

Wilson 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

G.S. 18B-705 (a) authorizes the ABC Commission or alcohol law enforcement agents to conduct regular, special audits, or performance evaluations on all ABC boards. 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 or evaluations are to ensure that all local ABC Boards comply with established performance standards pursuant to G.S. 18B-203 (a) (20). The audit scope includes performance standards that address compliance with ABC laws, store appearances, operating efficiency, solvency, and customer service.

To achieve the objectives of the audit, auditors:

- Reviewed applicable General Statutes, ABC Commission Rules, and administrative policies
- Reviewed applicable reports and studies of ABC boards with similar size and geography
- Consulted with specialists at UNC School of Government
- Verified compliance with Commission and Board policies
- Reviewed organizational chart and job descriptions
- Reviewed ABC board annual independent financial audits
- Visited the store(s)
- Interviewed key ABC board personnel.

As a basis for evaluating internal control, auditors applied the internal control guidance contained in professional auditing standards. Internal control is the process by which the board and management provide reasonable assurance that operations are effective and efficient, reliable, and in compliance with applicable rules, laws and regulations. As discussed in the standards, internal control consists of five interrelated components, which are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

BACKGROUND

S.L. 1935-493 authorized Wilson County to have an ABC store. The referendum was held on June 22, 1935 and passed 4,147 to 428. The first retail sale occurred on July 2, 1935. Subsequent mixed beverage elections occurred in Wilson County and the City of Wilson and did not pass. A second mixed beverage election occurred for the City of Wilson on November 5, 1985 and passed 4,578 to 2,762.

Upon vote passage, the county commissioners were authorized to create an ABC board consisting of a chairman and two members to serve for three staggered year terms. Current board members are Paul Farris, chairman, Hadie Horne and Phil Batts.

The Wilson County ABC Board employs nineteen full-time and nineteen part-time employees. The administrative staff consists of the general manager, the accountant/finance officer, and the operations director. Each store has a store manager and an assistant manager. Store employees have a primary responsibility in providing customer service, consistent store upkeep, and regular stock maintenance.

FINANCIAL ANALYSIS

PROFIT PERCENTAGE TO SALES

The profit percentage to sales is calculated by dividing the total income (loss) from operations by the total liquor sales (Total Income (Loss) from Operations/Total Liquor Sales). The ABC Commission has set goals based on the following breakdown:

- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M and \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In FY2016, the Wilson County ABC Board had gross sales of \$8,112,410; income from operations was \$520,281. This is a 6.41% profit percentage to sales, a 5.5% increase over FY2015.

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 3½% markup and .01/.05 cent bottle tax to the county.

In FY2016, the Wilson County ABC Board made the required minimum distribution of \$234,133 to the county. The Wilson County ABC Board paid a total of \$1,765,411 in excise and other taxes to the NC Department of Revenue, the Department of Health and Human Services, and the county.

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.

The Wilson County ABC Board contracts with the Wilson County Sheriff Department and has distributed \$18,225 for enforcement purposes and \$18,171 for alcohol education. *A list of alcohol education recipients is located in Appendix B.*

S.L. 1937-646 requires the Wilson County ABC Board to distribute quarterly the remaining profit as follows:

- *Twenty-five percent (25%) of net profits to the towns with ABC stores*
- *Seventy-five percent (75%) to the Wilson County General Fund.*

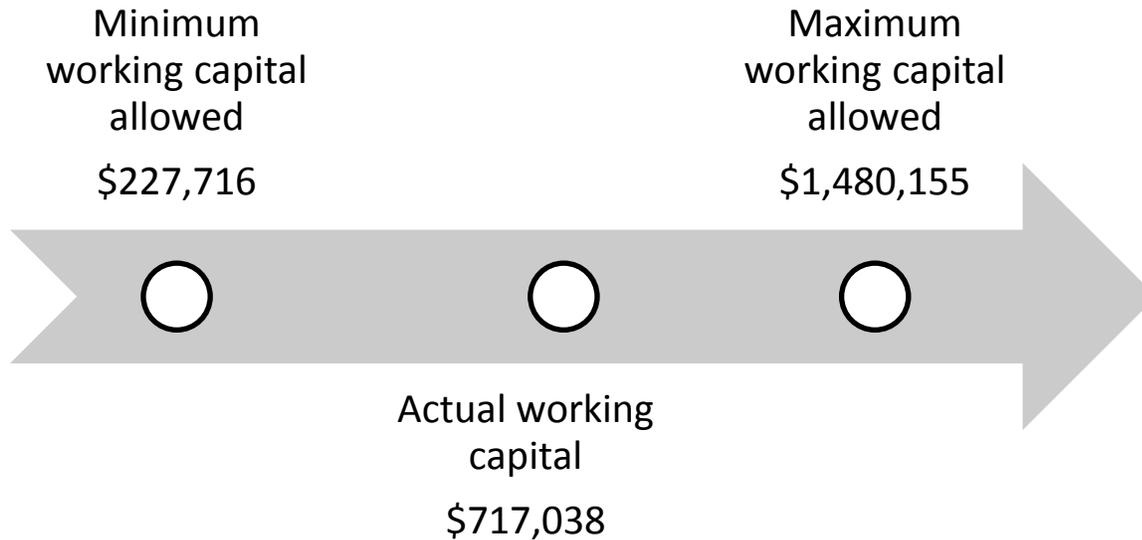
In FY2016, the Wilson County ABC Board made an additional distribution of \$90,867 to the townships and the county.

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. Working capital is total cash, investments, and inventory less all unsecured liabilities. Gross sales means gross receipts from the sale of alcoholic beverages less distributions as defined in G.S. 18B-805 (b), (2), (3), and (4). The Commission has set working capital and efficiency goals based on the following breakdown:

- *Four months for boards with gross sales less than \$1.5M*
- *Three months for boards with gross sales less than \$50M and greater than or equal to \$1.5M*
- *Two months for boards with gross sales equal to or greater than \$50M*

The Wilson County ABC Board had gross sales of \$7,686,035 in FY2015. The board's working capital of \$717,038 is within the recommended range set by the rules of the ABC Commission.



OPERATING COST RATIO

The operating costs ratio are calculated by dividing total operating expenses less depreciation by the gross profit on sales (Total Operating Expenses less Depreciation/Gross Profit). Below are the average cost ratios for boards with and without mixed beverage sales (MXB):

- Boards with 3 or more stores – cost ratio 0.63 or less
- Board with 1 or 2 stores with MXB – cost ratio .73 or less
- Boards with 1 or 2 stores without MXB – cost ratio .85 or less

The Wilson County ABC Board operates six retail stores with mixed beverage. Two out of the six stores service mixed beverage permit holders. Mixed beverage sales make up 7.6% of total gross sales. In FY2015, the Wilson County ABC Board's operating cost ratio was 0.67. Sales have increased 10.24% over fiscal year 2014. Expenses have increased 9.24%.

The Wilson County ABC Board leases two stores. Rental expenses totaled \$33,420 in FY2015.

FINDINGS AND RECOMMENDATIONS

STORE APPEARANCE AND OPERATIONS

As a routine procedure, the ABC Auditor tours ABC store locations, evaluates interior and exterior store appearances, verifies product pricing and interviews store personnel. The Wilson County ABC Board operates six retail stores. The stores' linear footage averages approximately 1,005 ft. There are approximately 1,900 product codes between stores.

- The stores appeared clean and free of trash. Counter areas were neat and well-organized.
- The stores displayed neat and visible signage. The Fetal Alcohol Syndrome poster is displayed and visible to the public. However, one location did not display the required poster.
- Landscaping around the stores is well-maintained and trash free.
- Shelf management and/or product placement follows marketing industry standards and shows the following:
 - Each product is displayed within its designated category
 - Premium products show at eye level and lowest-price products on the bottom shelves.
 - Sizes are consistent going from largest on the right and smallest to the left
 - Cross merchandising is utilized where possible to encourage impulse shopping
 - Bottles are fronted and dusted throughout the store
- Sales clerks often refer to the price book for verification of products and pricing. Monthly sales information is shared with mixed beverage and retail customers on a consistent basis.
- Cash drawers are maintained by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures for handling cash drawer overages/shortages.
- Bank deposits are made regularly according to the ABC Commission rules. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed by the finance officer.
- Physical counts are conducted every other week in the stores and weekly in the warehouse. Inventory counts are forwarded to the administrative office where a variance report is generated. The stores' variance reports are returned for a second check. Once discrepancies are investigated and recounted on multiple occasions, adjustments are made to the inventory system. Variance reports and adjustment reports are reviewed by the operations director and the general manager.
- Breakage forms are submitted as required by the ABC Commission rules. Management has implemented procedures for handling breakage when a customer/employee breaks product.
- Out of an average of 1,900 product codes throughout the system, approximately 270 product codes were sampled to ensure accurate pricing. All were correct.

RECOMMENDATIONS

1. Display the required Fetal Alcohol Syndrome in all locations. *Refer to Appendix A (1) for statute.*

PERSONNEL AND ABC TRAINING

- All board members, the general manager, and the finance officer have completed the ethics training as required. At the time of the audit fieldwork, one board member had since been reappointed and had not yet completed the ethics training. Each board member is required by statute to complete the training within one year of reappointment status.
- Cross training has been extended to employees in the event the store managers, general manager, or finance officer is unavailable.
- Additional training is provided to new and existing staff on key areas such as product knowledge, customer service, and clerk responsibilities. Employee meetings are offered to discuss additional policy implementation and other topic.
- Personnel files are available and include the required human resource documentation and other information.

NO RECOMMENDATIONS

ABC BOARD POLICIES

The Wilson County ABC Board's policies and manual have been updated to include, but are not limited to, the following:

- Code of Ethics
- Price Discrepancy Policy
- Employee Handbook/Manual
- Mixed Beverage Policy
- Shelf Management Policy
- Wilson County ABC Board Credit Card Usage Policy
- Wilson County Board Vehicle Usage Policy
- Sale to Underage Policy

Policies are required to be submitted to the Commission within fifteen days prior to adoption as required by the Commission rule, NCAC 15A .1102.

G.S. 18B-702 requires the board to adopt a budget and budget message and an annual independent audit for the fiscal year. The Wilson County ABC Board has submitted the following as required:

- FY2017 Budget (Proposed and Adopted)
- FY2015 Annual Audit

Policies not adopted or approved included the following:

- Travel Policy

RECOMMENDATIONS

1. Adopt a travel policy that conforms to either the appointing authority or the state. If adopting the appointing authority's policy, submit a copy of their approval allowing the board's use, a copy of the appointing authority's travel policy, and a copy of the ABC board's travel policy to the Commission annually. *Refer to Appendix A (2) for statute.*

INTERNAL CONTROL AND ADMINISTRATIVE OPERATIONS

- Board information on the ABC Commission website is current reflecting board member appointment dates and salary information for all members including general manager.
- Schedules made by the store managers and forwarded to the general manager for verification. Timesheets are signed by the employee and the store manager and forwarded to the administrative office for processing.
- In reviewing a sample of travel reimbursements, procedures were followed according to the travel policy submitted. However, prepayment for spousal/guest attendance to the ABC Association conference was not evident.
- The board owns one delivery truck to help transport product between stores and from the warehouse. Vehicle expenses were verified. A vehicle usage policy has been adopted and submitted to the Commission.
- In review a sample of board credit card transactions, procedures were followed according to the credit card usage policy.
- Law enforcement activity reports have been submitted to the Commission as required by G.S. 18B-501 (f1).
- All purchases are pre-audited by the finance officer utilizing the certificate as required in G.S. 18B-702 (m). Purchases are indicated through use of petty cash on hand or vendor invoices
- Checks bear the approved certificate as required by G.S. 18B-702 (q) indicating that the items have been approved by the finance officer for payment. Two signatures are located on all paid checks; that of the finance officer and the board chairman. In the absence of either the finance officer or chairman, the general manager and other board members are authorized to sign checks.

RECOMMENDATIONS

1. Prepay conference fees for spouses and/or non-employees without using ABC board funds.

ABC BOARD COMPLIANCE

- Board meeting minutes were reviewed and found to provide sufficient detail that a reasonable person would be able to follow what transpired.
- Board meeting minutes include a certificate of accountability signed by all board members at each meeting and included in the minutes a conflict of interest statement read.
- Board notifies the public of board members on the board's website.
- The board is in compliance with G.S. 18B-700 (k) as there are no known relationship between staff, any board member, and the general manager employed within the system.
- Board member and general manager compensation is in compliance with G.S. 18B-700 (g) and (g1).
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).

NO RECOMMENDATIONS

SUMMARY

A board meeting was held on October 18, 2016 with the Wilson County ABC Board. Discussions were held regarding future improvements to existing stores and possibilities of more stores within the county. The board continues to discuss ways to improve profitability while maintaining budget appropriations and acquiring cost savings. Policies have been adopted by the board and management that reflect current practices. Procedures are implemented to ensure compliance with statutes and ABC Commission rules and to ensure efficient operations are conducted while maintaining sufficient controls.



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

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Greensboro

MICHAEL C. HERRING
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Moniqua S. McLean
ABC Board Auditor

(919) 779-8365

March 2, 2017

Wilson County Alcoholic Beverage Control Board
Mr. J. Paul Farris, Chairman
2612 Forest Hills Road SW
Wilson, NC 27893

Dear Chairman Farris,

We are pleased to submit this performance audit report on the Wilson County ABC Board. The objective of this audit was to examine existing policies, practices, and controls and to provide recommendations on methods to improve operating efficiency at the ABC Board in accordance with new legislative mandates.

The report consists of an executive summary, background information, operational findings and recommendations along with your response to our recommendations. This report will be posted on the Commission's public web site.

We would like to thank you, the ABC Board and your staff for the assistance and cooperation provided to us during the audit. Additionally, we appreciate the efforts your Board has made to comply with the new performance standards. Your continued efforts to increase profitability and reduce expenses are commendable.

If we can be of assistance in the future, please advise.

Respectfully,

Robert A. Hamilton
Administrator

CC: North Carolina Association of ABC Boards



Wilson County
Alcoholic Beverage Control Board

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J. Paul Farris
CHAIRMAN
Hadie C. Horne
MEMBER
Phillip D. Batts
MEMBER
Lawrence T. Etheridge, II
GENERAL MANAGER

November 11, 2016

Ms. Moniqua S. McLean, ABC Board Auditor
North Carolina ABC Commission
4307 Mail Service Center
Raleigh, North Carolina 27699-4307

Dear Moniqua:

On behalf of the Wilson County Alcoholic Beverage Control Board, I would like to thank you for attending our October 2016 Board meeting to review your performance audit of our operations and facilities. The Wilson County ABC Board serves the citizens of Wilson County by providing a pleasant shopping experience for our customers; while at the same time controlling the sale of spirituous liquor and enforcing the laws and rules of North Carolina. Our Board has a zero-tolerance attitude for the purchase of spirituous liquor by underage persons and we strive to provide our employees with the training to keep spirituous liquor out of the hands of underage persons.

We thought that your audit was very professional and organized; and that you personally interacted well with our staff. Our Board has discussed the recommendations in your audit and they have been corrected accordingly.

Again, we appreciate your time and work involved with this audit. It is our goal to continue to provide good customer service to our customers while simultaneously controlling the sale of spirituous liquor in Wilson County.

Sincerely,

J. Paul Farris
Chairman

JPF/lte

"Providing 81 years of Control, Service and Revenue in Wilson County"

APPENDIX A

1. *G.S. 18B-808 (a) states, "Each ABC store shall display or cause to be displayed warning signs that meet the requirements of this section on the store's premises to inform the public of the effects of alcohol consumption during pregnancy."*
2. *G.S. 18B-700 (g2) states, "Approved travel on official business by the members and employees of local boards shall be reimbursed pursuant to G.S. 138-6 unless the local board adots a travel policy that conforms to the travel policy of the appointing authority and such policy is approved by the appointing authority. The local board shall annually provide the appointing authority's written confirmation of such approval to the Commission and a copy of the travel policy authorized by the appointing authority..."*

APPENDIX B

FY2015-2016

Barnes Elementary School
Gardners Elementary School
Lee Woodard Elementary School
Lucama Elementary School
Margaret Hearne Elementary School
New Hope Elementary School
Rock Ridge Elementary School
Stantonsburg Elementary School
Vick Elementary School
Wells Elementary School
Winstead Elementary School
Darden Middle School
Elm City Middle School
Forest Hills Middle School
Speight Middle School
Springfield Middle School
Toisnot Middle School
Daniel's Learning Center
Beddingfield High School
Fike High School
Greenfield School
Wilson County 4-H Youth Development
