

Rowan/Kannapolis ABC Board

Performance Audit Report



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ABC
COMMISSION
NORTH CAROLINA

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OBJECTIVE, PURPOSE & BACKGROUND INFORMATION

In addition to regular and special financial audits, G.S. 18B-705(a) authorizes the NC ABC Commission to conduct performance audits of all local ABC boards in the state. Performance audits are examinations of existing operating policies, practices, controls, and activities to determine those areas in which there may be a need for improvement.

The audits are designed to ensure that all local ABC Boards comply with established performance standards pursuant to G.S. 18B-203(a)(20). The audit's scope addresses compliance with ABC laws and rules, store appearance, operating efficiency, solvency, and customer service.

To achieve the objectives of the audit, auditors:

- Review applicable General Statutes, ABC Commission Rules, and Administrative Policies
- Review applicable reports and studies of ABC Boards with similar size and geography
- Verify compliance with Commission and Board policies
- Verify results of previous performance audit recommendations
- Review ABC Board annual independent financial audits
- Review ABC Board reporting and documentation reports
- Visit the store(s)
- Interview key ABC Board personnel

Located northeast of Charlotte, Rowan County is considered part of the Charlotte metropolitan area. The county seat of Salisbury is the oldest continuously populated European-American town in the western half of North Carolina. Over the years, the county has worked to attract new industries following the departure of textile manufacturing. In 2020, the Rowan County's population per the Census was approximately 147,000 residents which increased roughly 6.1% since 2010.

Rowan County held an ABC referendum on July 30, 1949, under the authority of the 1937 Act. The vote for an ABC store passed 7,856 to 6,709 and the first retail sale happened on October 24, 1949. The city of Kannapolis which straddles the line between Cabarrus & Rowan counties, was authorized by S.L. 2004-92 to hold a referendum on opening an ABC store as part of the Rowan County ABC system. Following a successful vote on February 15, 2005, the system's name was changed to the Rowan/Kannapolis ABC Board. The board was tasked with construction and operation of ABC stores in Kannapolis as part of the merged system.

A county-wide mixed beverage referendum failed in 1986. However, sequential municipal elections were successful: Salisbury (1986); East Spencer (1986); Kannapolis (2002); Spencer (2002); China Grove (2007); Landis (2008).

Currently, the board consists of a chairperson and two (2) additional board members to serve for three-year appointed terms on the ABC board. The Rowan/Kannapolis ABC Board currently operates six (6) retail stores. The board staffs approximately sixty-seven (67) total employees. These include twenty-six (26) full time employees and forty-one (41) part-time personnel. 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.

The last performance audit for the Rowan/Kannapolis 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, Tuesday, January 24, 2023, ABC Board Program Analyst Quinn Woolard, visited the Rowan/Kannapolis ABC Board and interviewed Terry Osborne (General Mgr.), Julie Eller (Finance Officer), and Tommy Goodman (Warehouse Mgr.). 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) 2021-2022, the Rowan/Kannapolis ABC Board had a profit percentage to sales of 8.33%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales more than \$10M is 9%. The Rowan/Kannapolis ABC Board's gross sales totaled \$21,865,788, which was a 11.7% over the previous fiscal year.

The operating cost ratio for the Rowan/Kannapolis ABC Board was .64 in FY 2021-2022. The NC ABC Commission standard for ABC Boards with three or more stores and mixed beverage sales is .63 or less.

Thus, the Rowan/Kannapolis ABC Board did not formally meet the profitability standards or the operating cost standards set by the NC ABC Commission. Note: During FY-2022, these two measurements have improved over the previous two fiscal years. Below is a chart showing gross profit on sales and income from operations for the previous two years.

	FY 2021-2022	FY 2020-2021
Gross Profit on Sales	\$5,463,998	\$4,792,045
Income from Operations	\$1,820,494	\$1,195,434

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores within an approximate ten to fifteen (10-15) mile range of Rowan/Kannapolis ABC stores: Concord ABC is operating several stores within range; Mt. Pleasant ABC operates within range; ABC store in Cooleemee, NC is within this range.

- An ABC Board’s average cost of goods sold (COGS) is between 52% & 54% per year. The Rowan/Kannapolis ABC Board’s cost of goods sold was approximately **52.1%** in FY 2021-2022.
 - *Mixed beverage sales were roughly 8.1% of total sales in FY-2022, and there are currently around seventy-five (75) mixed beverage customers.*

BUDGET ANALYSIS

	FY 2021-2022 Budget Projections	FY2021-2022 Actual	Variance	Variance %
Sales	\$21,635,000	\$21,865,788	230,788	1.1%
Total Expenditures (to include Distributions)	\$21,306,865	\$20,774,161	532,704	2.5%

In reviewing the budget to actual analysis of the FY 2021-2022 financial audit, actual sales revenues were over budgeted projections by 1.1%. In addition, total expenditures were below budget by 2.5%. Overall, revenues over expenditures were reflected as \$1,092,231 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 ending net position on June 30, 2022, was around \$5.34M; the net position has steadily risen over the last five (5) fiscal years, increasing nearly 100% during this period.*

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 2021-2022, Rowan/Kannapolis ABC made other statutory distributions totaling \$768,543 (Net profit distribution recipients received \$615,000 of this). The amount of \$5,005,389 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 Rowan County.

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

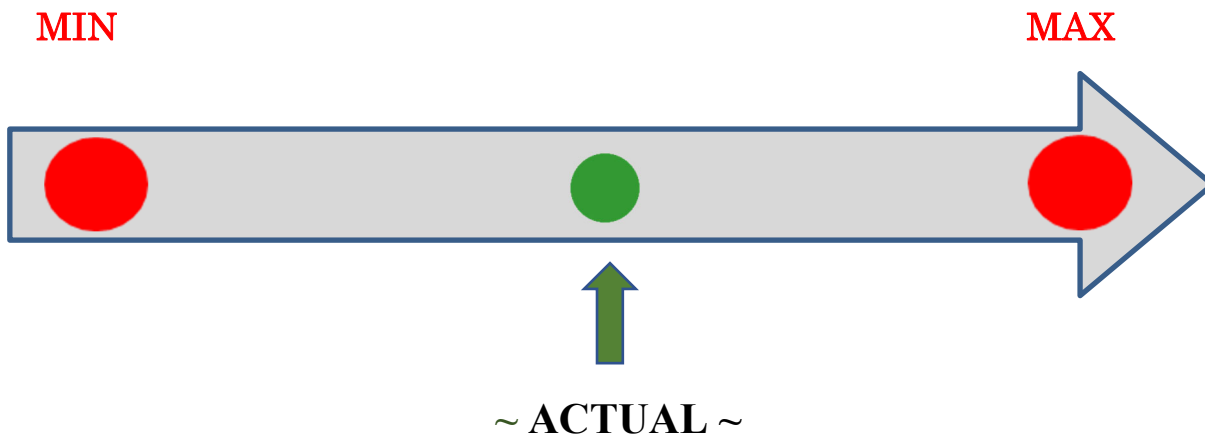
- Forty percent (40%) to Rowan County General Fund
- Twenty-two & one-half percent (22.5%) to Salisbury General Fund
- Twenty-two & one-half percent (22.5%) to Kannapolis General Fund
- Fifteen percent (15%) to other municipalities in Rowan County

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, 2022, the Rowan/Kannapolis ABC Board is required to maintain a minimum working capital of \$647,653 with a maximum working capital amount of \$4,209,745. The Rowan/Kannapolis ABC Board had a working capital balance of \$2,498,599, which falls within the Commission requirements for this section (*).

*** FY 2021-2022: *Working Capital (WC) graphic***



Under 18B-805(d), with approval of the appointing authority for the board, the local board may set aside a portion of the remaining gross receipts as a fund for specific capital improvements whenever working capital is exceeded.

Currently, the board is using their working capital strategically for construction costs of a new Rockwell store.

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE

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

- The board holds board meetings the third Thursday of each month at 9:30 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 and are not signed.
 - Training records review: Some board members were overdue on ethics training until recently. However, following Commission liaison, all board members are compliant on training at present.
 - Board member compensation & General Manager (GM) salary: Board member compensation fully adheres to statute requirements as does the GM salary.
 - Board website review: The board's login website was outdated particularly for board member term tenure information (*begin dates & end dates*). **Special note**: As part of a revalidation effort, the Commission has worked to revalidate term tenure information for all ABC boards across the state, working directly with the appointing authorities. As a value-added measure for all ABC boards and Commission records tracking in 2022, the term begin dates as well as term end dates were entered on all individual ABC board websites. *The expectation going forward is that ABC boards will better manage this information online, and work to communicate with the Commission particularly when new members are added, or whenever any current serving members resign before a term has ended.*
 - Board Personnel & Board Members: The general manager provides board members with operational updates and concerns. The finance officer provides various financial reports for the board's review; among these are helpful spreadsheets and profit & loss statements. Board members are heavily encouraged to use checks and balances to ensure that cash management practices are upheld. **Special note**: *One of the current serving board members is a CPA, providing key oversight for the board.*
- POLICIES: The board has a personnel policy manual, code of ethics, and the Commission could not verify an electronic copy in its records.
 - The board provided an updated electronic copy of personnel manual during the visit.
 - The board provided an updated LE contract during the visit.
- BUDGETS: The board exceeded original budgeted sales in FY-2022 during the month of May 2022; a budget amendment was adopted by the board and forwarded to the Commission during the month of June 2022. Based on sales in the current fiscal year, the sales budget is tracking along well.
- FINANCIAL INSIGHT: The finance officer is signing checks as required per statute with the general manager or Chairman as the secondary signature. Invoice records for recent liquor purchases reflect them as being paid routinely well inside of 30 days. Taxes and distributions are paid in a routine and timely manner. *Peachtree is used for routine journal entries.*
 - Bank deposits are made daily via courier service for all the store locations. This saves valuable time for personnel and provides a layer of security for the funds.
 - Purchase orders from the system for liquor shipments routinely have the pre-audit certificate stamped and finance officer signature present on at the time they are placed. Checks bear the proper disbursement certificate.
 - Payroll occurs bi-weekly and Paychex service is utilized.
 - A deputy finance officer is in place. This employee will work to assist with continuity of operations efforts when the finance officer is out of the office.
 - All board members and applicable personnel are each bonded for \$50,000 per G.S. 18B-700(i).

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

➤ **STATUTORY DISTRIBUTIONS:**

- **Net Profit Distributions** - The Rowan-Kannapolis ABC board has been routinely meeting the minimum required distributions to the county & various towns in recent years. **Reference table below - The left side is CPA calculated amount & right side reflects the actual combined amount distributed to county & towns by the ABC Board.**
- **Law Enforcement Distributions:** Have been properly disbursed at or above the 5% statute amount on a regular basis.
- **Alcohol Education Distributions:** The board has well exceeded the distribution requirements for alcohol education. In April 2015, the Rowan-Kannapolis ABC Board was formally recognized in the Congressional Record of the U.S. House of Representatives. The board was commended for educating more than 100,000 students on the dangers of underage drinking in middle schools & high schools across Rowan County. In 2022 alone, ten (10) alcohol education events were conducted in the county. They have partnered with former NFL coach and NASCAR team owner Joe Gibbs to bring in famous athletes and other notable guest speakers to talk with students and share personal struggles with alcohol and substance abuse.

NC GENERAL STATUTE: 18B-805 (c)(1)			
Calculation of Minimum Mandatory Distribution for Net Profit to Designated Recipients		Rowan/Kannapolis ABC Net profit distribution made annually by fiscal year	
<i>Note: Referencing CPA Audit Reports</i>			
Recipients by law: Rowan County & Various Towns		Recipients by law: Rowan County & Various Towns	
FY-2022	\$614,073	FY-2022	\$615,000
FY-2021	\$553,465	FY-2021	\$554,000
FY-2020	\$471,206	FY-2020	\$472,000
FY-2019	\$402,221	FY-2019	\$405,000
FY-2018	\$383,150	FY-2018	\$384,000

- **LAW ENFORCEMENT (LE) REPORTS:** Reports have been entered online routinely over the last several years and contain helpful information. There were numerous reports filed online in a saved status yet were not final submitted. These have all now been final submitted.
- **LAW ENFORCEMENT (LE) CONTRACT:** The board has a valid law enforcement contract on file with the NC Dept of Public Safety’s Alcohol Law Enforcement (ALE) division. The last contract that could be verified in Commission files for the board was from 2011 and the latest copy is now in Commission records.

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- INVENTORY: The warehouse manager conducts weekly inventory of the warehouse area. Normally, the stores will receive a monthly inventory sweeping across various liquor categories. The inventory turnover rate is virtually even with the Commission standard and product moves very sufficiently in the stores. *The board is exploring the strategic option to expand the warehouse to provide a bigger footprint for liquor stock.*
- INTERNAL CONTROLS: The GM, FO, and Deputy FO will work in tandem on paying and mailing out invoices and cross referencing of applicable information. All cash funds from stores are picked up via courier service.
- EXPENSES:
 - Total expenses increased marginally from the last fiscal year. Salaries and rent continue to be higher versus nearby ABC boards with a similar size, with salaries alone increase close to 10% from FY-2021 to FY-2022. *However, the personnel turnover is very low, and the board has attracted quality employees by offering better pay.*
 - Cost of Goods Sold (COGS) was a reasonable 52.1% for the fiscal year. If the board can do a warehouse expansion, it would allow the opportunity to stock more liquor inventory and take more advantage of buy-ins / Special Purchase Allowances (SPAs).
 - Profit Percent to Sales & Operating Cost Ratio were both just under Commission recommended standards based on total sales, having mixed beverage (MXB) sales, and the number of stores. These metrics have reasonably improved over the previous fiscal year.
- MISCELLANEOUS:
 - The Rockwell store is an older and smaller building. Thus, the board has strategically begun construction on a replacement store which is much larger. In addition, the board already sold the current store location, and is renting the current store location from the new owner. *This will occur until the new store location is open tentatively by late 2023.*
 - The board auditor spurred discussion on the feasibility for any leased stores to be relocated to an owned property location. Overall, it appears that this could potentially be practical for only one store location at the present.

STORE INSIGHT & OVERVIEW

The findings for store insight & overview are as follows:

- Two stores were visited (*one near downtown Kannapolis and one in Salisbury*). Both stores have a modern feel and good liquor product variety. The stores have a welcoming atmosphere and friendly employees.
- The board has a mixed beverage delivery policy in connection with Rule 15A . 1903 Delivery of MXB Permittee Orders.
- The stores routinely close on the five (5) required annual holidays and every Sunday.
- The stores were displaying the required Fetal Alcohol Syndrome poster required by G.S. 18B-808.
- North Carolina products have their own section as required by law and 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 stores are 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 80-90 items was selected to determine if uniform pricing is displayed. Of those selected, **all** prices surveyed were correct at both store locations.

RECOMMENDED ACTIONS (PER STATUTES, RULES, OR OPS MANUAL)

- 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.*
- When applicable, please ensure all new policies or updated policies adopted by the board are submitted electronically to the Commission for recordkeeping and review per NCAC 15A .1102 Rule. Whenever new law enforcement contracts are secured, please ensure they are forwarded for Commission records in connection with G.S. 18B-501(f).
- In connection with the periodic audit, a Certificate of Accountability attestation form should be reviewed and signed by applicable board members and personnel. A signed copy would then only need to be emailed to Commission personnel for recordkeeping.
- The board Chairperson is recommended to sign meeting minutes in connection with ABC Commission Operations Manual Section 4.5 - Board Minutes.
- ABC board members must complete ethics training within one (1) year of each appointment and again following all reappointments. Special note: Currently, one board member term will expire in summer of 2023. Then, the one-year window for ethics training starts at the time of new term beginning or appointment/reappointment. *General managers, finance officers (and any applicable deputies) have a one-time training requirement for ethics training but are encouraged to complete training periodically as a good refresher along with any other personnel interested.*

ADDITIONAL CONSIDERATIONS & GUIDANCE

- The Commission's primary focus for ABC board members:
 - ABC board members are highly encouraged to meet monthly for the best formal oversight and review of board operations, routinely recording meeting minutes (*adhering to closed meeting requirements where applicable*) and ensuring either no conflicts of interest are present or that they are addressed appropriately when presented. Monthly sales should be reported to the Commission at beginning of next month, providing annual budgets, budget amendments, miscellaneous financial reporting to Commission following timelines, and ensuring Commission has annual CPA audits by Oct 1st.
 - ABC boards are highly encouraged to keep term begin dates & term end dates updated on the Commission's board login website for all ABC board members and other information such as store hour changes, pictures, email updates, etc. *Moreover, liaising with the Commission when new members are appointed or when member resign early before term has ended is very important for recordkeeping efforts of the Commission.*
- ABC boards are highly encouraged to find straightforward ways to lower any recurring expenses. *A very tangible way to lower operating costs is to fully maximize monthly special purchase allowance (SPA) liquor products that routinely sell well in the store to lower cost of goods sold (COGS).* Board can limit the number 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 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 for anticipated sales increases as well as other adjustments for budgeted accounts.
- Law enforcement reports must be submitted on the Commission's board website by the 7th of each month referencing G.S. 18B-501(f1). Board should make sure reports are in a "Final Submitted" status and not in saved status. For any saved reports, the only transaction necessary is to click the preview button and then click the submit button for the reports.
- 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 Commission staff; 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 network with the ABC Commission whenever needed for guidance and assistance to support local ABC board mission and success.