

Gates County ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA

TABLE OF CONTENTS

ABC Commission Statement.....	3
Objective, Purpose, and Scope.....	4
Performance Standards and Findings.....	5
Gates County ABC Board Response.....	12

OBJECTIVE, PURPOSE, AND SCOPE

In addition to regular and special financial audits, G.S. 18B-705 (a) authorizes the N.C. ABC Commission to conduct performance audits of all local ABC boards in the state. Performance audits are examinations of existing operating policies, practices, controls, and activities to determine those areas in which there may be a need for improvement.

The audits are designed to ensure that all local ABC Boards comply with established performance standards pursuant to G.S. 18B-203 (a) (20). The audits' scope addresses compliance with ABC laws and rules, store appearance, operating efficiency, solvency, and customer service.

To achieve the objectives of the audit, auditors:

- Review applicable General Statutes, ABC Commission Rules, and administrative policies
- Review applicable reports and studies of ABC boards with similar size and geography
- Consult with specialists at UNC School of Government
- Verify compliance with Commission and Board policies
- Verify results of previous performance audit recommendation
- Review organizational chart and job descriptions
- Review ABC board annual independent financial audits
- Visits the store(s)
- Interview key ABC board personnel

The initial round of performance audits for the local ABC Boards concluded in 2016 and provided a comprehensive overview of the operations of the local boards. The follow-up round of performance audits now under way is designed to provide local boards with information that targets specific areas for improvement. Board activities that meet or exceed current performance standards are not included as areas recommended for corrective action and so are not included in the attached summary report and recommendations.

PROFIT PERCENTAGE AND OPERATING COST ANALYSIS

In FY2016, the Gates County ABC Board had a profit percentage to sales of -1.53%. The ABC Commission profit percentage to sales standards for ABC Boards with gross sales less than \$2M is targeted at 5% or higher. Thus, the Gates County ABC Board did not meet the targeted percentage. Since FY2015, overall the Gates County ABC Board has increased sales by 15%.

For the same fiscal period, the Gates County ABC Board's operating cost ratio was 0.89. The ABC Commission standard operating cost ratio for ABC boards with one or two stores without mixed beverage sales is less than 0.85. Thus, the ABC Board did not meet the standard.

Factors affecting profitability and cost include:

- Two stores within the county owned by the ABC board.
- Store #1, Eure, NC, reopened in October 2015
- Increased depreciation expenses in acquisition of property and building affects profitability
- Substantial legal fees from negotiations on the value of the Eure property

Below is a chart analyzing overall sales growth and expenses between two fiscal years and anticipated sales for current fiscal year 2017. Expenses less depreciation increased by 19% since FY15 because of additional expenses for the opening of the second location.

	Projected Sales in FY2017	Gross Sales in FY16	Gross Sales in FY15
Sales	\$708,700	\$688,000	\$595,727
Expenses less Depreciation	\$149,650	\$146,994	\$123,530
Profit (Loss)	\$1,000	(\$10,498)	\$785

An analysis of revenue per store is shown below for the two previous fiscal years.

Store Location within County	Gross Sales in FY16	Gross Sales in FY15*
Store #1 – Gatesville	\$316,261	\$198,538
Store #2 – Sunbury	\$371,739	\$397,189

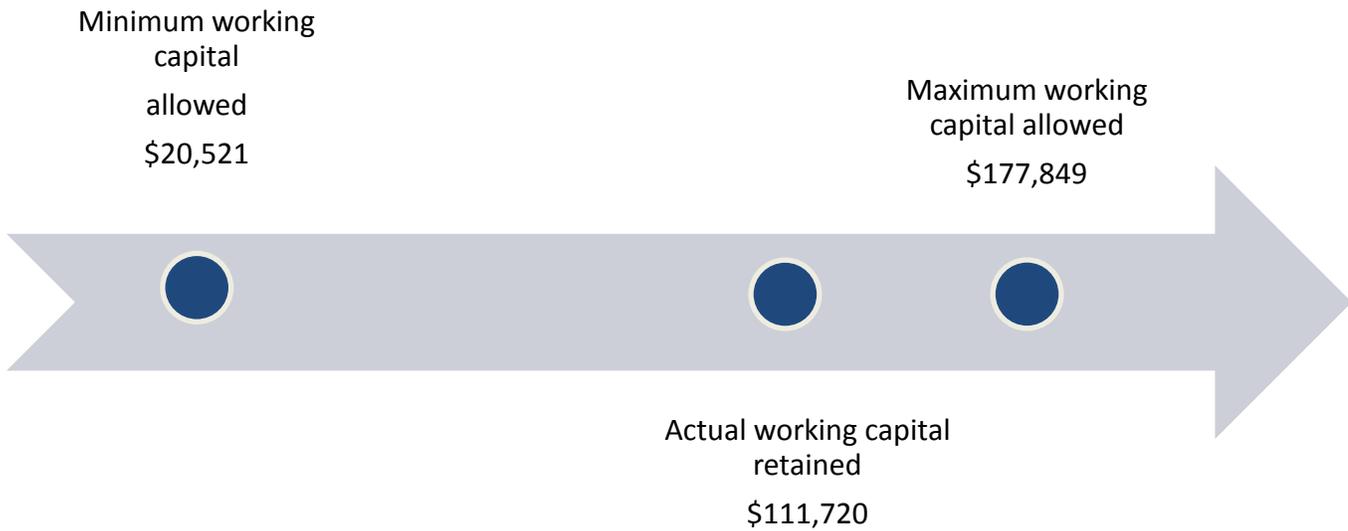
*Note: In FY2015, the board operated sales with one store for half of the year and re-opened the second location the remaining half.

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.

Based on the existing rules, the Gates County ABC Board is allowed to set a minimum working capital of \$20,521 and a maximum working capital of \$177,849. The actual working capital the board has retained is \$111,720.

The NC ABC Commission has set a working capital and efficiency goal for boards with gross sales less than \$1.5M an amount equal to four months of sales revenue. The board's actual working capital has met the standard set by the ABC Commission.



DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts all expenses, mixed beverage and bottle taxes. G.S. 18B-805 (c) requires the board to make a minimum quarterly distribution of the 3 ½% markup and .01/.05 cent bottle tax to the municipalities and county. Below is a chart of taxes paid to the NC Department of Revenue and the county.

G.S. 18B-805 (c) (2) and (3) requires the board to distribute at least five percent (5%) of profits to law enforcement and at least seven percent of profits toward alcohol education.

S.L. 1935-493 authorizes the Gates County ABC Board to distribute quarterly the remaining profits to the Gates County General Fund.

Revenues Less Taxes and Cost of Sales FY2016	
Sales	\$688,000
Excise Tax	\$152,286
Rehabilitation Tax	\$2,166
Cost of Sales including Bailment/Surcharge	\$367,477
Gross Profit	\$166,071

	FY2016 Required Distributions	Actual Distributions Made
Gross Profit (Taken from above chart)	\$166,071	
Total Operating Expenses	\$176,569*	
Profit (loss) before distributions	(\$10,498)	
Required 3 ½% Markup and Bottle Charge	\$19,933	\$0
Law Enforcement	\$0	\$1,200
Alcohol Education	\$0	\$0
Additional Distribution (S.L. 1935-493)	\$0	\$0
Surcharge Collected (\$0.80/case sold)	\$5,968	

*Note: This amount includes depreciation expense.

The Gates County ABC Board has contracted with the Gates County Sheriff's Office to provide routine inspections to permitted establishments within the county. The contract details \$3,000 to be paid in monthly installments. The Gates County ABC Board distributed \$1,200 in FY2016.

In addition to the law enforcement distribution requirement, the board is required to expend seven percent (7%) towards alcohol education or rehabilitation purposes. The board has not distributed towards alcohol education.

Financial Analysis Recommendations

Recommendation #1: To increase sales and be able to make the required minimum distribution, consider effective practices that would generate more traffic for both stores. Such practices would include:

- ***Create an ABC Board website that displays store hours, board meeting notices, sales pricing information, and other topics that would be of interest to customers.***
- ***Utilize resources that would provide effective practices, i.e. up-to-date shelf management, customer service, and inventory management, using the board's sales history.***

Recommendation #2: Begin making plans to distribute quarterly the 3 ½% markup and alcohol education distributions.

Recommendation #3: Contact neighboring systems to inquire about selling off discontinued or slow-moving products or ask for a price reduction from the NC ABC Commission.

STORE APPEARANCE

The ABC Auditor visited both locations to evaluate store appearance. The findings are as follows:

- One out of the two stores displayed the required Fetal Alcohol Syndrome poster. Other signage, although not required, was visible. Some signage was worn.

Recommendation #4: Ensure that the required Fetal Alcohol Syndrome poster is displayed in all locations. The poster is available at the ABC Commission. Replace any worn and faded signage in both locations.

- Both locations did not display a shelf management system conducive to industry norms considering sales history and trends. In many areas, empty shelves were evident indicating low inventory availability.

Recommendation #5: Consider utilizing resources that would increase sales with minimum cost. Refer to recommendation under the financial analysis.

OPERATIONAL AND ADMINISTRATIVE COMPLIANCE

- While inspecting stores, the ABC Auditor randomly selected approximately seventy product codes to determine if uniform pricing is displayed on the shelves. Of those seventy product codes, two were incorrect.

Recommendation #5: Conduct a routine check of shelf prices along with the register to ensure accuracy. All prices must match what is in the register, the shelf, and within the NC Liquor Quarterly, and/or memorandums. Refer to the ABC Commission's website to verify product pricing.

- Management has begun cross training key employees in some areas but has not fully shared common areas with staff.

Recommendation #6: Continue to offer cross training in key areas of operation to capable and skilled staff so that in the event the general manager is suddenly unavailable store operations can continue without interruption.

- In reviewing a sample of liquor vendor invoices and payment schedules, some payments were made more than thirty days after receipt of product.

Recommendation#7: Pay all liquor vendor invoices within thirty days of receipt. NCAC 02R .1407 (c) states, "Local boards shall remit full payment of the distiller's invoice within thirty (30) days of delivery of the liquor."

- According to the Financial Audit FY2016, the auditor noted at least five line item expenditures exceeding budgeted amounts. See below audit note:

“There are five expenditure line items that exceeded the line item budget, the largest being \$249. The over expenditures were primarily the results of accounts payable adjustments. The total expenditures were well within the total expenditure budget.”

The overall expenditures did not exceed budget. However, sales projections did not meet budget. Amendments to the sales were not made.

Recommendation #8: Monitor budget consistently to ensure that actual expenses are not exceeding budgeted line items. In the event actual expenses have exceeded budgeted line items, create amendments to reflect the difference. Amendments are required when expenses are over budget or have not been budgeted and when sales projections are not meeting or are exceeding budgeted amounts. Forward copies of the approved amendments to the appointing authority and the ABC Commission. G.S. 18B-702 (h) states, “Except as otherwise restricted by law, the local board may amend the budget at any time after adoption, in any manner, so long as the budget, as amended continues to satisfy the requirements of this section...Amendments to the adopted budget shall also be provided to the appointing authority and the Commission.”

SUBSEQUENT EVENTS

The below information was received after the performance audit draft was completed and references the financial audit of FY17.

In FY17, the Gates County ABC Board had a profit percentage of -0.29%, a 0.99% decrease over FY16. In the same year of FY17, the operating cost ratio decreased from 0.89 to 0.84.

See chart below showing the expenses and income (loss) from operations of the previous two years.

	FY17	FY16
Expenses less Depreciation	\$146,819	\$146,994
Income (Loss) from Operations	(\$2,118)	(\$10,498)

In FY17, the Gates County ABC Board did not distribute the minimum 3 ½% markup and bottle charge to the county. However, the board made a law enforcement distribution totaling \$2,250.

ADDITIONAL RECOMMENDATIONS: *As a continuation of the previous recommendations that would increase sales revenue, consider more effective practices such as:*

- *Utilizing effective marketing strategies that will increase sales such as:*
 - *Partnering with distilleries to showcase product as long as it meets the NC ABC Commission's promotion requirements*
 - *Creating recipe cards, displays, and other marketing techniques that would increase sales*
 - *Borrowing common marketing strategies from suppliers and other boards*
- *Contacting neighboring systems to inquire about selling off discontinued or slow-moving products or ask for a price reduction from the NC ABC Commission.*

BUDGET ANALYSIS

In reviewing the budget to actual analysis of the FY2017 financial audit, sales revenue exceeded the budgeted projections for the year by 1.9%. The board made budget amendments throughout the year to increase sales and adjust expenses. Below is a chart showing the final budget to actual amounts and the variances.

	FY2017 Budget Projections	FY2017 Actual Amounts	Variance	Variance Percentage
Sales	\$713,200	\$726,953	\$13,753	1.9%
Total Operating Expenses including Capital	\$156,600	\$146,684	\$9,916	6.8%

GATES COUNTY ABC BOARD

P.O. BOX 71, SUNBURY NC 27979 252-465-2502 / 252-357-1651

DATE: 05-10-2017

TO: North Carolina ABC Commission

RE: PERFORMANCE AUDIT

Dear Commission,

Gates County ABC System met with Moniqua McLean from the NCABC Commission. Moniqua reviewed our stores and policies. Moniqua spotted some incorrect prices on the shelves and we doubled our efforts to maintain correct shelving and cash register prices according to the NCABC Quarterly price book. Also she noted that one Store did not display the Fetal poster. Both Stores have new Fetal poster now in place. Liquor invoices must be paid on time within the 30 day allotment. Moniqua made some very helpful suggestions for increasing our sales. As she noted our liquor sales have increased and should continue to increase. We have ordered more variety of Tequila as to offer customers more choices.

Gates County ABC Stores will continue to work on achieving the commission's 5% or higher profit to percent standard and meeting the 0.85 operating cost ratio.

We would like to thank Moniqua McLeans and the NCABC Commission for the help and suggestions to improve our stores.

Sincerely,


General Manager