

# Walnut Cove ABC Board

## Performance Audit Report



Alcoholic Beverage Control Commission  
400 East Tryon Road, Raleigh, NC 27610  
p: 919-779-0700 | f: 919-661-5927 | <http://abc.nc.gov>



**ABC**  
COMMISSION  
NORTH CAROLINA

## TABLE OF CONTENTS

---

ABC Commission Statement .....	3
Objective, Purpose & Background Information .....	4
Financial Analysis, Observations & Findings .....	6
Recommended Actions & Additional Considerations.....	11
Walnut Cove ABC Board Response .....	13



# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

CHAIRMAN:  
Hank Bauer

COMMISSIONERS:  
Norman A. Mitchell, Sr.  
Charlotte

Karen L. Stout  
Black Mountain

Deputy Commissioner:  
Terrance L. Merriweather

LOCATION:  
400 East Tryon Road  
Raleigh NC 27610

MAILING:  
4307 Mail Service Center  
Raleigh NC 27699-4307

PHONE: (919) 779-0700  
<http://abc.nc.gov/>

February 16, 2022

Walnut Cove ABC Board  
Mr. Brian Booe, Chairman  
PO Box 511  
Walnut Cove, NC 27052

Chairman Booe,

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

I encourage you to review the report and let me know if you have any questions or require assistance in implementing any of the statute requirements, Commission rules, or other recommendations included. 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 AND BACKGROUND**

---

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

Chapter 832 of the 1969 Session Laws authorized the Town of Walnut Cove to hold an election upon a petition of at least twenty-five percent (25%) of registered voters. The referendum was held on October 21, 1969 and passed 297 to 176. The first retail sale occurred on February 6, 1970. A mixed beverage election was held on November 3, 2015 and was passed by voters.

Upon election of an ABC store, the town was authorized to create an ABC board consisting of a chairman and two (2) board members to serve three-year staggered terms. The Walnut Cove 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 Walnut Cove ABC Board had its last performance audit back in 2014. 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 & RECOMMENATIONS:

On Monday, May 10, 2021, ABC Program Analyst Quinn Woolard, visited the Walnut Cove ABC Board and interviewed Tanner Hairford, General Manager and spoke with Chairman Brian Booe. 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 Walnut Cove Board had a profit percentage to sales of 5.86%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales less than \$2M is 5%. The Walnut Cove ABC Board's gross sales totaled \$1,305,828, a 19.8% increase over FY 2018-2019.

The operating cost ratio for the Walnut Cove ABC Board was .68 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. The Walnut Cove ABC Board met this Commission standard.

Thus, the Walnut Cove ABC Board met the profitability and operating cost standards set by the NC ABC Commission. Below is a chart showing expenses and income from operations for the previous two years.

	FY2019-2020	FY2018-2019
<b>Expenses excluding Depreciation</b>	\$171,122	\$174,895
<b>Income from Operations</b>	\$76,578	\$38,422

*Factors affecting profitability and cost include:*

- This is the only ABC store located in Stokes County; Surrounding towns within a fifteen (15) mile range with ABC stores include three Winston-Salem stores (all operated under Triad Municipal Board) and Madison.
- The ABC Board currently has a lease agreement with the Town of Walnut Cove stating that rent is essentially determined based on the net profits generated from the sale of alcohol. Rental expense has increased significantly due to this current lease agreement with the town.

- For the FY 2019-2020 year, rental expense increased by 55% stemming from increased sales revenue.

- An ABC Board's average cost of goods sold (COGS) is between 52% & 54% per year. The Walnut Cove ABC Board's cost of goods sold was approximately 58.53% in FY 2019-2020. The increase of the COGS occurred as the board was settling debt incurred by the former general manager.

- *Mixed beverage sales total approximately 2.2% in FY 2019-2020.*

## BUDGET ANALYSIS

	FY2019-2020 Budget Projections	FY2019-2020 Actual	Variance	Variance %
<b>Sales</b>	\$1,325,000	\$1,305,828	(\$19,172)	(1.4%)
<b>Total Operating Expenses Including Capital Outlay</b>	\$232,000	\$178,242	\$53,758	23.2%

In reviewing the budget to actual analysis of the FY2019-2020 financial audit, actual sales revenues were under the budgeted projections by 1.4%. Total operating expenses were below budget for the same period. The chart above shows the final budget to actual amounts and the 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, Walnut Cove ABC made distributions totaling \$53,110 (with \$37,489 of this going to designees under the local enabling act). The amount of \$291,056 in excise and other taxes were paid to the NC Department of Revenue (NCDOR), the NC Department of Health and Human Services (NCDHHS), and county commissioners of Stokes County.

G.S. 18B-805(c)(2) requires the board to distribute at least five percent (5%) of gross profits to law enforcement. The remaining profits are to be distributed as follows:

- Sixty-four percent (64%) to the Town of Walnut Cove
- Twenty percent (20%) to the Stokes County General Fund
- Nine percent (9%) to Walnut Cove Public Library
- Seven percent (7%) to Alcohol Education





## **PERSONNEL, POLICY AND ADMINISTRATIVE COMPLIANCE**

---

- Presently, the board has a finance officer as required by G.S. 18B-702(j). However, the finance officer does not conduct duties as authorized by the statute. The board has considered the value of hiring a full-time finance officer. Liquor invoices reviewed are routinely being paid within the 30-day of receipt requirement.
- The board has submitted an updated personnel manual. However, the board is updating policies to reflect current practices. The Policy and Procedure Manual and the Check Signing Authorization policy were not submitted to the Commission prior to approval.
- The board is currently and routinely drafting electronic checks with electronic signatures, with the Chairman periodically reviewing bank reconciliations for oversight. The Chairman and board members are to provide effective oversight in ensuring procedures for electronic signatures are being followed. For further appropriate oversight, board members are encouraged to conduct checks and balances to ensure that cash management practices are upheld.
- The Walnut Cove ABC Board does not hold regular meetings as required by G.S. 143. The board meets via teleconference and does not record minutes for meetings. Public notification is not available as required.
- The Chairman and General Manager both work for the City of King fire department as their full-time employment. The Chairman is an assistant fire chief, and the General Manager is a fire captain.
- Board members have completed the required ethics training as required by G.S. 18B-706(b). Since the fieldwork, the board chairman has been reappointed for a three-year term and is required to take ethics training within one year of reappointment, as required by statute.
- Law enforcement reports have been properly submitted; all board members and general manager are bonded as required; board members and general manager compensation adhere properly to general statutes.

## STORE APPEARANCE & SHELF MANAGEMENT

---

---

The findings for store appearance are as follows:

- 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.
- The store clerk was professional and friendly. While observing the clerk interacting with the public, they not only exhibited excellence in customer service but a genuine friendly and helpful attitude during the encounters.
- While inspecting the store, a random sample of 35 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.

## RECOMMENDED ACTIONS FOR COMPLIANCE ON STATUTES OR 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 board is required to appoint a finance officer to perform duties as required by G.S. 18B-702(k). The finance officer is required to sign all checks referenced in the statutes. G.S. 18B-702(p) states, *“Except as otherwise provided by law, all checks or drafts on an official depository shall be signed by the finance officer or a properly designated deputy finance officer.”*
- As required by G.S. 143-318.10-12, public boards are required to conduct regularly scheduled board meetings and keep full and accurate minutes of all official meetings (*including closed sessions*). Additionally, to ensure the public awareness of all board meetings, public notifications must be displayed indicating the regularly set schedule.
- 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.”*
- Any agencies receiving distributed funds from the ABC board for the treatment of alcoholism or substance abuse, or alcohol education or substance abuse research must submit an annual report to the board describing how the funds were spent, as required by G.S.18B-805(h).
- Continue to update the Policy & Procedural Manual and Check Signing Authorization policy to reflect actual and current practices. As a reminder, submit all applicable policies to the NC ABC Commission prior to adoption. 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 what it is proposed that those rules or amendments are to become effective.”*
- All reappointed and newly appointed board members are required to complete ethics training within one (1) year of appointment or reappointment, per G.S. 18B-706(b).

## ADDITIONAL CONSIDERATIONS

---

- The board should consider listing board member term expiration dates on board meeting minutes. This will allow high situational awareness for the board, and it serves to allow for efficient updates on communicating with the Commission. The Chairman or other board member leading the meeting should routinely sign the meeting minutes, and the minutes from the last meeting would be approved at the next board meeting. Also, the conflict-of-interest statement should be addressed at each meeting and reflected in the meeting minutes.
- To improve operating cost ratios, the board can request bids annually from various vendors to get the best rates possible on financial audits, specific utilities, maintenance contracts, and credit card processing fees. *In addition, closely monitor and take advantage of monthly special purchase allowances (SPAs) for a tangible way to reduce the cost of goods sold on any items that sell well in the store.*
- Quarterly distributions of profits must occur [per G.S. 18B-805(c)(e)] *unless the applicable distribution recipients approve of distributions made otherwise. If other arrangements occur, the board will need to secure documentation and forward 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.
- The board is encouraged to review financial statements monthly, comparing them with the annual budget, approving budget amendments when necessary and submitting budget amendment 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 increase responsibility roles and serving to fortify the routine operations and employee morale.
- The board should consider drafting a telework policy if any employees will be allowed to work remotely for any reason (*especially with COVID and other medical related absences and being able to support continuity of operations*).
- 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.

*Town of Walnut Cove  
Alcoholic Beverage Control Board*

*Established February 1969*

*521 North Main Street*

*P.O.Box 511*

*Walnut Cove, NC 27052*

*336-591-7447 (Business)*

*336-591-5159(Fax)*

---

***Purpose:** The Town of Walnut Cove Alcoholic Beverage Control Board manages the sale of spirituous liquor through business principles that promote excellence in customer service; establishes effective alcohol education partnerships; administers regulatory provisions; and instills financial accountabilities that benefit those we serve.*

August 26, 2021

NC ABC Commission

400 East Tryon Road

Raleigh, NC 27610

Mr. Woolard,

On behalf of the Walnut Cove ABC board, we would like to extend our sincere thanks to you for providing a very detailed audit of our store operations. Attached are the board's responses to the items identified during the audit process:

**Item 1:** REQUIRED ACTION: ABC Boards are required to operate within a balanced budget each fiscal year. Budget amendments must be submitted 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). **The board will ensure that the General manager and financial officer complies with the requirement through monthly review of the financial statements presented to the board of directors.**

*Brian Booe, Chairman  
Keith Morgan, Board Member  
James Dalton, Board Member*

**Item 2:** The board is required to appoint a finance officer to perform duties as required by G.S. 18B-702(k). The finance officer is required to sign all checks referenced in the statutes. G.S. 18B-702(p) states, “Except as otherwise provided by law, all checks or drafts on an official depository shall be signed by the finance officer or a properly designated deputy finance officer.” **The board has hired a full-time employee that will assume the role of finance officer beginning July 1, 2021.**

**Item 3:** Continue to update the Policy & Procedure Manual and Check Signing Authorization policy to reflect actual and current practices. As a reminder, submit all applicable policies to the NC ABC Commission prior to adoption. 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.” **These policies have been submitted for review to the ABC commission and the board continues to work on updating policies to ensure compliance with ABC commission rules.**

**Item 4:** As required by G.S. 143-318.10-12, public boards are required to conduct regularly scheduled board meetings and keep full and accurate minutes of all official meetings (including closed sessions). Additionally, to ensure the public awareness of board meetings, public notifications must be displayed indicating the regularly set schedule. **The board has set meeting times for the second Thursday of the month beginning at 5:30 unless a schedule conflict dictates otherwise and a notice will be placed on the doors of the store to indicate a change in meeting times.**

**Item 5:** All reappointed board members are required to complete ethics training within one (1) year of reappointment per G.S. 18B-706(b). **The chairman of the board was recently re-appointed to a three-year term and this requirement will be completed within the specified time.**

The following goals listed below will be the focus of the ABC Board in the coming months:

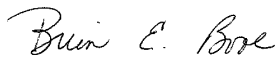
- Update point of sale and inventory management system to improve efficiency amongst store clerks and management
- Continue to update store policies and work with the commission on ensuring legal compliance before implementing new policies. Ensure that employees are kept up to date on polices.
- Continue with store improvement to include new exterior signage and lighting.

*Brian Booe, Chairman  
Keith Morgan, Board Member  
James Dalton, Board Member*

- Follow recommendations outlined in the recent audit in regards to meeting schedules, appointment of finance officer, ethics training, and training for store employees.
- Ensure all agency receiving funding from the ABC Board provides up to date funding records on what the funding was utilized for.

We will continue to make improvements on suggestions from employees, customers, and commission rules to ensure compliance with all local and state requirements. Please let me know if any further information is needed for the purpose of the performance audit report for the Walnut Cove ABC board.

Sincerely,



Brian E. Booe, Board Chairman

*Brian Booe, Chairman  
Keith Morgan, Board Member  
James Dalton, Board Member*