

Wallace ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA

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OBJECTIVE, PURPOSE, AND SCOPE

In addition to regular and special financial audits, G.S. 18B-705 (a) authorizes the N.C. 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 audits' 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
- Consult with specialists at the UNC School of Government
- Verify compliance with Commission and Board policies
- Verify results of previous performance audit recommendations
- Review organizational chart and job descriptions
- Review ABC board annual independent financial audits
- Visit the store(s)
- Interview key ABC board personnel.

The initial round of performance audits for the local ABC Boards concluded in 2016 and provided a comprehensive overview of the operations of the local boards. The follow-up round of performance audits now under way is designed to provide local boards with information that targets specific areas for improvement. Board activities that meet or exceed current performance standards are not included as areas recommended for corrective action and so are not included in the attached summary report and recommendations.

FINANCIAL ANALYSIS

PROFIT PERCENTAGE TO SALES AND OPERATING COST RATIO

In FY2019, the Wallace ABC Board had a profit percentage to sales of 9.6%. The initial performance audit conducted in FY2013 concluded a profit percentage to sales of 10.1%. The NC ABC Commission profit percentage to sales standards for ABC Boards with gross sales between \$2M and \$10M is 6.5%.

The operating cost ratio for the Wallace ABC Boards was 0.60 in FY2019. The Wallace ABC Board's operating expenses decreased by 2.3% over FY2018. The NC ABC Commission standard for ABC boards with one or two stores with mixed beverage sales is less than 0.73.

Thus, the Wallace ABC Board met the profitability and cost ratio standards as determined by the NC ABC Commission. Below is a chart showing expenses and income from operations for the previous two years.

	FY2019	FY2018
Expenses excluding Depreciation	\$264,926	\$271,295
Income from Operations	\$174,694	\$112,845

Comment: Although total operating expenses have decreased since last fiscal year, specific line items related to professional fees have significantly increased and continue to increase. With the size and the potential generated profits, and the substantial growth, the board should seek other measures that will reduce expenses in all areas. A common practice is to seek bids to ensure quality service matched with the best price.

BUDGET ANALYSIS

The NC ABC Commission audits and compares all ABC board monthly sales with the submitted adopted budgets. In reviewing the budget to actual analysis of the FY2019 financial audit, sales revenue exceeded budget projections by 2.7%. Total expenses were not within budget for the respective year. Amendments were adopted by the board and were forwarded to the NC ABC Commission as required by law.

The below charts shows the final budget to actual amounts and the variances in the financial audit of FY2019.

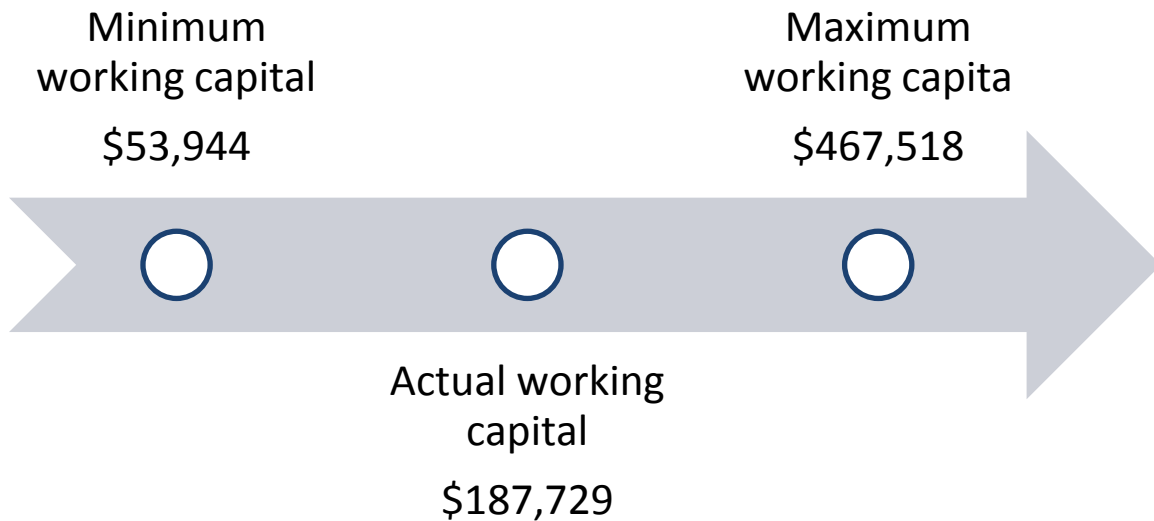
	FY2019 Budget Projections	FY2019 Actual	Variance \$	Variance %
Sales	\$1,771,000	\$1,819,622	\$48,622	2.7%
Total Expenditures and Distributions	\$1,762,350	\$1,784,621	\$(22,271)	-1.2%

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. NCAC 15A .0902 (b) states, A local board shall set aside its working capital requirements at not less than two weeks' average gross sales of the latest fiscal year. The NC ABC Commission has set a maximum working capital standard for boards with gross sales greater than \$1.5M but less than \$50M an amount equal to three months of sales revenue.

Based upon the existing rules, the Wallace ABC Board is required to maintain a minimum working capital of \$53,944 and a maximum working capital of \$467,519, equivalent to four months' gross sales. The board retained an actual working capital of \$187,729 in FY2019.

Note: The FY2019 financial audit indicated a different calculation of working capital \$192,187.



DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts all expenses, mixed beverage and bottle taxes. G.S. 18B-805 (c) requires the board to make a minimum quarterly distribution of the 3 ½% markup and .01/.05 cent bottle tax to the municipalities and county. Below is a chart of taxes paid to the NC Department of Revenue, Duplin County, and the Town of Wallace.

G.S. 18B-805 (c) (2) and (3) requires the board to distribute quarterly at least five percent (5%) of profits to law enforcement and at least seven percent (7%) of profits toward alcohol education. Remaining profits are to be distributed as follows:

- *Fifty-five percent (55%) to the Town of Wallace General Fund*
- *Thirty-five percent (35%) to the Duplin County General Fund*
- *Ten percent (10%) to Duplin county for drainage control*

The next page shows the calculation.

Revenues Less Taxes and Cost of Sales FY2019	
Sales (Retail and Mixed Beverage)	\$1,819,622
Excise Tax	\$397,901
Mixed Beverage Tax (Combined)*	\$13,252
Rehabilitation Tax	\$5,951
Net Sales	\$1,402,518
Cost of Liquor Sold	\$958,758
Gross Profit	\$443,760

**Mixed beverage five percent (5%) tax to the NC Department Health and Human Services was calculated incorrectly on the financial statement audit. This calculation shows the correct calculation combined with the fifty percent (50%) tax.*

	FY2019 Minimum Distribution Calculation	FY2019 Actual Distribution
Gross Profit (Taken from Above)	\$443,760	
Total Operating Expenses*	\$269,104	
Income from Operations	\$174,656	
Profit before Distributions	\$174,679	
3 ½% Minimum Distribution	\$52,649	\$94,750
Law Enforcement	\$6,103	\$16,500
Alcohol Education	\$8,545	\$8,750

**Total operating expenses included depreciation expenses. Depreciation expense is not calculated for budget purposes.*

A contract between the Town of Wallace Police Department and the ABC Board is in effect and required the board to distribute at least five percent (5%) of profits if warranted. The ABC Board has distributed a third more than the required amount of \$6,103.

In addition to the law enforcement distribution, the board is required to distribute at least seven percent (7%) towards alcohol education or rehabilitation purposes. The Wallace ABC Board made these distributions as required by G.S. 18-805.

FINDINGS AND RECOMMENDATIONS

STORE APPEARANCE

The findings for store appearance are as follows:

- The required Fetal Alcohol Syndrome poster is displayed as required by G.S. 18B-808.
- A North Carolina product selection is displayed separately within its own section and products are also displayed within their respective categories.
- Products are placed following industry standards and guidelines that would increase profit and encourage more impulse shopping. Examples are that of the following:
 - Products are placed within designated categories; premium products are found at eye-level and value-added products are placed on the lower shelves.
 - A consistent size flow shows a pattern from largest size on the right and smaller size on the left. New products
 - New products and bestselling items are available and displayed throughout the store using displays and additional gondolas.

OPERATIONAL AND ADMINISTRATIVE

Finding #1: A random sample of approximately 50 items was selected to determine if uniform pricing is displayed. Of those selected, one was incorrect. The incorrectly priced item was a price reduction that the board had requested from the NC ABC Commission. Documentation could not be found showing that the requested price reductions was ever submitted to the Commission for approval.

ABC Statute¹ states, "The retail price of spirituous liquor sold in ABC stores and permitted distilleries shall be uniform throughout the State, unless otherwise provided by the ABC law."

NCAC Rule² states, "The Commission may authorize a local board to sell certain alcoholic beverages at below the uniform price."

RECOMMENDATION

Conduct a routine check of shelf prices along with the register to ensure accuracy. All prices must match what is in the register, the shelf, and in the NC Liquor Quarterly, and/or memorandums. Refer to the ABC Commission's website to verify product pricing.

If a product is not selling using the last listed price set, ask for approval from the NC ABC Commission to reduce the price to below the uniform or last listed price. Once approved, establish a method to determine how many bottles were sold and pay the taxes based upon the last listed price and not the reduced price.

CORRECTIVE ACTION TAKEN: Management has implemented procedures to ensure the correct pricing is located within the sales register and on the shelf.

¹ G.S. 18B-804(a) Uniform Pricing of Spirituous Liquor

² NCAC 15A .1702

Finding #2: ABC Boards are required to remit distiller payment within thirty days (30) days of receipt of products. A sample of paid invoices revealed that liquor payments are not paid within the pay schedule (30 days) as required.

NCAC Rule³ states, "Local boards shall remit full payment of the distiller's invoice within thirty (30) days of delivery of the liquor."

REQUIRED ACTION

Invoices are to be paid with thirty days (30) days of receipt of purchase. When boards have multiple shipment dates within one month, the boards will combine invoices for one payment. Oftentimes, the process could result in a late payment of one shipment/invoice. Boards who utilize this practice must adjust the payment process to ensure that payments are received by the supplier within thirty days.

CORRECTIVE ACTION TAKEN: Management has implemented procedures to ensure that distiller invoices are paid within the thirty day requirement.

Finding #3: The board member appointment date field is not updated with the correct information.

REQUIRED ACTION

Update the board's portal to reflect current data related to board member appointment dates, contact information, if applicable, and other information as specified. ABC Boards are required to update the NC ABC Commission Board's portal as changes are made. The information is made available for the NC ABC Commission's website and for public viewing.

CORRECTIVE ACTION TAKEN: Management has updated the NC ABC Commission website with the current board member appointment dates.

³ NCAC 15A .1407 (c)

Finding #4: The general manager serves as the finance officer. An approval from the NC ABC Commission has not been granted.

ABC Board systems are required to implement internal control procedures for the effectiveness and efficiency of the operations. The general statutes⁴ outline specific mandates to ensure this process and are as follows:

- The local board shall designate (i) a part-time or full-time employee of the board other than the general manager or (ii) the finance officer of the appointing authority with consent of the appointing authority to be the finance officer for the local board.
- The finance officer shall disburse all funds of the local board in strict compliance with this Chapter, the budget, pre-audit obligations, and disbursements as required.

Internal control procedures provide a basis for the accuracy and reliability of accounting records and financial statements. A larger system may have more clearly defined internal controls due to larger staffing. However, internal controls for a smaller system are not as extensive. In such instances, duties should be separated as much as possible to ensure the effectiveness and efficiency of operations to provide reasonable assurance of the reliability of the financial statements.

REQUIRED ACTION

Submit a written request to the NC ABC Commission allowing the general manager to serve as the finance officer.

CORRECTIVE ACTION TAKEN: An approval from the NC ABC Commission has been granted to allow the general manager to serve as the finance officer.

Finding #5: The pre-audit certificate is not found on initial contracts before transactions are initiated.

In reviewing financial documentations and interviewing personnel, key functions are not being followed that are required by the ABC statute.

The pre-audit certificate is not found on contracts before the transaction is initiated. The statute⁵ requires the use of a certificate, or stamp, to indicate the transaction has been approved by the board and verified in the budget by the finance officer's signature. It states, "No obligation may be incurred in the budget unless the budget includes an appropriation authorizing the obligation and an unencumbered balance remains in the appropriation sufficient to pay in the current fiscal year...If the obligation is evidenced by a contract or agreement requiring the payment of money or by a purchase order for supplies and materials, the contract, agreement, or purchase order shall include on its face a certificate stating that the instrument has been pre-audited to assure compliance with this subsection."

⁴ G.S. 18B-702(j)

⁵ G.S. 18B-702 (m)

REQUIRED ACTION

Affix the pre-audit certificate on all orders before the transaction occurs. The common practice of other ABC boards is to utilize the initial order edit list function as provided by the computer software. Most ABC board's edit list includes the quantity of cases ordered and an estimated total of the order. Affix the pre-audit certificate on the order edit list and have the finance officer sign verifying that the order is within the adopted budget line item. For office and store supplies, the pre-audit certificate can be placed on the invoice.

CORRECTIVE ACTION TAKEN: Management has implemented procedures to ensure compliance with the pre-audit procedures as indicated in the general statute.

From: [Wallace ABC Board](#)
To: [McLean, Moniqua S](#)
Subject: [External] Performance Audit Response
Date: Monday, November 25, 2019 10:15:21 AM

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Dear Ms. McLean,

The Wallace ABC Board would like to express our appreciation for attending our November 2019 Board meeting to review your performance audit of our store. The following action has been taken according to your recommendations.

1. Employees will conduct a routine check of shelf prices along with the register to ensure accuracy. All price reductions have been corrected to reflect the last listed price of said items.
2. The Board will ensure practices are implemented so that all invoices are paid within 30 days.
3. Board Member appointment dates have been updated on the Commission website.
4. The General Manager has now requested and received approval from the Commission to serve as Finance Officer.
5. The per-audit certificate will be affixed on all orders and contracts before the transaction occurs.

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Katherine Bunch

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