

Chowan County 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

July 29, 2024

CHAIRMAN:
Hank Bauer

Chowan County ABC Board
Haywood Coston, Chair
1328 N. Broad St.
Edenton NC, 27932

COMMISSIONERS:
La'Tanta (L.T.) McCrimmon
Raleigh

David Sherlin
Raleigh

Chairperson Coston,

DEPUTY COMMISSIONER:
Mike DeSilva

On the following pages, you will find the performance audit report conducted by the staff of the ABC Commission reviewing the operations of the Chowan County 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.

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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

Chowan County is found in northeastern North Carolina and was the third county formed in the state and the oldest existing county. Edenton, the county seat, was incorporated in 1722 and is the third oldest town in North Carolina. Part of the “inner banks” the county is best known for its history, aquatic recreation, author Harriet Jacobs, and waterfront. The county’s population per the 2020 Census was approximately 13,708 residents which was approximately a 7% population decrease since 2010.

The 1937 Act authorized Chowan County to hold an election for an ABC store. The referendum was held July 6, 1937, and the vote passed 756 to 575. The first retail sales here occurred on September 2, 1937. A mixed beverage referendum for the county was held on May 5, 1992, which did not pass due to 1149 voters opposing and only 756 supporting the measure. A referendum for mixed beverage sales in Edenton was held on May 3, 1994, and passed 632 to 473. Thus, mixed beverage (or liquor by the drink) sales are still not permitted in the county outside of Edenton city limits. *Currently, the Chowan County Board of Commissioners appoints a chairperson and two (2) additional board members to serve on the ABC board.*

The Chowan County ABC Board operates one (1) retail store. The board currently staffs nine (9) total employees. These include a full-time general manager, full-time store manager, part-time finance officer and six (6) additional part-time personnel. The general manager is responsible for the daily board 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 assists with routine operations of the ABC stores. The store manager runs the retail portion of the store and sales associate responsibilities include selling products, daily stocking, and floor upkeep & maintenance. One of the part-time personnel serves as a deputy compliance officer as needed.

The last performance audit for the Chowan County ABC Board occurred in 2014. 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 Wednesday, April 23, 2024, ABC Board Program Analyst Edwin Strickland and ABC Audit/Budget Manager Quinn Woolard, visited the Chowan County ABC Board and interviewed Lewis Waters (General Manager) and Michael Brown (Finance Officer) and acting Deputy Finance Officer Brian. Store Manager Vana Ward was on duty and assisted with some questions. 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) 2022-2023, the Chowan County ABC Board had a profit percentage to sales of 9.1%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales greater than \$2M is 6.5%. The Chowan County ABC Board's gross sales totaled \$2,283,455, which was a 4.7% increase from the previous fiscal year.

The operating cost ratio for the Chowan County ABC Board was .68 in FY 2022-2023. The NC ABC Commission standard for ABC Boards with one store and mixed beverage sales is .73 or less.

Thus, the Chowan County ABC Board met both the profitability standard and the operating cost standard 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 2022-2023	FY 2021-2022
Gross Profit on Sales	\$557,955	\$552,989
Income from Operations	\$208,126	\$238,669

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 Chowan County ABC: Hertford ABC Board has one store.
- An ABC Board's average cost of goods sold (COGS) is between 52% & 54% per year. The Chowan County ABC Board's cost of goods sold was approximately **52.5%** in FY 2022-2023.
 - *The board has nine (9) mixed beverage accounts.*

BUDGET ANALYSIS

	FY 2022-2023 Budget Projections	FY2022-2023 Actual	Variance	Variance %
Sales	\$2,310,050	\$2,283,455	(26,595)	1.15%
Revenue over or (under) Expenditures		\$25,307		

In reviewing the budget to actual analysis of the FY 2022-2023 financial audit, actual sales revenues were over budgeted projections by 1.15%. In addition, the net income change during the fiscal year was \$20,000. *The board's collective net position on June 30, 2023, was \$535,109; the net position has steadily increased over the last five (5) fiscal years, and the FY-2023 figure reflects the board's highest overall net position during the five-year 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 *typically* distribute at least five percent (5%) of applicable gross receipts to law enforcement and *typically* 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 distribution percentages are designated by an official local enabling act (and thus distribution requirements and recipients are subject to vary).***

In FY 2022-2023, Chowan County ABC made other statutory distributions totaling \$189,361 (Net profit distribution recipients received \$171,935 of this). The amount of \$526,911 in primary distributions and other taxes were paid to the NC Department of Revenue (NCDOR), DHHS, and the county commissioners of Chowan County.

Per the local enabling act, the distribution formula for recipients of net profits is as follows:

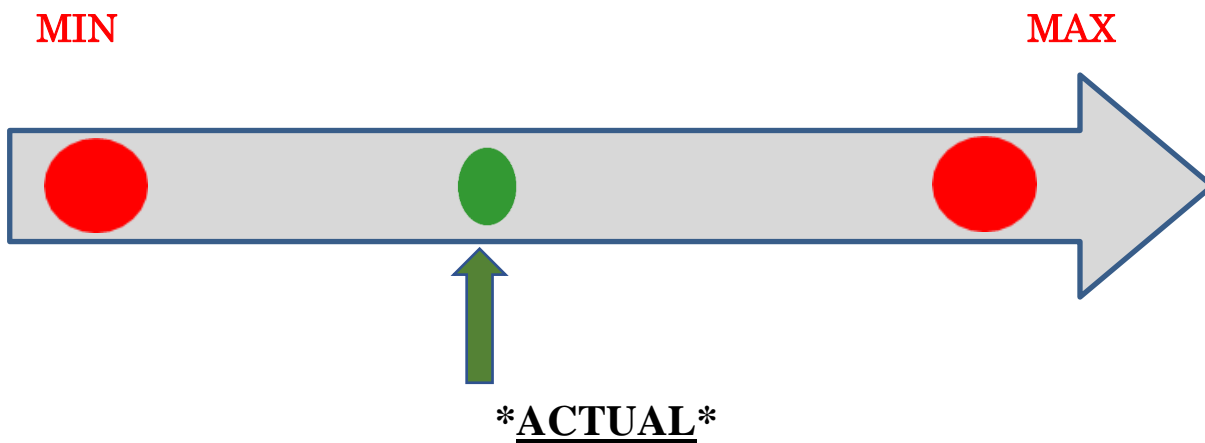
- One hundred percent (100%) to Chowan County General Fund

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 \$2M but less than \$50M as an amount equal to three (3) months of sales revenue.

Based upon the existing rules, as of June 30, 2023, the Chowan County ABC Board is required to maintain a minimum working capital of \$67,559 with a maximum working capital amount of \$439,136. The Chowan County ABC Board had a working capital balance of \$216,839, which falls within the Commission requirements for this section (*).

*** FY 2022-2023: 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.

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE

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

- The board holds board meetings the second Monday of each month at 10:00 AM, records regular meeting minutes, and provides public notification and awareness of these meetings. The meeting minutes are organized by session for review. *The minutes provided have the conflict-of-interest disclosure statements referenced and the final versions are being routinely signed by the Chairperson.*
 - Training records review: Board members and board personnel are compliant on ethics training referencing NCGS 18B-706(b).
 - Board member compensation & General Manager (GM) salary: Board Chairperson's compensation exceeds the statutory compensation limit of \$150 per meeting per 18B-700(g). This updated in salary occurred in 2022. Minutes from the County were provided to adhere to the statute and are now retained by the NC ABC Commission. Board personnel salaries were updated on the ABC Commission website to include General Manager, Store Manager, and Finance Officer. *Any future salary changes should be relayed to the ABC Commission for record retention.*
 - Board website review: The board's login website was updated by the Commission in 2022 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 summer 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 routinely 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 including monthly profit & loss statements, budget comparison, and mixed beverage sales chart. Board members are heavily encouraged by the Commission to use checks and balances to ensure that cash management practices are upheld especially on payroll; also, boards should routinely review any notes and recommendations provided by the CPA firm on annual audits. Board members have an array of experience including serving as ABC Board personnel, elected officials, and business management.
- POLICIES: The board has a current personnel policy manual, and the Commission already had their most recent copy on file. For travel policy, the board chooses to adhere to the county travel policy.
- BUDGETS: In FY-2023, the board's actual sales were \$26,595 less than budgeted sales. CPA annual audit indicates a revised budget and different sales data for the budget than was adopted according to Commission records. No budget amendment is on file in Commission records. Board has reached contacted CPA to verify data. *Based on sales trajectory for the current fiscal year with 83% (10 months) of the budget year completed, the board is tracking at 79% of annual budgeted sales. A budget amendment may potentially be needed.*
- FINANCIAL INSIGHT: The finance officer is signing checks as required per statute with the Chairman or one of the board members completing the second 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. Daily deposits were reviewed and tracked appropriately.

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- Bank deposits are routinely made each morning following the business day per review of bank Statements and discussion with the 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.
- Payroll is processed bi-weekly by the finance officer. Board members will review monthly financial records and finance officer and general manager will normally sign checks. Deputy finance officer is in place to sign as alternates if needed.
- The pre-audit certificate is not stamped on the orders at the time they are placed; however, board’s blank checks bear the NCGS 18B-702 disbursal certificate statement.
- All board members and applicable personnel are each bonded for \$50,000 per G.S. 18B-700(i).
- The annual CPA will also conduct a quarterly compilation for the board.
- The annual CPA audit was received and logged by the Commission on September 30, 2023.

➤ STATUTORY DISTRIBUTIONS:

- Net Profit Distributions - The Chowan County ABC board has made robust net profit distributions over the last five (5) fiscal years, exceeding the minimum mandatory distribution those years in reference to NCGS 18B-805(c)(1). **The table below references distributions calculated on the left and total distributions made by the ABC Board for the last five (5) years on the right.**
- Law Enforcement Distributions: Have been properly disbursed at the standard 5% statute amount for the last five (5) FYs.
Alcohol Education Distributions: Have been properly disbursed at the standard 7% statute amount for the last five (5) FYs.

NC GENERAL STATUTE: 18B-805 (c)(1)			
Calculation of Minimum Mandatory Distribution for Net Profit to Designated Recipients		Chowan County ABC Board Net profit distribution made annually by fiscal year	
<i>Note: Referencing CPA Audit Reports</i>			
Calculated Amount		Total paid to recipient(s)	
FY-2023	\$64,624	FY-2023	\$171,935
FY-2022	\$61,930	FY-2022	\$200,072
FY-2021	\$60,612	FY-2021	\$141,831
FY-2020	\$53,730	FY-2020	\$132,768
FY-2019	\$47,447	FY-2019	\$130,811

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- **LAW ENFORCEMENT (LE) REPORTS:** Reports are being submitted routinely, and they are current to date as well. Submitted reports come from the Sheriff's department and are input by the General manager.
- **LAW ENFORCEMENT (LE) CONTRACT:** The board has a law enforcement contract with the Chowan Sheriff's Department on file with the Commission. *While the contract is still in place, the Commission requests an updated contract with signatures from the current Sheriff and board members.*
- **INVENTORY:** Full store inventories are thoroughly conducted twice annually. In addition, staff scans warehouse daily for various checks, and only keeps full cases in warehouse. The inventory turns over moderately well with a 4.8 turnover ratio during the last fiscal year.
- **INTERNAL CONTROLS:**
 - The general manager (GM) has a solid tenure in the ABC system.
 - Finance officer was formerly the board's long time General manager.
 - The Chairperson was formerly the Board's General manager.
 - Board member is on the Edenton Town Council.
 - Deliveries from central warehouse are monitored with the updated route checkoff list and discrepancies are emailed to LB&B. Orders are changed to reflect actual delivered merchandise and credits or debits are included in invoices provided by LB&B. Invoices are paid via ACH.
 - Board currently utilizes ACH payments for goods purchased. ACH payments are an excellent tool for fraud prevention.
- **EXPENSES:**
 - Total expenses increased over eleven percent (11%) from the last fiscal year and are roughly fifteen percent (15%) of total annual sales.
 - Board payroll was roughly eight percent (8%) of total annual sales. Payroll increased by roughly eleven percent (11%) from the previous fiscal year.
 - Cost of Goods Sold (COGS) was roughly 52.8% for the fiscal year with a normal range being 52% to 54%. The board could explore more buy-ins to keep the COGS low.

STORE INSIGHT & OVERVIEW

The findings for store insight & overview are as follows:

- Board's store has a professional retail atmosphere. Shelving is spacious and well stocked. Warehouse is orderly and the space is utilized efficiently.
- The board is currently seeking approval to purchase property to relocate their store. The new location will provide additional space and is more accessible from the county's main highway.
- Sales associate interactions with customers are attentive, courteous, and all are eager to meet the needs of the customers.
- The board has nine (9) mixed beverage (MXB) customers according to Commission permit records. However, the board only currently considers seven (7) to be active noting one is closed, and another rarely orders.
- A random sample of approximately 100 items were selected to determine if uniform pricing is displayed. Of those selected, all items reflected the current quarterly or monthly SPA price. All shelf management practices were being utilized.
- The board is generally open from 10:00 am until 7:00 pm but does stay open later on some busier days associated with Holidays. They are closed on Memorial Day and Easter Monday in addition to the five (5) required annual holidays and every Sunday.
- The stores display the required Fetal Alcohol Syndrome poster required by G.S. 18B-808.
- Products are placed within the designated categories; premium products are found at eye-level or top shelf. 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.
 - *Eight (8) cameras work to cover the property footprint and sales area, rotating on the office monitor.*
 - *Additionally, the General Manager has nine different cameras that are viewable on his portable phone.*

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.*
- The board could consider additional contributions to the working capital fund as distributions far exceed the minimum mandatory requirement. As a *starting point or suggestion, the General Manager indicated distributions exceed what is budgeted by the County.*
- Board should amend law enforcement contract to include any updates and signatures with current Sherriff and board members.
- Consider adopting or updating any policies to include, but not limited to, tastings, credit card, mixed beverage and delivery, code of ethics, or personnel manual.
- Clarification on allocated and limited distribution ordering discussed. *Please consult Commission staff as needed with questions concerning ordering or just as a general refresher.*
- When applicable, ensure unsaleable merchandise (breakage) reports are submitted to the Commission quarterly. *NCAC Rule 15A .1701 requires quarterly reports be submitted for and unsaleable merchandise and retain original copies for three years.*
- An Accountability attestation form should be reviewed and signed by board members and applicable personnel. A signed copy would then only need to be emailed to Commission personnel for recordkeeping.
- Boards must keep full and accurate minutes of all official meetings, including all closed sessions, *referencing G.S. 143-318.10.* Regular minutes should make a general reference to the reason for closed session occurring. Closed sessions minutes could either be kept at the board location secured under lock and key, or with board attorney (or appointing authority attorney) for proper stewardship.
- Ensure all purchase orders to include obligations evidenced by a contract or agreement requiring the payment of money, shall include or bear a certificate stating that the instrument (or order) has been pre-audited to ensure compliance with *G.S. 18B-702(m)* with a signature by the finance officer. The specific statement should read, *“This instrument has been pre audited in the manner required by G.S. 18B-702.”* Special note: This would be most reasonably accomplished by signing & stamping the summary total of the Order Edit List from inventory system *before* any liquor orders are placed with state warehouse.
- The recipients of alcoholism fund or education distributions must provide annual documentation to the board describing the activity for which these awarded funds are spent *per G.S. 18B-805(h).* *The board may want to consider obtaining documentation before the funds are officially awarded / transmitted to any recipients.*
- ABC board members must complete ethics training within one (1) year of each appointment and again following all reappointments following NCGS 18B-706(b). *General managers, finance officers (and any deputies) have a one-time training requirement for ethics training yet are highly 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).* ABC Boards 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). *In cases where law enforcement provides no information in any given month, simply enter "No data provided by law enforcement" in narrative of report. ABC Boards should make sure reports are in a "Final Submitted" status and not just in saved status. For any saved reports, the only transaction necessary to finalize them is to click the preview button and then click the submit button.*
- 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.

ABC BOARD

ABC Commission
400 E. Tryon Rd.
Raleigh, NC 27610

6/28/2024

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

Item 1: The Chowan County ABC board will make additional contributions to our working fund. Chowan County ABC board now has an updated contract with the county Sherriff office. The store is adopting and updating policies such as tastings, code of ethics in our operations manual. The General Manager now has clarification on how allocated and limited distribution system works. Our breakage reports are sent to the NC ABC Commission quarterly and retain originals for three years. All ABC official Board meetings we keep full and accurate minutes. We now insure all purchase orders or anything requiring the payment of money will be pre-audited by the finance officer with a signature and stamp.

All recommendations have been or will be followed.

All recommendations will be followed per NCGS

**We always pre-audit with signature and G.S.18B-702 stamp
The board will ensure pre-audit certificates are present on liquor orders to
adhere to NCGS 18B-702(m).**

**The board has signed and submitted a COA form.
Yes we did.**

Sincerely,

Lewis Waters / GM
Chowan County ABC Board