

Concord ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA

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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

Located in Cabarrus County, Concord was established in 1796 and later incorporated in 1806. Concord is home to many historic landmarks dating to the Civil War era. Surrounding ABC boards include Rowan-Kannapolis ABC, Mecklenburg County ABC, Mt. Pleasant ABC, and Locust ABC. The 2020 U.S. Census reflects the city as having an approximate population of 96,341. *The total population has increased by more than 21% since 2010 and continues to grow.*

Chapter 195 of the 1967 Session Law authorized the Board of Aldermen of the City of Concord to hold an election upon a petition signed by 15% of the registered voters. The referendum was held on September 19, 1967. The vote for an ABC store passed very narrowly by 2,482 to 2,438. The date of the first retail sales was on December 4, 1967. A mixed beverage election held on May 5, 1994, passed by an extremely thin margin of 5,000 to 4,997. Upon election of an ABC store, the city was authorized to create a three-member ABC board consisting of a chairperson and two members to serve for three-year terms.

The Concord ABC board currently operates seven (7) retail stores and a mixed beverage outlet located at the board. The board staffs approximately seventy-nine (79) total employees including a general manager, finance officer, purchasing director, area manager, warehouse personnel, and sales associates. These include around twenty-nine (29) full-time and fifty (50) part-time personnel. 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 assist with routine operations of the ABC stores. The area manager serves as mobile periodic oversight for all the retail locations. Sales associate responsibilities include selling products, daily stocking, and floor upkeep & maintenance.

The Concord ABC Board had its last performance audit back in 2012. This follow-up round of performance audits serves as a continuous way for the Commission to provide local boards with information and best practices that target areas for improvement.



OPERATIONAL OBSERVATIONS, FINDINGS, REQUIRED ACTIONS, & RECOMMENDATIONS

On Tuesday, May 17, 2022, ABC Board Program Analyst Quinn Woolard, visited the Concord ABC Board and interviewed Lorraine Trexler (General Manager), and Edith Anderson (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) 2020-2021, the Concord ABC Board had a profit percentage to sales of 14.05%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales greater than \$10M is 9.0%. The Concord ABC Board's gross sales totaled \$29,529,077, which was a 17.61% increase over FY 2019-2020.

The operating cost ratio for the Concord ABC Board was .41 in FY 2020-2021. The NC ABC Commission standard for ABC Boards with three or more stores is .63 or less.

Thus, the Concord ABC Board well exceeded the profitability standards as well as the operating cost standards set by the NC ABC Commission. Below is a chart showing gross profit on sales and income from operations for the previous two years.

	FY2020-2021	FY2019-2020
Gross Profit on Sales	\$7,446,650	\$6,322,759
Income from Operations	\$4,149,545	\$3,187,312

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores within a ten to fifteen (10-15) mile range of Concord ABC: Mount Pleasant ABC Board operates one store also within Cabarrus County; Rowan-Kannapolis ABC Board operates three stores within range; Mecklenburg ABC operates two stores within range and the store operated by Locust ABC is within range of 10-15 miles.

- An ABC Board’s average cost of goods sold (COGS) is between 52% & 54% per year. The Concord ABC Board’s cost of goods sold was approximately 51.7% in FY 2020-2021.
 - *Mixed beverage sales were 10.8% of total sales in FY-2021, and there are around 100+ mixed beverage permit holders.*

BUDGET ANALYSIS

	FY 2020-2021 Budget Projections	FY2020-2021 Actual	Variance	Variance %
Sales	\$29,274,750	\$29,529,077	\$254,327	0.87%
Total Expenditures (to include Distributions)	\$28,941,009	\$28,361,484	\$579,525	2.0%

In reviewing the budget to actual analysis of the FY2020-2021 financial audit, actual sales revenues were over the budgeted projections by 0.87%. In addition, total expenditures were under budget for the same period by 2.0%. The chart above shows the final budget to actual amounts and the appropriate positive or negative variances. *The board’s FY-2021 ending net position is the strongest it has been over the last five (5) years, more than doubling since FY-2017.*

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 2020-2021, Concord ABC made other statutory distributions totaling \$1,253,965 (City of Concord received \$640,849 and Cabarrus County received \$213,616 of this respectively in accordance with net profit distributions). The amount of \$6,794,235 in primary distributions and other taxes were paid to the NC Department of Revenue (NCDOR), NC Department of Health & Human Services (NCDHHS), and the county commissioners of Cabarrus County.

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

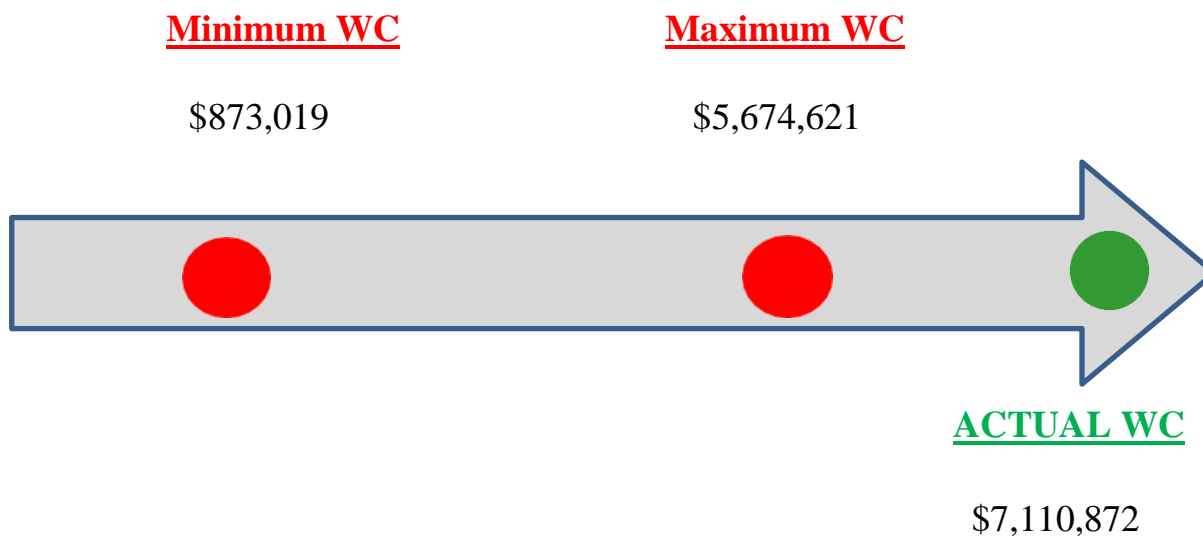
- Seventy-five percent (75%) of profits to Concord General Fund
- Twenty-five percent (25%) of profits to Cabarrus County General Fund

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 greater than \$1.5M yet less than \$50M an amount equal to three (3) months of sales revenue.

Based upon the existing rules, as of June 30, 2021, the Concord ABC Board is required to maintain a minimum working capital of \$873,019 with a maximum working capital amount of \$5,674,621. The Concord ABC Board had a working capital balance of \$7,110,872, which falls outside the Commission requirements for this section (*).

*** FY 2020-2021: Working Capital (WC) 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. Otherwise, excess net profit distributions would be necessary. *Note: The board is currently working on and coordinating on terms of a capital improvement plan with the City of Concord due to exceeding working capital maximum allowance.*

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE

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

- The board holds regular board meetings the third Thursday of each month at 7:30 AM, records regular meeting minutes, and provides public notification and awareness of these meetings. The minutes provide conflict of interest disclosure statements and discussion. The meeting minutes are routinely signed and kept in a binder for review. *Closed session minutes were available, reviewed, and are kept in a separate binder.*
 - *City of Concord policy only allows ABC board members to serve a maximum of three (3) three-year terms.*
- The board has a personnel policy manual and code of ethics policy as required. The personnel manual was previously on file with the Commission, with an updated copy provided in 2021.
- The board adopted a budget amendment in June 2021 for increase in forecasted sales and a copy was forwarded to the Commission accordingly.
- The finance officer is signing checks as required per statute. Invoice records for liquor purchases reflect them as being paid inside of 30 days. Taxes and distributions are paid in a routine and timely manner.
- For financial oversight, the finance officer and general manager work in tandem tracking credit card and cash sales for each store, including monthly bank reconciliation, utilizing spreadsheets for routine tracking, and coordinate on processing bi-weekly payroll. Referencing the Positive Pay service through the board's bank, board personnel worked to be cognizant of and defuse a fraud check scenario being attempted remotely. *The board's CPA provides an audit and reconciliation in December each year along with the regular annual required audit.*
- Board members conduct monthly checks and balances to ensure that cash management practices are upheld, and routinely review financial statements, monthly sales, sales to date, and miscellaneous items. The general manager & finance officer provide sales recaps, and other year-to-date (YTD) financial information for board awareness. *Board member compensation adheres to appointing authority approval and ABC board members requested a slight reduction in compensation amounts.*
- Bank deposits are routinely made daily per review of bank statements and discussion.
- Pre-audit certificates are being routinely stamped on liquor orders as required by statute. The disbursement approval certificate statement is also present on blank checks.
- The law enforcement contract on file with the Commission is from 1996 and does not reflect current City of Concord personnel. A new contract will be necessary for the new fiscal year.
- Law enforcement (LE) reports are routinely submitted online via the Commission's board website portal. *The reports contain substantial statistical information and robust narratives on various alcohol oversight and enforcement activities. Recently, Concord Police Department personnel participated in enforcement with other agencies on an organized retail theft ring occurring across multiple jurisdictions in the Piedmont area.*
- The minimum mandatory net profit distribution to the designated recipients was calculated as being \$823,693 in the FY-2021 CPA annual audit with greater than \$853,000 made in actual distributions. The net profit distribution made to the designated recipients were made in the correct percentages and distributions in recent years have *routinely exceeded* minimum requirements.
- The recipient of alcohol education distributions in FY-2021 was Cabarrus County Schools. They are providing documentation to the board describing how the alcohol education funds awarded were utilized.
- Store inventories are conducted quarterly with intermittent spot checks, and the warehouse is inventoried more frequently.
- The general manager verified that all board members and general manager and finance officer are bonded as required; general manager compensation adheres properly to general statute requirements.

STORE INSIGHT & OVERVIEW

The findings for store insight:

- The stores visited have modern designs and layouts and friendly personnel. The board is considering strategic relocation of a few leased stores when the right location and purchase opportunity become available.
- Along with closing on the mandatory five (5) holidays each year, the board also chooses to be closed on Easter Monday and the day after Christmas.
- Due to being a Tier 3 county per NC Dept of Commerce, the board must offer delivery service to MXB customers beginning in July 2022 for Rule 15A . 1903 Delivery of MXB Permittee Orders. Delivery service surveys have been sent, and yet there is not widespread interest among mixed beverage (MXB) permittee customers for the service. The board has consulted with a contractor on potentially providing delivery services.
- The board warehouse is a massive storage area. The board has purchased the adjacent parcel from the fire department with plans to expand the warehouse space by approximately 9,000 square feet later in the 2022 calendar year.
- All mixed beverage (MXB) permittee sales are solely conducted at the board's outlet location.
- The stores visited 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.
- 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.
- Sales associate interactions with customers are attentive, courteous, and all are eager to meet the needs of the customers.
- A random sample of roughly 50-60 items was selected to determine if uniform pricing is displayed. Of those items selected at two store locations, all applicable liquor had the proper quarterly or monthly SPA applicable prices posted.

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. *Budget amendment copies should be submitted to the ABC Commission as required per NCGS 18B-702(h), to include a final reconciliation budget amendment for the fiscal year end.*
- For the Concord ABC board, there currently is not a valid, signed law enforcement contract approved by any current City of Concord officials. Thus, a new law enforcement contract must be formally established between the ABC board and municipality for law enforcement services reflecting current officials *per G.S. 18B-501(f). The official contract signed by all applicable parties would need to be forwarded via email to the Commission for recordkeeping.*
- Because the board exceeded the maximum working capital calculation referenced in the FY-2021 annual CPA audit, an official capital improvement plan must be coordinated with the appointing authority per 18B-805(d). *Once a plan has been finalized with the City of Concord, please forward a copy via email to the Commission for review. In any instance the board exceeds maximum working capital allowances, a capital improvement plan should continue to be coordinated with the appointing authority and applicable copies routinely forwarded to the Commission.*
- Board member (BM) terms for the board are not currently staggered in accordance with 18B-700(a). Two (2) board members will have term expiration dates in June 2024: BM Hiatt and BM Benson. Preferably, for the best continuity of operations, the board will need to consider eventual term realignment to allow for no more than one (1) board member having a term expiration within the same one-year timeframe. *The board should coordinate with the appointing authority to determine how to stagger board member terms more suitably.*
- Ensure all policies are submitted to the Commission for recordkeeping and review per NCAC 15A .1102 Rule. *When the board has an official delivery service policy for new Commission Rule 15A .1903 – Delivery of Mixed Beverages Permittee Orders, please forward an electronic copy of the board policy to the Commission.*
- The board has a code of ethics policy per G.S. 18B-706, and ABC Commission has a copy. The following are needed administrative actions: *A Certificate of Accountability attestation form should be reviewed and signed by applicable personnel. A signed copy should be emailed to Commission.*

ADDITIONAL CONSIDERATIONS & GUIDANCE

- The Commission encourages all boards to track and monitor board members' current appointment dates and term expiration dates. This will increase visibility and allow for seamless board member updates with the Commission. *It also allows ABC boards to easily communicate necessary reappointment dates and offer high visibility to the applicable appointing authorities involved, who may or may not be properly tracking ABC board member term expiration dates.*
- The Commission encourages and requests ABC boards to routinely update the Commission's board website when applicable (*the Commission's board website referring to where boards log on monthly with password to report monthly sales*). Some key pieces of information for updating would include updated board member information such as email addresses, member appointment dates, board member compensation changes, and store location hours changes and interior and exterior pictures of new / remodeled store locations. *Alternately, ABC boards can email communicating on any applicable changes to Commission staff who are ready to assist with online updates.*
- The Board is highly encouraged to closely review financial information and monitor straightforward ways to lower any recurring expenses. *A very tangible way to lower expenses is to take full advantage of buy-ins and monthly special purchase allowance (SPA) liquor products that routinely sell well in the store. By purchasing liquor on sale whenever possible, this will enhance an ABC board's posture on lowering cost of goods sold (COGS).* Another way to do this is by limiting the amount 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.*
- For awareness, all newly appointed as well as those reappointed board members are required to complete ethics training within one (1) year of their appointment or reappointment date *per G.S. 18B-706(b)*. *Any applicable completion certificates should simply be forwarded via email to the Commission.*
- 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 the Commission; copies should not be mailed.*
- ABC boards to include all board members 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. Board members could also review periodic inventory variance reports as a good oversight measure.
- 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.
- The board must annually obtain approval from the appointing authority to adhere to their local government travel policy and annually provide the Commission a copy of this approval and latest annual travel policy per G.S. 18B-700(g2). Note: *As another option, the board can alternately move to adopt the official State of NC government travel policy referenced under G.S. 138-6. This would allow the board an option to eliminate the annual travel policy update requirement by instead formally adopting the State of NC government travel policy during an official board meeting.*
- 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. **Please reach out to and lean on the Commission when guidance or assistance is needed to support local ABC board mission and success!**