

Pilot Mountain 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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January 11, 2023

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Chairperson Pell,

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

Michael DeSilva
Deputy Commissioner

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

The Town of Pilot Mountain was incorporated in 1889. Native American tribes left their influence on the region, and the Pilot Mountain peak served as a landmark for German Moravian settlers traveling to their new home of Wachovia or modern city of Winston-Salem. Pilot Mountain is also the inspiration for the fictional town of Mount Pilot on The Andy Griffith Show. In 2020, the town's population per Census was approximately 1,400 residents reflecting a slight decrease since 2010.

G.S. 18B-601(c) authorized the Town of Pilot Mountain to hold an election for an ABC store. The referendum was held on May 6, 2008 and passed 240 to 206. A mixed beverage election was held on the same date and passed 247 to 196. The store opened on December 10, 2009. The Town of Pilot Mountain appoints a chairperson and two (2) board members to serve for three-year terms on the ABC board.

The Pilot Mountain ABC Board currently operates one (1) retail store. The board staffs approximately seven (7) total employees including a general manager, store 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 external 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 Pilot Mountain ABC Board occurred in 2012. 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 Tuesday, June 7, 2022, ABC Board Program Analyst Quinn Woolard, visited the Pilot Mountain ABC Board and interviewed Paula Jones (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 Pilot Mountain ABC Board had a profit percentage to sales of 12.42%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales greater than \$2M is 6.5%. The Pilot Mountain ABC Board's gross sales totaled \$2,090,840, which was a 32.31% over the previous fiscal year.

The operating cost ratio for the Pilot Mountain ABC Board was .49 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 Pilot Mountain 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	\$523,845	\$400,307
Income from Operations	\$259,641	\$169,148

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores within a ten to fifteen (10-15) mile range of Pilot Mountain ABC: Mount Airy ABC Board operates one store and is also located in Surry County.
- An ABC Board's average cost of goods sold (COGS) is between 52% & 54% per year. The Pilot Mountain ABC Board's cost of goods sold was approximately 52.3% in FY 2020-2021.
 - *Mixed beverage sales were roughly 2.1% of total sales in FY-2021, and there are currently three (3) mixed beverage business customers.*

BUDGET ANALYSIS

	FY 2020-2021 Budget Projections	FY2020-2021 Actual	Variance	Variance %
Sales	\$2,094,000	\$2,090,840	(\$3,160)	0.1%
Total Expenditures (to include Distributions)	\$2,094,000	\$2,067,501	\$26,499	1.3%

In reviewing the budget to actual analysis of the FY2020-2021 financial audit, actual sales revenues were under the budgeted projections by 0.1%. In addition, total expenditures were also under budget for the same period by 1.3%. Revenues over expenditures was \$23,339 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 \$427k; the net position has steadily increased over the last five (5) fiscal years.*

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, Pilot Mountain ABC made other statutory distributions totaling \$241,938 (Net profit distribution recipients received \$217,923 of this). The amount of \$472,841 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 Surry County.

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

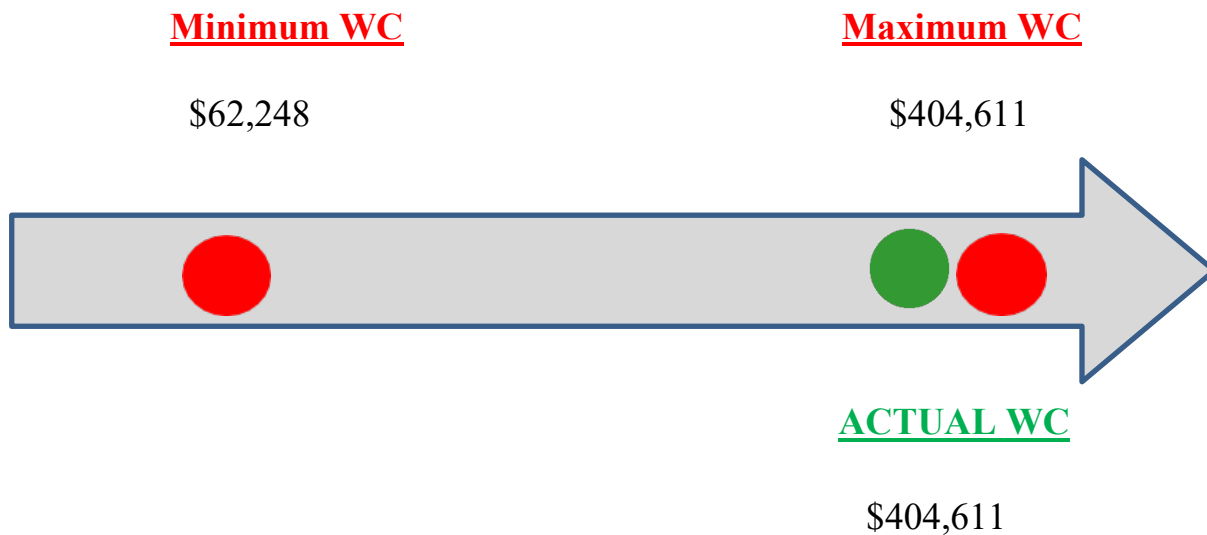
- One hundred percent (100%) to Pilot Mountain general fund

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 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 Pilot Mountain ABC Board is required to maintain a minimum working capital of \$179,287 with a maximum working capital amount of \$1,165,367. The Pilot Mountain 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 whenever working capital is exceeded.

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE

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

- The board holds regular board meetings the fourth Tuesday 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 organized in a binder for review.
- The board has a personnel policy, but an electronic copy was not on file with the Commission. A template of the latest policy & procedure manual from the Commission will be forwarded. The board has a code of ethics policy in place.
- The board exceeded original budgeted sales in FY-2021 during the month of March; a budget amendment was completed but not submitted to the Commission. Currently, the board exceeded FY-2022 budgeted sales in February 2022. A budget amendment is not on file with the Commission or could not be verified.
- Janie Sheppard from Brevard & Lewis CPA serves as the finance officer. The finance officer is properly 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. The CPA provides financial statements periodically, and processes payroll twice per month. The general manager uses QuickBooks for journal entry updates. .
- Board members conduct monthly checks and balances to ensure that cash management practices are upheld, and review financial statements, monthly sales, sales to date, and miscellaneous items.
- 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. The disbursement approval certificate statement is also present on blank checks.
- The board a law enforcement contract with the Pilot Mountain Police Sheriff's Dept, and a new copy will be needed with the former police chief retiring a few years ago.
- Law enforcement (LE) reports have been submitted routinely with regular statistics being listed.
- The minimum mandatory net profit distribution to local recipients was calculated as being \$59,512 in the FY-2021 CPA annual audit, and \$217,923 were made in distributions. *Over the past few fiscal years, distributions have routinely and well exceeded minimum calculations. Law enforcement distributions and alcohol education distributions have been paid in accordance with proper percentage requirements.*
- Alcohol education distributions were made to Hope Valley. The recipient provided documentation to the ABC board describing how the alcohol education funds were utilized.
- Store inventories are conducted monthly with intermittent spot checks when possible. The board has been encountering inventory system glitches which has impacted the accuracy of inventory.
- 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 except for the Chairman who receives compensation of \$2,400 annually. No documentation was on file with the Commission or could be located from the appointing authority approving any compensation greater than \$150 per meeting for the Chairman.

STORE INSIGHT & OVERVIEW

The findings for store insight & overview are as follows:

- The store is in a shopping center and sales have increased over the last year and will surpass FY-2022 budget.
- The board plans to charge a set fee for mixed beverage (MXB) permittee customers when applicable. Currently, the board only has 3-4 businesses with retail liquor permits, and none appear to be interested in the service. *Due to Surry County being designated a Tier 2 county per NC Dept of Commerce records, the board may request a waiver from delivery service to its retail liquor business customers beginning in July 2022, referencing Rule 15A . 1903 Delivery of MXB Permittee Orders.*
- The store receives palletized deliveries and has a suitable warehouse for storage space. Liquor product was well organized and neat in the warehouse.
- The store was displaying the required Fetal Alcohol Syndrome poster required by G.S. 18B-808. The general manager requested a new poster, and one was provided.
- North Carolina products have their own section as required by law but are also 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 reflected the correct shelf price.

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 Pilot Mountain ABC board, there currently is not a valid, signed law enforcement contract approved by any current Town of Pilot Mountain officials. Thus, a new law enforcement contract would need to be formally established / 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 new policies and updated board 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. Alternately, the board can request an exemption with Commission due to being a Tier 2 County. Please reach out to the Commission for any miscellaneous policy templates which may be available.*
- Documentation approving Chairman compensation being paid more than \$150 per meeting needs to be obtained from the appointing authority and provided to the Commission [*Referencing G.S. 18B-700(g)*].
- All board members (and newly appointed members) may serve for three-year maximum terms. All 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)*. *Completion certificates should be forwarded to the Commission via email. Documentation showing BM term appointment and term expiration should be forwarded via email to the Commission after consulting with the appointing authority.*
 - Per Commission records, Board Member Hancock was appointed March 2019 and has not been formally reappointed again in 2022 (or no oaths of office were available for review).
 - Chairman Pell would need to complete the ethics training immediately due to September 2020 reappointment date and no record of training completion available.
- 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 *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 then be emailed to Commission.*

ADDITIONAL CONSIDERATIONS & GUIDANCE

- The Commission encourages all boards to meet monthly for the best formal oversight and review of board operations. All boards are encouraged 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*.
- The board members have been excellent stewards saving thousands of dollars by receiving no financial compensation to date. However, the board is encouraged to consult with the appointing authority to establish some compensation amount going forward. *G.S. 18B-700(g) contains the applicable reference information.*
- ABC boards 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!**

APPENDIX A

Program Analyst's Summary

The performance audit recommendations were presented to the board on June 21, 2022. Pilot Mountain ABC Board agrees with all recommendations as presented, has met compliance on tangible actions, and will work to ensure compliance on other routine items going forward. The board continues to be vigilant with profitability enhancement and expense reduction while providing a pleasant store atmosphere with a robust customer service focus.