

Locust ABC Board

Performance Audit Report



TABLE OF CONTENTS

ABC Commission Statement	3
Objective, Purpose & Background Information	4
Financial Analysis, Observations & Findings	6
Recommended Actions & Additional Considerations.....	15-16
Appendix A - Program Analyst's Summary.	17



Alcoholic Beverage Control

August 16, 2024

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Hank Bauer

Locust ABC Board
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COMMISSIONERS:
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Raleigh

Chairperson Peacock,

DEPUTY COMMISSIONER:
Mike DeSilva

On the following pages, you will find the performance audit report conducted by the staff of the ABC Commission reviewing the operations of the Locust 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.

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Please reach out if you have any questions or require assistance in implementing any of the statute requirements, Commission rules, or other recommendations included in the report. 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,

Michael DeSilva
Deputy Commissioner

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, Reports, and Administrative Policies
- 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

Locust is found in southcentral North Carolina in Stanly County. It's the fastest growing city in the county and among the same for the state. The city's population per the 2020 Census was approximately 4,537 residents which was approximately a 55% population increase since 2010. The city is forecasted to have continual population growth with many residential and commercial construction projects underway or being considered.

Documentation provided per 18B 601(c) authorized the City of Locust to hold an election for ABC stores. The referendum was held February 5, 2008, and passed 541 to 360. A mixed beverage (and other retail sales) election was also held on February 5, 2008, and passed 567 to 333. The board's first retail sales occurred on July 1, 2008. *Currently, the Locust Town Council appoints a chairperson and two (2) additional board members to serve on the ABC board.*

The Locust ABC Board operates one (1) retail store. The board currently staffs eighteen (18) total employees. The general manager and two (2) assistant managers are the board's full-time employees. All additional part-time employees are salesclerks except one person who works only on truck delivery days. The general manager is responsible for all board operations including everything associated with human resources, scheduling, budget officer, various retail functions. The assistant manager(s) runs the retail portion of the store and are responsible for inventory, product knowledge development, ordering, and one of the assistant managers serves as a deputy finance officer. Sales associate responsibilities include selling products, daily stocking, and floor upkeep & maintenance. The finance officer position is a third-party bookkeeper, Julie Moxley.

The last performance audit for the Locust ABC Board occurred in 2013. 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 Tuesday, April 30, 2024, ABC Board Program Analyst Edwin Strickland visited the Locust ABC Board and interviewed Sharon (Heather) Hughey (General Manager). Assistant Managers Christy and Chris were on duty and assisted with some questions. Below is a financial analysis followed by operation observations, findings, and recommendations related to the performance audit.



1008 W. Main St. Locust, NC.

FINANCIAL ANALYSIS

PROFIT PERCENTAGE TO SALES & OPERATING COST RATIO

In fiscal year (FY) 2022-2023, the Locust ABC Board had a profit percentage to sales of 8.0%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales greater than \$2M is 6.5%. The Locust ABC Board's gross sales totaled \$4,247,309, which was a 1.0% increase from the previous fiscal year.

The operating cost ratio for the Locust ABC Board was .69 in FY 2022-2023. The NC ABC Commission standard for ABC Boards with one store and mixed beverage sales is .73 or less.

Thus, the Locust 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 2022-2023	FY 2021-2022
Gross Profit on Sales	\$1,055,159	\$1,049,688
Income from Operations	\$343,643	\$456,369

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores within an approximate twenty (20) mile range of Locust ABC: Mount Pleasant, Albemarle, Norwood, Concord, Indian Trail, Monroe, and at least one Mecklenburg County location.
- An ABC Board's average cost of goods sold (COGS) is between 52% & 54% per year. The Locust ABC Board's cost of goods sold was approximately **52.3%** in FY 2022-2023.
- *The board currently has seven (7) mixed beverage customer. In FY 2022/2023 mixed beverage accounted for approximately six (6%) percent of sales.*

BUDGET ANALYSIS

	FY 2022-2023 Budget Projections	FY2022-2023 Actual	Variance	Variance %
Sales	\$4,158,258	\$4,247,309	89,051	2.1%
Revenue over or (under) Expenditures		\$11,054		

- In reviewing the budget to actual analysis of the FY 2022-2023 financial audit, actual sales revenues exceeded budgeted projections by 2.1%. In addition, the net income change during the fiscal year was (\$1). *The board's collective net position on June 30, 2023, was \$414,984; the net position has not significantly changed since the FY-2020*

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 2022-2023, Locust ABC made other statutory distributions totaling \$343,644 (Net profit distribution recipients received \$316,755 of this). The amount of \$967,397 in primary distributions and other taxes were paid to the NC Department of Revenue (NCDOR), DHHS, and the county commissioners of Stanly County.

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

- One hundred percent (100%) to Locust General Fund
- STATUTORY DISTRIBUTIONS:
 - Net Profit Distributions - The Locust ABC board has made robust net profit distributions over the last four (4) fiscal years, exceeding the minimum mandatory distribution those years in reference to NCGS 18B-805(c)(1). **The table below references distributions calculated 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 the last five (5) FYs.
 - Alcohol Education Distributions: Have been properly disbursed at the standard 7% statute amount for the last five (5) FYs.

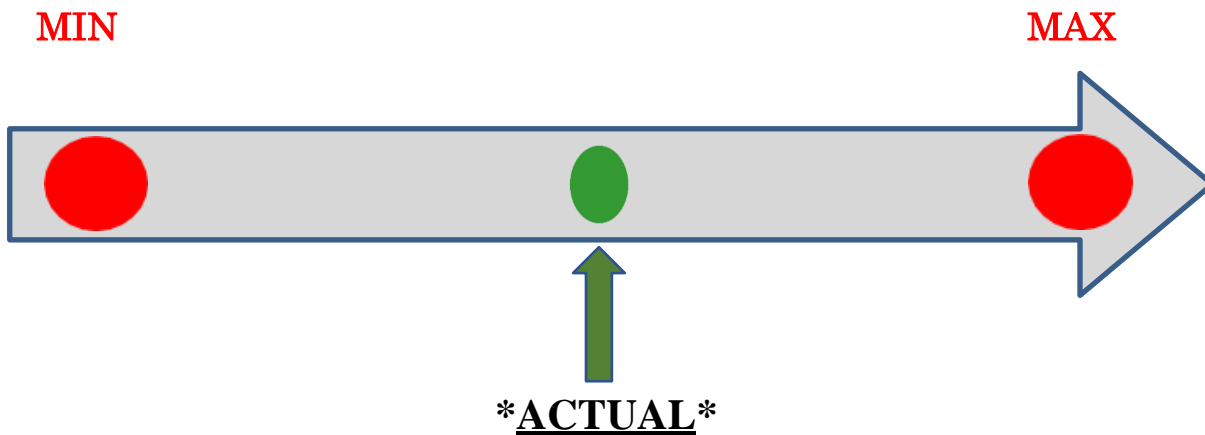
NC GENERAL STATUTE: 18B-805 (c)(1)			
Calculation of Minimum Mandatory Distribution for Net Profit to Designated Recipients		Locust ABC Board Net profit distribution made annually by fiscal year	
<i><u>Note: Referencing CPA Audit Reports</u></i>			
Calculated Amount		Total paid to recipient(s)	
FY-2023	\$119,521	FY-2023	\$316,755
FY-2022	\$118,372	FY-2022	\$151,078
FY-2021	\$96,152	FY-2021	\$371,611
FY-2020	\$77,354	FY-2020	\$149,545
FY-2019	\$58,297	FY-2019	\$32,377

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 maximum standard for boards with annual gross sales less than \$1.5M as an amount equal to four (4) months of sales revenue.

Based upon the existing rules, as of June 30, 2023, the Locust ABC Board is required to maintain a minimum working capital of \$133,075 with a maximum working capital amount of \$864,989. The Locust ABC Board had a working capital balance of \$479,806, which falls within the Commission requirements for this section (*).

*** FY 2022-2023: 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 at least quarterly with additional meetings held for circumstances. They record regular meeting minutes and provide public notification and awareness of these meetings. The meeting minutes are organized by session for review. *The minutes provided have the conflict-of-interest disclosure statements referenced, clarify new and old business, and copies are available.*
 - Training records review: Board members and board personnel are compliant on ethics training referencing NCGS 18B-706(b). *Two board members should complete ethics training in the coming months.*
 - Board member compensation & General Manager (GM) salary: Board members do not receive compensation for their services per the town council's recommendation. The General Manager's salary will be updated on the Commission website. *Any future salary changes should be relayed to the ABC Commission for record retention.*
 - 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 sales information, profit and loss statements, and previous year's applicable sales and operational concerns. 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 in professional services.
- POLICIES: The board has many policies to include a detailed new hire and personnel manual. current personnel policy manual, and the Commission would like their most recent copy for retention records. Additional policies should be provided to the Commission for record. For travel policy, the board chooses to adhere to the state travel policy.
- BUDGETS: In FY-2023, the board's actual sales were \$89,051 more than budgeted sales. A budget amendment was submitted in June of 2023 to accommodate changes in revenue and expenditures. *Based on sales trajectory for the current fiscal year with ten months (83%) of the budget year completed, the board is tracking along very well at 90% of annual budgeted sales. If summer sales are generally higher than average month sales may consider a budget amendment.*
- FINANCIAL INSIGHT: The finance officer is signing checks as required per statute with the General Manager or Assistant Manager/Deputy Finance Officer countersigning. Invoice records for recent liquor purchases reflect them as being paid routinely well within thirty (30) days. Taxes and distributions are paid in a routine and timely manner. Daily deposits were reviewed and tracked appropriately.

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- Bank deposits are routinely made each night at the end of business day, per review of bank Statements and discussion with the General Manager, and police escort is provided. The board has a cash room used seldomly when unable to make deposits *For safeguard measures and adherence to Commission rule 15A .0905 (d) Daily Deposits, the board should utilize their locked fireproof safe for integrity of funds that remain at the board at any given time.*
 - Payroll is processed twice monthly, the fifteenth and last working day, by the finance officer. General Manager sends hours worked.
 - Board members will review financial records at quarterly board meeting.
 - The pre-audit certificate is stamped on the orders at the time they are placed, board's blank checks bear the NCGS 18B-702 disbursement certificate statement.
 - All board members and the General Manager are each bonded for \$50,000 per G.S. 18B-700(i). The finance officer is an independent contractor.
 - The annual CPA audit was received and logged by the Commission on August 24, 2023.
- LAW ENFORCEMENT (LE) REPORTS: Reports are being submitted routinely, and they are current to date as well. Submitted reports come from the police department and are input by the General manager.
- LAW ENFORCEMENT (LE) CONTRACT: The board has a law enforcement contract with the Locust Police Department on file with the Commission. *While the contract is still in place, the Commission requests an updated contract with signatures from the current Police Department Personnel and board members (Provided before report completed).*
- INVENTORY: Full store inventory is thoroughly conducted annually. In addition, staff scans warehouse daily for various checks, and only keeps full cases in warehouse. The inventory turns over well with a 7.1 turnover ratio during the last fiscal year.
- INTERNAL CONTROLS:
- The general manager (GM) has a solid tenure in the ABC system.
 - Finance officer firm was formerly the board's CPA auditor and is experienced with Board operations.
 - The Board members and Chairperson have extensive professional experience.
 - All employees are subject to new hire check list and are well versed on store policies, product knowledge, and all receive RASP training.
 - Invoice information is entered into system, 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.
 - Board currently utilizes Positive Pay for goods purchased and checks issued. *Board could also consider ACH payments as an additional tool for fraud prevention.*

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

➤ **EXPENSES:**

- Total expenses increased over twenty percent (20%) from the last fiscal year and are roughly seventeen percent (17%) of total annual sales.
- Board payroll was roughly twelve percent (12%) of total annual sales. Payroll increased by roughly twenty seven percent (27%) from the previous fiscal year. *Payroll increase is mostly attributable to a buy in to LEGERS for omitted contributions from previous years.*
- Cost of Goods Sold (COGS) was roughly 52.3% 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's store has a professional retail atmosphere. Shelving is spacious, aesthetically pleasant, and well stocked. Retail space is approximately 4,000 sq. ft. and enhancements have been made for product display. *General manager discussed the possibility of a new exterior sign as the current one is underwhelming.*
- Warehouse is orderly and spacious at 4,500 sq. ft. The Board switched to pallets two (2) years ago. *The board is encouraged to continually utilize SPA's as an excellent means for reducing costs for profit increases.*
- The store has three (3) tills daily at \$250.00 each.
- The board maintains \$1,500.00 in petty cash and makes some small purchases through this fund.
- The board is currently researching the development of a website.
- Sales associate interactions with customers are attentive, courteous, and all are eager to meet the needs of the customers. Sales associates greet customers within five steps or five seconds of entry and are available for questions. *An excellent product knowledge book is maintained behind register/counter and staff utilizes for their personal and customer education.*
- The board has seven (7) mixed beverage (MXB) customers according to Commission permittee and board records. *Board has detailed invoice books for permittee record retention and well-maintained archived records. The board allows permittees to send par sheets for orders.*
- A random sample of approximately 100 items were selected to determine if uniform pricing is displayed. Of those selected, all items reflected the current quarterly or monthly SPA price. All shelf management practices were being utilized. *The board has an effective "dot" system to assist with quarterly price changes and relabeling.*
- The board is generally open from 9:30 am until 9:00 pm. They are only closed the five (5) required annual holidays and every Sunday.
- The store displays the required Fetal Alcohol Syndrome poster required by G.S. 18B-808.
- Products are placed within the designated categories; premium products are found at eye-level or top shelf. 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.
 - *Thirty (30) cameras work to cover the property footprint and sales area, rotating on the office monitor.*
 - *Panic button located in office.*

RECOMMENDED ACTIONS (PER STATUTES OR COMMISSION RULES)

- The recipient(s) (*Bridge to Recovery*) of alcoholism fund or 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.*
- The board could consider additional contributions to the working capital fund as distributions far exceed the minimum mandatory requirement. *Realizing there was some makeup for some previous smaller contributions, recommend working with the town council for their budget expectations.*
- Board could consider additional full inventory and cross-referencing different staff counts.
- Board should consider adopting or updating any policies to include, but not limited to, tastings, credit card, mixed beverage and delivery, code of ethics, or personnel manual.
- 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.
- ABC board members must complete ethics training within one (1) year of each appointment and again following all reappointments following NCGS 18B-706(b). *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.*
- 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.

PREVIOUS PERFORMANCE AUDIT FINDINGS & ACTIONS (2013)

- Board is now meeting the Commission’s operating cost ratio expectation.
- Board has increased Working Capital and is within established Commission rules for boards with similar size and sales.
- Board has met law enforcement and alcohol education distribution requirements.
- Board has increased training to include RASP and product knowledge book.
- All liquor receipts are paid within the thirty (30) day requirement.
- Previous recommendation to conduct full inventory more frequently. *Board still conducts full inventory once a year.*

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 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.*
- 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.
- Board should amend law enforcement contract to include any updates and signatures with current Law Enforcement representative and board members. *Newest LE Contract was provided at periodic visit.*
- 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.
- 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.

Appendix A

Program Analyst's Summary

The performance audit recommendations and findings were presented to the Locust ABC Board on May 29, 2024. The board agrees with all recommendations as presented and attests to their implementation. The board will continue to be vigilant with profitability enhancement and expense reduction while operating a modern store with a robust customer service focus.