

Montgomery ABC Board

Performance Audit Report



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ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

CHAIRMAN:
Hank Bauer

February 17, 2022

COMMISSIONERS:
Norman A. Mitchell, Sr.
Charlotte

Montgomery ABC Board
James McLeod, Chair
PO Box 279
Biscoe, NC 27209

Karen L. Stout
Black Mountain

Chairman McLeod,

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 Montgomery 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 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

Montgomery County formed from Anson County in 1779 and was named after General Richard Montgomery. The US Census Bureau stated that the population in 2009 was 27,745. Although Montgomery County is an area with many historical towns, the most well-known towns are Biscoe, Candor, Mt. Gilead, Troy, and Star.

Chapter 145 of the 1969 Session Law authorized the towns of Montgomery County to hold an election upon receipt of a petition signed by fifteen percent of registered voters. The referendums were held on May 6, 1969. Votes for ABC stores passed in Biscoe 211 to 143 and in Mount Gilead 186 to 173. The first ABC store opened in 1969 in Mount Gilead. A mixed beverage election was held in Biscoe March 2004 and in Mt. Gilead April 2005. Both passed with 65% of the vote.

On May 6, 2008 a county-wide election was held with the majority of voters approving both the operation of ABC stores and mixed beverage sales. Subsequently, a merger agreement was signed between Montgomery County and Montgomery Municipal ABC Board. The ABC Board has six (6) appointed members, one each from Biscoe, Candor, Mount Gilead, Star, Troy, and Montgomery County. The ABC board has retail sites in Biscoe and Mount Gilead.

The general manager serves as the budget officer and is responsible for the efficient operation of both Montgomery ABC retail stores and personnel. 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 Montgomery ABC system. The Mount Gilead store has a store manager responsible for both overseeing and performing general management duties associated with the ABC retail store. The duties include retail sales, inventory control, record keeping, scheduling and supervising the store's clerks and assistant clerks under the guidance of the general manager. Overall, the board employs four (4) full-time personnel and six (6) part-time personnel as of September 2021.

The Montgomery ABC Board had its last audit in 2011. This performance 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 Tuesday, August 31, 2021, ABC Board Auditor Quinn Woolard, visited the Montgomery ABC Board and interviewed Phillip Richardson, General Manager and Lisa Wilson, 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 Montgomery Board had a profit percentage to sales of 7.94%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales more than \$2M is 6.5%. The Montgomery ABC Board's gross sales totaled \$2,515,263, which was an 19.6% increase over FY 2019-2020.

The operating cost ratio for the Montgomery ABC Board was .67 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 Montgomery ABC Board successfully met both the profitability 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.

	FY 2020-2021	FY 2019-2020
Gross Profit on Sales	\$628,591	\$498,881
Income from Operations	\$199,746	\$86,187

Factors affecting profitability and cost include:

- Surrounding municipalities with other ABC Boards operating stores within a twenty (20) mile range include: One store operated by the Albemarle ABC Board in Stanly County, one store operated by the Norwood ABC Board in Stanly County, and one store operated by the Wadesboro ABC Board in Anson County
- *The ABC Board owns both store locations, and currently has no long-term debt.*

- An ABC Board’s average cost of goods sold (COGS) is between 52% & 54% per year. The Montgomery Board’s cost of goods sold was approximately 52.1% in FY 2020-2021.
- *Mixed beverage sales were 7.9% of total sales in FY 2020-2021.*

BUDGET ANALYSIS

	FY2020-2021 Budget Projections	FY2020-2021 Actual	Variance	Variance %
Sales	\$2,490,671	\$2,515,263	\$25,142	1.0%
Total Expenditures (to include Distributions)	\$2,490,671	\$2,404,167	\$86,504	3.5%

In reviewing the budget to actual analysis of the FY2020-2021 financial audit, actual sales revenues were over the budgeted projections by 1.0%. Total operating expenses were under budget for the same period by 3.5%. 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, Montgomery ABC made distributions totaling \$87,700 (Montgomery County and municipalities of Biscoe, Candor, Mt. Gilead, Star and Troy combined received \$72,300 of this). The amount of \$576,601 in excise and other taxes were paid to the NC Department of Revenue (NCDOR), the NC Department of Health and Human Services (NCDHHS) and county commissioners of Montgomery County.

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

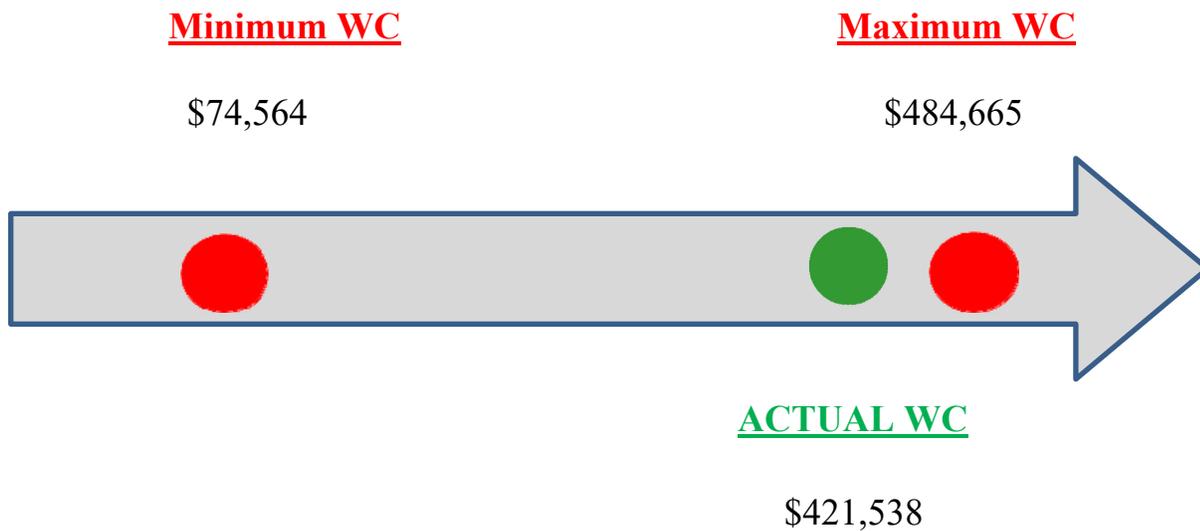
- Fifty percent (50%) to Biscoe, Candor, Mt. Gilead, Star & Troy general funds
- Forty percent (40%) to Montgomery County general fund
- Five percent (5%) to Biscoe for law enforcement purposes
- Five percent (5%) to Mt. Gilead for law enforcement purposes

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 Montgomery ABC Board is required to maintain a minimum working capital of \$74,564 with a maximum working capital amount of \$484,665. The Montgomery ABC Board had a working capital balance of \$421,538 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 third Wednesday of each month at 3 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 had not previously been submitted to the Commission and there was discussion on a sample policy & procedure template document available on the ABC Commission website.
- The finance officer is signing checks as required per statute, and checks bear the proper audit certificate required per statute.
- For financial oversight, the board members review bank statements and financial records monthly. The finance officer meticulously tracks daily bank deposits matching them up routinely with store computer records of sales. Board members are encouraged to routinely conduct monthly checks and balances to ensure that cash management practices are upheld.
- Invoice documentation shows liquor invoices being paid promptly inside of 30 days.
- Cash deposits are made nightly by both stores at the bank night deposit box. Law enforcement assistance is available upon request to the municipal police force.
- One board member is due for reappointment, and it was communicated that he will be reappointed in September. A new member has been appointed representing the Town of Biscoe.
- Law enforcement contract on file from 2012 is in effect with current sheriff who will be retiring at the end of 2021. Law enforcement reports were up to date and provided evidence of compliance checks and proper oversight.
- Montgomery County Schools was the recipient for alcohol education distribution funds. These funds were used toward purchase of program IN FORCE 911. This program provides school employees with an application to directly report intruder information to local law enforcement. No information could be obtained on how the funds are related to alcohol education or research.
- All board members and general managers are bonded as required; board members and general manager compensation adhere properly to general statutes.

STORE APPEARANCE & SHELF MANAGEMENT

The findings for store appearance are as follows:

- 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.
- Shelving study was recently completed, and a plan performed. Several product categories have been rearranged in accordance with the shelving plan.
- Meticulous inventory control remains a sharp priority with only \$119.00 encountered in product loss.
- 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.
- 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 80 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 PER STATUTE 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. *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.*
- Recipients of alcohol education/research funds must provide an annual report to the Montgomery ABC Board. This report would describe how the funds were spent in direct association with alcohol education or research: *“Shall be spent for the treatment of alcoholism or substance abuse, or for research or education on alcohol or substance abuse” [Referencing G.S. 18B-805(h)].* The Board is encouraged to obtain information from the intended recipient in advance on planned use of funds, to ensure the funds will be properly used for alcohol education/research related purposes.
- For a more robust and updated personnel policy, the Board is encouraged to use the sample policy & procedure manual available on the ABC website which covers an extensive range of policy & procedure issues that may be encountered by ABC boards (a copy has been forwarded to the general manager and finance officer). A final copy (electronic) would need to be submitted to the Commission. *NCAC Rule 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.”*
- If a new sheriff begins serving the county in 2022, a new law enforcement contract reflecting new official(s) should be drafted and signed per *G.S. 18B-501 (f)*. A contract copy should be forwarded to the Commission.
- All reappointed board members are required to complete ethics training within one (1) year of their reappointment date per *G.S. 18B-706(b)*.

ADDITIONAL CONSIDERATIONS

- The Board has a code of ethics policy per G.S. 18B-706, and ABC Commission already has a copy. Yet, the Board should consider signing a new acknowledgment / approval document which reflects the current chairman.
- The Board should consider listing board member term expiration dates on meeting minutes. This would allow high situational awareness and allow for communicating updates more easily to the Commission.
- The Board should complete a Certificate of Accountability form declaring the statutory duties of the board have been properly performed.
- Quarterly distributions of profits must occur per G.S. 18B-805(e), unless the applicable distribution recipients approve of distributions made otherwise.
- 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.
- 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.
- Cross-training opportunities for personnel should be maximized to ensure continuity of operations during contingency situations.
- 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.
- The Board should consider drafting a Remote Work Policy to address any applicable scenarios where managers (or any other applicable employees) could be permitted to complete board work at home or from other remote location. This would be applicable during special situations otherwise preventing them from physically being at work, such as a communicable disease being involved, maternity leave, or another contingent scenario.

MONTGOMERY ABC BOARD
PO BOX 279
BISCOE, NC 27209

(910) 428-2231

Phillip Richardson
General Manager



James McLeod
Chairman

October 20, 2021

Quinn Woolard, Auditor
NC ABC Commission
4307 Mail Service Center
Raleigh, NC 27699-4307

SUBJECT: Performance Audit Response

We have attached a copy of our response to the Performance Audit completed on Tuesday, August 31, 2021. We appreciate the opportunity to address your recommendations.

Sincerely,

A handwritten signature in dark ink, appearing to read "James McLeod". The signature is written in a cursive style.

James McLeod, Chairman
Montgomery ABC Board

lcw

pc: Greg Stallings, NC ABC
Austin Cavanaugh, NC ABC



MONTGOMERY ABC

Performance Audit Response

October 2021

Montgomery ABC Board
509 E. Main Street
Biscoe, NC 27209
(910) 428-2231



AUDIT RECOMMENDED ACTIONS:

1.  ***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.***

 The Montgomery ABC Board will continue to operate within a balanced budget and send revisions to the Commission upon approval. The FY 2021 Final Year End Budget Amendment balancing to the final audit is attached.

2.  ***Education Funds “Shall be spent for the treatment of alcoholism or substance abuse, or for research or education on alcohol or substance abuse.” Referencing G.S. 18B-805(h)***

 The General Manager has reached out to Montgomery County to request clarification on how the “Telling our story...” a joint project of the Association of NC ABC Boards and the North Carolina ABC Commission School Safety Project relates to alcohol and/or substance abuse. The General Manager also requested future projects be submitted to the ABC Board for prior approval.

3.  ***Personnel Policy NCAC Rule 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.”***



3. **Personnel Policy (continued)**

Staff previously submitted the complete Personnel Manual to Laurie Lee on Friday, September 9, 2011 (verification attached). The Board and Staff are reviewing the sample personnel policy and procedures manual available on the ABC website. A copy of the additions was sent to the NC ABC Commission on September 17, 2021 (verification attached). The Board approved the policy additions on October 20, 2021.

4. **Law Enforcement Contract per G.S. 18B-501 (f)**

Upon the election of a new sheriff in November of 2021, the Board will negotiate a new contract. A copy will be forwarded to the ABC Commission upon signing.

5. **Ethics Training per G.S. 18B-706(b)**

All Board members are current on the required training. As training becomes due, Staff will remind members and forward the required certifications to the Commission per G.S. 18B-706(b)



AUDIT REMINDERS:

➤ Remove faded posters and replace with new ones.

● Our fetal alcohol, NC DOL and OSHA posters were new at the time of the audit. We have printed new Talk It Out posters for display at both stores as they were beginning to fade.

ADDITIONAL AUDIT CONSIDERATIONS:

➤ Reaffirm Code of Ethics

● Code of Ethics reaffirmed September 15, 2021 (copy attached).

➤ Complete Certificate of Accountability

● Certificate of Accountability approved September 15, 2021 (copy attached).

➤ Distributions

● The Board's distributions are governed by our Enabling Act S.L. 1969 – 145 all profits are distributed annually.



ADDITIONAL AUDIT CONSIDERATIONS: (CONTINUED)

➤ Unsaleable Merchandise NCAC Rule 15A. 1701

● Montgomery's unsaleable merchandise is minimal and reports are submitted quarterly.

➤ Empty Shelf Sections

● The pandemic has caused supply chain problems resulting in out of stock items. We prefer not to overstock available items to fill in space. We have this space reserved for the out of stock products we have on order and hope to receive soon. We will also be receiving the holiday stock to help fill in the empty space.

➤ Cross Train

● Staff are cross trained to the fullest extent possible. We also contract with Carolina Data Systems to provide support. Carolina Data Staff can access our system remotely to assist when needed.



➤ Training Opportunities

● The Board plans to continue hosting RASP classes when it is safe to do so again. This year Staff has attended the NC ABC Commission Budget Webinars, LB&B's Encompass Webinar and Talk It Out's virtual conferences (Certificates of Completion are attached) totaling over 15 hours of training.

➤ Work from Home Policy

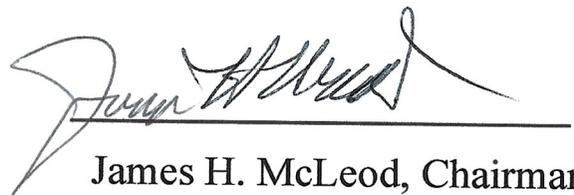
● The Staff has discussed and considered how an emergency situation would impact administrative operations. The primary concern with working from home is how to protect the sensitive financial data of the Board and customers. The Board's system is protected with a bonded, dedicated internet line, firewalls, software and protocols. The same level of security could not be guaranteed in work from home scenarios.

At this time, we plan to rely on our cross trained staff, the Carolina Data Staff, accessing the out of work employee by telephone for assistance and if necessary, delaying administrative tasks rather than risk a data breach.



CLOSING REMARKS:

The Montgomery ABC Board accepts and is generally pleased with the results of the performance audit. We believe these audits are important and help insure we are meeting or exceeding the performance standards. The NC ABC Commission Staff is always welcome to visit our stores.



James H. McLeod, Chairman
Montgomery ABC Board

ATTACHMENTS:

- FY 2021 Year End Budget Revisions
- Reaffirmed Ethics Policy
- Certificate of Accountability
- Tasting Procedures
- Personnel Policies Additions
- Emails Confirming Policy Submission
- Training Certificates