

# Warsaw 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 UNC School of Government
- Verify compliance with Commission and Board policies
- Verify results of previous performance audit recommendation
- Review organizational chart and job descriptions
- Review ABC board annual independent financial audits
- Visits the store(s)
- Interview key ABC board personnel.

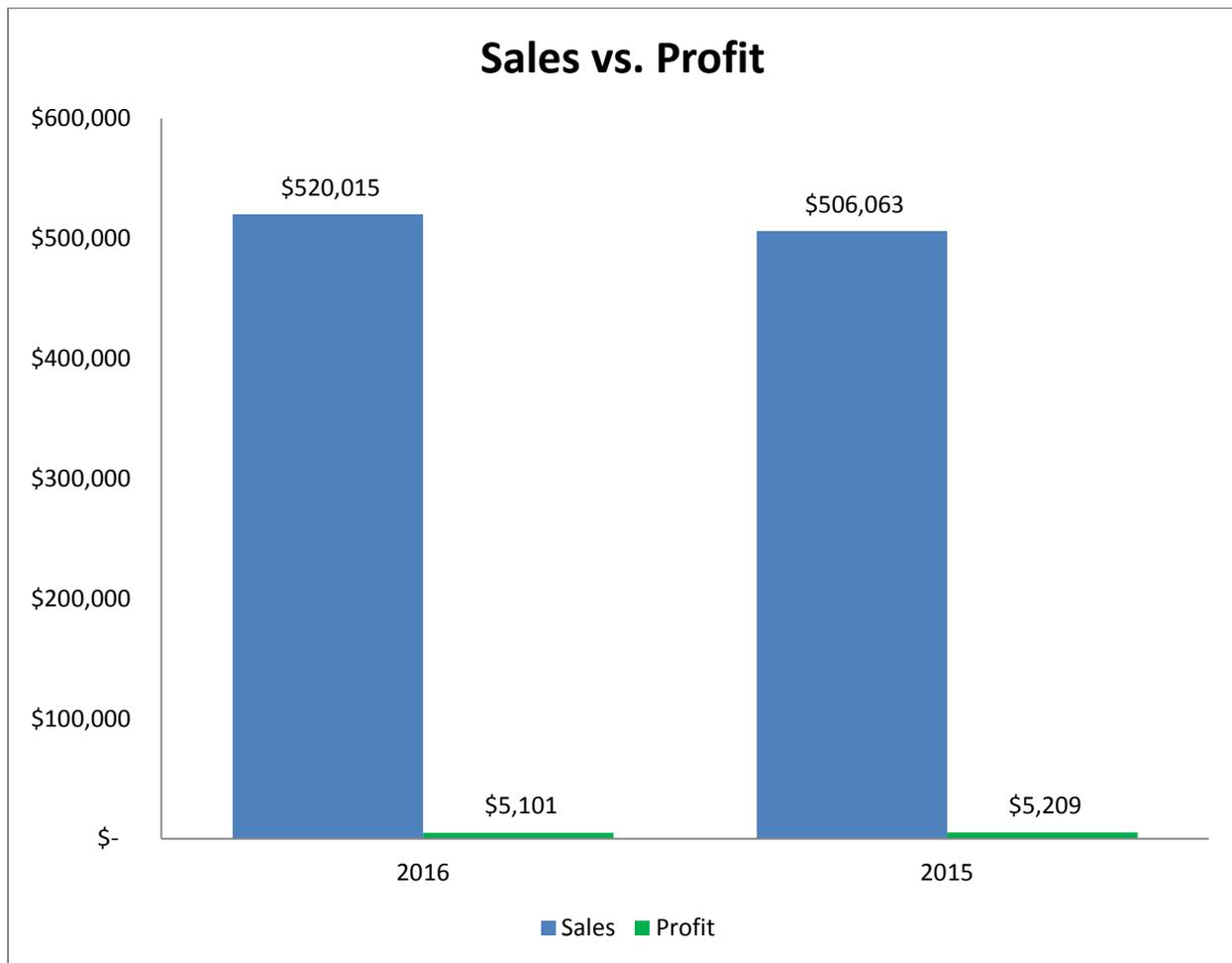
The initial round of performance audits for the local ABC Boards concluded in 2016 and provided a comprehensive overview of the operations of the local boards. The follow-up round of performance audits now under way is designed to provide local boards with information that targets specific areas for 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 AND OPERATING COST ANALYSIS

In FY2016, the Warsaw ABC Board had a profit percentage to sales of 0.98%, a 0.05% decrease over FY2015. The ABC Commission profit percentage to sales standard for ABC Boards with gross sales less than \$2M is targeted at 5% or higher. Thus, the Warsaw ABC Board does not meet the targeted percentage. In FY2015, the Warsaw ABC Board had a profit percentage to sales of 1.03%.

The operating cost ratio for Warsaw ABC was 0.92 in FY2016. The ABC Commission standard operating cost ratio for ABC Boards with one or two stores without mixed beverage sales is less than 0.85. The Warsaw ABC Board did not meet the standard.

Below is a chart analyzing sales for the fiscal years 2016 and 2015.



Warsaw ABC's overall expenses increased 2.9% since FY15. Below is a chart showing expenses and the income (loss) from operations of the previous two years.

	FY16	FY15
<b>Expenses including Depreciation</b>	\$120,206	\$116,827
<b>Expenses excluding Depreciation</b>	\$115,035	\$110,265
<b>Income from Operations</b>	\$5,086	\$5,189

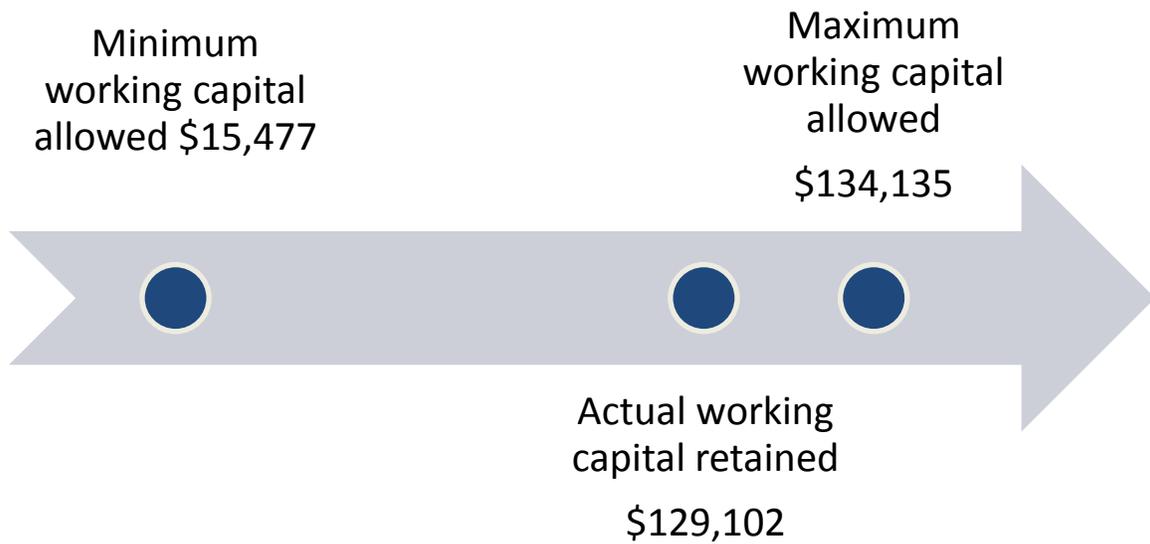
## WORKING CAPITAL

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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.*

Based on the existing rules, the Warsaw ABC Board is allowed to set a minimum working capital of \$15,477 and a maximum working capital of \$134,135. The actual working capital the board has retained is \$129,102.

The ABC Commission has set a working capital and efficiency goal for boards with gross sales less than \$1.5M an amount equal to four months of sales revenue. The board's actual working capital has met the standard set by the ABC Commission.



## 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, the Town of Warsaw, and Duplin county.

<b>State Excise Tax</b>	\$114,513
<b>Total Mixed Beverage Tax (\$20/4 LTRS)</b>	\$882
<b>Rehabilitation Tax</b>	\$2,214

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

S.L. 1965-1004 requires the board to distribute the following:

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

	<b>FY2016 Calculations</b>	<b>Actual Distributions Made</b>
<b>Sales Revenue</b>	\$525,016	
<b>Total Operating Expenses</b>	\$120,206	
<b>Profit (Loss) from Operations</b>	\$5,101	
<b>Required 3 ½ Minimum distribution</b>	\$15,590	
• <b>Duplin County for Drainage Control</b>	\$0	\$281
• <b>Duplin County General Fund</b>	\$0	\$2,524
• <b>Town of Warsaw General Fund</b>	\$0	\$2,295
<b>Law Enforcement</b>	\$0	\$0
<b>Alcohol Education</b>	\$0	\$0

A law enforcement contract has been submitted to the ABC Commission. However, in reviewing the details, the wording of the contract goes against the specifics of the ABC statute requiring all ABC boards to distribute at least five (5%) toward law enforcement.

In addition to the law enforcement distribution requirement, the board is required to expend at least seven percent (7%) towards alcohol education or rehabilitation purposes. The Warsaw ABC Board has not distributed towards alcohol education and is required to do so in FY2017 if there are sufficient profits.

## FINANCIAL ANALYSIS RECOMMENDATIONS

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***Recommendation #1: To increase sales, consider effective practices to generate more revenue such as:***

- ***Extending store opening hours to attract customers traveling to other areas.***
- ***Utilize resources that would provide effective practices, i.e. shelf management, customer service, and inventory management, using the board's sales history.***
- ***Create an ABC Board website that displays store hours, board meeting notices, sales pricing information***
- ***Have a feasibility or economic study completed to determine whether or not relocating the store to the interstate would increase sales sufficiently to offset the additional operating costs.***
- ***Contact neighboring systems to inquire about selling off discontinued or slow-moving products or ask for a price reduction from the NC ABC Commission.***

***Recommendation #2: When sales increase and profits are generated, begin making plans to distribute quarterly the 3 ½% markup, law enforcement, and alcohol education distributions.***

***Recommendation #3: Adopt a law enforcement contract between the Warsaw ABC Board and a law enforcement agency that would provide alcohol enforcement within the town limits and detailing if profits are generated, a distribution will be made.***

## STORE APPEARANCE

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The ABC Board Auditor visited the store to evaluate store appearance. The findings are as follows:

- The initial performance audit of 2013 stated that there was a shelf management system in place. Since then, improvements have been made. The current shelf management system follows guidelines specified in the NC ABC Commission rules and industry standards. Products are placed within designated categories; premium products are found at eye-level or top shelf and value-added products are placed on the lower shelves. A consistent size flow shows the largest size on the left followed by the smaller size options.
- New products have been made available; shelf labels are located under each product. End caps of gondolas were better utilized to promote impulse sales.
- A North Carolina product selection is available separately as well as co-mingled within their brand category.

## OPERATIONAL AND ADMINISTRATIVE COMPLIANCE

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- While inspecting the store, the ABC Auditor randomly selected approximately forty-four items to determine if uniform pricing is displayed on the shelves. Of those selected, all were correct.
- Management has begun cross training key employees in some areas.

***Recommendation #4: Continue to offer cross training in key areas of operation to capable and skilled staff so that in the event the general manager is suddenly unavailable store operations can continue without interruption.***

- Board appointment dates have been updated with the NC ABC Commission. However, board members who have been reappointed within the last year have not taken the required ethics training.

***Recommendation #5: Have all new and reappointed board members to complete the required ethics training. G.S. 18B-706 (b) states, "Each member of a local board shall receive a minimum of two hours of ethics education within 12 months after initial appointment to the office and again within 12 months after each subsequent appointment to the office. The ethics education shall cover laws and principles that govern conflicts of interest and ethical standards of conduct for local ABC boards."***

RESPONSE OF THE WARSAW ABC BOARD  
TO THE 2017 AUDIT PERFORMANCE FINDINGS AND RECOMMENDATIONS

***Recommendation #1: To increase sales, consider effective practices to generate more revenue such as:***

***1. Extending store opening hours to attract customers traveling to other areas 2. Utilize resources that would provide effective practices, i.e. shelf management, customer service, and inventory management, using the board's sales history. 3. Create an ABC Board website that displays store hours, board meeting notices, sales pricing information .***

1. Manager has changed opening hours Mon-Thur from 12 PM to 10 AM. Sales during this time are being tracked to determine if profitable. Board will evaluate gross receipts following a six month trial period and either roll back hours or make the opening hours permanent.

2. Manager has begun to develop an "aging – out" computer program to track inventory that is non – moving or slow moving . Clerks are reporting customer requests for items we do not carry and if sufficient interest is expressed, that product is stocked. Shelves have been cleaned and are being reordered as time permits.

3. A web site for the store has been created and is currently being "tweaked" .

***Recommendation #2: When sales increase and profits are generated, begin making plans to distribute quarterly the 3 ½% markup, law enforcement, and alcohol education distributions.***

The Board has included the law enforcement and alcohol education distributions in its adopted FY 2017 – 2018 budget. It will begin quarterly payments of the 3 ½% markup once profitability is determined.

***Recommendation #3: Adopt a law enforcement contract between the Warsaw ABC Board and a law enforcement agency that would provide alcohol enforcement within the town limits and detailing if profits are generated, a distribution will be made.***

The Board will adopt and adapt the Commission's standard agreement. It will then enter into an agreement with the Warsaw Police Department to comply with this recommendation.

***Recommendation #4: Discussions for relocating the store have been addressed, have a feasibility or economic study to determine whether or not relocating the store would increase sales sufficiently to offset the additional operating costs.***

The Board has, in each case where a proposal to relocate to Exit 364 off I – 40 has been presented, evaluated the proposal as to profitability and will continue to do so.

***Recommendation #5: Utilize resources that would provide effective practices, i.e. shelf management, customer service, and inventory management, using the board's sales history.***

This recommendation is a repeat of Recommendation 1, part 2 and has been addressed as part of that recommendation.

***Recommendation #6: Contact neighboring systems to inquire about selling off discontinued or slow-moving products or ask for a price reduction from the NC ABC Commission.***

The store manager has already adopted the former recommendation and has in place procedures to move slow moving and non – moving items from our inventory to neighboring stores that request them. Once we have a clearer picture from inventory tracking, we should be able to keep inventory more up to date.

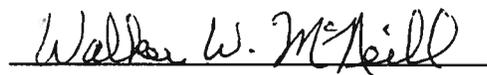
***Recommendation #7: Continue to offer cross training in key areas of operation to capable and skilled staff so that in the event the general manager is suddenly unavailable store operations can continue without interruption.***

Cross training will continue as needed.

***Recommendation #8: Have all new and reappointed board members to complete the required ethics training. G.S. 18B-706 (b) states, "Each member of a local board shall receive a minimum of two hours of ethics education within 12 months after initial appointment to the office and again within 12 months after each subsequent appointment to the office. The ethics education shall cover laws and principles that govern conflicts of interest and ethical standards of conduct for local ABC boards."***

All recently appointed Board members have completed the required ethics training modules.

Approved at the regular monthly board meeting, 26 July, 2017

A handwritten signature in black ink that reads "Walker W. McNeill". The signature is written in a cursive style and is positioned above a horizontal line.

Walker W. McNeill, Warsaw ABC Board Chair