to continue to improve our systems and procedures.

The Board and Store plan to put take the following actions in place to comply with the required actions from the Performance Audit Report:

- Complete budget amendments on a greater frequency and continue to submit the budget amendments to the ABC Commission
- Ensure that it receives an annual report from the Davidson County School System regarding how the funds for substance abuse and alcohol education are being spent; and,
- Ensure that all policies are submitted to the ABC Commission for review and approval at least 15 days prior to the date on which it is proposed that those rules or amendments before effective; and,
- Ensure the required conflict of interest statements which were implements at its meeting of June 15, 2021 are continued; and,
- Ensure breakage reports are submitted quarterly, with copies being retained for three years, replacing the prior practice of bi-yearly reporting; and,

Mr. Quinn Woolard
July 20, 2021
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- Ensure that law enforcement reports are submitted by the 5th of each month. This was put into place once the ABC Board was able to contract with ALE for this service, after attempts to contract with the Davidson County Sheriff's Office were unsuccessful; and,
- Ensure that all Board members continue to complete ethics training within one year of their reappointment.

The Board is in compliance with the bullet points listed under General Items for Awareness.

Again, thank you for taking the time to speak with us regarding the Performance Audit, the recommendations it contained, and in answering our many other questions. We look forward to working with you in the future.

Sincerely,

A handwritten signature in black ink, appearing to read "Kenny Meredith", with a long, sweeping horizontal flourish extending to the right.

Kenny Meredith, Chair

KM:dh