

Mocksville Cooleemee 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 & Background Information	4
Financial Analysis, Observations & Findings	6
Recommended Actions & Additional Considerations	11
Mocksville Cooleemee ABC Board Response.....	14



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

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April 7, 2022

Mocksville Cooleemee ABC Board
Mr. Bennett M. Randall, Chair
PO Box 606
Mocksville, NC 27028

Chairman Randall,

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

Mocksville-Cooleemee ABC Board, a component unit of the Town of Mocksville and the Town of Cooleemee, North Carolina (the towns), is a corporate body with powers outlined by General Statutes [Chapter 18B-701]. The towns' governing body appoints the Board.

Mocksville-Cooleemee ABC Board (the Board) was organized under the provisions of General Statute 18B-703 and implemented by a town-wide election held in Cooleemee on November 3, 1987, and in Mocksville on November 1, 2016. The town councils of Cooleemee & Mocksville jointly appointed five (5) individuals to serve on the board with original terms of three years, two years, and one year.

The board operates two (2) retail stores with one store in each respective municipality. The board staffs three (3) full-time employees and currently thirteen (13) part-time employees including a general manager (serving as 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 general manager also provides the board with fiscal management, administrative support, and assists with routine operations of the ABC store. Sales associate responsibilities include selling products, daily stocking, and floor upkeep & maintenance.

This is the first performance audit for the Mocksville-Cooleemee ABC Board (with the former Cooleemee ABC Board having a performance audit back in 2013). This follow-up round of performance audits serves as a continuous way for the Commission to provide local ABC boards with information and best practices that target areas for improvement.



OPERATIONAL OBSERVATIONS, FINDINGS, REQUIRED ACTIONS, & RECOMMENDATIONS

On Tuesday, March 1, 2022, ABC Board Program Analyst Quinn Woolard, visited the Mocksville Cooleemee ABC Board and interviewed Kris Howell, General Manager. 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 Mocksville Cooleemee ABC Board had a profit percentage to sales of **7.88%**. The NC ABC Commission profit to sales standards for ABC Boards with gross sales greater than \$2M yet less than \$10M is 6.5%. The Mocksville Cooleemee ABC Board's gross sales totaled \$3,500,222, which was a 21.22% increase over FY 2019-2020.

The operating cost ratio for the Mocksville Cooleemee ABC Board was **.65** 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 Mocksville Cooleemee ABC Board well exceeded 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	\$861,419	\$725,458
Income from Operations	\$275,832	\$206,749

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores within a fifteen to twenty (15-20) mile range of any include: Several stores operated by the Rowan Kannapolis ABC Board and one store operated by Triad ABC Board in Advance, NC.
- The ABC Board leases the Mocksville location and owns the Cooleemee location. The board has financed debt for a recent remodel of the Cooleemee store.

- An ABC Board’s average cost of goods sold (COGS) is between 52% & 54% per year. The Mocksville Cooleemee ABC Board’s cost of goods sold was approximately 52.7% in FY 2020-2021.
 - *Mixed beverage sales were 4.6% of total sales in FY-2021.*
- Net position was \$387,000 at the end of the FY-2021, which is a 150% increase since the end of the FY-2019.

BUDGET ANALYSIS

	FY 2020-2021 Budget Projections	FY2020-2021 Actual	Variance	Variance %
Sales	\$6,154,700	\$6,271,110	\$116,410	1.9%
Total Expenditures (to include Distributions)	\$6,168,900	\$6,207,953	\$39,053	(0.6%)

In reviewing the budget to actual analysis of the FY2020-2021 financial audit, actual sales revenues were over the budgeted projections by 1.9%. In addition, total expenditures were also slightly over budget for the same period by 0.6%. 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, Mocksville Cooleemee ABC made distributions totaling \$117,560 (towns’ general funds received \$98,600 of this). The amount of \$795,442 in excise and other taxes were paid to the NC Department of Revenue (NCDOR), NC Department of Health & Human Services (NCDHHS) and the county commissioners of Davie County.

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

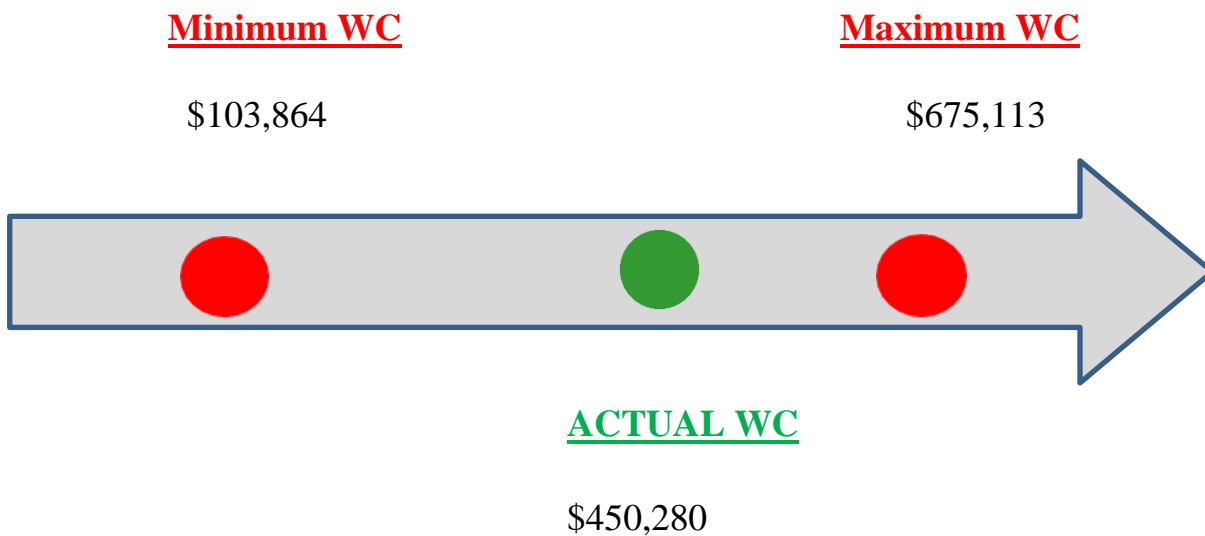
- Follows merger agreement – 100% to town general funds

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

Based upon the existing rules, as of June 30, 2021, the Mocksville Cooleemee ABC Board is required to maintain a minimum working capital of \$103,864 with a maximum working capital amount of \$675,113. The Mocksville Cooleemee ABC Board had a working capital balance of \$450,280 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 first Monday of each month at 8:00 AM, records regular meeting minutes, and provides public notification and awareness of these meetings. The meeting minute records show the minutes routinely referencing conflict of interest disclosure statements. The meeting minutes were routinely signed by Chairperson or other board member presiding. *The February 2022 and December 2021 board meetings included closed sessions occurring, and no minutes were available or taken for these closed sessions.*
- The board has a personnel policy manual and code of ethics policy as required. The personnel manual and code of ethics policy were not previously on file with the Commission. The Commission has now received copies of these and uploaded to Commission portal for recordkeeping.
- Chairperson salary exceeds statute maximum. Previously, the Commission did not have documentation for this approval, and the merger agreement was provided showing approval from the two towns for this back in 2018. Commission electronic records are now updated.
- All board members reflect current and valid appointment dates and board terms are properly staggered. *Chairperson is due for ethics training by June 2022 following June 2021 reappointment to board.*
- One budget amendment was submitted to the Commission during FY 2020-2021 in July 2021, yet the board had exceeded budgeted sales in May 2021.
- The general manager as finance officer is signing checks as required per statute. Invoice records for liquor purchases reflect them as routinely being paid inside of 30 days. Distributions and various taxes are paid in a routine manner. The board has a business credit card but no policy for its use.
- For financial oversight, the board members review bank statements and financial records monthly along with the general manager. 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 review of bank statements.
- The general manager is routinely stamping pre-audit certificates on liquor orders as required by statute. The disbursement approval certificate is also present on blank checks.
- The board receives routine quarterly oversight from Turlington and Associates CPA firm. The firm provides a quarterly reconciliation to ensure the board stays on track with financial management and stewardship.
- Law enforcement (LE) reports have been submitted monthly as required. *However, the past few years had no enforcement data listed on the reports. It was determined that the Coolemees Police Department was not providing any law enforcement services for the board nor was the department completing monthly law enforcement reports for some time.* The board entered a new contract with Alcohol Law Enforcement (ALE) agency beginning in July 2021 for law enforcement services. The current contract has now been provided to the Commission and it expires in June 2022.
- Sufficient profit distributions to the respective towns have occurred over the past two fiscal years.
- The recipient of alcohol education distributions, Recovery Community, has not provided any documentation to the board describing how the alcohol education funds were utilized.

STORE APPEARANCE & SHELF MANAGEMENT

The findings for store appearance are as follows:

- The Cooleemee store was recently remodeled allowing for increased square footage on the sales floor. New floors, shelves and overall bigger layout provide for a pleasant and comfortable shopping environment. The parking lot will be repaved as well.
- The stores 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.
- Security systems are in place and functional in all designated areas.
- Sales associates' 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 items had the correct prices listed on the shelf.
- 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.

REQUIRED / RECOMMENDED ACTIONS (PER 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. This would include the point in time during the fiscal year when the board will exceed its annual forecasted sales budget. *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.*
- Board member salaries are approved by the appointing authorities of Mocksville & Cooleemee as being \$150 per month for board members and \$175 per month for Chairperson. However, the merger agreement does not specify a per board meeting compensation amount in accordance with G.S. 18B-702(g), nor does the agreement properly address mandatory attendance to receive this compensation. Also, a payment schedule to board members is not addressed. The Commission heavily recommends the Board secure a letter from the appointing authorities to fully clarify compensation and requirements involved and forward a copy to the Commission. A suitable letter would include a per board meeting compensation amount, clarifying board meeting attendance requirements for earning compensation, and would state the payment schedule (or frequency thereof) for board members.
- Boards must keep full and accurate minutes of all official meetings, including all closed sessions, *referencing G.S. 143-318.10.*
- All reappointed 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 on recent reappointment, the Chairperson would need to complete the training by June 2022.
- Ensure all policies are submitted to the Commission prior to official board approval. 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.” *A business credit card template has been forwarded to the board for consideration, and once the board has officially adopted a credit card policy, an electronic copy can then be forwarded to the Commission.*
- Recipients of alcohol education/research funds must annually provide an annual report to the Mocksville Cooleemee 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.*
- Following June 2022 expiration of the law enforcement contract with Alcohol Law Enforcement (ALE) agency, the board would need to secure a new or amended contract and forward to the Commission.
- Law enforcement reports must be submitted on the Commission’s board website by the 7th of each month referencing G.S. 18B-501(f1). Reports are to include as applicable the number of arrests made for ABC law, number of agencies assisted with ABC law, and other metrics for ABC law contribution such as compliance checks and alcohol education classes presented.

REQUIRED / RECOMMENDED ACTIONS (PER STATUTES OR RULES)

- The board has a code of ethics policy per G.S. 18B-706, and ABC Commission now has a copy. The following is a needed administrative action in connection with the audit.
 - A Certificate of Accountability form declaring the statutory duties of the board have been properly performed needs to be completed and copy forwarded to the Commission.

ADDITIONAL CONSIDERATIONS & GUIDANCE

- The Board should consider listing board member term expiration dates on board meeting minutes. This would provide high situational awareness for the board and efficient updates with the Commission.
- The Board is encouraged to closely review financial statements monthly, comparing with the annual budget forecast, approving budget amendments when necessary and forwarding copies to the Commission.
- 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 should consider the feasibility of adding an “ABC Store” marker on the pylon shopping center sign to increase the store’s visibility.
- 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.
- 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.
- 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.
- The Board 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.

**MOCKSVILLE-COOLEEMEE ABC
BOARD 191
P.O. BOX 606
MOCKSVILLE, NC 27028
336-753-0100**

Mr. Quinn Woolard
ABC Board Auditor
400 E. Tryon Rd.
Raleigh, NC 27610

April 4, 2022

Dear Mr. Quinn Woolard,

We truly appreciate your support and recommendations from the audit performed on March 1, 2022. This performance audit will help us with the areas that need improvement. Please find below our responses to the findings and recommendations.

Item 1: Budget Amendments

All recommendations will be followed.

Item 2: Meeting Minutes

All recommendations will be followed.

Item 3: Ethics Training

All recommendations will be followed.

Item 4: Policies

Our Business Credit Card Policy was submitted to the ABC Commission on 03/12/2022

Item 5: Alcohol Education/ Research Funds

All recommendations will be followed.

Item 6: Code of Ethics & Certificate of Accountability

An updated Code of Ethics & Certificate of Accountability have been submitted to the ABC Commission on 3/12/2022.

I want to truly thank Mr. Woolard for his guidance and assistance.

Sincerely,

Kris Howell, GM/FO
Mocksville-Cooleemee
ABC Board 191