

Monroe 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

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Alcoholic Beverage Control

CHAIRMAN:
Hank Bauer

August 4, 2022

COMMISSIONERS:
Norman A. Mitchell, Sr.
Charlotte

Monroe ABC Board
Terry Sholar, Chair
1771 Dickerson Blvd
Monroe, NC 28110

Karen L. Stout
Black Mountain

Chairman Sholar,

Deputy Commissioner:
Terrance L. Merriweather

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

LOCATION:
400 East Tryon Road
Raleigh NC 27610

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.

MAILING:
4307 Mail Service Center
Raleigh NC 27699-4307

If we can be of assistance in the future, please do not hesitate to reach out to the Commission staff.

PHONE: (919) 779-0700
<http://abc.nc.gov/>

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

Monroe was established in 1843 and named for the country's fifth president. The city is located less than an hour southeast of Charlotte, and Ludwig drums have been manufactured here since 1984. The city's population per the 2020 Census is approximately 35,540 residents reflecting an 8.4% increase since 2010.

Chapter 541 of the 1963 Session Laws authorized the City of Monroe to hold an election upon a petition of at least 15% of registered voters. The referendum was held on September 10, 1963, and narrowly passed 956 to 930. The first sale occurred on December 3, 1963. Multiple mixed beverage referendums were held until the measure finally passed on August 17, 1993, by 1,930 to 1,719. The City of Monroe appoints a chairperson and two board members to serve for three-year terms on the ABC board.

The Monroe ABC Board currently operates one (1) retail store. The board staffs approximately fourteen (14) employees including a general manager, finance officer, and sales associates. 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. Sales associate responsibilities include selling products, daily stocking, and floor upkeep & maintenance.

The last performance audit for the Monroe 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 Wednesday, May 25, 2022, ABC Board Program Analyst Quinn Woolard, visited the Monroe ABC Board and interviewed Mike Hinkel (General Manager), Nicole Cline (Finance Officer), and Terry Sholar (Chairman). 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 Monroe ABC Board had a profit percentage to sales of 10.91%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales greater than \$2M is 6.5%. The Monroe ABC Board's gross sales totaled \$6,066,644, which was a 10.62% over the previous fiscal year.

The operating cost ratio for the Monroe ABC Board was .53 in FY 2020-2021. The NC ABC Commission standard for ABC Boards with one or two stores and mixed beverage sales is .73 or less.

Thus, the Monroe 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 | \$1,514,400 | \$1,357,010 |
| Income from Operations | \$661,986 | \$521,016 |

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores within a ten to fifteen (10-15) mile range of Monroe ABC: Mecklenburg ABC has four [4] stores operating within this range; Indian Trail ABC has a store operating within range; Waxhaw ABC has a store operating within range; Wingate ABC has a store operating within ten-mile range.
- An ABC Board's average cost of goods sold (COGS) is between 52% & 54% per year. The Monroe ABC Board's cost of goods sold was approximately 51.9% in FY 2020-2021.

- *Mixed beverage sales were roughly 11.7% of total sales in FY-2021, and there are currently more than thirty-five (35) mixed beverage business customers.*

➤ Neighboring board Indian Trail ABC will be opening a second store location.

BUDGET ANALYSIS

| | FY 2020-2021 Budget Projections | FY2020-2021 Actual | Variance | Variance % |
|--|------------------------------------|-----------------------|-------------|------------|
| Sales | \$6,200,000 | \$6,066,644 | (\$133,356) | 2.2% |
| Total Expenditures (to include Distributions) | \$6,201,500 | \$6,030,617 | \$170,883 | 2.8% |

In reviewing the budget to actual analysis of the FY2020-2021 financial audit, actual sales revenues were under the budgeted projections by 2.2%. In addition, total expenditures were also under budget for the same period by 2.8%. Revenues over expenditures was \$38,720 for the fiscal year period. 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 was around \$1.5M; this net position figure has remained virtually the same over the last five (5) fiscal years due to routine strong distributions to the board of education, library, and other town and county recipients.*

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, Monroe ABC made other statutory distributions totaling \$661,796 (Net profit distribution recipients received \$548,968 of this). The amount of \$1,405,174 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 Union County.

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

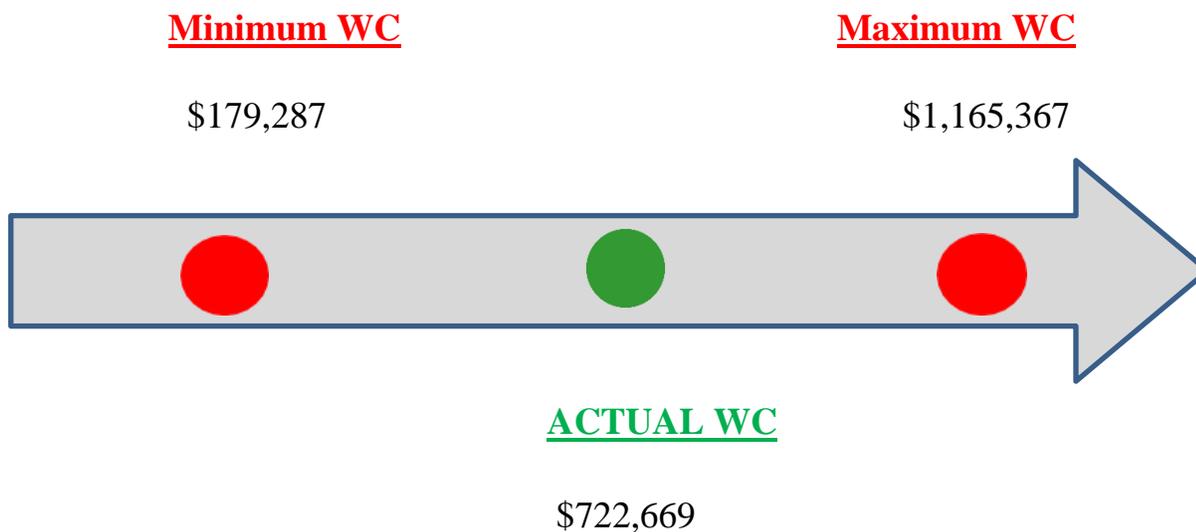
- Fifty percent (50%) to Monroe General Fund
- Twenty-five percent (25%) to Union County General Fund
- Twenty-four percent (24%) to Union County Board of Education
- One percent (1%) to Union County Library

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 Monroe ABC Board is required to maintain a minimum working capital of \$179,287 with a maximum working capital amount of \$1,165,367. The Monroe ABC Board had a working capital balance of \$722,669, 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 board meetings the second Wednesday of each month at 9:00 AM, records regular meeting minutes, and provides public notification and awareness of these meetings. The minutes provided have the conflict-of-interest disclosure statements and discussion. The meeting minutes are routinely signed and kept in a binder for review.
- The board has a sufficient personnel policy manual, and the Commission had a copy. The policy was last updated in 2010, and the board is planning an update review in the coming year.
- The board exceeded original budgeted sales in FY-2021. A budget amendment was adopted by the board and copy provided to the Commission. Currently, the board is on track with FY-2022 budgeted sales and will potentially exceed original projected figures in June 2022. A recently signed budget amendment for forecasted sales increase was obtained for Commission records during the visit.
- 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. Payroll is processed bi-weekly by the finance officer and QuickBooks is used for journal entries as well as for payroll activities.
- 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 and finance officer provide inventory system documents and financial statements prepared by the bookkeeper for review. Also, inventory adjustment reports are provided monthly to the board for visibility.
- Bank deposits are routinely made daily per review of bank statements and discussion with the general manager.
- Pre-audit certificates are being routinely stamped on liquor orders as required by statute. *To increase administrative efficiency, the last page of the Order Edit List may be stamped with these pre-audit certificates.* The board will work with their inventory system consultant on exploring how to accomplish this. The disbursement approval certificate statement is also present on blank checks.
- The law enforcement contract on file reflects a former mayor. Thus, a new law enforcement contract will need to be adopted.
- Law enforcement (LE) reports have been submitted routinely with regular statistics listed. In 2021, a few months had no alcohol enforcement data or comments listed.
- The minimum mandatory net profit distribution to local recipients was calculated as being \$170,234 in the FY-2021 CPA annual audit, and \$548,968 were made in distributions. *Over the past few fiscal years, distributions have routinely been generous and well exceeded minimum calculations. They are determined to be paid in accordance with local enabling act percentages requirements. Law enforcement distributions have far exceeded minimum requirements.*
- Alcohol education distributions were made to the following organizations: *Union County Drug Treatment Court Foundation, Bridge to Recovery, and ARC of Union County.* Recipients have provided documentation to the board explaining use of funds. Also, board meeting minutes for one month reflected good oversight and liaison with recipient organizations.
- Store inventories are normally conducted monthly with intermittent spot checks.
- The general manager verified that all board members and general manager and finance officer are bonded as required; board members' compensation amounts adhere properly to general statute requirements.

STORE INSIGHT & OVERVIEW

The findings for store insight & overview are as follows:

- The store is in the center of the city near major shopping outlets. Due to Indian Trail ABC opening a second store in the near future, the board plans to monitor potential store sales impacts.
- Delivery service surveys will be obtained from retail liquor businesses to gauge interest. Due to being designated a Tier 3 county per NC Dept of Commerce records, the board must offer delivery service to its retail liquor business customers beginning in July 2022, referencing Rule 15A . 1903 Delivery of MXB Permittee Orders. The board plans to begin working on a MXB Delivery Policy and is considering options to purchase a cargo van for deliveries.
- The board will begin offering in-store tastings; a policy for this is not yet in place.
- The board offers online ordering of liquor products for its mixed beverage permittees.
- The store displayed the required Fetal Alcohol Syndrome poster required by G.S. 18B-808. A fresh poster copy was provided on request.
- North Carolina products are 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 60-70 items was selected to determine if uniform pricing is displayed. Of those selected, *all* items displayed the correct quarterly or monthly SPA prices.

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.*
- For the Monroe ABC board, there is not a valid, signed law enforcement contract approved by any current City of Monroe officials. Thus, a new law enforcement contract would need to be formally reestablished 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.*
- 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. When an updated personnel manual has been finalized by the board, please forward an electronic copy to the Commission. The board is recommended to adopt an in-store tasting policy & a vehicle use policy and forward electronic copies to the Commission.*
- Board member terms for the board are not currently staggered in accordance with 18B-700(a). Two (2) board members were appointed in January 2022 with terms expiring simultaneously in December 2024 per ABC Board and Commission records. 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.*
- All board members (and newly appointed members) are required to complete ethics training within one (1) year of their initial appointment and each subsequent appointment date per *G.S. 18B-706(b)*. Per Commission records on recent appointment in Jan 2022, Board Member Roderick and Board Member Garrett would need to complete the ethics training by Jan 2023. *Completion certificates should be forwarded to the Commission via email.*
- 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 the local travel policy per *G.S. 18B-700(g2)*. NOTE: *As another option, the board can alternately 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 and providing a copy of minutes to the Commission.*
- The board has an existing code of ethics. The following is an additional needed administrative action: *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 (*referring to where boards log on monthly with password to report sales on the Commission's board website*). 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 processing 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 monthly special purchase allowance (SPA) liquor products that routinely sell well in the store. By purchasing liquor on sale whenever possible, this will enhance the 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.*
- ABC board members and management staff 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.
- 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 the Commission; 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 reach out to and lean on the Commission when guidance or assistance is needed to support local ABC board mission and success!**

CITY OF MONROE
ALCOHOLIC BEVERAGE CONTROL BOARD

GENERAL MANAGER
J. MICHAEL HINKEL
FINANCE OFFICER
NICOLE CLINE

1771 DICKERSON BOULEVARD
MONROE, NORTH CAROLINA 28110
704-283-1033

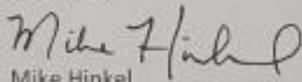
BOARD MEMBERS
TERRY SHOLAR, CHAIRMAN
GARY RÖDERICK
FRANK GARRETT

To: North Carolina ABC Commission
From: The City of Monroe ABC Board
Re: Performance Audit
Date: July 18, 2022

On behalf of the City of Monroe ABC Board I would like to thank Mr. Quinn Woolard for both his time and effort in preparing our Performance Audit on May 25, 2022. We would also like to thank Mr. Woolard for reporting the findings of the audit to our Board at our June 2022 Board Meeting.

All recommended store policies have been adopted and will be forwarded to the NC ABC Commission. Additionally, there were two recommendations that require consideration by our appointing authority. Those items will be forwarded to the NC ABC Commission once action is taken by the City of Monroe. Overall, the Monroe ABC Board was pleased with the process and results of the audit and welcomes any further guidance.

Sincerely,



Mike Hinkel
General Manager
The City of Monroe ABC Board