

Wayne 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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May 18, 2022

Wayne County ABC Board
Milas Kelly, Chair
909 Landmark Dr
Goldsboro, NC 27534

Chairman Kelly,

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

Wayne County is in eastern North Carolina, roughly halfway between the state capital and the closest beach. The 2020 U.S. Census reflects the county as having an approximate population of 170,243. The total population has increased by approximately 1.2% since 2010, with the 2010 Census reflecting a 25% population increase since the year 2000.

The 1937 Act authorized Wayne County to hold an election for an ABC store. The referendum was held April 4, 1964, and this passed with 5,859 votes to 5,152. The first retail sales occurred on June 15, 1964. A county-wide vote was held for the sale of mixed beverages and did not pass. However, a mixed beverage election was held for the following municipalities: Goldsboro on September 9, 1986 (passed 2,377 votes to 1,716); Walnut Creek on March 8, 1988 (passed 125 votes to 37); Mount Olive on May 6, 1997 (passed 617 votes to 522); Fremont on November 5, 2019 (passed 149 votes to 110). Currently, five (5) ABC board members are appointed by the county commissioners to serve for three-year terms.

The Wayne County ABC board operates five (5) retail stores. The board staffs thirty-seven (37) total employees including a general manager, operations manager, finance officer, law enforcement officers, warehouse manager / associates, and sales associates. These include roughly twenty (20) full-time and seventeen (17) part-time personnel. The general manager and operations manager are 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 provide loss prevention oversight and direct enforcement oversight for all stores, as well as conducting compliance checks at businesses holding ABC retail permits. Sales associate responsibilities include selling products, daily stocking, and floor upkeep & maintenance.

The Wayne 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 Tuesday, April 5, 2022, ABC Board Program Analyst Quinn Woolard, visited the Wayne County ABC Board and interviewed David Austin (General Manager), Chester Bailey (Operations Manager), Thomas Fuhs (Finance Officer), and Board Chairman Milas Kelly. 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 Wayne County ABC Board had a profit percentage to sales of 11.21%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales greater than \$10M is 9.0%. The Wayne County ABC Board's gross sales totaled \$14,446,320, which was a 19.02% increase over FY 2019-2020.

The operating cost ratio for the Wayne County ABC Board was .51 in FY 2020-2021. The NC ABC Commission standard for ABC Boards with three or more stores is .63 or less.

Thus, the Wayne County ABC Board exceeded the profitability standards and met 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	\$3,568,607	\$3,008,546
Income from Operations	\$1,619,968	\$1,202,431

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores within a fifteen (15) mile range of Wayne County ABC: No other ABC boards are in the county; two stores operate in neighboring Greene County, one store in neighboring Johnston County which are roughly within 15 miles of any given Wayne County ABC store.
- With the Seymour Johnson Air Force Base in Goldsboro, military members can purchase liquor on base tax free and potentially at lower costs than products available through local ABC stores.

- An ABC Board’s average cost of goods sold (COGS) is between 52% & 54% per year. The Wayne County ABC Board’s cost of goods sold was approximately 52.3% in FY 2020-2021.
 - *Mixed beverage sales were 8.2% of total sales in FY-2021, and there are over 45+ mixed beverage permit holders.*

BUDGET ANALYSIS

	FY 2020-2021 Budget Projections	FY2020-2021 Actual	Variance	Variance %
Sales	\$14,425,985	\$14,446,320	\$20,335	0.1%
Total Expenditures (to include Distributions)	\$13,737,089	\$13,418,340	\$318,749	2.3%

In reviewing the budget to actual analysis of the FY2020-2021 financial audit, actual sales revenues were over the budgeted projections by 0.1%. In addition, total expenditures were also under budget for the same period by 2.3%. The chart above shows the final budget to actual amounts and the appropriate positive or negative variances. *The board’s FY-2021 ending net position is 78% higher than it was in FY-2017 and is the strongest it has been over the last five (5) years.*

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)(3) 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 [unless an ABC board has a specific local act otherwise establishing these amounts]. *Before assigning these percentage distribution calculations, G.S. 18B-805(c)(1) requires the board to first make a minimum quarterly or other scheduled statutory 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, Wayne County ABC made other statutory distributions totaling \$733,286 (Wayne County and applicable towns received \$623,346 of this amount in accordance with net profit distributions). The amount of \$3,309,782 in primary distributions and other taxes were made to the NC Department of Revenue (NCDOR), NC Department of Health & Human Services (NCDHHS), and the county commissioners of Wayne County.

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

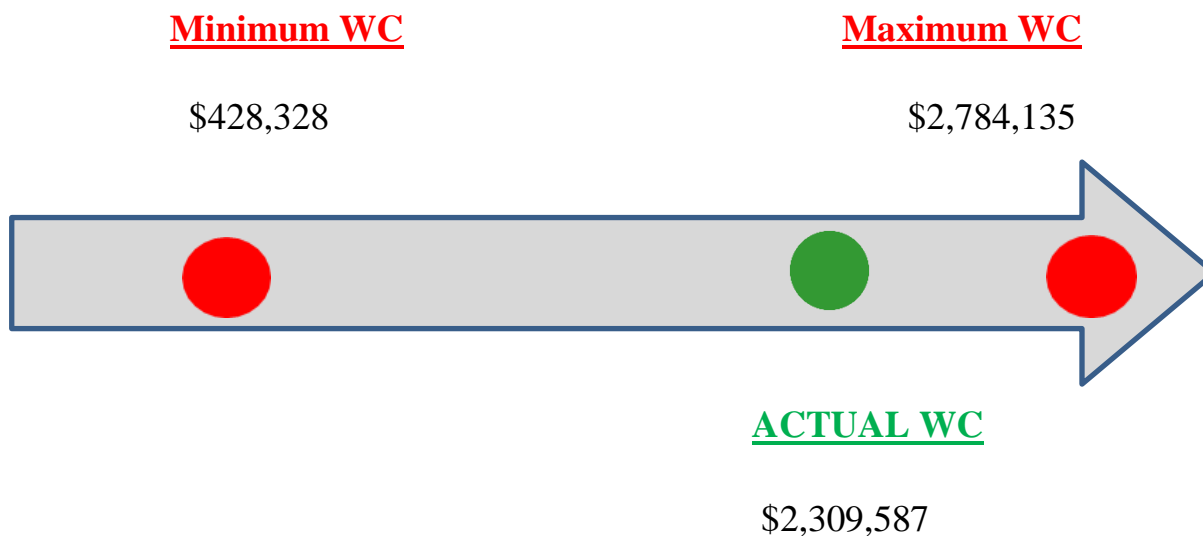
- Fifty percent (50%) of profits to Wayne County General Fund
- Fifty percent (50%) to towns with ABC stores

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, 2021, the Wayne County ABC Board is required to maintain a minimum working capital of \$428,328 with a maximum working capital amount of \$2,784,135. The Wayne County ABC Board had a working capital balance of \$2,309,587, 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 Wednesday of each month at 12:00 PM, 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 kept in a binder for review and two years of minutes were available. *Wayne County Board of Commissioners as the appointing authority only allows ABC board members to serve a three (3) term maximum.*
- The board has a personnel policy manual and code of ethics policy as required. The personnel manual was previously on file with the Commission and has a February 2014 revision date.
- No budget amendment copies 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. The finance officer has robust tracking and monitoring spreadsheets and is meticulous with financial oversight.
- The operations manager and GM are meticulous with inventory oversight and store operations, including tracking and being strategic with buy-ins of liquor products.
- 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.
- Payroll is outsourced and processed twice per month by ADP with some internal compilation and processing.
- Pre-audit certificates are being routinely stamped on liquor orders (Order Edit List) as required by statute. The disbursement approval certificate statement is also present on blank checks.
- Law enforcement (LE) reports have been routinely submitted as required monthly and contain thorough information. The board has a part-time law enforcement chief and two other part-time enforcement officers, operating with three (3) vehicles. Law enforcement statute distributions were above the 5% minimum.
- Alcohol education distributions in FY-2021 were 1.03% of the profit subject to expense percentage. During, FY-2020, these distributions were calculated as being made at 5% essentially.
- The minimum mandatory profit distribution to the county (as the appointing authority) and respective towns was calculated as being \$410,552 in the CPA annual audit. The distribution made to the county was \$623,346 in FY-2021 and in FY-2020 the calculated minimum mandatory distribution amount of \$348,654 was made to the distribution recipients.
- The general manager verified that all board members and general manager and finance officer are bonded as required; board members' compensation amounts adhere properly to general statute requirements.

STORE APPEARANCE & SHELF MANAGEMENT

The findings for store appearance and awareness are as follows:

- Three of the five board stores were visited, including the board location store, Rosewood, and Wayne Memorial Drive stores. The latter store has been very profitable for the board and is a newer location. When developing the proposed site, the board responsibly addressed concerns brought forward by a non-profit organization of having a liquor store beside a neighboring elementary school. The board cooperated very well by working to add fencing and privacy screening. When the store was built, the board ensured an additional paved area was constructed providing truck drivers with ample maneuvering space and allowing for efficient and hassle-free deliveries in the loading dock vicinity.
- The board is considering relocating the Rosewood store location to an eventual larger building / site as this store location is the only one not owned by the board. It is very limited on shelf space and backroom storage. The challenge has been finding a suitable location at a reasonable cost. A parcel just adjacent to the current store location is available yet not feasible due to excessive land cost.
- The stores all 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 and top to bottom where applicable. Bottles were fronted and dusted.
- Outside area surrounding the stores 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 three stores, a random sample of roughly 75 items was selected to determine if uniform pricing is displayed. Of those selected, only five items had incorrect prices which were immediately corrected.

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. *Going forward, 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 fiscal year end.*
- The board must annually obtain approval from the appointing authority to adhere to their local government travel policy and annually provide the Commission a copy of this approval and policy per G.S. 18B-700(g2). **NOTE:** *As another option, the board can alternately 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 the State of NC government travel policy during an official board meeting and provide a copy to the Commission.*
- 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 July 2020, Board Member Meador is approximately eight (8) months overdue for ethics training completion. The training needs to be completed as soon as possible, and an ethics training completion certificate forwarded to the Commission.
- The board has a code of ethics policy per *G.S. 18B-706*, and ABC Commission has a 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 AND GUIDANCE

- The Commission encourages all boards to track and monitor board members' current appointment dates and term expiration dates. 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, who may or may not be properly tracking ABC board member term expiration dates.
- The Commission encourages and requests ABC boards to routinely update the Commission's board website when applicable (*the Commission's board website referring to where boards log on monthly with password to report monthly sales*). Some key pieces of information for updating would include updated board member information such as email addresses, member appointment dates, board member compensation changes, and store location hours changes and interior and exterior pictures of new / remodeled store locations. *Alternately, ABC boards can email communicating on any applicable changes to Commission staff who are ready to assist with online updates.*
- ABC boards are encouraged to update and remodel older store locations. Consider replacing carpeting with composite flooring, new shelving, painting, and an overall focus on modernizing stores for a warm and inviting shopping experience.
- ABC boards are 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) / monitoring buy-ins on 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.*
- 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.
- 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.
- 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 reach out to and lean on the Commission when guidance or assistance is needed to support local ABC board mission and success!**



WAYNE COUNTY ABC BOARD
909 LANDMARK DRIVE
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(919) 778-7731

18 May 2022

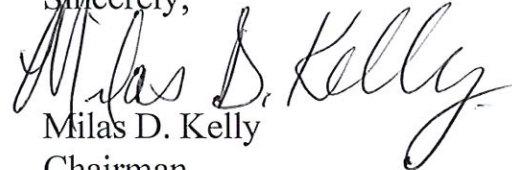
Mr. Quinn Woolard, ABC Board Auditor
North Carolina ABC Commission
4307 Mail Service Center
Raleigh, North Carolina 27699-4307

Dear Quinn:

On behalf of the Wayne County Alcoholic Beverage Control Board, I would like to thank you for your teleconference to our April 20, 2022, Board meeting to review your performance audit of our operations and facilities. The Wayne County ABC Board serves the citizens of Wayne County by providing a pleasant shopping experience for our customers, while at the same time controlling the sale of spirituous liquor and enforcing the laws and rules of North Carolina. Our Board has a zero-tolerance attitude for the purchase of spirituous liquor by underage persons and we strive to provide our employees with the training to keep spirituous liquor out of the hands of underage and/or intoxicated persons.

We thought that your audit was very professional and thorough; and that you personally interacted very well with our staff. Our Board has discussed the recommendations in your audit, and they have been corrected accordingly.

Again, we appreciate your time and work involved with this audit. It is our goal to continue to provide good customer service to our customers while simultaneously controlling the sale of spirituous liquor in Wayne County.

Sincerely,

Milas D. Kelly
Chairman
Wayne County ABC Board