

Jones County 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 & Background Information	4
Financial Analysis, Observations & Findings	6
Recommended Actions & Additional Considerations	13-14
<i>Appendix A - Jones County ABC Board Response Letter</i>	15

OBJECTIVE, PURPOSE & 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

Jones County is found in southeastern North Carolina and is well-known for its forest lands and wildlife environment. Consisting of approximately 78,000 acres, the county hosts one of the nation's largest forest laboratories known as Hoffman Forest. Part of the Croatan National Forest is in Jones County. The county's population per the 2020 Census was approximately 9,200 residents which was nearly a 10% population decrease since 2010.

The 1937 Act authorized Jones County to hold an election for an ABC store. The referendum was held October 19, 1957, and the vote passed 800 to 511. The first retail sales here occurred in Trenton, NC on December 6, 1957. A mixed beverage referendum was held on May 2, 2000, which did not pass due to 939 voters opposing and only 865 supporting the measure. Thus, mixed beverage (or liquor by the drink) sales are still not permitted in Jones County. *Currently, the Jones County Board of Commissioners appoints a chairperson and four (4) additional board members to serve on the ABC board.*

The Jones County ABC Board operates two (2) retail stores. The board currently staffs eight (8) total employees. These include a part-time general manager, part-time finance officer and six (6) additional part-time personnel. Four (4) of the current part-time personnel are enrolled in the local government retirement system based on regular number of hours routinely worked. The general manager is responsible for the daily store operations including supervising personnel, inventory management, and various retail functions. The finance officer provides the general manager/budget officer and the board with fiscal management, administrative support, and assists with routine operations of the ABC stores. Sales associate responsibilities include selling products, daily stocking, and floor upkeep & maintenance.

The last performance audit for the Jones County ABC Board occurred in 2012. 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, & RECOMMENDATIONS

On Wednesday, April 26, 2023, ABC Board Program Analyst Quinn Woolard, visited the Jones County ABC Board and interviewed Brantley Uzzell (General Manager) and Melanie Danza (Finance Officer). 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) 2021-2022, the Jones County ABC Board had a profit percentage to sales of 10.81%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales less than \$2M is 5.0%. The Jones County ABC Board's gross sales totaled \$1,330,186, which was a 7.4% increase from the previous fiscal year.

The operating cost ratio for the Jones County ABC Board was .53 in FY 2021-2022. The NC ABC Commission standard for ABC Boards with one or two stores and no mixed beverage sales is .85 or less.

Thus, the Jones County ABC Board met both the profitability standard and the operating cost standard set by the NC ABC Commission. Below is a chart showing gross profit on sales and income from operations for the previous two years.

	FY 2021-2022	FY 2020-2021
Gross Profit on Sales	\$329,128	\$295,525
Income from Operations	\$143,773	\$90,496

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores within an approximate ten to fifteen (10-15) mile range of Jones County ABC: Lenoir County ABC is operating two stores within range.
- An ABC Board's average cost of goods sold (COGS) is between 52% & 54% per year. The Jones County ABC Board's cost of goods sold was approximately **52.8%** in FY 2021-2022.
 - *The board does not have mixed beverage sales since an election has not yet resulted in an approval for this.*

BUDGET ANALYSIS

	FY 2021-2022 Budget Projections	FY2021-2022 Actual	Variance	Variance %
Sales	\$1,330,000	\$1,330,186	\$186	0.014%
Revenue over or (under) Expenditures		\$32,064		

In reviewing the budget to actual analysis of the FY 2021-2022 financial audit, actual sales revenues were over budgeted projections by 0.014%. In addition, the net income change during the fiscal year was \$25,000. *The board's collective net position on June 30, 2022, was around \$250k; the net position has steadily increased over the last five (5) fiscal years, and the FY-2022 figure reflects the board's highest overall net position during the five-year period.*

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 *typically* distribute at least five percent (5%) of applicable gross receipts to law enforcement and *typically* 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 distribution percentages are designated by an official local enabling act (and thus distribution requirements and recipients are subject to vary).*

In FY 2021-2022, Jones County ABC made other statutory distributions totaling \$115,304 (Net profit distribution recipients received \$102,604 of this). The amount of \$299,236 in primary distributions and other taxes were paid to the NC Department of Revenue (NCDOR), and the county commissioners of Jones County.

Per the local enabling act, the distribution formula for recipients of net profits is as follows:

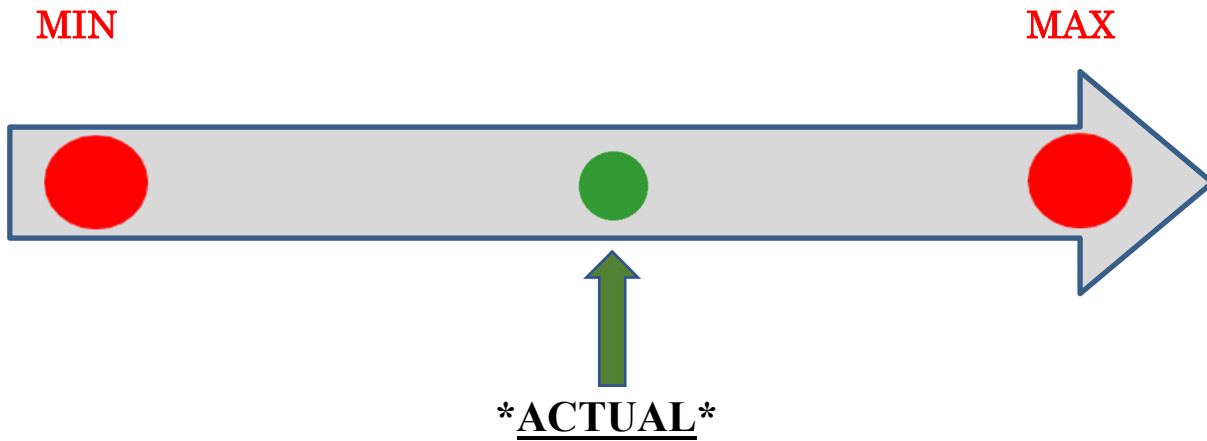
- One hundred percent (100%) to Jones County General Fund

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 less than \$1.5M an amount equal to four (4) months of sales revenue.

Based upon the existing rules, as of June 30, 2022, the Jones County ABC Board is required to maintain a minimum working capital of \$39,652 with a maximum working capital amount of \$343,650. The Jones County ABC Board had a working capital balance of \$199,461, which falls within the Commission requirements for this section (*).

*** FY 2021-2022: *Working Capital (WC) graphic***



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

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE

The findings for personnel, operational & administrative compliance are as follows:

- The board holds board meetings the third Monday of each month at 5:00 PM, records regular meeting minutes, and provides public notification and awareness of these meetings. The meeting minutes are organized in a folder for review. *The minutes provided have the conflict-of-interest disclosure statements referenced and the final versions are being routinely signed by the Chairperson.*
 - Training records review: Board members and board personnel are mostly compliant on ethics training, and one member is currently slightly overdue referencing NCGS 18B-706(b).
 - Board member compensation & General Manager (GM) salary: Board member compensation fully adheres to statute requirements as does the GM salary. Special notes: Chairman opts to not receive compensation. Chairman and one (1) other board member also serve as elected officials on the appointing authority board (Jones County Board of Commissioners).
 - Board website review: The board's login website was updated by the Commission in 2022 for board member term tenure information (*begin dates & end dates*). Special note: As part of a revalidation effort, the Commission has worked to revalidate term tenure information for all ABC boards across the state, working directly with the appointing authorities. As a value-added measure for all ABC boards and Commission records tracking in summer 2022, the term begin dates as well as term end dates were entered on all individual ABC board websites.
 - *The expectation going forward is that ABC boards will routinely manage this information online, and work to communicate with the Commission particularly when new members are added, or whenever any current serving members resign before a term has ended.*
 - Board Personnel & Board Members: The general manager provides board members with monthly sales information and previous year's applicable sales and operational concerns. The finance officer provides various financial reports for the board's review including monthly profit & loss statements. Board members are heavily encouraged by the Commission to use checks and balances to ensure that cash management practices are upheld especially on payroll; also, boards should routinely review any notes and recommendations provided by the CPA firm on annual audits. Board members have an array of experience including serving as elected officials, financial management, and business owners.
- POLICIES: The board has a current personnel policy manual, and the Commission already had their most recent copy on file. For travel policy, the board chooses to adhere to the state travel policy.
- BUDGETS: In FY-2022, the board exceeded budgeted sales in June 2022. A year end reconciliation budget amendment was found in Commission records. *Based on sales trajectory for the current fiscal year with 75% of the budget year completed, the board is tracking along very well at 72% of annual budgeted sales.*
- FINANCIAL INSIGHT: The finance officer is signing checks as required per statute with the Chairman or one of the board members completing the second signature. Invoice records for recent liquor purchases reflect them as being paid routinely well inside of 30 days. Taxes and distributions are paid in a routine and timely manner.

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- Bank deposits are routinely made each business day per review of bank Statements and discussion with the finance officer. For safeguard measures and adherence to *Commission rule 15A .0905 Daily Deposits*, the board utilizes a locked fireproof safe for integrity of funds that remain at the board at any given time. **Special note:** Finance officer also works for Jones County Finance Department and will coordinate trips with other county personnel to alternate delivery of bank deposits for the County as well as the ABC board. *The Trenton location of Truist bank has closed, and the nearest branch is now several miles away in New Bern.*
- Payroll is processed bi-weekly by the finance officer through Traverse and paper checks are issued. Board members will review monthly financial records and Chairperson will normally sign checks. Other board members are in place to sign as alternates if needed.
- The pre-audit certificate is not stamped on the orders at the time they are placed; however, board’s blank checks bear the NCGS 18B-702 disbursement certificate statement.
- All board members and applicable personnel are each bonded for \$50,000 per G.S. 18B-700(i).
- The annual CPA will also conduct a quarterly compilation for the board.
- The annual CPA audit was received and logged by the Commission on September 22, 2022.

➤ **STATUTORY DISTRIBUTIONS:**

- Net Profit Distributions - The Jones County ABC board has improved net profit distributions over the last three fiscal years, meeting or exceeding the minimum mandatory distribution those years in reference to NCGS 18B-805(c)(1). **The table below references distributions calculated by CPA on the left and total distributions made by the ABC Board for the last five (5) years on the right.**
- Law Enforcement Distributions: Have been properly disbursed at the standard 5% statute amount for FYs -2022, 2021, and 2020. During the two fiscal years before this, the profit subject to expense percentage was a negative value, and thus no calculated amount was due or owed officially.
- Alcohol Education Distributions: Have been properly disbursed at the standard 7% statute amount for FYs - 2022, 2021, and 2020. During the two fiscal years before this, the profit subject to expense percentage was a negative value, and thus no calculated amount was due or owed officially. It was discussed that the health department previously had not provided documentation to the board on how their funds were spent in connection with NCGS 18B-805(h).

NC GENERAL STATUTE: 18B-805 (c)(1)			
Calculation of Minimum Mandatory Distribution for Net Profit to Designated Recipients		Jones County ABC Board Net profit distribution made annually by fiscal year	
<i>Note: Referencing CPA Audit Reports</i>			
CPA Calculated Amount		Total paid to recipient(s)	
FY-2022	\$38,256	FY-2022	\$102,604
FY-2021	\$35,745	FY-2021	\$69,671
FY-2020	\$34,821	FY-2020	\$34,821
FY-2019	\$33,701	FY-2019	\$0
FY-2018	\$32,361	FY-2018	\$0

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- LAW ENFORCEMENT (LE) REPORTS: Reports are being submitted routinely, and they are current to date as well. Submitted reports contain various statistical data across categories of regulatory activity, ABC law violations, and other offenses. Law enforcement personnel will attend board meetings and provide feedback on ABC law enforcement and other activities in the county.
- LAW ENFORCEMENT (LE) CONTRACT: The board has a law enforcement contract on file at the Commission with the Jones County Sheriff's Department, and a recent signed copy was provided during the visit. Special note: The current Sheriff also serves on the ABC board, and the board's LE contract is currently with the Jones County Sheriff's Department (as it has been for several years).
- INVENTORY: Full store inventories are robustly conducted every other month. In addition, inventory spot checks across various categories are conducted whenever possible. The inventory turns over moderately well with a 5.8 turnover ratio during the last fiscal year. *To improve operations efficiency, the board should consider procurement of an electronic scanner system to make inventory management more efficient for all personnel involved.*
- INTERNAL CONTROLS:
 - The general manager (GM) has a long tenure in the ABC system and currently also serves as the GM for the Lenoir County ABC Board.
 - Finance officer also works for the Jones County Finance Department and is contracted to serve the Jones County ABC Board.
 - The board has a CPA who will complete a quarterly compilation for the board.
 - Invoice information is entered into Traverse, cash requirements are printed for the truck shipments and the Purchase Orders History from BOSS is utilized to balance totals to make sure invoices / inventory match the system.
- EXPENSES:
 - Total expenses decreased over nine percent (9%) from the last fiscal year.
 - Board payroll was roughly five percent (5%) of total annual sales. Payroll decreased by roughly thirteen percent (13%) from the previous fiscal year. The general manager discussed improving personnel management at the stores to reduce unnecessary overtime scenarios and working to improve overall financial & managerial efficiency.
 - Cost of Goods Sold (COGS) was roughly 52.8% for the fiscal year with a normal range being 52% to 54%. The board could explore more buy-ins to keep the COGS low.

STORE INSIGHT & OVERVIEW

The findings for store insight & overview are as follows:

- Board location store in Trenton has a modern layout and very good ergonomics for shoppers. The store interior was remodeled in 2021 to include new floors, new shelves, new sales counter, and the building exterior sign was painted. In 2023, the parking lot was repaved, the garage door was replaced, and exterior lights and cameras were updated.
- The second store location is leased and located next to a convenience store in an adjacent suite immediately beside US Hwy 70. This store is smaller and could benefit from some modernization. However, the store location is leased and with recent new owners, the rent / lease expenses for this location will be increasing by more than 50%. *The board could consider collaborating with the owner on allowing a constructed sign near the road to visibly attract more motorists transiting through the area.*
- Sales associate interactions with customers are attentive, courteous, and all are eager to meet the needs of the customers.
- The board has no mixed beverage (MXB) customers, with the last election in 2000 resulting in majority opposition. Recently, the Town of Maysville was coordinating with the Commission to learn if MXB can be put on the ballot since Jones County proper has never passed a referendum for this.
- A random sample of approximately 100 items were selected to determine if uniform pricing is displayed. Of those selected, only two items at each store location did not reflect the current quarterly or monthly SPA price. The corresponding price tags were promptly updated.
- The board closes on the five (5) required annual holidays and every Sunday.
- The stores display the required Fetal Alcohol Syndrome poster required by G.S. 18B-808.
- North Carolina products cross merchandised according to product category.
- Products are placed within the designated categories; premium products are found at eye-level or top shelf. *The Trenton location had regular occurrences where various bottle sizes of the same products increased appropriately from left to right. The Dover store location had most products decreasing in size from left to right.* Bottles were fronted and dusted at both locations.
- Outside area surrounding the stores are well-maintained and free of debris or trash.
- Security systems are in place and functional in all designated areas.
 - *Sixteen (5) cameras work to cover the property footprint.*
 - *Safety bollards are not present in front of the store, yet parking blocks are in place.*

RECOMMENDED ACTIONS (PER STATUTES OR COMMISSION RULES)

- ABC Boards are required to operate within a balanced budget each fiscal year. Budget amendments must be approved by the board before any funds are transferred between accounts and utilized, occurring at the actual point of time an adjustment of funds is necessary. This would include the point in time during the fiscal year when the board will exceed its annual forecasted sales budget. *Ensure budget amendment copies are submitted to the ABC Commission as required per NCGS 18B-702(h), to include a final reconciliation budget amendment for the fiscal year end.*
- Local boards shall establish and maintain a shelf management plan *per Commission Rule 15A .1708 Shelf Management*. The board needs to work to rearrange liquor inventory on the shelves to follow shelf management requirements, mainly ensuring bottles increase in size from left to right.
- In connection with the periodic audit, a Certificate of Accountability attestation form should be reviewed and signed by board members and applicable personnel. A signed copy would then only need to be emailed to Commission personnel for recordkeeping.
- Boards must keep full and accurate minutes of all official meetings, including all closed sessions, *referencing G.S. 143-318.10*. Regular minutes should make a general reference to the reason for closed session occurring. Closed sessions minutes could either be kept at the board location secured under lock and key, or with board attorney (or appointing authority attorney) for proper stewardship.
- Ensure all purchase orders to include obligations evidenced by a contract or agreement requiring the payment of money, shall include or bear a certificate stating that the instrument (or order) has been pre-audited to ensure compliance with *G.S. 18B-702(m)* with a signature by the finance officer. The specific statement should read, *“This instrument has been pre audited in the manner required by G.S. 18B-702.”* Special note: This would be most reasonably accomplished by signing & stamping the summary total of the Order Edit List from inventory system before any liquor orders are placed with state warehouse.
- The recipients of alcohol education distributions must provide annual documentation to the board describing the activity for which these awarded funds are spent *per G.S. 18B-805(h)*. *The board may want to consider obtaining documentation before the funds are officially awarded / transmitted to any recipients.*
- ABC board members must complete ethics training within one (1) year of each appointment and again following all reappointments following NCGS 18B-706(b). Currently one board member needs to complete this training by May 31, 2023. *General managers, finance officers (and any applicable deputies) have a one-time training requirement for ethics training yet are highly encouraged to complete training periodically as a good refresher along with any other personnel interested.*

ADDITIONAL CONSIDERATIONS & GUIDANCE

- The Commission's primary focus for ABC board members:
 - ABC board members are highly encouraged to meet monthly for the best formal oversight and review of board operations, routinely recording meeting minutes (*adhering to closed meeting requirements where applicable*) and ensuring either no conflicts of interest are present or that they are addressed appropriately when presented. Monthly sales should be reported to the Commission at beginning of next month, providing annual budgets, budget amendments, miscellaneous financial reporting to Commission following timelines, and ensuring Commission has annual CPA audits by Oct 1st.
 - ABC boards are highly encouraged to keep term begin dates & term end dates updated on the Commission's board login website for all ABC board members and other information such as store hour changes, pictures, email updates, etc. *Moreover, liaising with the Commission when new members are appointed or when member resign early before term has ended is very important for recordkeeping efforts of the Commission.*
- ABC boards are highly encouraged to find straightforward ways to lower any recurring expenses. *A very tangible way to lower operating costs is to fully maximize monthly special purchase allowance (SPA) liquor products that routinely sell well in the store to lower cost of goods sold (COGS).* ABC Boards can limit the number of personnel travelling to conference and convention events across the state. Other ways to try to improve expenses include requesting bids annually from various vendors to get the best rates possible on financial audits, various utilities, maintenance contracts, and *credit card processing companies*.
- ABC boards are encouraged to closely review financial statements monthly, comparing with the annual budget forecast, approving budget amendments when necessary and submitting copies to the Commission for anticipated sales increases as well as other adjustments for budgeted accounts.
- Law enforcement reports must be submitted on the Commission's board website by the 7th of each month referencing G.S. 18B-501(f1). *In cases where law enforcement provides no information in any given month, simply enter "No data provided by law enforcement" in narrative of report. ABC Boards should make sure reports are in a "Final Submitted" status and not just in saved status. For any saved reports, the only transaction necessary to finalize them is to click the preview button and then click the submit button.*
- Cross training opportunities for personnel should be maximized to ensure solid continuity of operations occurs for ABC boards. Also, training opportunities can work well to develop store employees for increased responsibility roles and serving to make both the routine operations and employee morale stronger.
- NCAC Rule 15A .1701 requires quarterly reports be submitted for any unsaleable merchandise (breakage) and retain original copies for three (3) years. *All breakage reports should only be transmitted via email submission to Commission staff; copies should not be mailed.*
- As a reminder, remove all faded posters and replace with new ones when applicable. Reach out to the Commission to provide fetal alcohol syndrome posters, NC Dept of Labor can provide wage & hour posters, and OSHA can provide some applicable federal posters if any are needed.
- ABC boards 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.

Please network with the ABC Commission whenever needed for guidance and assistance to support local ABC board mission and success.