

Lake Waccamaw 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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April 25, 2022

Lake Waccamaw ABC Board
Brent Jernigan, Chair
PO Box 225
Lake Waccamaw, NC 28450

Chairman Jernigan,

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

Terrance Merriweather
Deputy Commissioner

cc: North Carolina Association of ABC Boards

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 Columbus County, Lake Waccamaw is an oval-shaped freshwater lake that measures approximately five miles by seven miles with an average depth of 7.5 feet. The US Census bureau reported the population in 2010 at 1,432 residents. Chapter 540 of the 1967 Session Law authorized the town of Lake Waccamaw to hold an election upon a petition signed by at least 30% of the registered voters. The first retail sales occurred on December 9, 1967. There is currently one mixed beverage permittee as of March 2021, due to sales being approved via a November 2020 election.

Lake Waccamaw ABC Board was organized under the provisions of House Bill #764 of the NC Legislature, General Assembly of 1967, and implemented by a town-wide election. The Lake Waccamaw Town Council appointed three (3) individuals to serve on the Board.

The Lake Waccamaw ABC Board operates one (1) retail store. The general manager is primarily responsible for overseeing the daily operations pertaining to the store including personnel management, inventory management, and various administrative functions. Store clerks are responsible for providing customer-friendly service, store upkeep, and stock maintenance.

The Lake Waccamaw ABC Board had its last performance audit back in 2012. This follow-up round of performance audits 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 Thursday, June 17, 2021, ABC Board Auditor Quinn Woolard, visited the Lake Waccamaw ABC Board and interviewed Vickie Dukes, General Manager and Brent Jernigan, Chair. 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) 2019-2020, the Lake Waccamaw Board had a profit percentage to sales of 9.94%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales less than \$2M is 5%. The Lake Waccamaw ABC Board's gross sales totaled \$638,247, which was a 26.56% increase over FY 2018-2019.

The operating cost ratio for the Lake Waccamaw ABC Board was .56 in FY 2019-2020. The NC ABC Commission standard for ABC Boards with 1 or 2 stores and mixed beverage sales is .73 or less.

Thus, the Lake Waccamaw ABC Board met the profitability and 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.

| | FY2019-2020 | FY2018-2019 |
|-------------------------------|-------------|-------------|
| Gross Profit on Sales | \$151,488 | \$145,308 |
| Income from Operations | \$63,429 | \$66,762 |

Factors affecting profitability and cost include:

- Surrounding municipalities with other ABC Boards operating stores within a fifteen (15) mile range include: Whiteville and Brunswick which are both within Columbus County and both independently operating one-store ABC Boards.
- The ABC Board currently leases the store location, and currently has no long-term debt.

- An ABC Board’s average cost of goods sold (COGS) is between 52% & 54% per year. *The Lake Waccamaw Board’s cost of goods sold was approximately 53.8% in FY 2019-2020.*
- Mixed beverage sales have been zero, however, there is currently one mixed beverage permittee as of March 2021.

BUDGET ANALYSIS

| | FY2019-2020 Budget Projections | FY2019-2020 Actual | Variance | Variance % |
|---|--------------------------------|--------------------|----------|------------|
| Sales | \$625,000 | \$638,247 | \$13,247 | 2.1% |
| Total Expenditures (to include Capital Outlay) | \$581,350 | \$570,573 | \$10,777 | 1.9% |

In reviewing the budget to actual analysis of the FY2019-2020 financial audit, actual sales revenues were over the budgeted projections by 2.1%. Total operating expenses were under budget for the same period by 1.9%. The chart above shows the final budget to actual amounts and the appropriate positive or negative variances.

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 2019-2020, Lake Waccamaw ABC made distributions totaling \$26,013 (Town of Lake Waccamaw, Columbus County, and Lake Waccamaw Fire Dept combined received \$20,638 of this). The amount of \$143,622 in excise and other taxes were paid to the NC Department of Revenue (NCDOR), the NC Department of Health and Human Services (NCDHHS), and the county commissioners of Columbus County.

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

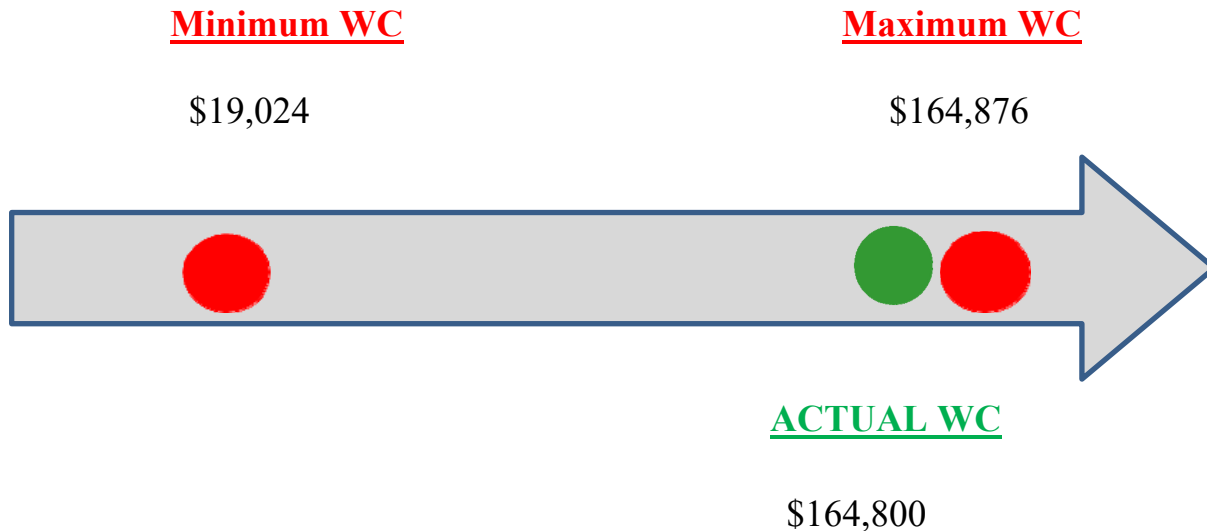
- Fifty percent (50%) to Lake Waccamaw General Fund
- Forty-five percent (45%) to Columbus County General Fund
- Five percent (5%) to Lake Waccamaw Fire Department General Fund

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 less than \$1.5M an amount equal to four (4) months of sales revenue.

Based upon the existing rules, as of June 30, 2020, the Lake Waccamaw ABC Board is required to maintain a minimum working capital of \$19,024 with a maximum working capital amount of \$164,876. The Lake Waccamaw ABC Board had a working capital balance of \$164,800 which falls *within* the Commission requirements for this section (*).

* FY 2019-2020: *Working Capital (WC) graphic*



Under 18B-805(d), with approval of the appointing authority for the board, the local board may also set aside a portion of the remaining gross receipts as a fund for specific capital improvements. *Per the FY 2019-2020 CPA audit report, the Board and the Town of Lake Waccamaw had an agreement in place to keep \$50,000 in a capital improvement plan.*

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE

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

- The board holds regular meetings the first Friday of each month at 1 PM, records regular meeting minutes, and provides public notification and awareness of these meetings.
- The board has a personnel policy manual and code of ethics policy as required. The personnel manual has not been submitted to the Commission.
- Presently, one of the board members also serves as the finance officer.
- The finance officer is signing checks as required per statute, and some liquor invoices are paid electronically through online bill pay.
- For financial oversight, the board members review bank statements and financial records monthly. A CPA firm provides quarterly oversight as well. Board members are encouraged to conduct monthly checks and balances to ensure that cash management practices are upheld.
- Bank deposits are not made daily, and instead are made semi-routinely due to distance of bank from store location. The deposits occur approximately one to two times per week per discussion and review of bank statements.
- One board member does not appear to have completed the required ethics training following July 2020 reappointment as required by *G.S. 18B-706(b)*. The Chair is soon due for potential reappointment and is also then required to take ethics training within one year.
- Law enforcement (LE) reports have been properly submitted but do not reflect any regulatory activity and training occurring in the current fiscal year of 2020-2021. Also, the LE contract on file is from 2010 and does not reflect the current mayor or police chief.
- Five County Mental Health has been receiving alcohol education distributions, yet they have not been providing documentation of utilization of funds.
- All board members and general managers are bonded as required; board members and general manager compensation adhere properly to general statutes.
- Commission records reflect some potential training records updates and appointment date updates may be necessary for board members. The board member appointment dates provided online do not adhere to staggered terms and possibly do not match with dates provided to the Commission. No recent ethics training certificates were able to be located.

STORE APPEARANCE & SHELF MANAGEMENT

The findings for store appearance are as follows:

- The store location is currently leased, and the owner has agreed to expand the premises (16' X 50' additional space) with construction beginning in 2021. This will provide the store with more sufficient warehouse space for regular liquor inventory as well as special order inventory. Also, the owner will pay for the entire construction expansion project, and only the monthly rent will be increased. *The board will encounter no long-term debt from this venture.*
- The store displayed the required Fetal Alcohol Syndrome poster required by G.S. 18B-808.
- North Carolina products have their own section as required by law but are also cross merchandised according to product category. Green North Carolina product tags are displayed on the shelves throughout the stores to help stimulate sales.
- 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.
- Store clerks' interactions with customers are attentive, courteous, and all are eager to meet the needs of the customers.
- While inspecting the store, a random sample of roughly 100 items was selected to determine if uniform pricing is displayed. Of those selected, all had the correct pricing.
- As a reminder, remove all faded posters and replace with new ones. The ABC Commission can 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.

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. *Ensure budget amendments are submitted to the ABC Commission as required per NCGS 18B-702(h), to include a final reconciliation budget amendment for the FY 2020-2021 period.*
- The personnel policy manual needs to be forwarded to the Commission. *NCAC Rule 15A .1102 states, "A copy of all rules or amendments thereto that may be adopted by a local board to govern the operation of ABC stores or the enforcement of the ABC laws shall be submitted to the Commission at least 15 days prior to the date on which it is proposed that those rules or amendments are to become effective."*
- A copy of the latest board capital improvement plan approved by the appointing authority should be forwarded to the Commission, *per 18B-805(d) section.*
- 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)*. This would primarily be applicable for liquor orders, and the stamp could be placed on applicable Order Acknowledgement Forms. The specific statement should read, *"This instrument has been pre audited in the manner required by G.S. 18B-702."*
- Checks or drafts must bear a certificate, and the certificate shall take substantially the following form: *"This disbursement has been approved in the manner required by G.S. 18B-702."* *No certificate however is required on payroll checks or for expenditures from petty cash of \$50.00 or less per 18B-702(q).*
- Recipients of alcohol education/research funds must provide an annual report to the Lake Waccamaw ABC Board, describing how the funds were spent [*Referencing 18B-805(h)*].
- Law enforcement reports must reflect and capture applicable occurrences of regulatory activity and training providing by contracted law enforcement agencies *per G.S. 18B-501(f1)*. If the board is submitting the monthly reports, law enforcement agencies should be communicating any applicable activities and compliance checks completed.
- A new law enforcement contract reflecting current town officials must be provided to the Commission *per G.S. 18B-501(f)*.
- All reappointed board members are required to complete ethics training within one (1) year of their reappointment date *per G.S. 18B-706(b)*. Per Commission records, at least one member does not reflect as current on this training.
- Cash revenues are to be deposited daily with an official depository *per NCAC 15A .0905(a)*. Alternately, *per item (d) of this Rule*, the board may request a waiver through the Commission if adequate security for the funds is demonstrated.

ADDITIONAL CONSIDERATIONS

- Board member terms for the three-member board are not currently staggered in accordance with 18B-700(a). Two (2) board members have been reappointed or due for reappointment in the same calendar year of 2021 with the third member reappointed in 2020. Ideally, for the best continuity of operations, the board would want to consider eventual term realignment to allow for each board member having term expirations which are approximately one (1) year apart. *One straightforward way to effectively accomplish this is to have the 2021 reappointment for the Chairperson only be valid for one (1) year ending in 2022 (and then being a three-year term again from that point). Because the other two board members have already been reappointed, this strategy would ensure each board member position would be properly staggered going forward.*
- Quarterly distributions of profits must occur, *unless the applicable distribution recipients approve of distributions made otherwise.*
- Consider using existing liquor inventory to fill in empty sections as applicable, until out of stock product or new product inventory has been established in the store and shelf space.
- The Board is encouraged to review financial statements monthly, comparing with the annual budget forecast, and approving budget amendments, forwarding copies to the Commission when applicable.
- When applicable, ensure unsaleable merchandise (breakage) reports are submitted to the Commission quarterly. NCAC Rule 15A .1701 requires quarterly reports be submitted for any unsaleable merchandise and retain original copies for three (3) years.
- The Board 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.
- The board should consider crafting a business credit card policy and provide a copy to the Commission.

**LAKE WACCAMAW ABC BOARD RESPONSE
TO THE NC ABC COMMISSION
PERFORMANCE AUDIT REPORT
OF June 2021
PERFORMED BY MR. QUINN WOOLARD**

INTRODUCTION

The Lake Waccamaw ABC Board has provided service and control of packaged alcoholic beverages to the residents of the town of Lake Waccamaw and surrounding areas since December 1967. Only those aspects that require attention from the Performance Audit Report will be addressed by the board.

1. Capital Improvement:

The board in previous years has the Lake Waccamaw Town council to retain \$50,000.00 for ongoing improvements to the store. In 2017, a new self-service store was opened and old counter store closed.

Working capital has been retained for improvements to that store and building of a warehouse to store liquor.

Profits that may be retained for this fiscal year will be used to upgrade.

2. Purchase Orders:

Purchase orders are being stamped and reviewed by board chairman.


While all invoices are being sent electronically a hard copy of order, delivery and payment are documented. They are stamped and reviewed.

3. New Law Enforcement Contract

New contract is attached. Police Chief Hyatt will provide monthly reports to Lake Waccamaw ABC board.

4. Daily Deposits of Cash:

Deposits are being made on a daily basis to bank. In the instance that the bank is closed the deposit will be made the first available day.



Board Chairman



General Manager