

Lincoln County ABC Board

Performance Audit Report



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Alcoholic Beverage Control

CHAIRMAN:
Hank Bauer

COMMISSIONERS:
La'Tanta (L.T.) McCrimmon
Raleigh

David Sherlin
Raleigh

DEPUTY COMMISSIONER:
Mike DeSilva

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/>

April 30, 2025

Lincoln County ABC Board
George Sain, Chair
2856 NC-16 Business
Denver, NC 28037

Chairperson Sain,

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

Michael DeSilva
Deputy Commissioner

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.

Lincoln County is a county located in the U.S. state of North Carolina. As of the 2020 census, the population was 86,810, making it the most populous "Lincoln County" in the United States. Its county seat is Lincolnton. Lincoln County is included in the Charlotte-Concord-Gastonia, NC-SC Metropolitan Statistical Area. The county was formed in 1779 from the eastern part of the Tryon County, which had been settled by Europeans in the mid-18th Century. It was named for Benjamin Lincoln, a general in the American Revolutionary War. During the American Revolution, the Battle of Ramseur's Mill occurred near a grist mill in Lincolnton.

In 1782 the southeastern part of Burke County was annexed to Lincoln County. In 1841 parts of Lincoln County and Rutherfordton were combined to form Cleveland County. In 1842, the northern third of Lincoln County became Catawba County. In 1846, the southern half of what was left of Lincoln County became Gaston County. The general manager is responsible for the oversight of all daily operations, inventory management, accounts payable, human resource organization and other administrative decisions for the board. The assistant general manager holds the same duties in the absence of the general manager and serves as the finance officer to the board. The board hired an external accountant who assists with payroll, financial reporting, the annual audit, and other bookkeeping duties as needed. All store employee's primary responsibility is to provide friendly customer service to all customers, store upkeep and stock maintenance.

A mixed beverage referendum occurred on September 10, 2002, and it passed. *Currently, the Lincoln County ABC Board appoints a chairperson and two (2) additional board members and a general manager to serve on the ABC board.* The Lincoln County ABC Board currently operates three (3) retail stores. The board staffs thirty (30) in total personnel. These include four (4) full-time employees and twenty-six (26) part-time personnel. The general manager is responsible for daily store operations including supervising personnel, inventory management, and various retail functions. The board's Finance Officer, Todd Allran provides the board with fiscal management, administrative support, and oversees routine operations of the ABC stores. Sales associate responsibilities include, selling products, daily stocking, and floor upkeep & maintenance.

The last performance audit for the Lincoln ABC Board occurred in 2014. The Commission audit serves as a continuous way to provide local boards with information and best practices that target areas for improvement.



OPERATIONAL OBSERVATIONS, FINDINGS, REQUIRED ACTIONS, & RECOMMENDATIONS

On Monday, January 6, 2025, ABC Board Program Analyst II Eric McClary, visited the Lincoln County ABC Board and interviewed Dustin Day (General Manager), and Todd Allran (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) 2024, the Lincoln County ABC Board had a profit percentage to sales of 12.5%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales more than \$2M yet less than \$10M is 6.5%. The Lincoln County ABC Board's gross sales totaled \$9,370,755, which was a 3.34% increase from the previous fiscal year.

The operating cost ratio for the Lincoln County ABC Board was 0.46 in FY 2024. The NC ABC Commission standard for ABC Boards with one or two stores and mixed beverage sales is .73 or less.

Thus, the Lincoln County ABC Board met the profitability standard and made the operating cost standard set by the NC ABC Commission. Below is a chart showing gross profit on sales and income from operations for the previous two years.

	FY 2023-2024	FY 2022-2023
Gross Profit on Sales	\$2,366,861	\$2,268,271
Income from Operations	\$1,176,623	\$1,196,316

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores is Newton ABC which is within a 20-mile radius.
- An ABC Board's average cost of goods sold (COGS) is between 52% & 54% per year. The Lincoln County ABC Board's cost of goods sold was approximately **51.6%** in FY

BUDGET ANALYSIS

	FY 2023-2024 Budget Projections	FY2023-2024 Actual	Variance	Variance %
Sales	\$9,178,631	\$9,370,755	\$192,124	2.1%
Revenue over or (under)				
Expenditures		\$779,259		

In reviewing the budget to actual analysis of the FY 2023-2024 financial audit, actual sales revenues sales revenues exceeded forecasted projections. *Because budgeted sales were overstated or over budgeted with the actual revenue being more than what they budgeted.*

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 *typically* distribute at least five percent (5%) of applicable gross receipts to law enforcement and *typically* 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 distribution percentages are designated by an official local enabling act (and thus distribution requirements and recipients are subject to vary).*

Lincoln County ABC made a total of \$2,165,223 in primary distributions and other taxes were paid to the NC Department of Revenue (NCDOR), NC Department of Health & Human Services (NCDHHS), and the county commissioners of Lincoln County.

Per the local enabling act, the distribution formula for recipients of net profits is as follows:

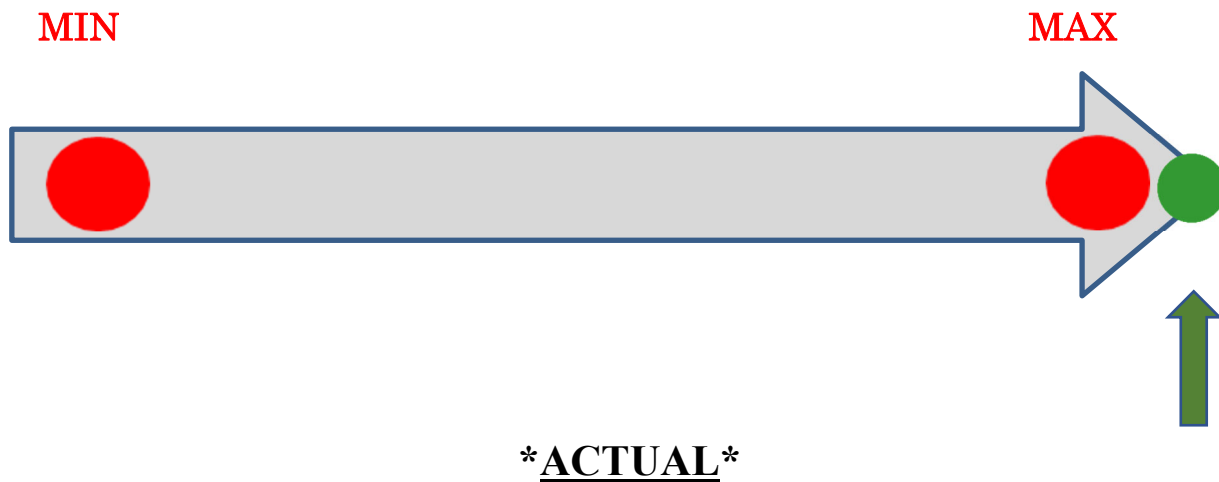
- One Hundred percent (100%) to Lincoln County General Fund.

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

Based upon the existing rules, as of June 30, 2024, the Lincoln County ABC Board is required to maintain a minimum working capital of \$276,559 with a maximum working capital amount of \$1,797,633. The Lincoln County ABC Board had a working capital balance of \$2,243,259 which falls outside of the Commission requirements for this section (*).

*** FY 2023-2024: *Working Capital (WC) graphic***



Under 18B-805(d), with approval of the appointing authority for the board, the local board may set aside a portion of the remaining gross receipts as a fund for specific capital improvements whenever working capital is exceeded.

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE

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

The board holds board meetings the 2nd Wednesday of each month at 5:00 PM, records regular meeting minutes, and provides public notification and awareness of these meetings. The meeting minutes are organized in a folder for review. They record regular meeting minutes and provide public notification and awareness of these meetings. The meetings are organized by session and kept in a book. Board meetings were viewed and followed the order of proceedings, providing sufficient detail that a reasonable person would be able to follow what transpired.

° Training Records: Board members and board personnel are fully compliant on ethics training referencing GS 18B-706.

- Oath of Office: All board members have not taken an oath per the general manager's recollection. All board members should take an oath before taking office or before the execution of the office per G.S. 11-7. *Written template is available in the operations manual on Commission website.*
- General Manager (GM) Salary and Board Member compensation: GM salary fully adheres to 18B-700(g1) statute requirements. The Board member compensation complies with statute 18B-700(g) requirement.
- Board website review: The board's login website was updated by the Commission in 2022 for board member term tenure information (*begin dates & end dates*). **Special note:** As part of a revalidation effort, the Commission has worked to revalidate term tenure information for all ABC boards across the state, working directly with the appointing authorities. As a value-added measure for all ABC boards and Commission records tracking in summer 2022, the term begin dates as well as term end dates were entered on all individual ABC board websites.
 - *The expectation going forward is that ABC boards will better manage this information online, and work to communicate with the Commission particularly when new members are added, or whenever any current serving members resign before a term has ended.*
- Board Personnel & Board Members: The general manager is very meticulous with oversight and recordkeeping including keeping board meeting minutes in heavily reinforced binder. The GM provides board members with monthly sales information and previous year's applicable sales and operational concerns along with financials from accounting firm. Board members are heavily encouraged by the Commission to use checks and balances to ensure that cash management practices are upheld; also, boards should routinely review any notes and recommendations provided by the CPA firm on annual audits.
- POLICIES: The board has a personnel manual on site; however, the Commission does not have a current copy. Also, the Commission does not have a current copy of their travel policy. For travel policy, Commission records indicate the board adheres to their municipal travel policy. *Per discussion with the general manager, and because of very limited travel and for simplicity, the board will consider adhering to the state's travel policy.*
 - Additional policies could be considered and provided to the Commission for record keeping including but not limited to, tastings or employee tastings, and social media.

- BUDGETS: In FY-2024, the board met the projected budgeted sales. *Based on sales trajectory for the current fiscal year, the board is tracking well on projected sales through November 2024.*
- FINANCIAL INSIGHT: Invoices are processed monthly by the General Manager. Invoice records for recent liquor purchases reflect them as being paid routinely well inside of 30 days. Taxes and distributions are paid in a routine and timely manner. The board uses Microsoft Dynamics NV for routine journal entries.

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- Bank deposits are routinely made each business day per review of bank Statements and discussion with GM. For safeguard measures and adherence to *Commission rule 15A .0905 Daily Deposits*, the board utilizes a locked fireproof safe for integrity of funds that remain at the board at any given time.
- All board members and applicable personnel are each bonded for \$50,000 per G.S. 18B-700(i).
- Law Enforcement (LE) Contract: The board has an active contract on file however is outdated. The board also has not been submitting LE reports since October 2023. A new and updated contract will be submitted by the board.
- The annual CPA audit was received and logged by the Commission on September 30, 2024.
- STATUTORY DISTRIBUTIONS:
 - Net Profit Distributions - The Lincoln County ABC Board has routinely made the minimum mandatory distributions to the designated recipients over the last three years referencing NCGS 18B-805(c)(1). **The table below references distributions calculated by CPA on the left and total net profit distributions made by the ABC Board for the last three (3) years on the right.**
 - Law Enforcement Distributions: Have been properly disbursed at or above the regular 5% statute amount over the last three (3) fiscal years.
 - Alcohol Education Distributions: Have been properly disbursed at or above the regular 7% statute amount. This distribution category has been increased moderately annually.

NC GENERAL STATUTE: 18B-805 (c)(1)			
Calculation of Minimum Mandatory Distribution for Net Profit to Designated Recipients <i>Note: Referencing CPA Audit Reports</i>		Lincoln County ABC Board Net profit distribution made annually by fiscal year	
CPA Calculated Amount		Total paid to recipient(s)	
FY-2024	\$310,926	FY-2024	\$204,000
FY-2023	\$249,990	FY-2023	\$204,000
FY-2022	\$239,053	FY-2022	\$204,000

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- **LAW ENFORCEMENT (LE) REPORTS:** Reports have not been submitted online routinely since October 2023. After discussion with the GM, it was determined that the police department has not routinely been providing enforcement & regulatory data to the board due lack of effort from the assigned officer. Lincoln County ABC will soon be contacting Officer Sherry Seagle to remind her of the reporting requirements.
- **LAW ENFORCEMENT (LE) CONTRACT:** The Commission has an electronic copy of a law enforcement contract. Because the current LE contract is from 2011, a new contract is recommended. This should be beneficial to communicate the need for the department to provide enforcement & regulatory data to the ABC board as part of the monthly reporting process.
- **INVENTORY:** Full store inventories are conducted annually. Outside of this, spot checks in certain categories are conducted at random intervals.
- **INTERNAL CONTROLS:**
 - The board has a part time Finance Officer and three full-time employees to support the general manager.
 - The board has 3 tills, The tills contain \$150.00 before they get their loan. The opening manager gets loan out of the safe for the clerk. The manager will then gauge how much and what change is required.
 - The Finance Officer prepares monthly financial statements for the board. The GM reviews and makes these available for the monthly board meetings.
 - Invoice information is entered into Microsoft Dynamics NAV, cash requirements are printed for the truck shipments and the Purchase Orders History from the computer system and is utilized to balance totals to make sure invoices / inventory match the system.
 - Bank Deposits are made each day by the general manager. Personnel review deposits and the general manager compares deposit slips with bank statements and the Finance Officer reviews at monthly reconciliation. *For safeguard measures and adherence to Commission rule 15A0905 Daily Deposits, the board utilizes a locked fireproof safe for integrity of funds that remain at the board at any given time.*

➤ EXPENSES:

- Total expenses increased by roughly 11.0 % from the last fiscal year.
- Board payroll was roughly 7.4% of total annual sales.
- Cost of Goods Sold (COGS) were an impressive 51.6%. The board is located within a great retail space.

STORE INSIGHT & OVERVIEW

The findings for store insight & overview are as follows:

- Store has a modern layout, good ergonomics for shoppers, and plenty of inventory on the shelves.
- Sales associate interactions with customers are attentive, courteous, and all are eager to meet the needs of the customers.
- The board has forty-four (44) MXB customers as of January 8, 2025. The board also has three (3) who get deliveries. The board delivers everyday if the order is in by 3:00 p.m. and on Friday's, deliveries are not made after 12:00 p.m. The board's current delivery rate is thirty-five dollars (\$35.00). Thus, the board has requested and received an approval waiver from the Commission for a delivery service policy - Referencing Rule 15A. 1903 Delivery of MXB Permittee Orders.
- A random sample of approximately 100 items were selected to determine if uniform pricing is displayed. Of those selected, there were two that required updating and were updated immediately. Every item reflected the correct quarterly or monthly SPA price. The board highlights the monthly SPA products very well with visual aids.
- Besides closing on the two (2) required annual holidays and every Sunday, the board may opt to continue closing on New Year's Day, July 4th, and Labor Day annually.
- The store displays the required Fetal Alcohol Syndrome poster required by G.S. 18B-808. A new poster was provided to replace the older one.
- Products are placed within the designated categories; premium products are found at eye-level or top shelf. Some other areas had bottle sizes of the same products decreasing in size from top to bottom, with larger bottles placed at the top. Bottles were fronted and dusted. Bottles are also organized from top to bottom on some shelves, to increase the possibility of sales. Bottles were properly 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.
 - *Twenty-four (24) cameras work to cover the property footprint with five outside and nineteen interior cameras.*

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 amendment copies 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.*
- Please ensure all newly adopted policies or any updated policies are submitted electronically to the Commission for recordkeeping and review per NCAC 15A .1102 Rule. Electronic copies of the personnel manual should be emailed to Commission personnel for recordkeeping. A credit card policy is recommended to established authorized use (sample copy forwarded for consideration). A tastings policy is recommended if tastings are done routinely.
- The board is recommended to forward an updated law enforcement contract due to age of current contract and signed members are no longer with the municipalities. Please provide a copy to the Commission *per G.S. 18B-501(f)*.
- ABC Board members must complete ethics training within one (1) year of each appointment and again following all reappointments under NCGS 18B-706(b).
- 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."* *Special note:* This would be most reasonably accomplished by signing & stamping the summary total of the Order Edit List from inventory system before any liquor orders are placed with state warehouse.
- The board shall submit a copy of the law enforcement report to the appointing authority and the Commission by the 5th business day of each month per G.S. 18B-501(f1). The LEO system is provided for municipalities to capture this data as a good option. Otherwise, the ABC boards would have to submit the required data. On the board log in website.
- 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. 18B700(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 government travel policy at an official board meeting and providing a copy of minutes to the Commission.
- Because the board exceeded the maximum working capital calculation referenced in the FY-2024 annual CPA audit, an official capital improvement plan must be coordinated with the appointing authority per 18B-805(d). Once a plan has been finalized and approved with the appointing authority, please forward a copy via email to the Commission for review. In any instance the board exceeds maximum working capital allowances, a capital improvement plan should continue to be coordinated with the appointing authority and applicable copies routinely forwarded to the Commission each fiscal year. If the board does not have plans to obtain appointing authority approval, all excess working capital must be distributed

ADDITIONAL CONSIDERATIONS & GUIDANCE

- The Commission's primary focus for ABC board members:
- ABC board members are highly encouraged to meet monthly for the best formal oversight and review of board operations, routinely recording meeting minutes (*adhering to closed meeting requirements where applicable*) and ensuring either no conflicts of interest are present or that they are addressed appropriately when presented. Monthly sales should be reported to the Commission at beginning of next month, providing annual budgets, budget amendments, miscellaneous financial reporting to Commission following timelines, and ensuring Commission has annual CPA audits by Sept 30th.
- ABC boards are highly encouraged to keep term begin dates & term end dates updated on the Commission's board login website for all ABC board members and other information such as store hour changes, pictures, email updates, etc. *Moreover, liaising with the Commission when new members are appointed or when member resign early before term has ended is very important for recordkeeping efforts of the Commission.*
- ABC boards are highly encouraged to find straightforward ways to lower any recurring expenses. *A very tangible way to lower operating costs is to fully maximize monthly special purchase allowance (SPA) liquor products that routinely sell well in the store to lower cost of goods sold (COGS).* ABC Boards can limit the number 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 for anticipated sales increases as well as other adjustments for budgeted accounts.
- 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.
- NCAC Rule 15A .1701 requires quarterly reports be submitted for any unsaleable merchandise (breakage) and retain original copies for three (3) years. *All breakage reports should only be transmitted via email submission to Commission staff; copies should not be mailed.*
- 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.

Lincoln County Alcoholic Beverage Control Board

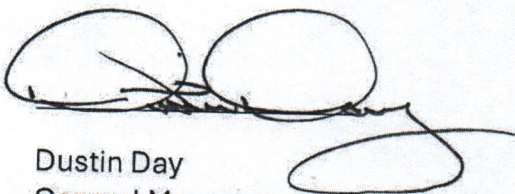
To: North Carolina ABC Commission
From: Lincoln County ABC Board
Re: Performance Audit

The Lincoln County ABC Board would like to express our appreciation to Quinn Woolard and his team for their time and efforts conducting the performance audit in January 2025. Our Board is committed to providing the best possible service to the citizens of Lincoln County and operating an efficient business for the state of North Carolina.

All recommendations made as part of the audit have been reviewed and will be followed by the Board to ensure compliance with the Commission. More specifically we have obtained a new contract with the Lincoln County Sheriff's Department, and it will be forwarded to the Commission when executed by both parties.

We are grateful for the collaborative efforts of the Commission with our local Board. It is our goal to provide good customer service and positive financial results for the people of North Carolina.

Sincerely,

A handwritten signature in black ink, appearing to read 'Dustin Day', with a large, stylized flourish extending from the end of the signature.

Dustin Day
General Manager
Lincoln County ABC Board