

Bessemer City 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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March 2, 2022

Bessemer City ABC Board
Mr. Robert Crouch, Chair
208 West Alabama Ave
Bessemer City, NC 28016

Chairman Crouch,

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

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,

Terrance L. Merriweather
Deputy Commissioner

cc: North Carolina Association of ABC Boards

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 Gaston County, approximately five miles from Gastonia, Bessemer City is home to one of the largest producers of lithium. It is approximately five miles to Kings Mountain, eight miles to Cherryville, and twenty-five miles to Charlotte. Surrounding towns with ABC stores, include Gastonia, Kings Mountain, Shelby, and Cherryville. The US Census Bureau reports a population of 5,428 in 2020.

Chapter 77 of the 1969 Session Law authorized the town to hold an election for an ABC store. The referendum was held on May 17, 1969 and passed 759 to 460. The date of the first retail sales was November 24, 1969. A mixed beverage election was held on March 25, 2003 and did not pass. Another mixed beverage election was held on May 2, 2006 and passed 179 to 145.

Upon election of an ABC store, the town of Bessemer City was authorized to create an ABC Board consisting of a chairman and two members to serve for three-year terms. In recent years, the appointing authority has increased the number of board members from three to five members.

The Bessemer City ABC Board operates one (1) retail store and staffs one part-time general manager, one part-time finance officer and six (6) part-time employees. 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 the day-to-day operations of the ABC store. Clerk responsibilities include customer-friendly service on selling products, daily stocking, and floor upkeep and maintenance.



OPERATIONAL OBSERVATIONS, FINDINGS, REQUIRED ACTIONS, & RECOMMENDATIONS

On Thursday, January 13, 2022, ABC Board Program Analyst Quinn Woolard, visited the Bessemer City ABC Board and interviewed Jaime Bingley, General Manager and Cheree Wilson, Finance Officer. Below is a financial analysis followed by operation observations, findings, and recommendations related to the performance audit. For reference, the last ABC Commission audit occurred in 2012.

FINANCIAL ANALYSIS

PROFIT PERCENTAGE TO SALES & OPERATING COST RATIO

In fiscal year (FY) 2020-2021, the Bessemer City ABC Board had a profit percentage to sales of 5.78%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales less than \$2M is 5%. The Bessemer City ABC Board's gross sales totaled \$831,663, which was a 7.64% increase over FY 2019-2020.

The operating cost ratio for the Bessemer City ABC Board was .72 in FY 2020-2021. The NC ABC Commission standard for ABC Boards with 1 or 2 stores and mixed beverage sales is .73 or less.

Thus, the Bessemer City ABC Board met both the profitability standards and 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	\$204,361	\$190,106
Income from Operations	\$48,088	\$38,592

Factors affecting profitability and cost include:

- Surrounding municipalities with other ABC Boards operating stores within a fifteen (15) mile range include: Six (6) stores operated by Gastonia ABC, two (2) stores operated by Lincolnton ABC, one (1) store operated by Kings Mountain ABC, and one (1) store operated by Cherryville ABC.
- The ABC Board currently owns the store location and has no financed debt.

- An ABC Board’s average cost of goods sold (COGS) is between 52% & 54% per year. The Bessemer City ABC Board’s cost of goods sold was approximately 52.4% in FY 2020-2021.
 - *Mixed beverage sales were 8.7% of total sales in FY 2020-2021.*

BUDGET ANALYSIS

	FY 2020-2021 Budget Projections	FY2020-2021 Actual	Variance	Variance %
Sales	\$830,146	\$831,663	\$1,517	0.18%
Total Expenditures (to include Distributions)	\$798,143	\$798,961	\$818	(0.1%)

In reviewing the budget to actual analysis of the FY2020-2021 financial audit, actual sales revenues were over the budgeted projections by 0.18%. Total expenditures were also very slightly over budget for the same period by a meager 0.1%. 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 2020-2021, Bessemer City ABC made distributions totaling \$24,800 (Bessemer City received \$22,000 of this). The amount of \$190,709 in excise and other taxes were paid to the NC Department of Revenue (NCDOR), the NC Department of Health and Human Services (NCDHHS), and the county commissioners of Gaston County.

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

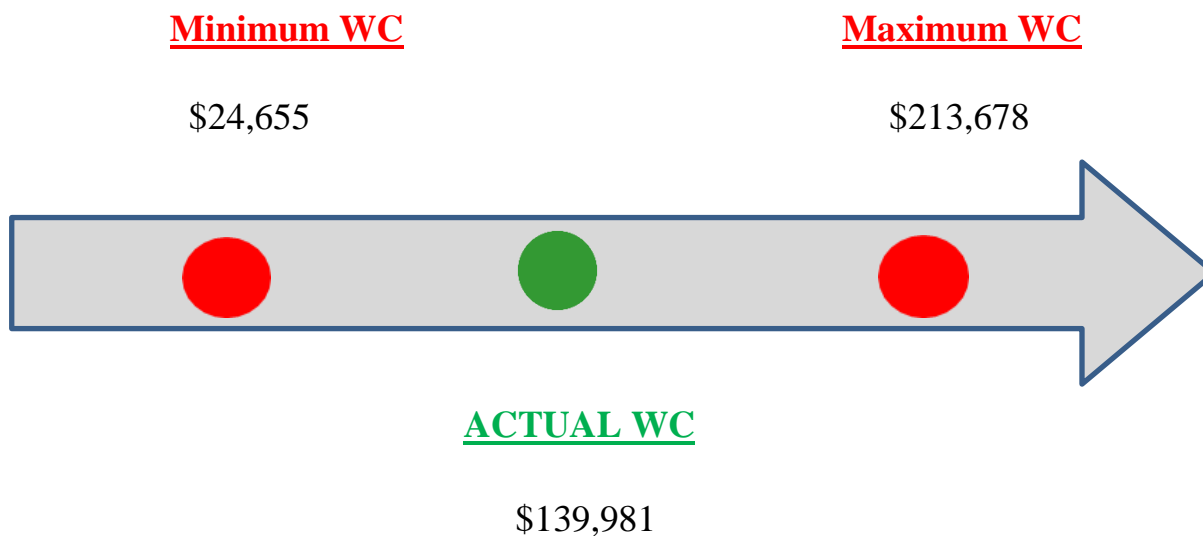
- One hundred percent (100%) to Bessemer City General Fund

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, 2021, the Bessemer City ABC Board is required to maintain a minimum working capital of \$24,655 with a maximum working capital amount of \$213,678. The Bessemer City ABC Board had a working capital balance of \$139,981 which falls *within* 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.

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE

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

- The board holds regular meetings the fourth Monday of each month at 5:00 PM, records regular meeting minutes, and provides public notification and awareness of these meetings.
- The board has a personnel policy manual and code of ethics policy as required. The personnel manual is not on file with the Commission, and it is an incomplete manual. The code of ethics does not have a signature page per Commission records.
- One budget amendment was approved by the board and submitted to the Commission during FY 2020-2021.
- The board has a general manager and finance officer who both began employment with the board in 2021. The finance officer is signing checks as required per statute. Invoice records for liquor purchases reflect them as being paid in a very prompt manner. The same applies for distribution of revenue and distributions of profits.
- All employees of the board are part-time status and there are no full-time employees. The general manager discussed networking with the Cherryville ABC board for mentoring on the ABC board system, as well as working to ensure employees are cross-trained and empowered to better ensure continuity of store operations.
- For financial oversight, the board members review bank statements and financial records monthly. Board members are encouraged to conduct monthly checks and balances to ensure that cash management practices are upheld.
- Bank deposits are routinely made daily per discussion and verified via review of bank statements.
- The FY 2020-2021 CPA audit computed the minimum mandatory profit distribution (3.5%) owed as being \$24,000. However, the board made only \$22,000 in profit distribution to the appointing authority of Bessemer City. No capital improvement plan is in effect or on file with the Commission.
- Payroll services are provided by a private company.
- Law enforcement (LE) reports have been submitted monthly as required. The LE contract on file with the Commission was approved by the board in 2011 and police chief and city manager have since departed. However, personnel provided an updated LE contract during the visit.
- Bessemer City Crisis Ministry and Boy Scouts Troop 54 were stated as being the recipients of alcohol education funds. There was no documentation referencing them as the recipients, and the board personnel discussed that the recipients had provided no documentation for their actual or planned use of these funds.
- All board members and general managers appear to be bonded as required; however, this information could not be verified as no documentation was located.
- Some breakage reports were reviewed. However, recent copies had not been submitted to the Commission.

STORE APPEARANCE & SHELF MANAGEMENT

The findings for store appearance are as follows:

- The store has been remodeled since the 2012 Commission audit.
- 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. The parking lot was recently re-paved, the awning was recently cleaned, and the front of the building has received some painting. These all serve to promote a warm and inviting appearance for the store.
- 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 roughly 75 items was selected to determine if uniform pricing is displayed. Of those selected, all had the correct pricing.
- As a reminder, remove all faded posters and replace with new ones. The ABC Commission can 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.

RECOMMENDED ACTIONS (TO MEET COMPLIANCE WITH STATUTES OR 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. *Ensure budget amendments are submitted to the ABC Commission as required per NCGS 18B-702(h), to include a final reconciliation budget amendment for the FY 2020-2021 period.*
- Ensure all policies are submitted to the Commission prior to official board approval. Currently, an electronic copy of the policy & procedures manual needs to be submitted to the Commission. NCAC 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.”
- 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). This would primarily be applicable for liquor orders, and the stamp could be placed on applicable Order Acknowledgement Forms or other order document. The specific statement should read, “*This instrument has been pre audited in the manner required by G.S. 18B-702.*”
- All recipients of alcohol education/research funds must provide an annual report to the Bessemer City ABC Board, describing how the funds were spent [*Referencing 18B-805(h)*]. Consider the request to obtain documentation before the funds are officially awarded or transmitted to the recipient(s).
- Each local board member and employees designated as the general manager and finance officer of the board shall be bonded for not less than \$50,000, secured by a corporate surety, for the faithful performance of duties [*Referencing 18B-700(i)*].
- The board has a code of ethics policy per G.S. 18B-706, and ABC Commission already has a copy. The following are additional needed administrative actions:
 - As the code of ethics has no referencing signature or approval by the board, the board needs to sign a new acknowledgment / approval document page for the code of ethics and provide a copy to the Commission which reflects the current chairman and other applicable board personnel.
 - The Board needs to complete a Certificate of Accountability form declaring the statutory duties of the board have been properly performed and provide to the Commission.
- All reappointed and newly appointed board members are required to complete ethics training within one (1) year of their reappointment date per *G.S. 18B-706(b)*. Per Commission records, the city liaison representative would need to complete this training by November 2022.

ADDITIONAL CONSIDERATIONS & RECOMMENDATIONS

- To promote better management of board operations, the board should consider employing the general manager on a full-time basis.
- To improve operating cost ratios, request bids annually from various vendors to get the best rates possible on financial audits, specific utilities, maintenance contracts, and credit card processing fees.
- The Board is encouraged to closely review financial statements monthly, comparing with the annual budget forecast, approving budget amendments when necessary and ensuring copies are submitted to the Commission.
- 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 the routine operations and employee morale stronger.
- Quarterly distributions of profits must occur (per G.S. 18B-805(c)(e), *unless the applicable distribution recipients approve of distributions made otherwise.*
- Consider using existing liquor inventory to fill in empty sections as applicable, until out of stock product or new product inventory has been established in the store and shelf space.
- When applicable, 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 (3) years.
- The Board can explore additional training opportunities periodically available through the ABC Commission as well as continuing to partner with other ABC boards on specific areas such as best retail and marketing practices.

APPENDIX A

Program Analyst's Summary

The performance audit recommendations were presented to the board on January 24, 2022. The board has not provided a formal response, yet the board agrees with all recommendations as presented. The board continues to focus on enhancing profitability and reducing expenses when possible.