

# Warren County 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

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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.

## PROFIT PERCENTAGE TO SALES AND OPERATING COST RATIO

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In FY2018, the Warren County ABC Board had a profit percentage to sales of 8.2%. The initial performance audit conducted in FY2013 concluded a profit percentage to sales of 4.96%. The NC ABC Commission profit percentage to sales standard for ABC Boards with gross sales between \$2M and \$10M is 6.5%.

Factors affecting profitability and cost include:

- Consolidated two stores into one location
- Relocated a rented establishment into a stand-alone location

The operating cost ratio for the Warren County ABC Board was 0.63 in FY2018. Warren County ABC Board's operating expenses increased by 3.0% over FY2017. The NC ABC Commission standard for ABC boards with one or two stores with mixed beverage sales is less than 0.73.

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

	FY2018	FY2017
<b>Expenses excluding Depreciation</b>	\$394,895	\$383,438
<b>Income from Operations</b>	\$210,014	\$200,955

## BUDGET ANALYSIS

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In reviewing the budget to actual analysis of the FY2018 financial audit, sales revenues exceeded the budgeted projections by 3.0%. Total operating expenses were within budget for the same period. The below chart shows the final budget to actual amounts and the variances.

	FY2018 Budget Projections	FY2018 Actual	Variance \$	Variance %
<b>Sales</b>	\$2,475,000	\$2,550,362	\$75,362	3.0%
<b>Total Operating Expenses including Capital Outlay</b>	\$3,207,439	\$3,145,879	<b>(\$61,560)</b>	<b>-2.0%</b>

**REQUIRED ACTION:** *All ABC Boards are required to operate within a balanced budget. When sales projections exceed actual amounts, amend the budget to adjust for the increase. If budgeted line items are not balanced, adopt budget amendments to correct specific items or add omitted line items. G.S. 18B-702(h) states, "Except as otherwise restricted by law, the local board may amend the budget at any time after adoption, in any manner, so long as the budget, as amended, continues to satisfy the requirements of this section...Amendments to the adopted budget shall also be provided to the appointing authority and the Commission."*

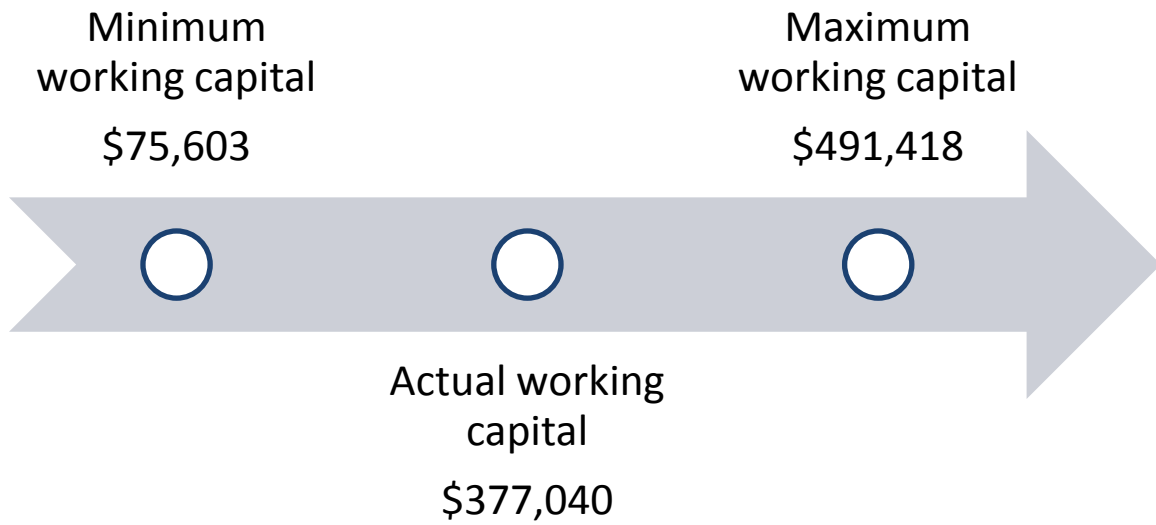
## WORKING CAPITAL

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*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 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 Warren County ABC Board is allowed to maintain a minimum working capital of \$75,603 and a maximum working capital of \$491,418, equivalent to three months' gross sales. The board retained an actual working capital of \$377,040 in FY2018.

Note: The FY2018 financial audit excludes the current portion of long-term debt.



## 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, Warren County, and municipalities.

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:

- Fifteen percent (15%) to towns where stores are located
- Eighty-five percent (85%) to Warren County General Fund

Revenues Less Taxes and Cost of Sales FY2018	
<b>Sales (Retail and Mixed Beverage)</b>	\$2,550,362
<b>Excise Tax</b>	\$558,604
<b>Mixed Beverage Tax (Combined)</b>	\$15,034
<b>Rehabilitation Tax</b>	\$7,711
<b>Net Sales</b>	\$1,965,671
<b>Cost of Liquor Sold</b>	\$1,334,408
<b>Gross Profit</b>	\$631,263

	FY2018 Minimum Distribution Calculation	FY2018 Actual Distributions	Variance \$	Variance %
<b>Gross Profit (Taken from Above)</b>	\$631,263			
<b>Total Operating Expenses</b>	\$421,249			
<b>Income from Operations</b>	\$210,014			
<b>Income (Loss) Before Distributions</b>	\$187,476			
<b>3 ½% Minimum Distribution</b>	Total \$73,139			
<ul style="list-style-type: none"> <li>• 15% to Municipality</li> <li>• 85% to Warren County General Fund</li> </ul>	<ul style="list-style-type: none"> <li>• \$10,971 to municipality</li> <li>• \$62,168 to Warren County General Fund</li> </ul>	\$ -		
<b>Law Enforcement</b>	\$5,717	\$5,730	\$13	0.2%
<b>Alcohol Education</b>	\$8,004	\$8,021	\$17	0.2%

The Warren County ABC Board did not distribute the minimum 3 ½% markup and bottle charge distribution. An approval from the appointing authority details withholding the distribution “to retain profits from sales in order to remedy challenges with space and increasing rent at the Lake Gaston location.” A copy of the approval is on file with the NC ABC Commission.

A contract between the Warren County Sheriff's Department and the ABC Board is in effect and requires the board to distribute at least 5% of profits if warranted. In addition to the law enforcement distribution, the board is required to distribute at least 7% towards alcohol education or rehabilitation purposes. The Warren County ABC Board made these distributions as required by G.S. 18B-805.

**REQUIRED ACTION:** *Since the space challenges and purchase of a building have been addressed, begin making distributions according to the distribution schedule.*

## STORE APPEARANCE

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The findings for both stores appearance are as follows:

- Both locations displayed the required Fetal Alcohol Syndrome poster as required by G.S. 18B-808.
- A North Carolina product selection is available within its own section.
- Products are placed within designated categories; premium products are found at eye-level or top shelf. However, in some categories, shelf space is excessively empty 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 and bestselling items are located at the front of the store on end caps or where space allows.

**STRONGLY RECOMMENDED:** *Consider the following to increase traffic flow in both stores:*

- *Utilizing resources that would provide effective practices, i.e. shelf management, customer service, and inventory management, using the board's sales history*
- *Utilizing end caps and open areas to highlight new, seasonal, and sale products on a rotating basis*
- *Either remove shelving or use empty shelf space for displays*

## OPERATIONAL AND ADMINISTRATIVE COMPLIANCE

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- While inspecting both store locations, a random sample of approximately 95 items was selected to determine if uniform pricing is displayed. Of those selected, all were correct.
- The board follows the requirements of G.S. 18B-700 (k) whereas the board does not employ members of immediate family of the general manager and/or board members.
- Board members are appointed by the Warren County Commissioners for three-year appointment terms. Board members are required to complete the NC ABC Commission ethics training within one year of appointment or reappointment status. Board members have completed the required ethics training as required in G.S. 18B-706 (b). However, board member appointment terms have not been updated on the NC ABC Commission website.

**STRONGLY RECOMMENDED:** *Update the NC ABC Commission website to reflect current board member appointment terms. Information presented on the NC ABC Commission website is made available to the general public.*

### **NO CORRECTIVE ACTION TAKEN**

- The Warren County ABC Board has previously adopted the travel policy of the appointing authority. However, the board does not send the approval from the county on a yearly basis as required by G.S. 18B-700 (g2).

**REQUIRED ACTION:** *All ABC Boards are required to adopt a travel policy that conforms to the appointing authority or the Office of State Budget and Management. Utilize a travel reimbursement form when traveling overnight on ABC Board business. Provide documentation of meals, lodging, parking etc. to the bookkeeper.*

**CORRECTIVE ACTION TAKEN:** *Management has adopted a travel policy of the appointing authority. Although the response states the policy has been forwarded to the NC ABC Commission, the Commission has not received the copy.*

- The employee manual on file with the NC ABC Commission is dated and does not reflect current practices of the ABC Board. Policies addressed in the initial performance audit have been adopted and implemented. However, other operations warrant additional policies that focus on current practices. Specific policies to be adopted and implemented relate to credit card disbursement, vehicle use, and employees selling to underage person.



**REQUIRED ACTION:** *Adopt a personnel manual and/or policies that incorporate board practices. The ABC Commission encourages ABC boards to model personnel policies and procedures after those of the appointing authority. However, certain ABC procedures must be clearly presented in the employee manual specific to duties and responsibilities of the general manager and other personnel. Once employee manual is adopted and approved by the NC ABC Commission, provide copies to all employees for review and acknowledgement of receipt.*

**REQUIRED ACTION:** *As a reminder, submit 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."*

**CORRECTIVE ACTION TAKEN:** *Management and the board have begun to update the personnel manual to reflect current practices.*

- Liquor and miscellaneous purchases are approved in advance by the general manager and the finance officer. However, the pre-audit certificate is not found on the orders.

**REQUIRED ACTION:** *Place the pre-audit certificate with the finance officer's signature on the orders before the transaction occurs. G.S. 18B-702 (m) state, "...the contract, agreement, or purchase order shall include on its face a certificate stating that the instrument has been pre-audited to assure compliance."*

**CORRECTIVE ACTION TAKEN:** *Management has implemented practices to require the finance officer to utilize the pre-audit certificate on future LB&B orders.*

- A review of payment schedules pertaining to liquor purchases revealed that payments were not made within thirty days (30). The initial performance audit revealed a similar finding.

**REQUIRED ACTION:** *As previously recommended and addressed, all liquor purchases are to be paid within thirty days (30) of receipt. The NC ABC Commission has the authority to cease liquor shipments to boards who are not in compliance with the rule. NCAC 15A .1406 (c) states, "Local boards shall remit full payment of the distiller's invoice with 30 days of delivery of the liquor."*

**CORRECTIVE ACTION TAKEN:** *Management has implemented practices to require the distiller invoices are paid within thirty days (30) of receipt.*

- Law enforcement activity reports have not been submitted for the following months: March, June, July, and October 2018.

**REQUIRED ACTION:** *Submit all omitted law enforcement reports to the appointing authority and to the NC ABC Commission. ABC Boards are required to submit monthly law enforcement activity reports to the NC ABC Commission. G.S. 18B-501 (f1) states "To ensure accountability to the appointing authority and the Commission, every local board's ABC officer and those law enforcement agencies subject to an enforcement agreement...shall report to the local board, by the fifth business day of each month...The local board shall submit a copy of the enforcement report to the appointing authority and the Commission not later than five business days after receipt of the enforcement report by the local board."*

Warren County ABC Board  
1230 US Hwy 158 Business West  
Norlina, NC 27563

February 1, 2019

Ms. Moniqua S. McLean  
ABC Broad Auditor  
4307 Mail Service Center  
Raleigh, NC 27699-4307

Dear Ms. McLean,

We are so glad you got to make a trip to Warren County, thankfully the weather cooperated for you to be able to see both of our new locations as well as our new stores. Warren County is very fortunate to have 2 very nice ABC Stores, even though we have gone from having 3 strip mall locations to 2 standalone buildings, the citizens of Warren County and the surrounding areas have still supported each of our stores. We definitely would not have been able to build these nice stores if we didn't have their support as well as the support of the county to give us a reprieve of distribution for the past 8 years. We have been able to retain all of our profits, which has helped us have the cash flow to support the larger stores that we now have. We have customers come in from surrounding counties that say they don't mind driving a little further to get the good customer service as well as having a larger selection of products that we try to keep in inventory.

Attached is a response to the Finding of the Performance Audit you performed in Warren County on December 20, 2018. It was so nice to meet you, thank you for your recommendations to improve our retail and financial operations.

Please let us know if you need any further information.

Sincerely,



Victor Hunt  
Warren County ABC Board Chairman

## **Response to Performance Audit from December 2018**

### **Store Appearance**

Each store is working on using more of the bottom shelving in each store to help increase traffic flow. We are using the end caps to highlight new products as well as seasonal products each month.

### **Operational and Administrative Compliance**

The board has adopted the travel policy of Warren County & a Copy will be provided to you by General Manager, Larry Spruill.

Staff is currently revamping our Personnel Manual which is very dated. This will include new policies and once approved we will distribute to employees and get their signatures to document the distribution.

The Finance Officer will begin signing the pre-audit certificate on future LB&B orders. We have also written a policy for our credit card use by the Finance Officer & General Manager. (Copy included)

The Finance Officer is making every effort to pay LB&B bills within 30 days of the invoice dated.

The General Manager has talked with the Warren County Sheriff's Department concerning the Law Enforcement activity reports that have not been submitted, they are having some turn over and are in the process of getting this corrected as soon as possible.