

Morganton ABC Board

Performance Audit Report



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Alcoholic Beverage Control

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Hank Bauer

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September 9, 2025

Morganton ABC Board
Steve Gregory, Chair
412-A West Fleming Dr
Morganton, NC 28655

Chairperson Gregory,

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

Morganton, North Carolina, is a city in Burke County, serving as its county seat. Located in the foothills of the Blue Ridge Mountains, it's approximately 75 miles northwest of Charlotte and 57 miles east of Asheville. As of the 2020 census, Morganton's population was 17,474.

The city is renowned for its natural beauty and outdoor recreational opportunities. Nearby attractions include South Mountains State Park and Lake James State Park, both offering activities like hiking, biking, camping, and fishing. Additionally, the Pisgah National Forest, encompassing areas such as Linville Gorge and the Blue Ridge Parkway, is accessible from Morganton.

Morganton's downtown area features historic architecture and a variety of local shops and restaurants. The city hosts several annual events, including the Morganton Festival held the weekend after Labor Day, which features local vendors and live music. Another notable event is the Parish Food Festival at Saint Charles Borromeo Catholic Church during the first week of November. For those interested in the arts, the City of Morganton Municipal Auditorium (CoMMA) hosts performances and events throughout the year. Educational institutions in Morganton include Western Piedmont Community College and the North Carolina School of Science and Mathematics' western campus. The city also houses the North Carolina School for the Deaf and the J. Iverson Riddle Developmental Center.

Whether you're interested in outdoor adventures, cultural events, or educational opportunities, Morganton offers a diverse range of attractions for residents and visitors alike.

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 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 July 13, 1963, and it passed. *Currently, the Morganton ABC Board appoints a chairperson, a vice chairperson, a secretary and a general manager to serve on the ABC board.* The Morganton ABC Board currently operates one (1) retail store. The board staffs thirty (13) in total personnel. These include six (6) full-time employees and seven (7) 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, Mark Miller 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 Morganton ABC Board occurred in 2019. 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 Friday, March 21, 2025, ABC Board Program Analyst II Eric McClary, visited the Morganton ABC Board and interviewed Wilma Carswell (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) 2023-2024, the Morganton ABC Board had a profit percentage to sales ratio of 12.6%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales greater than \$2M is 6.5%.
 - The Morganton ABC Board's gross sales totaled \$5,552,703, which was an approximate 3.5% increase from the previous fiscal year.
- Morganton ABC Board operates one retail store with mixed beverage sales. The operating cost ratio for the board was .44 in FY 2023-2024. The NC ABC Commission standard for ABC Boards with one or two stores and mixed beverage is .73 or less.
 - Operating cost ratio is calculated by dividing total operating expenses less depreciation by the gross profit on sales (Total operating expenses less depreciation/Gross Profit).
- Thus, the Morganton ABC Board meets both the profitability and the operating cost standards set by the NC ABC Commission. Below are charts showing gross profit on sales, total operating expenses, and income from operations for recent years.

	FY 2023-2024	FY 2022-2023
Gross Profit on Sales	\$1,286,051	\$1,317,116
Income from Operations	\$702,901	\$758,573

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores which are within a 25-mile radius include Valdese ABC, Marion ABC, Granite Falls ABC, and Lenoir City ABC.
- An ABC Board's average cost of goods sold (COGS) is between 52% & 54% per year. The Morganton ABC Board's cost of goods sold was approximately **53.8%** in FY 2024.

BUDGET ANALYSIS

	FY 2023-2024 Budget Projections	FY2023-2024 Actual	Variance	Variance %
Sales	\$5,530,600	\$5,552,703	\$22,703	0.4%
Revenue over or (under)				
Expenditures		(\$31,139)		

In reviewing the budget to actual analysis of the FY 2023-2024 financial audit, actual sales revenues exceeded forecasted projections by 0.4%. After reconciliation, the change in the Board's net position was \$0.

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).*

Morganton ABC made a total of \$1,281,863 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 Burke County.

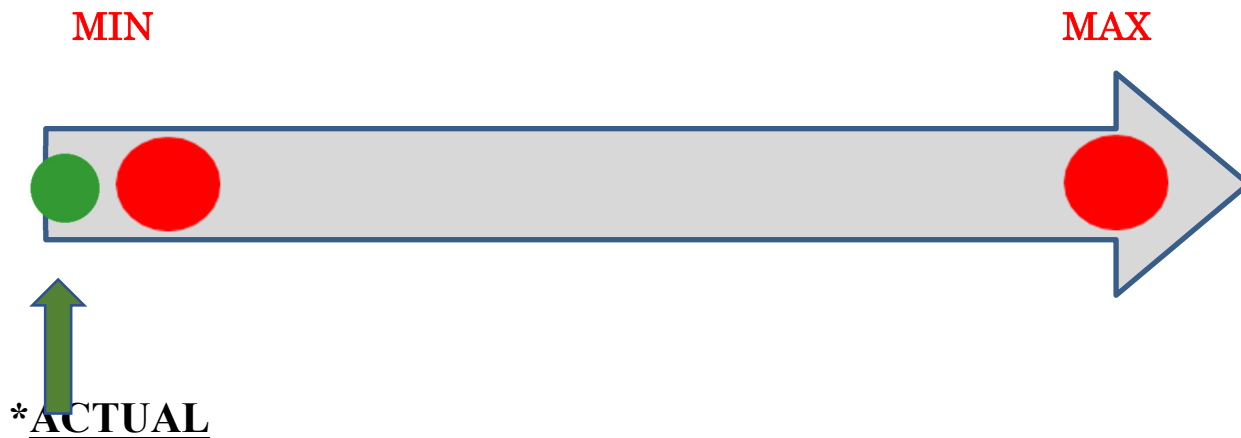
Per the local enabling act, the distribution formula for recipients of net profits is as follows:

- Twenty five percent (25%) to Burke County fund for public schools
- Seventy five percent (75%) to Morganton 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.
 - NCAC 15A .0902 sets a working capital maximum standard for boards with annual gross sales greater than \$1.5M as an amount equal to three (3) months of gross sales.
 - G.S. 18B-702(g)(3) defines "Working Capital" as the total of cash, investments, and inventory less all unsecured liabilities. As it pertains to working capital computation, gross sales mean gross receipts from the sale of alcoholic beverages less distributions as defined in G.S. 18B-805(b)(2), (3), and (4).
- Based upon the existing rules, as of June 30, 2024, the Morganton ABC Board is required to maintain a minimum working capital of \$164,203 with a maximum working capital amount of \$1,067,710.
 - The Morganton ABC Board had a working capital balance of \$142,928 which is less than the minimum and less than the maximum 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 Thursday of each month at 8:00 AM, 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 taken an oath per the general manager's recollection; however, Oaths are not on site. 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 the state 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.

- **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 Quick Books 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. The board also has been submitting LE reports since January 2024.
- The annual CPA audit was received and logged by the Commission on September 26, 2024.
- **STATUTORY DISTRIBUTIONS:**
 - **Net Profit Distributions** - The Morganton 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		Morganton ABC Board Net profit distribution made annually by fiscal year	
<i>Note: Referencing CPA Audit Reports</i>			
CPA Calculated Amount		Total paid to recipient(s)	
FY-2024	\$156,647	FY-2024	\$597,510
FY-2023	\$155,193	FY-2023	\$641,156
FY-2022	\$143,772	FY-2022	\$622,758

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- **LAW ENFORCEMENT (LE) REPORTS:** Reports have been submitted online routinely since January 2024.
- **LAW ENFORCEMENT (LE) CONTRACT:** The Commission has an electronic copy of a law enforcement contract, dated FY 2020. The contract stipulates that the ALE shall provide law enforcement subject to the availability of personnel and resources in Burke County. The ABC board agrees to pay ALE \$16,200.00 for the services in quarterly installments of \$4,050,000 each. This amount shall be adjusted as needed to equal the amount required by N.C.G.S 18B-805(c) (2) to be expended on ABC Law Enforcement.
- **INVENTORY:** Full store inventories are conducted quarterly. Outside of this, spot checks in certain categories are conducted at random intervals.
- **INTERNAL CONTROLS:**
 - The board has a part time Finance Officer and six full-time employees to support the general manager.
 - The board has 3 tills, The tills contain \$200.00 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 General Manager prepares monthly financial statements for the board. The GM also reviews and makes these available for the monthly board meetings.
 - Invoice information is entered into Quick Books, 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 operating expenses increased 3.6 % from the last fiscal year.
 - Board salaries was roughly 6.0% of total annual sales.
 - Cost of Goods Sold (COGS) were an impressive 53.8%.

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 thirty-five (35) MXB customers as of February 21, 2025. The board also has three customers (3) who get deliveries. The board delivers everyday if the order is in by 11:00 a.m. and on Friday's, deliveries are not made after 12:00 p.m. The board's current delivery rate is thirty-five dollars (\$10.00). 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-nine (29) cameras work to cover the property footprint with five outside and twenty-four interior cameras.*

RECOMMENDED ACTIONS (PER STATUTES OR COMMISSION RULES)

- Board does not have copies of oath before taking office or before the execution of the office per G.S. 11-7. *Written copies of oaths should be available at the board's administrative office.*
- ABC Board members must complete ethics training within one (1) year of each appointment and again following all reappointments under NCGS 18B-706(b).
- The Commission recognizes that the board follows the state's travel policy, however the Board does not have a policy on site. As a reminder, 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).
- ABC Boards are required to maintain proper working capital in accordance with ABC Commission Rule 15A .0902. For the FY 2023 the board was below the minimum working capital. Working with the CPA firm providing quarterly oversight, the board is recommended to monitor financial statements more heavily for the board to ensure the working capital is above the minimum every year. This is easily attainable with proper oversight and some financial adjustments. The board distributed almost four times the required amount which contributed highly to the Board being well below the minimum working capital. The GM was not aware of the over number of distributions. She also advised that the CPA handles this. The auditor called her and advised that he thinks that the board should be paying 5% to ALE which is too much. The GM advises that she now understands that there have been too much funding of distributions and will coordinate with the CPA to assure the proper adjustments are made to prevent this in the future. She was made aware of this just prior to the move by the CPA. The GM thinks that the auditor learned this while conducting the 2024 audit. The GM does not know how this occurred other than a change in accounting reporting from SAGE "Peach Tree" to Quick Books. Going from a manual data input to an automatic entry made by Quick Books makes the GM suspicious that this could be an error in the transfer of data from SAGE to Quick books. She suspects that the excess of funds being distributed could be an error from the accounting change. She's just not sure. However, the GM will seriously monitor this issue and coordinate with the CPA going forward and if any corrections or discrepancies are discovered she will assure that the Commission is made aware. The GM also advises that she make herself more knowledgeable about such financial matters and not rely solely on the auditor. The GM also states the board 75% of the gross sales "quarterly" to the City Morganton and 25 % to Burke County. This could also be a contributing factor to the boards negative position in Working Capital. She will make proper adjustments, and this is just how it's been since she took office.
- In connection with the periodic audit, a Certificate of Accountability attestation form should be reviewed and signed by board members and applicable personnel. A signed copy would then only need to be emailed to Commission personnel for recordkeeping.
- On August 1, 2024, the Board entered into a lease agreement for a new retail location. The lease calls for an initial monthly rent of \$15,800. The lease has a term of ten years with 2 five-year options available. The Board is currently renovating the new location and plans to move in during the 24/25 fiscal year. The Board has also agreed to sell their current retail location but no agreements have been signed to date.

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.
- 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.*
- 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.

9- 9- 2025
Month Day Year

Margaton
ABC Board

Certificate of Accountability

This document assures this Board and the State of North Carolina that the following statutory duties required of local ABC Boards have been properly performed.

1. The system has complied with all State uniform pricing requirements pursuant to NCGS §18B-804.
2. That all alcoholic beverages sold have been approved by the Commission for sale in this State pursuant to NCGS §18B-800.
3. That all "gross receipts" pursuant to NCGS §18B-805(a) have been properly accounted for and are lawful.
4. That all taxes due and board expenses have been properly and timely paid pursuant to NCGS §18B-805(b).
5. That all distributions pursuant to NCGS §18B-805 have been properly and timely paid.
6. That the finance officer for the board has properly performed all duties as required pursuant to NCGS §18B-702(k).

Carie Jackson
General Manager

Mark K. Smith
Financial Officer

Steve Bryson
Chairman

Board Member

Board Member

Board Member

Board Member

MORGANTON

ABC BOARD

ABC Commission
400 E. Tryon Rd.
Raleigh, NC 27610

9-9-2025

We truly appreciate your support and recommendations from the audit recently performed. This performance audit will help us with the areas that need improvement. Please find below our responses to the findings and recommendations.

Item 1: *****

All Oaths of Office are on sight.

Item 2: *****

**Finance Officer Mark Miller has been reinstated as of August 4,2025
New term is up to date until 2028**

Item 3: *****

Our travel policy is up to date and on premise.

Item 4: *****

All members are compliant with their ethics training.

Item 5: *****

All recommendations will be followed per NCGS

Item 6: *****

An updated ** has been submitted.**

Item 7: *****

The board will ensure pre-audit certificates are present on liquor orders to adhere to NCGS 18B-702(m).

Item 8: *****

The board has signed and submitted a COA form.

Sincerely,

***** Chairman / GM

***** ABC Board

