

# Wingate ABC Board

## Performance Audit Report



Alcoholic Beverage Control Commission  
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**ABC**  
COMMISSION  
NORTH CAROLINA

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# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

CHAIRMAN:  
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ADMINISTRATOR:  
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December 12, 2018

Robert Stedje-Larsen  
Chairman  
Wingate ABC Board  
PO Box 956  
Wingate, NC 28174

Dear Chairman Stedje-Larsen,

On the following pages you will find the performance audit report conducted earlier this year by the staff of the ABC Commission reviewing the operations of the Wingate ABC Board.

The report consists of an executive summary, an overview of the objective, purpose and scope, and a digest of your board's performance standards and related findings. Included in the findings are recommendations for action on the part of your board.

I encourage you to review the report and let me know if you have any questions or require assistance in implementing any of the recommendations.

On behalf of the NC ABC Commission I thank you and your staff for your assistance and cooperation in conducting this review and in implementing the changes that will reduce expenses and increase profitability of your board.

Sincerely,

Agnes Stevens  
Administrator

Cc: NC Association of ABC Boards

## 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 FY2017, the Wingate ABC Board had a profit percentage to sales of 6.63%, a 0.91% decrease over FY2016. In FY2016, the Wingate ABC Board had a profit percentage to sales of 7.54%. 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 Wingate ABC Board met the targeted profit percentage.

The operating cost ratio for Wingate ABC Board was 0.63 in FY2017 and has remained steady since FY2016. The ABC Commission standard for ABC Boards with one store and mixed beverage sales is less than 0.77. Thus, the Wingate ABC Board met the standard. Total operating expenses less depreciation totaled \$227,181 in FY2017 and \$219,487 in FY2016, a 3.5% increase. Gross profits totaled \$362,057 and \$350,090 in FY2017 and FY2016 respectively. Gross profit increased by 3.4% over FY2016.

Cost of sales totaled \$839,476, 54% of total gross sales in FY2017. The state's average cost of sales is between 52% to 54%.

## BUDGET TO ACTUAL ANALYSIS

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In reviewing the budget to actual analysis of the FY2017 financial audit, sales revenues were above budgeted projections by 1.0%. Although overall expenses were within budget for the same time period, specific line items exceeded budgeted projections. Additional review revealed discrepancies between line item amounts in the adopted budget and the amounts found in the budget to actual analysis. A stewardship note in the FY2017 financial audit states, "For the year ended June 30, 2017, there were variances between the amounts approved in the budget and amounts expended on various line items."

The below chart shows the final budget to actual amounts and the variances.

	FY2017 Budget Projections	FY2017 Actual	Variance \$	Variance %
<b>Sales</b>	\$1,535,000	\$1,550,953	\$15,953	5.9%
<b>Total Expenditures including Capital Outlay</b>	\$1,441,289	\$1,422,279	\$19,010	1.3%

**REQUIRED ACTION:** *All ABC Boards are required to operate within a balanced budget. ABC Boards cannot appropriate items or spend money not included in the budget. 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."*

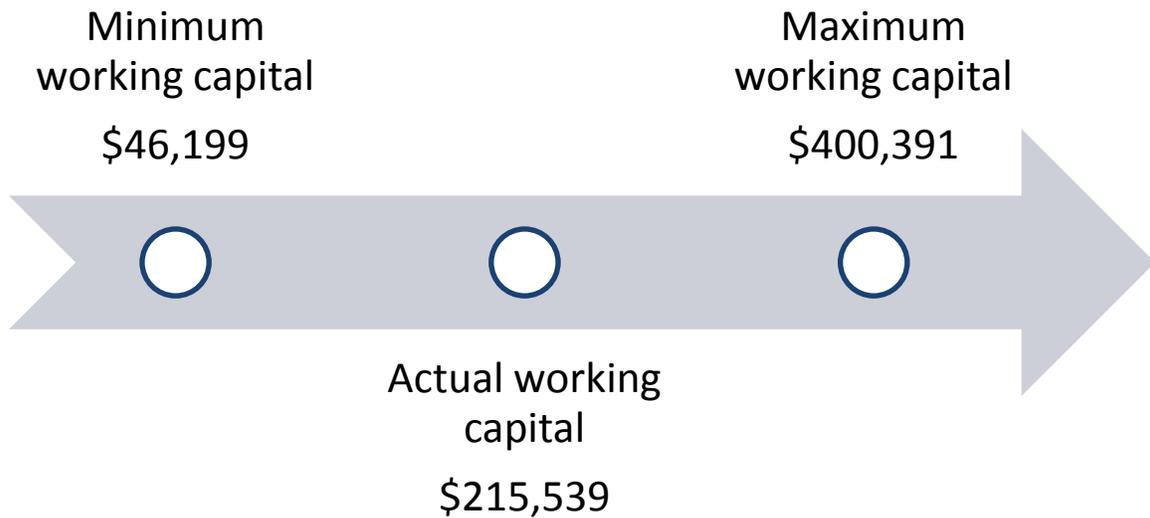
## WORKING CAPITAL

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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.*

Based on the existing rules, the Wingate ABC Board is allowed to maintain a minimum working capital of \$46,199 and a maximum working capital of \$400,391. The actual working capital the board has retained in FY2017 is \$215,539.

The NC ABC Commission has set a working capital standard for boards with gross sales less than \$50M and greater than or equal to \$1.5M to three months of sales revenue. The board's actual working capital has met the standard set by the NC 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, Union County and the Town of Wingate.

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 or rehabilitation. Remaining profits are to be distributed to the Town of Wingate.

Revenues Less Taxes and Cost of Sales FY2017	
Sales (Retail and Mixed Beverage)	\$1,550,953
Excise Tax	\$342,561
Mixed Beverage Tax Combined	\$632
Rehabilitation Tax	\$6,227
<b>Net Sales</b>	<b>\$1,201,533</b>
Cost of Liquor Sold	\$839,476
<b>Gross Profit</b>	<b>\$362,057</b>

	FY2017 Calculations	Actual Distributions	Variance \$	Variance %
<b>Gross Profit (Taken from Above)</b>	\$362,057			
<b>Total Operating Expenses</b>	\$247,917			
<b>Income from Operations</b>	\$114,140			
<b>Income (Loss) Before Distributions</b>	\$102,815			
<b>3 ½% Minimum Distribution</b>	\$46,197	\$39,969	<b>(\$6,228)</b>	<b>-13.5%</b>
<b>Law Enforcement</b>	\$2,830	\$4,000	\$1,170	41.3%
<b>Alcohol Education</b>	\$3,963	\$3,963	\$ -	-

The Wingate ABC Board did not make the minimum distribution as required by G.S. 18B-805. However, the board has exceeded the law enforcement distribution requirement.

A contract between the Wingate ABC Board and the Wingate Police Department is in effect and requires the board to distribute at least five percent (5%) of profits in quarterly installments if profits are generated.

## STORE APPEARANCE

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Management has incorporated a shelf management or category management plan that follows guidelines specified in the NC ABC Commission rules and incorporated industry standards to maintain and increase profits. Products are placed within designated categories; premium products are found at eye-level or top shelf and consumer loyal products are placed 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 available and displayed throughout the store on end caps and display cases. Made-in-North Carolina selections are available in a designated area and are also shelved within their brand category.

## OPERATIONAL AND ADMINISTRATIVE COMPLIANCE

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- 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.
- An ABC employee is also employed at an ABC permitted establishment.

**REQUIRED ACTION:** Draft a request for waiver to be submitted to the NC ABC Commission explaining the work responsibilities of the employee at the ABC store and at the ABC permitted establishment.

- Board members are appointed by the Town of Wingate Commissioners for staggered three year terms. Board members are required to complete the NC ABC Commission ethics training within one year of appointment or reappointment. Two new board members have been appointed to the board for a staggered three-year term.

**REQUIRED ACTION #3:** *As a reminder, reappointed board members are required to complete ethics training within one year of reappointment status. 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."*

- In reviewing liquor payables, some payments have not been paid within thirty days (30) of receipt of inventory shipments.

**REQUIRED ACTION:** *Ensure all liquor payables are paid within or before thirty days (30) of receipt of shipment. NCAC 15A .1406 (c) states, "Local boards shall remit full payment of the distiller's invoice within 30 days of delivery of the liquor."*

- 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 #4:** *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."*

- All checks bear the approved certificate with the finance officer and the general manager signatures affixed. However, both parties use a signature stamp to be applied in the absence of either party.

**REQUIRED ACTION:** *To strengthen internal controls with procurement, adopt a signature stamp usage policy. Include specific procedures on authorization and access in the absence of specific parties. As a reminder, no one other than*

***the person whose name is on the stamp should be allowed to use the stamps. Stamps should not be used by a third party when the general manager or finance officer is not available.***

- Since the initial performance audit, the ABC board has submitted an employee manual and other policies to better operate the system and provide guidance to customers. However, the adopted price discrepancy policy does not reflect the rules of the NC ABC Commission.

***REQUIRED ACTION: ABC Boards must adopt policies that follow the NC ABC laws and the NC ABC Commission rules.***

- While inspecting the store, a random sample was collected to determine if uniform pricing is displayed on the shelves. Of those selected, one was incorrect.

***REQUIRED ACTION: Conduct a routine check of shelf prices along with the register to ensure accuracy. All prices must match what is in the register, the shelf, and in the NC Liquor Quarterly, and/or memorandums. Refer to the ABC Commission's website to verify product pricing.***

## Wingate ABC Board – Performance Audit Report Response

### BUDGET TO ACTUAL ANALYSIS

Our previous auditor did not have our correct original Budget for FY 2017 or the revised budget for 2017. They also “grouped” some budgeted items for audit purposes on the actual figures but didn’t “group” the budgeted amount in the same manner. The Cost of Goods Sold would be affected by the 2 Fiscal years ending inventory. We believe we operated within a balanced budget for Fiscal Year 2018. We have worked with our current auditor to determine the groupings and to insure that our budget was balanced.

### OPERATIONAL AND ADMINISTRATIVE COMPLIANCE

1. We believe we were in compliance. Copies of emails and requests to and from Robert A. Hamilton have been included.
2. The Board has been made aware that this needs to be corrected
3. Corrected
4. The approving emails will now contain the pre-audit statement.
5. This has been a verbal procedure, a written procedure has been included.
6. We have a procedure in place at the register for if /when there is a price discrepancy. The General Manager has conducted individual coaching sessions with all cashiers/clerks on the procedures at the register to correct any pricing issues to ensure that the customer receives the lowest price visible on the shelf.
7. To correct this issue going forward The General Manager and the Asst. Store Manager will conduct oversight on all Alcohol Rep sale signs that are sent to the store and ensure they match with ABC commission pricing before the Rep sale signs are hung with their product.