

Whiteville 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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June 24, 2023

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Chairperson Bass,

On the following pages, you will find the performance audit report conducted by the staff of the ABC Commission reviewing the operations of the Whiteville 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 City of Whiteville was originally known as White's Crossing before being incorporated under its current name in 1832. Every year in the fall the state recognized Waccamaw Siouan tribe has a powwow featuring numerous public events. A satellite museum of the North Carolina Museum of Natural Sciences is located here. Whiteville High School competes in the NC High School Athletic Association (NCHSAA) 2A sports division and has won nineteen (19) state championships across various sports. In recent years, the baseball team were 2A state champions in 2017 and 2018. In 2020, the city's population per the Census was approximately 4,766 residents which decreased a little more than 10% since 2010.

Chapter 540 of the 1967 Session Laws authorized the City of Whiteville to hold an election for an ABC store. The referendum was held on October 24, 1967, and it passed 608 to 261. The first retail sale occurred on December 19, 1967. A mixed beverage election was held on June 5, 2001, and it passed 433 to 212. *Currently, the City of Whiteville appoints a chairperson and two (2) additional board members to serve for three-year terms on the ABC board.*

The Whiteville ABC Board currently operates one (1) retail store. The board staffs approximately seven (7) total employees. These include two (2) 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. Also, the general manager provides the board with some 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 Whiteville 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, February 7, 2023, ABC Board Program Analyst Quinn Woolard, visited the Whiteville ABC Board and interviewed Amanda Richardson (General Manager / 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 Whiteville ABC Board had a profit percentage to sales of 17.66%. 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 Whiteville ABC Board's gross sales totaled \$2,646,066, which was a 23.3% increase over the previous fiscal year.

The operating cost ratio for the Whiteville ABC Board was .34 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 Whiteville ABC Board far surpassed both 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	\$799,552	\$530,018
Income from Operations	\$467,199	\$288,073

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores within an approximate fifteen to twenty (15-20) mile range of Whiteville ABC: Lake Waccamaw ABC, Brunswick ABC, and West Columbus ABC are each one-store boards operating within range.

- An ABC Board’s average cost of goods sold (COGS) is between 52% & 54% per year. The Whiteville ABC Board’s cost of goods sold was approximately 47.0% in FY 2021-2022 which is an excellent percentage.
 - *Mixed beverage sales were roughly six percent (6%) of total sales in FY-2022, and there are currently around five (5) mixed beverage customers.*

BUDGET ANALYSIS

	FY 2021-2022 Budget Projections	FY2021-2022 Actual	Variance	Variance %
Sales	\$2,450,000	\$2,646,066	196,066	8.0%
Total Expenditures (to include Distributions)	\$2,441,950	\$2,558,567	(116,617)	4.8%

In reviewing the budget to actual analysis of the FY 2021-2022 financial audit, actual sales revenues were over budgeted projections by 8.0%. In addition, total expenditures were also above budget by 4.8%. Overall, revenues over expenditures were reflected as \$142,263 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 \$626k; the net position has varied over the last five (5) fiscal years, and the FY-2022 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 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, Whiteville ABC made other statutory distributions totaling \$355,239 (Net profit distribution recipients received \$49,863 of this). The amount of \$602,751 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 Columbus County.

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

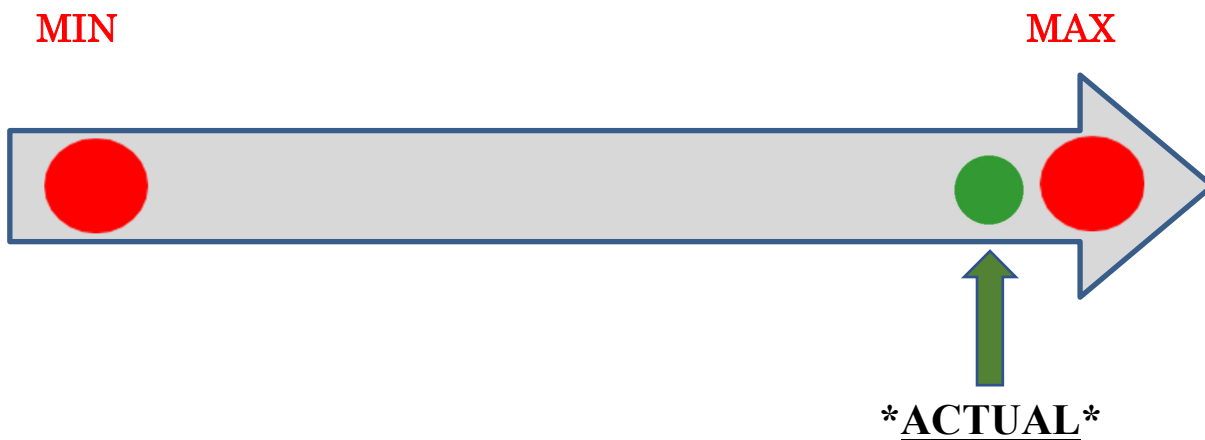
- Fifty percent (50%) to Whiteville General Fund
- Forty-five percent (45%) to Columbus County General Fund
- Five percent (5%) to Whiteville General Fund for the fire department

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 Whiteville ABC Board is required to maintain a minimum working capital of \$78,590 with a maximum working capital amount of \$510,828. The Whiteville ABC Board had a working capital balance of \$505,099, 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 and flexibility.

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 Wednesday of each month at 9:00 AM, records regular meeting minutes, and provides public notification and awareness of these meetings.** The meeting minutes are organized in a binder review. *The minutes provided show the Chairperson does an ethics reminder at the beginning of meetings. The minutes reviewed in recent months were not signed.* ABC boards are independent local political subdivisions of the State per NCGS 18B-101.
 - Training records review: Some board members were overdue on ethics training until recently. However, all members are now compliant on training, and there are no immediate requirements again until the 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 for board member term tenure information (*begin dates & end dates*). **Special note: As part of an update 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 monthly sales information and previous year's applicable sales and operational concerns. Board members receive a general manager's report discussing previous month's / corresponding year's sales, checking account balances, and any operational concerns. In addition, board members are provided bank statements, cash register over rings, employee time records, certificate of accountability, condition of store, and credit card statement information to review. 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 and code of ethics. The Commission did not have an electronic copy of the personnel manual, but the board uses the Commission's recommended copy.
 - The board has a business credit card but there is no policy in place for appropriate use.
 - The board does tastings on occasion but there is no policy in place, or one could not be located.
 - The board follows the appointing authority on travel but may consider adhering to state travel.
- BUDGETS: The board exceeded original budgeted sales in FY-2022 during the month of March 2022; a budget amendment could not be verified in Commission records. For the current fiscal year, the board is tracking along well on forecasted sales in the FY-2023 budget.
- FINANCIAL INSIGHT: The finance officer or deputy is signing checks as required per statute with 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. *S. Preston Douglas CPA associate provides monthly activities for the board to include tax payments, assisting with net profit distribution calculation and disbursement, and providing payroll services.*

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- Bank deposits are made daily normally per review of bank Statements and discussion with the general manager. 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 occurs weekly and hard copy checks are distributed. S. Preston Douglas CPA firm processes payroll.
- The pre-audit certificate is not stamped on the orders at the time they are placed, and a pre-audit stamp & signature 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 Whiteville ABC board has been routinely making well above the minimum required distributions to the city & county in recent years. **Over the last five (5) years, the board has made generous net profit distributions which at times well exceeded 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 city & county combined by the Whiteville ABC Board.**
- Law Enforcement Distributions: Have been properly disbursed at the 5% statute amount over the last five (5) fiscal years.
- Alcohol Education Distributions: Have been properly disbursed at the 7% statute amount over the last five (5) fiscal years. **Documentation from Columbus County Sheriff's Dept discussing use of the funds was on file for August 2022.**

NC GENERAL STATUTE: 18B-805 (c)(1)			
Calculation of Minimum Mandatory Distribution for Net Profit to Designated Recipients		Whiteville ABC Board Net profit distribution made annually by fiscal year	
<i>Note: Referencing CPA Audit Reports</i>			
Recipients by law: City & County		Recipients by law: City & County	
FY-2022	\$75,377	FY-2022	\$305,376
FY-2021	\$62,016	FY-2021	\$70,016
FY-2020	\$49,658	FY-2020	\$233,231
FY-2019	\$41,844	FY-2019	\$85,044
FY-2018	\$38,670	FY-2018	\$72,372

- LAW ENFORCEMENT (LE) REPORTS: Reports were being submitted routinely each month until June 2019. Since then, only one LE report has been filed by the board. The general manager advised the police department tends to have high turnover, and continuity of personnel providing alcohol enforcement & compliance data has been difficult.

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- **LAW ENFORCEMENT (LE) CONTRACT:** The board has a law enforcement contract on file at the Commission from 2012 with the Whiteville Police Department. A new police chief has been sworn in since then, and a new contract will be needed.
- **INVENTORY:** Store inventories are conducted in full across quarters with monthly intermittent spot checks. Product moves well at the store and the board took great advantage of buy-ins to lower liquor costs where possible. *The board is in the process of upgrading point of sale software with SCRC due to older software system in place, and glitches have been encountered.*
- **INTERNAL CONTROLS:**
 - The sales associates routinely verify cash sales. For cash management, a double check of deposits daily will normally occur between general manager and lead sales associate. They both work to check off and balance the cash in connection with daily register reports.
 - The board has a CPA firm who completes monthly tax payments & payroll and will complete QuickBooks entries. The general manager will make some QuickBooks entries such as sales and cost of goods sold (COGS).
 - One of the board members also serves as the deputy finance officer. The board is recommended to request approval for general member to serve as the finance officer since it has potentially been three years since last approval.
 - **Check fraud scenario in 2022:** During the summer of 2022, a check fraud scam was attempted. The general manager (GM) had paid approximately \$50,000 worth of invoices properly. One liquor supplier inquired about non-payment of invoices and the GM quickly reviewed the bank statements. Then it was determined someone in Brooklyn, NY had somehow obtained a copy of the check an altered Payee to that of instead of a likely fraudulent name. Fortunately, First Bank (board's financial institution) worked to resolve and the board was not liable for any charges that occurred to fraud outside the control or knowledge of the board. *This sort of remote check scam has been mentioned at several ABC boards visited.*
- **EXPENSES:**
 - During FY-2022, cost of goods sold (COGS) were an extraordinarily low forty-seven percent (47%) per CPA audit. *This helped the board have the second highest profit percent to revenue of all the ABC boards during this period.*
 - Expenses increased over thirty eight percent (38%) from FY-2021 to FY-2022. However, the board no longer pays rent and has a long-term lease at a virtually new, modern store location.
 - Recently, the board voted to increase employee pay rate. A CPA firm recommended for the board to consider increasing employee pay. *Board personnel salaries were only five percent (5%) approximately of total sales.*
 - During personnel discussion, the general manager discussed the consideration to hire another full-time employee. At the present, there is only one other full-time employee and having an additional employee would indeed help with store operations and oversight.

STORE INSIGHT & OVERVIEW

The findings for store insight & overview are as follows:

- The store relocated to a newly constructed building in June 2021 and is adjacent to Hwy 701 (roughly a mile from the Walmart Supercenter). The store has a welcoming atmosphere with plenty of shelf space which was well-stocked. Warehouse space is limited yet organized well. *The City of Whiteville built the store location, and the board is in a long-term lease with the city. This option was much more cost effective and logical based upon other options that were originally explored.*
- The board has around five (5) mixed beverage (MXB) customers as of January 2023. None of the business customers are interested in delivery service. Thus, the board has already requested an exemption with the Commission - Referencing Rule 15A . 1903 Delivery of MXB Permittee Orders.
- The store closes on the five (5) required annual holidays and every Sunday. Occasionally, the board may also close 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. Eighteen (18) cameras work to cover the property footprint.
- 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 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.*
- 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 October 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.*
- Please ensure all newly adopted policies or any updated policies are submitted electronically to the Commission for recordkeeping and review per NCAC 15A .1102 Rule. *Electronic copies of the business credit card policy should be emailed to Commission personnel for recordkeeping.*
- Law enforcement reports must be submitted on the Commission's board website by the 7th of each month referencing G.S. 18B-501(f1). Reports are to include as applicable the number of arrests made for ABC law, number of agencies assisted with ABC law, and other metrics for ABC law contribution such as compliance checks and alcohol education classes presented. *It is important to make sure reports are placed in a "Final Submitted" status when entered online. If no data / statistics is provided by the police department for any given month, reports should still be submitted to reflect a narrative of "No data was provided or available."*
- Due to new city officials (police chief), the board is recommended to draft a new law enforcement contract with Whiteville Police Department and provide a copy to the Commission *per G.S. 18B-501(f)*.
- Board meeting minutes are recommended to be signed by ABC Board Chairperson per Commission's Operations Manual.
- The board must annually obtain approval from the appointing authority to continue adhering to their local government travel policy and annually provide the Commission a copy of this approval and latest annual travel policy per G.S. 18B-700(g2). Note: *As another option, the board can alternately move to 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 & adhering to the State of NC government travel policy during an official board meeting. If the board were interested to make this travel policy change, a copy of the applicable meeting minutes showing the adopted travel policy change would then simply be forwarded via email to Commission personnel.*
- 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.

ADDITIONAL CONSIDERATIONS & GUIDANCE

- The Commission's primary focus for ABC boards & 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.
- 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.

APPENDIX A

Commission's Summary Narrative

The performance audit recommendations were presented and discussed with the Whiteville ABC board via teleconference on April 12, 2023. The ABC Board agrees with all recommendations as presented and will work toward compliance over the next fiscal year. The board continues to be vigilant with profitability enhancement and expense reduction while operating a modern store with a robust customer service focus.