

Washington 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

Washington County ABC Board
Mr. Jack Faulk, Chair
696 US Hwy 64 East
Plymouth, NC 27962

Chairman Faulk,

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

Washington County is in northeastern North Carolina approximately 120 miles east of Raleigh and 80 miles west of the Outer Banks. Surrounding counties with ABC stores include Tyrrell, Bertie, Martin, Beaufort, and Hyde. The 2020 U.S. Census reflects the county as having an approximate population of 11,003 residents. The total population has decreased by roughly 16.8% since the 2010 Census.

Chapter 49 of the 1937 Act authorized Washington County to hold an election for an ABC store. The referendum was held in May 1937. The vote for an ABC store passed with 80% support and 20% opposition. The date of the first retail sales was July 1, 1937. Upon election of an ABC store, Washington County was authorized to create an ABC Board consisting of a chairperson and two members to serve for three-years terms.

The Washington County ABC board operates one (1) retail store. The board staffs five (5) total employees including a general manager, finance officer, and sales associates. These include two (2) full-time and three (3) 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. Sales associate responsibilities include selling products, daily stocking, and floor upkeep & maintenance.

The Washington 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 Wednesday, March 16, 2022, ABC Board Program Analyst Quinn Woolard, visited the Washington County ABC Board and interviewed Todd Moore, General Manager. 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 Washington County ABC Board had a profit percentage to sales of 8.4%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales less than \$2M is 5.0%. The Washington County ABC Board's gross sales totaled \$1,488,737, which was a 27.7% increase over FY 2019-2020.

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

Thus, the Washington County ABC Board well exceeded the profitability standards and also 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 | \$357,675 | \$306,684 |
| Income from Operations | \$125,118 | \$67,790 |

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores within a twenty (20) mile range of Washington County ABC: No other boards or ABC stores, and closest ABC stores are closer to 25 miles or more in proximity.
- An ABC Board's average cost of goods sold (COGS) is between 52% & 54% per year. The Washington County ABC Board's cost of goods sold was approximately 53.2% in FY 2020-2021.

- *Mixed beverage sales were 1.6% of total sales in FY-2021, and there are four (4) mixed beverage permit holders.*

BUDGET ANALYSIS

| | FY 2020-2021 Budget Projections | FY2020-2021 Actual | Variance | Variance % |
|--|--|-------------------------------|-----------------|-------------------|
| Sales | \$1,475,000 | \$1,488,737 | \$13,737 | 0.9% |
| Total Expenditures (to include Distributions) | \$1,495,000 | \$1,455,715 | \$39,285 | 2.6% |

In reviewing the budget to actual analysis of the FY2020-2021 financial audit, actual sales revenues were over the budgeted projections by 0.9%. In addition, total expenditures were under budget for the same period by 2.6%. 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 the strongest it has been over the last five (5) years, increasing by 78% during this 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 2020-2021, Washington County ABC made distributions totaling \$34,311 (Washington County received \$20,819 of this and Town of Plymouth received \$2,313 of this). The amount of \$339,406 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 Washington County.

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

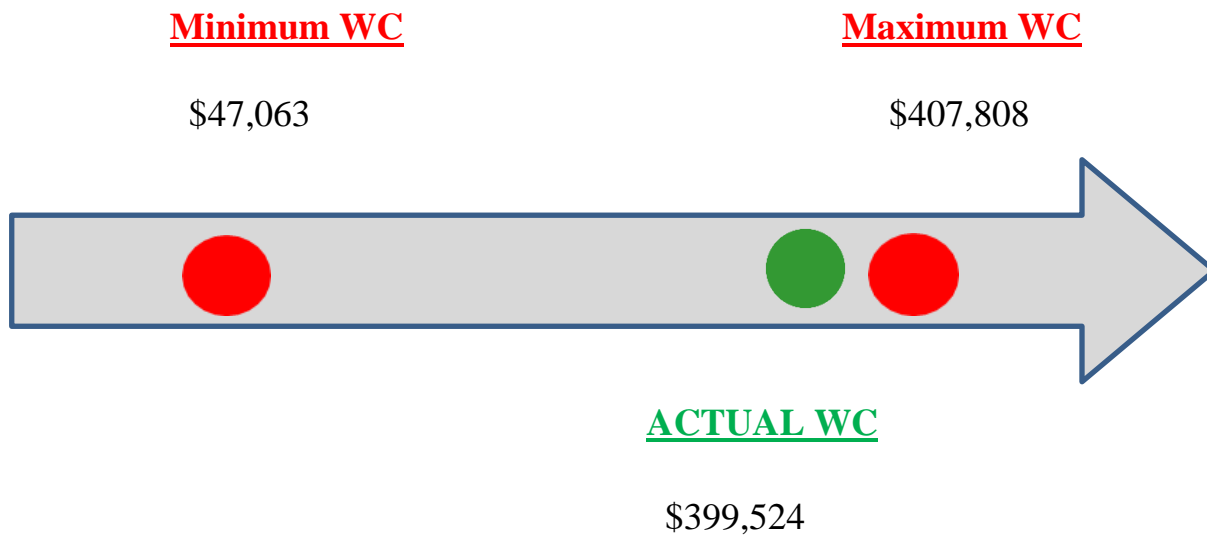
- Ten percent (10%) of profits to Plymouth General Fund
- Remainder percentage to Washington County General Fund

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

Based upon the existing rules, as of June 30, 2021, the Washington County ABC Board is required to maintain a minimum working capital of \$47,063 with a maximum working capital amount of \$407,808. The Washington County ABC Board had a working capital balance of \$399,524, 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 first Tuesday of each month at 3:30 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 signed and kept in a binder for review.
- 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, and a copy has now been received.
- 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 March 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. Allen Accounting & Taxes also provides periodic oversight and reconciliation of board financials to include monthly payroll processing.
- Bank deposits are normally made on Tuesdays, Thursdays, and Fridays per review of bank statements and general manager feedback.
- Pre-audit certificates are being routinely stamped on liquor orders 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 minimum mandatory profit distribution to the local town and county was calculated as being \$30,003 in the CPA annual audit. The distributions made to these entities was \$23,132 for FY-2021.
- The recipients of alcohol education distributions did not provide documentation to the board describing how the alcohol education funds awarded were utilized. Among the recipients were the Friends of MTW and Washington County Explorers.
- For inventory management, the general manager advised quarterly inventory is conducted, with intermittent spot checks.
- 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 are as follows:

- The board is in the process of finalizing an outdoor ramp to expedite palletized truck deliveries seeking to improve efficiency. Double warehouse doors were added in 2022.
- The board is considering options for upgrading the inventory software due to delays in timely customer service for the existing program.
- 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. The parking lot has been recently repaired.
- The pylon ABC sign by the road has an outdated design.
- 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, all had the correct prices listed on the shelf.
- As a reminder, remove all faded posters and replace with new ones when applicable. 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. *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.*
- 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 Commission only needs to obtain an electronic copy of the policy / personnel manual from the board.*
- Cash revenues are to be deposited daily with an official depository per Rule 15A .0905. / Daily Deposits. Alternately, per item (d) of this rule, the board may pursue a waiver through the Commission via *written request where security for the funds involved would include a locked fireproof safe or other container designed for protection of money.* This can be sent directly via email request to Greg Stallings and Christine Twining.
- 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 the board must retain original copies for three (3) years.
- Board member terms are not currently staggered properly in accordance with 18B-700(a). Two (2) of the three board members were both reappointed near the end of calendar year 2020. For the best continuity of operations for staggered terms, the board would want to explore term realignment to allow for each board member having term expirations which are approximately one (1) year apart.
- 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 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.*
- 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 board is already researching and considering inventory software upgrades due to low customer service and delays in getting issues resolved with the current program. The Commission asks the board to consider investing in an inventory scanner or two to expedite receipt of routine deliveries and become more efficient when conducting periodic inventory.
- 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 outside pylon ABC sign by the road has an outdated design. The board should consider replacing the sign to enhance the exterior appearance and better market the store to passing motorists.
- As the board's net position has become stronger in recent years, the board is highly encouraged to ensure the minimum mandatory distribution (*the 3.5% tax and bottle charge*) has been made as applicable to county and town general funds in accordance with G.S. 18B-805(c)(1). The annual minimum mandatory distribution is computed on the annual CPA audit, and the local accounting firm the board uses can help provide great oversight and compliance in paying out appropriate distribution amounts.
- 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.
- 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.

Washington County ABC Board
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252-793-2217
wcabcbd@embarqmail.com

To: NCABCC
From: Washington County ABC Board #109
Date: Tuesday, March 3, 2022 Board Meeting
Subject: Performance Audit Response

The Washington County ABC Board #109 had a teleconference with Mr. Quinn Woolard during the Board's Tuesday, April 5, 2022 Board Meeting. All three of the Board Members and the General Manager/Deputy Finance Officer were present. The subject of the teleconference was the Performance Audit that was conducted on Wednesday, March 16, 2022 at the Board's only store. The Board had received a copy of the Performance Audit and was able to review and discuss it prior to the teleconference. The Board and the General Manager would like to thank Mr. Woolard for his time and guidance. The Board will review and discuss all the recommendations brought before them, in an effort to improve the Washington County ABC Board system.

The Board's response to a few of the "Recommended Actions";

1. The Board will perform and approve Budget Amendments in a timely matter, also forwarding any Budget Amendments to the NCABCC and the Board's Appointing Authority.

2. The Board has recently finish updating the Board's Personnel Policy. The General Manager will be forwarding the completed Personnel Policy electronically to the NCABCC in the very near future.
3. There is only one bank in Plymouth that accepts businesses, with that bank having limited lobby time. The lobby is closed 1:00 - 3:00. On Monday and Wednesday the WC ABC store has only one employee during banking hours, meaning that deposits are not made on Mondays and Wednesdays. The Board will be pursuing a waiver through the Commission and purchasing a fireproof safe.
4. The Board will be reaching out to their Appointing Authority to make sure that future Board Members terms are staggered properly.
5. The Board will be making a decision on which travel policy, Appointing Authority or State of NC, and forwarding their decision to the Commission.

In conclusion, The Washington County ABC Board aims to better serve their customers, their community and the great state of North Carolina.

Sincerely,

Jack Faulk 5/13/22
Jack Faulk, Chairman

Washington County ABC Board

J. Todd Moore 05/12/22

J. Todd Moore

General Manager/ Deputy Finance Office