

Waxhaw ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
400 East Tryon Road, Raleigh, NC 27610
p: 919-779-0700 | f: 919-661-5927 | <http://abc.nc.gov>



ABC
COMMISSION
NORTH CAROLINA

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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 in Union County, the Town of Waxhaw was originally incorporated in 1889 with the name being derived from the indigenous people of the area. President Andrew Jackson was born nearby in 1767, and a state park with his name is found here. The municipality has evolved into an antique and fine dining center and has undergone major suburban development. In 2020, the town's population per the Census was approximately 20,534 residents which increased more than 100% since 2010.

Chapter 57 of the 1977 Session Laws authorized the Town of Waxhaw to hold an election for an ABC store. The referendum was held on May 14, 1977, and it passed 195 to 150. The first retail sale occurred on November 16, 1977. A mixed beverage election was held on August 17, 1993, and it did not pass. A second election was held on November 3, 2009, and this passed 1,274 to 326. *Since August 2010, the Town of Waxhaw appoints a chairperson and four (4) additional board members to serve for three-year terms on the ABC board.*

The Waxhaw ABC Board currently operates one (1) retail store. The board staffs approximately nine (9) total employees including a general manager, finance officer, and sales associates. These include four (4) full time employees and five (5) 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. Sales associate responsibilities include selling products, daily stocking, and floor upkeep & maintenance.

The last performance audit for the Waxhaw ABC Board occurred in 2013. The Commission audit serves as a continuous way to provide local boards with information and best practices that target areas for improvement.



OPERATIONAL OBSERVATIONS, FINDINGS, REQUIRED ACTIONS, & RECOMMENDATIONS

On Tuesday, Tuesday, January 17, 2023, ABC Board Program Analyst Quinn Woolard, visited the Waxhaw ABC Board and interviewed Cheryl Wilson (General Manager) and Shelly Hinson (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) 2021-2022, the Waxhaw ABC Board had a profit percentage to sales of 11.1%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales more than \$2M but less than \$10M is 6.5%. The Waxhaw ABC Board's gross sales totaled \$5,272,247, which was a 3.1% over the previous fiscal year.

The operating cost ratio for the Waxhaw ABC Board was .46 in FY 2021-2022. The NC ABC Commission standard for ABC Boards with one or two stores and mixed beverage sales is .73 or less.

Thus, the Waxhaw 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.

	FY 2021-2022	FY 2020-2021
Gross Profit on Sales	\$1,312,500	\$1,257,775
Income from Operations	\$585,441	\$602,829

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores within an approximate fifteen (15) mile range of Waxhaw ABC: Mecklenburg County ABC has two stores operating within range; Indian Trail ABC has two stores; Monroe ABC has a store within range.

- An ABC Board’s average cost of goods sold (COGS) is between 52% & 54% per year. The Waxhaw ABC Board’s cost of goods sold was approximately **52.0%** in FY 2021-2022.
 - *Mixed beverage sales were roughly 12% of total sales in FY-2022, and there are currently around seventeen (17) mixed beverage customers.*

BUDGET ANALYSIS

	FY 2021-2022 Budget Projections	FY2021-2022 Actual	Variance	Variance %
Sales	\$5,179,177	\$5,272,247	93,070	1.8%
Total Expenditures (to include Distributions)	\$5,179,177	\$5,026,133	153,044	3.0%

In reviewing the budget to actual analysis of the FY 2021-2022 financial audit, actual sales revenues were over budgeted projections by 1.8%. In addition, total expenditures were below budget by 3.0%. Overall, revenues over expenditures were reflected as \$246,133 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 \$1.195M; the net position has steadily risen over the last five (5) fiscal years, increasing over 50% 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, Waxhaw ABC made other statutory distributions totaling \$434,000 (Net profit distribution recipients received \$406,000 of this). The amount of \$1,216,770 in primary distributions and other taxes were paid to the NC Department of Revenue (NCDOR), NC Department of Health & Human Services (NCDHHS), and the county commissioners of Union County.

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

- Seventy-five percent (75%) to Waxhaw General Fund of which 7% for alcohol education
- Twenty-five percent (25%) to Union County 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, 2022, the Waxhaw ABC Board is required to maintain a minimum working capital of \$156,170 with a maximum working capital amount of \$1,015,104. The Waxhaw ABC Board had a working capital balance of \$1,014,193, which falls within the Commission requirements for this section (*).

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



Summary: *Over the last five years, the board has done well to ensure the working capital is very close to the maximum allowance providing excellent financial solvency.*

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.

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE

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

- The board holds board meetings the third Monday of each month at 5:00 PM, records regular meeting minutes, and provides public notification and awareness of these meetings. The meeting minutes are organized in a folder for review. *The minutes provided do not have the conflict-of-interest disclosure statements and discussion.* Since 2022, the Waxhaw town clerk has been conducting ABC board meetings. This has involved drafting meeting agendas, meeting minutes, and directing board members on course of activities during the meetings. The town has not formally communicated why the town is involved in the activities. Thus, internal ABC board management of agendas, meeting minutes, and conducting of meetings should be the regular, preferred course of action per Commission guidance and oversight. ABC boards are independent local political subdivisions of the State per NCGS 18B-101.
 - Training records review: All members are compliant on ethics training and no immediate requirements until next appointments or reappointments occur.
 - 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 necessary updated effort, the Commission has worked to validate 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 monthly sales information and previous year's applicable sales and operational concerns. The finance officer provides various financial reports for the board's review; among these are spreadsheets and profit & loss statements. Board members are heavily encouraged to use checks and balances to ensure that cash management practices are upheld; also, boards should routinely review any notes and recommendations provided by the CPA firm on annual audits.
- POLICIES: The board has a personnel policy manual, code of ethics, and the Commission had electronic copies.
 - Personnel: The board provided an updated employee manual during the visit.
 - MXB Policy: The board provided an updated mixed beverage policy during the visit.
 - Travel Policy: The board was following appointing authority travel policy. However, based on Commission recommendation, the board has now decided to adhere to the state travel policy. *Meeting minutes will be provided to Commission personnel when they are available.*
- BUDGETS: The board exceeded original budgeted sales in FY-2022 during the month of June 2022; a budget amendment was adopted by the board and forwarded to the Commission. The retail liquor & MXB liquor categories however were offset by numbers that appeared to have a neutral effect on budget.
- FINANCE OFFICER: The finance officer is signing checks as required per statute with the General Manager or the Chairman as 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. The board uses QuickBooks for routine journal entries.

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- Bank deposits are made normally on Mondays, Wednesdays, and Fridays per review of bank Statements and discussion with the general manager and finance officer. For safeguard measures and adherence to *Commission rule 15A .0905 Daily Deposits*, the board utilizes a locked fireproof safe for integrity of funds that remain at the board at any given time. *Many of the daily transactions here occur via credit or debit cards.*
- Payroll occurs bi-weekly and Paychex service is utilized.
- The pre-audit certificate is not stamped on the orders at the time they are placed; however, a pre-audit stamp is occurring before truck shipments arrive. Checks bear the disbursal certificate.
- All board members and applicable personnel are each bonded for \$50,000 per G.S. 18B-700(i).

➤ STATUTORY DISTRIBUTIONS:

- Net Profit Distributions - The Waxhaw ABC board has been routinely making well above the minimum required distributions to the town & county in recent years. **Over the last five (5) years, the board has made generous net profit distributions which doubled & sometimes tripled the minimum calculated annual amount required by statute. Reference table below - The left side is CPA calculated amount & right side is combined amount distributed to town & county by Waxhaw ABC Board.**
- Law Enforcement Distributions: Have been properly disbursed at the 5% statute amount.
- Alcohol Education Distributions: The local enabling act mandates that the Town of Waxhaw uses seven percent (7%) of total net profit distributions received from Waxhaw ABC Board for the purpose of alcohol education or research. The town was contacted on Jan 13, 2023, to learn if municipality is disbursing any funds for this designated purpose; no response has been provided to date.

NC GENERAL STATUTE: 18B-805 (c)(1)			
Calculation of Minimum Mandatory Distribution for Net Profit to Designated Recipients		Waxhaw ABC Board Net profit distribution made annually by fiscal year	
<i>Note: Referencing CPA Audit Reports</i>			
Recipients by law: Town & County		Recipients by law: Town & County	
FY-2022	\$147,198	FY-2022	\$406,000
FY-2021	\$143,558	FY-2021	\$444,000
FY-2020	\$121,890	FY-2020	\$439,000
FY-2019	\$105,466	FY-2019	\$338,750
FY-2018	\$90,662	FY-2018	\$215,000

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- **INVENTORY**: Store inventories are conducted monthly whenever possible with intermittent spot checks. Product moves extremely well at the store. *The board is in the process of securing an electronic scanner system to make inventory management much more efficient for all personnel involved.*
- **LAW ENFORCEMENT (LE) REPORTS**: Reports have been submitted routinely over the last several years and contain helpful information.
- **LAW ENFORCEMENT (LE) CONTRACT**: The board has a law enforcement contract on file at the Commission from 2015 with the Waxhaw Police Department. A new police chief has been sworn in since then, and a new contract has already been provided since the visit on Jan 17, 2023. The LE contract has been reviewed and is now recorded in Commission records.
- **INTERNAL CONTROLS**:
 - For cash management, a triple check of efforts occurs at the board. The sales associates verify cash sales. Then, the general manager & finance officer both work to check off and balance the cash in connection with daily register reports.
 - Invoice information is entered into QuickBooks, cash requirements are printed for the truck shipments and the Purchase Orders History from BOSS is utilized to balance totals to make sure invoices match the system.
 - General manager will step in for continuity when applicable during finance officer absences.
- **EXPENSES**:
 - Total expenses in FY-2022 increased more than 10% over previous fiscal year. A big portion of the increase was attributed to depreciation, while the store & warehouse expenses decreased.
 - Store personnel salaries were approximately six percent (6%) of total sales. Overall, the store salaries' expense increased slightly over 20% from the previous fiscal year.
 - Cost of Goods Sold (COGS) was a reasonable 52.0% for the fiscal year.

STORE INSIGHT & OVERVIEW

The findings for store insight & overview are as follows:

- The store has a welcoming atmosphere with plenty of shelf space and is located near Lowe's Home Improvement and a Walmart Neighborhood Market. Warehouse space is limited yet organized well. *The store's inventory turnover ratio of 13.4 demonstrates that product moves very well at the store and the area continues to grow.*
- The board has around seventeen (17) MXB customers as of January 2023. None of the business customers are interested in delivery service but the board is prepared to make deliveries referencing Rule 15A . 1903 Delivery of MXB Permittee Orders.
- Besides closing on the five (5) required annual holidays and every Sunday, the board opts to also close on Memorial Day, Easter Monday, and the day after Christmas.
- The store displays 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 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 approximately 100 items were selected to determine if uniform pricing is displayed. *Of those selected, every shelf item displayed the correct quarterly or monthly SPA price.*

RECOMMENDED ACTIONS (PER STATUTES, RULES, 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.*
- Board meeting minutes must have a conflict-of-interest disclosure statement, for proper adherence to G.S. 18B-201 (f)(k) and referencing G.S. 18B-700(h). Currently, no written statement exists on meeting minutes / agendas reviewed for calendar year 2022. Minutes are recommended to be signed by ABC Board Chairperson per Commission's Operations Manual.
- In connection with the periodic audit, a Certificate of Accountability attestation form should be reviewed and signed by applicable board members/personnel, and email to Commission for records.
- Board members should be providing the General Manager (GM) with their Oaths of Office documents when new members are appointed and whenever existing members are reappointed to have on file at the ABC board location. It is best practice to clearly document the term begin dates / appointment dates and the term end dates. This will empower ABC boards to communicate required information more easily to the Commission's board login website.
- Referencing the local enabling act for the board, alcohol education distributions are to be made in accordance with G.S. 18B-805(c)(3). Normally, this distribution percentage is set as an amount of seven percent (7%) of the gross receipts remaining after the distribution required in subdivision [1] which equates to the minimum mandatory distribution under G.S. 18B-805(c)(1). ***Since the local enabling act is constructed for Town of Waxhaw to use 7% of net profit distributions for alcohol education, the ABC board is recommended to issue two (2) checks each time net profit distributions are made to the town. This would include one check for 93% of total net profit distribution amount, and a check for 7% of the total amount designated for alcohol education on the memo line. This will ensure the ABC board has a value-added measure on stewardship to ensure the town is made fully aware of the designated use of those funds.***

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 board members must complete ethics training within one (1) year of each appointment and following all reappointments as well. *General managers, finance officers (and any applicable deputies) have a one-time training requirement for ethics training but are also encouraged to complete training periodically as a good refresher (or other any personnel interested).*
 - 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).* Another way to do this is by limiting the amount of personnel travelling to conference and convention events across the state. Other ways to try to improve expenses include requesting bids annually from various vendors to get the best rates possible on financial audits, various utilities, maintenance contracts, and *credit card processing companies.*
- ABC 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.
- 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 network with the ABC Commission whenever needed for guidance and assistance to support local ABC board mission and success.