

Lenoir 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

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March 17, 2022

Lenoir County ABC Board
Mr. Wiley Dawson, Chair
PO Box 3188
Kinston, NC 28502

Chairman Dawson,

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

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 L. 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 approximately halfway between Raleigh and Morehead City, Lenoir County has a blend of agriculture and manufacturing in its history. The county consists of three municipalities: Kinston, La Grange, and Pink Hill. Its neighboring counties include Jones, Wayne, Greene, Pitt, and Duplin.

Chapter 493 of the 1935 Pasquotank Act authorized Lenoir County to hold an election. The referendum was held July 6, 1935. The vote for an ABC store passed 3,004 to 1,030. The date of the first retail sales was July 29, 1935. A mixed beverage election was held on June 14, 1983, which did not pass. A second mixed beverage election was held August 23, 1983, which passed 2,004 to 1,844. The 2020 census reflects a county population of roughly 55,000 residents.

Upon election of an ABC store, the county was authorized to create an ABC Board consisting of a chairperson and two members. The Lenoir County ABC board operates three (3) retail stores. Two stores are in Kinston and the third store is in Pink Hill. The board staffs fourteen (18) total employees including a general manager, finance officer, law enforcement officer, store managers, sales associates, and warehouse personnel. These include five (5) full-time and thirteen (13) 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 assists with routine operations of the ABC store. Law enforcement officer duties include providing loss prevention and law enforcement oversight for all stores and providing compliance checks at businesses holding ABC retail permits. Sales associate responsibilities include selling products, daily stocking, and floor upkeep & maintenance.

The Lenoir County ABC Board had its last performance audit back in 2012. This follow-up round of performance audits serves as a continuous way for the Commission to provide local boards with information and best practices that target areas for improvement.



OPERATIONAL OBSERVATIONS, FINDINGS, REQUIRED ACTIONS, & RECOMMENDATIONS

On Friday, February 25, 2022, ABC Board Program Analyst Quinn Woolard, visited the Lenoir County ABC Board and interviewed Brantley Uzzell, General Manager, and Austin Deaver, 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) 2020-2021, the Lenoir County ABC Board had a profit percentage to sales of 11.82%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales greater than \$2M yet less than \$10M is 6.5%. The Lenoir County ABC Board's gross sales totaled \$6,271,110, which was a 13.56% increase over FY 2019-2020.

The operating cost ratio for the Lenoir County ABC Board was .50 in FY 2020-2021. The NC ABC Commission standard for ABC Boards with three or more stores is .63 or less.

Thus, the Lenoir County 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.

	FY2020-2021	FY2019-2020
Gross Profit on Sales	\$1,537,899	\$1,369,265
Income from Operations	\$742,054	\$589,010

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores within a fifteen to twenty (15-20) mile range of any Lenoir County ABC operated stores include: At least one (1) store in Greene County, Wayne County, Jones County and Kenansville ABC in Duplin County.

- An ABC Board’s average cost of goods sold (COGS) is between 52% & 54% per year. The Lenoir County ABC Board’s cost of goods sold was approximately 52.6% in FY 2020-2021.
 - *Mixed beverage sales were 6.2% of total sales in FY-2021.*

BUDGET ANALYSIS

	FY 2020-2021 Budget Projections	FY2020-2021 Actual	Variance	Variance %
Sales	\$6,154,700	\$6,271,110	\$116,410	1.9%
Total Expenditures (to include Distributions)	\$6,168,900	\$6,207,953	\$39,053	(0.6%)

In reviewing the budget to actual analysis of the FY2020-2021 financial audit, actual sales revenues were over the budgeted projections by 1.9%. In addition, total expenditures were also slightly over budget for the same period by 0.6%. The chart above shows the final budget to actual amounts and the appropriate positive or negative variances. *Over the last five (5) years, the board’s net position has increased by greater than 23%, with profit distributions to the municipalities and county being well over the minimum mandatory calculated amounts.*

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 2020-2021, Lenoir County ABC made distributions totaling \$689,120 (Cities’ and towns’ general funds received \$157,722 of this, and Lenoir County’s general fund received \$423,171 of this). The amount of \$1,432,288 in excise and other taxes were paid to the NC Department of Revenue (NCDOR), NC Department of Health & Human Services (NCDHHS) and the county commissioners of Lenoir County.

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

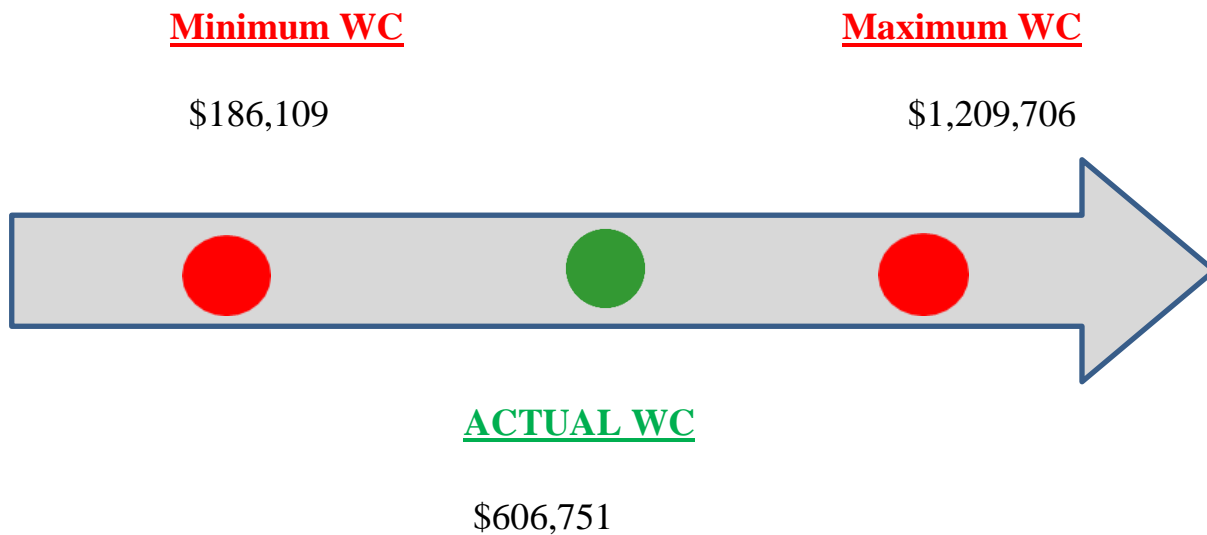
- Twenty-five percent (25%) of profits from stores in towns to applicable general funds of municipalities
- Remainder percentage to Lenoir County General Fund

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

Based upon the existing rules, as of June 30, 2021, the Lenoir County ABC Board is required to maintain a minimum working capital of \$186,109 with a maximum working capital amount of \$1,209,706. The Lenoir County ABC Board had a working capital balance of \$606,751 which falls *within* the Commission requirements for this section (*).

*** FY 2020-2021: 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.

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE

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

- The board holds regular board meetings the third Tuesday of each month at 10:00 AM, records regular meeting minutes, and provides public notification and awareness of these meetings. The minutes provide conflict of interest disclosure statements and discussion. The meeting minutes are routinely signed by Chairman or other board member presiding over the meetings.
- The board has a personnel policy manual and code of ethics policy as required. The personnel manual was not previously on file with the Commission.
- The general manager's salary is commensurate with the Lenoir County Clerk of Superior Court salary.
- No budget amendments were submitted to the Commission during FY 2020-2021 for projected increase in sales or receipt was unable to be verified. The board exceeded annual budgeted sales in April 2021.
- The finance officer is signing checks as required per statute. Invoice records for liquor purchases reflect them as being paid inside of 30 days. Taxes and distributions are paid in a routine and timely manner.
- For financial oversight, the board members review bank statements and financial records monthly along with the general manager and finance officer. Board members are encouraged to conduct monthly checks and balances to ensure that cash management practices are upheld.
- Bank deposits are routinely made daily per review of bank statements.
- Pre-audit certificates have not been routinely stamped on liquor orders as required by statute. The disbursement approval certificate is present on blank checks.
- Law enforcement (LE) reports have been submitted monthly as required and contain thorough information. The board has a part-time law enforcement officer.
- Profit distributions to the local town and county have been well above the minimum mandatory distribution over the past several years, and the board also has a very healthy net position.
- The recipients of alcohol education distributions provide documentation to the board describing how the alcohol education funds awarded were utilized. Among the recipients were the Boys & Girls Club, Clay Worrell Ministries, and Lenoir Community College.
- For inventory management, the general manager advised quarterly inventory is conducted.
- The general manager verified that all board members, general manager, and finance officer are bonded as required; most board members' compensation amounts adhere properly to general statutes. The Chairperson's compensation is set at \$175 monthly; no approval letter for the compensation from the appointing authority could be verified in Commission records. However, a copy of the letter has been forwarded and now uploaded to the Commission's portal website.

STORE APPEARANCE & SHELF MANAGEMENT

The findings for store appearance are as follows:

- The board is in the process of adding new registers in 2022 for all store locations.
- The board is in the process of implementing a self-checkout system for customers. This would involve the customer first scanning a valid identification (ID) card and then begin scanning liquor inventory items. Presently, the board has already installed a camera with advanced facial recognition at the board's main store location.
- 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.
- Sales associate 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 75 items was selected to determine if uniform pricing is displayed. Of those selected, three had incorrect prices listed on the shelf and were promptly corrected.
- 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. This would include the point in time during the fiscal year when the board will exceed its annual forecasted sales budget. *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.*
- Ensure all policies are submitted to the Commission prior to official board approval. NCAC 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.” *The board is recommended to adopt a vehicle use policy, and a sample template has been forwarded for consideration.*
- 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.*”
- All reappointed board members (and newly appointed members) are required to complete ethics training within one (1) year of their reappointment date per *G.S. 18B-706(b)*. Per Commission records on recent reappointment in April 2021, Board Member Sutton would need to complete the ethics training by April 2022. Board Member Mills was reappointed in July 2020 and the Commission has no documentation for completion of ethics training to date.
- The board has a code of ethics policy per *G.S. 18B-706*, and ABC Commission has an incomplete copy. The following are needed administrative actions:
 - A Certificate of Accountability form declaring the statutory duties of the board have been properly performed needs to be signed and copy forwarded to the Commission. *The COA form has been forwarded to the board.*

ADDITIONAL CONSIDERATIONS

- The Commission encourages all boards to list board member current appointment dates and term expiration dates on board meeting minutes (*or track and monitor these dates in some manner*). This will increase visibility and allow for seamless board member updates with the Commission. It also allows ABC boards to easily communicate necessary reappointment dates and offer high visibility to the applicable appointing authorities involved.
- The Board is highly encouraged to closely review financial information and monitor straightforward ways to lower any recurring expenses. *A very tangible way to lower expenses is to take full advantage of monthly special purchase allowance (SPA) liquor products that routinely sell well in the store. By purchasing liquor on sale whenever possible, this will enhance the board's posture on lowering 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*.
- The Pink Hill store has ample parking located beside the store. For the parking area in the store's front vicinity located just adjacent to Kinston Blvd, there are a few potholes and dips present. To make customers' arrival and departure smoother and safer for those vehicles parking in front, this small but key area would be suitable for repaving.
- The Board is encouraged to closely review financial statements monthly, comparing with the annual budget forecast, approving budget amendments when necessary and submitting copies to the Commission.
- 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.
- 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.
- 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 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.

LENOIR COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD



Wiley Dawson, Chairman
E. Clyde Sutton, Member
Edward Mills, Member
Brantley Uzzell, General Manager

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PO Box 3188
Kinston, NC 28501
Phone: (252) 523-0775
Email: lenoircoabc@suddenlinkmail.com

To: The North Carolina ABC Commission
From: The Lenoir County ABC Board
Re: Performance Audit Response
Date: 3/15/2022

The Lenoir County ABC Board would like to thank Quinn Woolard for his time in performing the Lenoir County ABC Board's performance audit for 2022. The Board has read, reviewed and discussed the report. The Board will take all recommendations into consideration now and in the future for the growth and development of our program here at the Lenoir County ABC Board.

Sincerely,

A handwritten signature in black ink, which appears to read "Wiley Dawson". The signature is written in a cursive style and is positioned above a horizontal line.

Wiley Dawson, Chairman
Lenoir County ABC Board