

# February 5, 2026 Board Meeting

Virginia ABC Board of Directors



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Agenda

Minutes to Approve

Internal Audit Presentation

# February 5, 2026 Board Meeting Agenda

9:00am

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- 9:00AM Call to Order
- New Business, Board approval/action
  - Approve Minutes from January 15, 2026
  - Happy Hour
- New business, Board information
  - 2026 Legislative Session
  - Internal Audit Presentation (Garner)
- Board Appeal Hearings
  - Hill Top Restaurant
  - Express Food Mart
- Comments from the Board
- Public comments
- Closed session
  - Litigation Update (Hucks-Watkins)
- Adjournment

# Virginia ABC Board Meeting Minutes

## January 15, 2026

### Call Meeting to Order

Meeting called to order at 8:55 a.m. for the Board Appeal Hearing Board

### Attendees

Board Chair, Tim Hugo  
Board Vice-Chair, Mark Stepanian  
Board Member, Greg Holland  
Board Member, Lisa Jennings  
Board Member, Jack Kerrigan  
CEO, Dale Farino  
Deputy Secretary, Chris Curtis  
AGC, LaTonya Hucks Watkins  
COO, Tom Kirby  
CFO, Dave Alfano  
CHR, John Singleton  
Office of the Attorney General, Elizabeth Peay  
Senior Paralegal, Helen Gordon  
Sales Audit Lead Analyst, Martha Jackson

### Opening Remarks

- Chair Hugo, thank you all for being willing to rearrange things today, so we are starting with our hearing first.

### Board Appeal Hearing

- Ono Brewing

### Closed Session

- The Chair requested that the Board move into closed session to deliberate on the appeal hearing.
- Board member Jennings made a motion to move the Board into closed session. Board member Holland seconded the motion.
- The Chair called roll; all voted unanimously to move into closed session. In attendance will be Elizabeth Peay, Dale Farino, Chris Curtis, Kristie Miles and LaTonya Hucks-Watkins.
- The Board moved into closed session at 9:21 a.m.
- Board member Holland made a motion to move the Board back into open session. Board member Jennings seconded the motion.
- The Chair called roll; all voted unanimously to return to open session.
- The Board moved back into open session at 9:28 a.m.
- Board member Jennings made motion to sustain the Administrative Law Judge's recommendation. Board member Holland seconded the motion.
- Board Members voted unanimously to sustain the decision of the Administrative Law Judge's; the charges were dismissed.
- The Chair moved into the Board meeting portion of today, calling the meeting to order at 9:35 a.m.

### New Business

#### Approve Minutes from November 21, 2025 and December 9, 2025 Board Meetings

- Chair Hugo asked for discussion regarding the meeting minutes from the November 21, 2025 and the December 9, 2025 Board meeting.
- The revised minutes from the November 21, 2025 meeting were accepted.
- Board member Kerrigan stated that he felt that we should change the language that states that "Virginia is most restrictive" in the December 9, 2025 minutes.
- Chair Hugo asked for a motion to approve the revisions to the minutes from December 9, 2025.
- Vice-Chair Stepanian made a motion to approve the revisions to the minutes. Board member Kerrigan seconded the motion.
- The motion passed unanimously.

## Virginia ABC Board Meeting Minutes January 15, 2026

### Virtual Board Meeting policy

- Barbara Peterson-Wilson presented revisions to the Virtual Board meeting policy which included limits on the number of virtual meetings, the number of times a Board member may participate virtually and the process for Board members to seek approval to appear virtually.
- Board member Kerrigan made a motion to adopt the old policy with the revision to review the policy annually and to have further discussion on the policy at the next meeting. Board member Holland seconded the motion.
- The motion carried unanimously.

### Financial Update:

- Mr. Alfano reviewed the November and December 2025 financial results.
- Member Kerrigan requested to see what we're doing in the first quarter as far as marketing since this is traditionally a slow time of the year.
- CEO Farino indicated that Tyler Moore will update the presentation he reviewed at the last Board meeting.
- Board Vice-Chair Stepanian, stated maybe we will have better defined results from the Carytown store then determine how best to refresh.
- In response to Vice Chair Stepanian's comments, CEO Farino advised that at the same time we do the marketing updates, we will talk about some things we are doing well at the Carytown store and some of the things we are not doing as well.
- Vice Chair Stepanian asked for a break-down of the SKUs and the display of items at the register in the Carytown store.

### Comments from the Public

#### Happy Hour extension

- Natalie McNamara representing the VRLTA Virginia Restaurant, Lodging and Travel Association spoke about happy hour as a marketing tool and how the change would provide flexibility in food and drink options.
- Gary Cohen (via Teams) Executive Vice President of Glory Days, Grill, we which has fourteen (14) restaurants in Virginia agreed with Ms. McNamara that the change would provide marketing tools and flexibility to offer more late-night food and drink options.
- Tommy Herbert, of VRLTA spoke to the question regarding public safety in other states. In 2014, happy hour was extended in Texas. There was no change in traffic fatalities from 2014 on and, actually, they went down in 2015. States with restrictions comparable to Virginia were difficult to identify.
- The Board has until February 6, 2026 to make a decision on the subject. The subject will be on the agenda for the February 5, 2026 Board meeting. A discussion ensued on likely Mixed Beverage Annual Review legislation and its possible impact on this subject, as well as potential impact of Dram Shop legislation.
- There being no further discussion, the Chair moved on to the penny shortage topic.

#### Price differential (penny rounding)

- Mr. Alfano, reminded the Board of ABC's recommendation to implement rounding to the nearest nickel. The public comment period ended on January 9<sup>th</sup>, but no comments were received.
- AGC Hucks-Watkins, informed the Board that there isn't equivalency law in Virginia that would prevent ABC from rounding to the nearest nickel.
- Board member Jennings made a motion to approve the penny proposal and Board member Kerrigan seconded that motion.
- Chair Hugo called roll. Members voted unanimously; aye.

Board Vice-Chair Stepanian left the Board meeting at 11:05 a.m.

# Virginia ABC Board Meeting Minutes

## January 15, 2026

### 2026 Legislative Session

- ACG Hucks-Watkins, we are currently tracking 72 bills including changes to FOIA, law enforcement and labor and employment and there are 12 bills that are ABC specific.

### APA

- Mr. Alfano reviewed the results of the Auditor of Public Accounts (APA) report for ABC for the year ended June 30, 2025.
- The APA identified six (6) findings, all of which were classified as significant deficiencies requiring corrective action.
- None of the findings were classified as material weaknesses nor did any of the findings impact ABC's financial statements.
- The findings are related to the following:
  - Employee separation process
  - Conducting Information Security Assessments
  - Improve IT Risk Management and Contingency Plan
  - Continue Improving Oversight of Third-Party Service Providers
  - Two items were FOIA exempt and were discussed in closed session
- Mr. Alfano provided a summary of each finding and the remediation plan to address each identified issue.
- Board member Kerrigan made a motion to move into closed session to discuss the remaining two items on the APA audit list. Board member Holland seconded the motion.
- Chair Hugo called roll; the Board unanimously voted aye to move into closed session at 11:38 a.m.

### Closed Session

### Return to Open Session

- Board member Kerrigan made a motion to move out of closed session. Board member Jennings seconded the motion. The motion passed unanimously.

### Board comments

- Chair Hugo asked for any further comments from the Board. There being none, the Chair adjourned the meeting at 11:53 a.m.

### Meeting Adjournment

Meeting adjourned at: 11:53 a.m.

Next meeting: February 5, 2026

# Internal Audit Update & FY26 Audit Plan

February 5, 2026



# FY25 Year End Report

SPCC Audit

Retail Store Audits

Distillery Store Audits

Investigations

FY25 Audit Plan Status

# FY25 SPCC Audit

## Audit Objectives

- Purchases made on the cards appear to be for legitimate business purposes, allowable within policies and procedures, and for reasonable costs.
- SPCC policy and procedures were adhered to as they pertain to travel, sales taxes, purchase guidelines, receipt documentation, and monthly reconciliations.
- Transactions were properly coded per Accounts Payable guidance.

## Test Procedures

- Judgmental sample based on top-spend vendors, vendors with contractual agreements, and selected purchases by account code.
- 100 transactions from 44 cardholders.

## Conclusion

- No significant policy or procedure violations, and purchases were for legitimate business purposes. No formal findings or recommendations included in final report.
- Separate Memo to Finance with detailed audit results and suggestions for data analytics and monitoring procedures.

# FY25 Retail Store Audits

## Issued 85 Audit Reports

- Audited in 23 of 24 districts
- Follow-up audits per Retail’s inventory thresholds
- Counted over 54,000 bottles with a total cost over \$593,000
- Overall inventory accuracy was 97.3%

## Store Audit Ratings

- **RED** = Significant findings. Store Manager (SM) and District Manager (DM) must work together on remediation responses to address findings. Within 30 days of responses, DM will perform a store visit to verify remediation is taking place. Within 60 days, DM will perform a “DM Store Audit” visit to verify remediation is complete. If inventory accuracy is below 90%, full inventory of the store is to be performed within 30 days.
- **YELLOW** = Minor to moderate findings. SM should respond with remediation plans and copy DM. Within 60 days, DM will perform a store visit to verify remediation has taken place.
- **GREEN** = Minimal findings. SM responds with remediation plans and copies DM. No further follow-up required by DM.

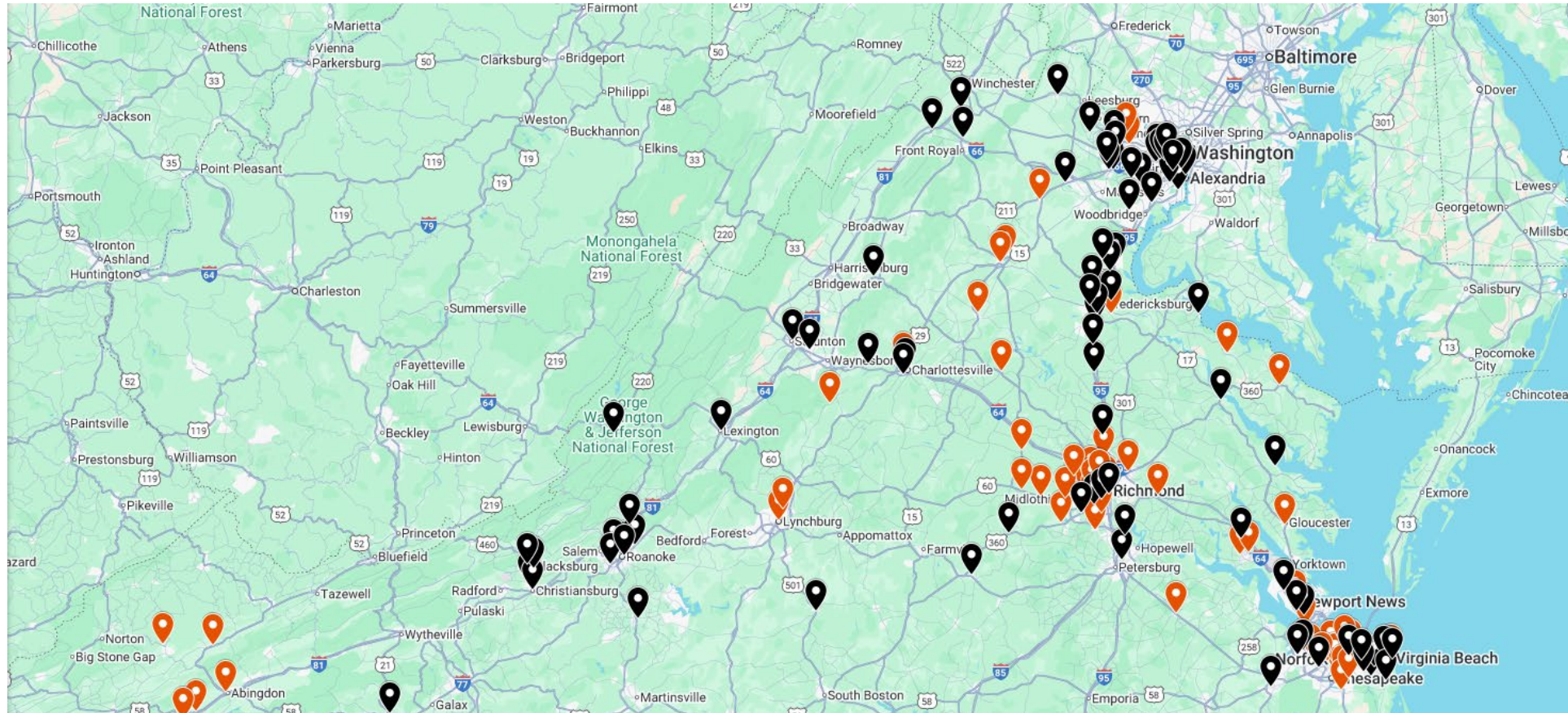
Store Audit Ratings - FY25		
(since rating scale effective 9/1/2024)		
	# audits	% of total
Green	33	45%
Yellow	32	44%
Red	8	11%

73

# FY25 Retail Store Audits

Black = FY25 audits

Orange = FY24 audits



# FY25 Retail Store Audits

## Year-end Summary Audit Report

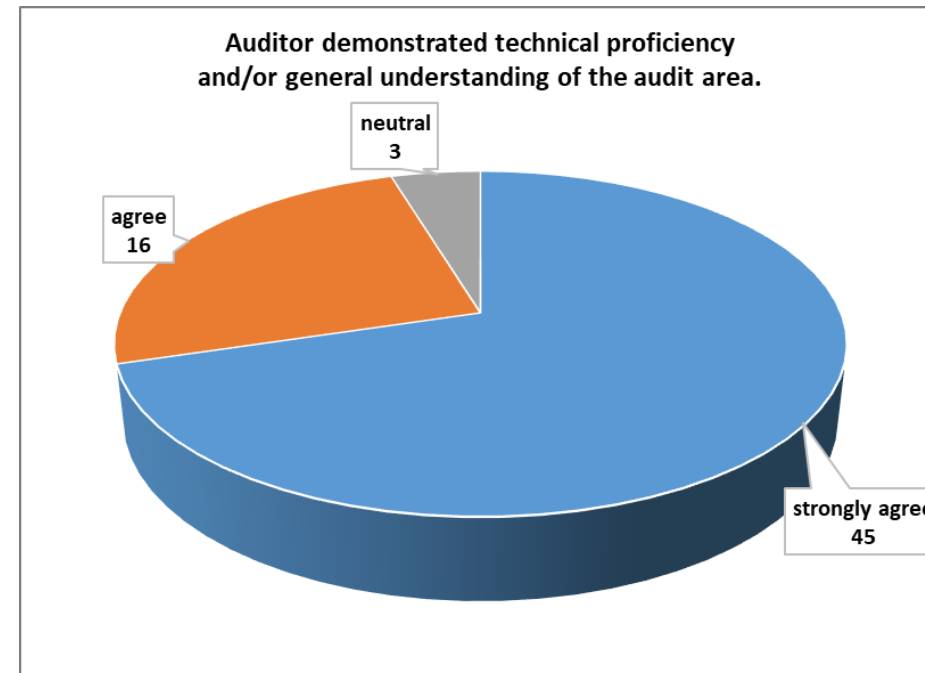
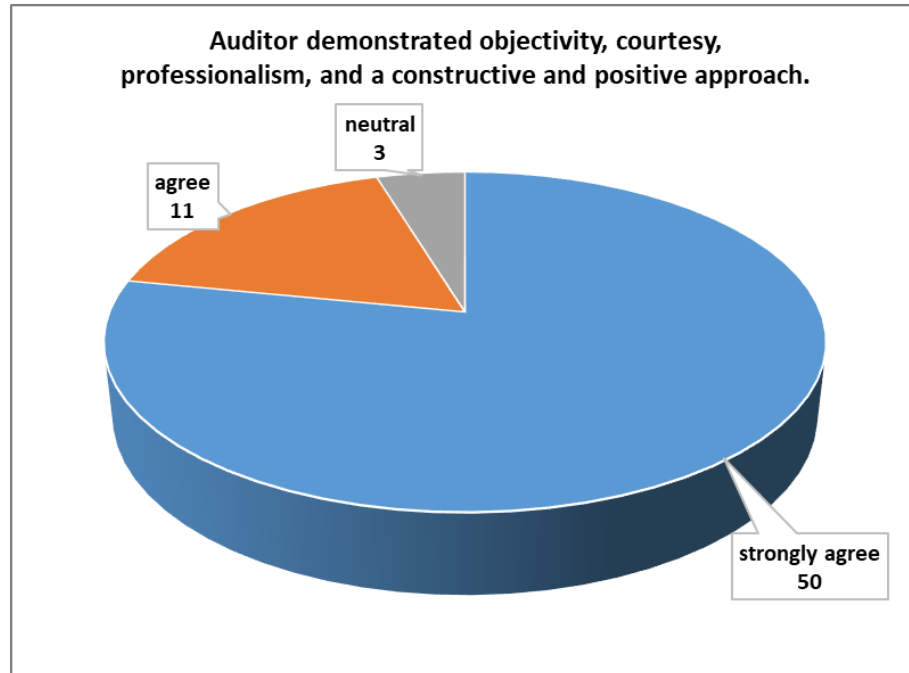
- Stores are operating in accordance with the procedures and job aids to the best of their ability, given the current staffing levels, budget restraints, and frequently issued procedural updates.
- The most common findings involved inventory. There were often inventory adjustments in the system that did not match the log and/or shipment documents. We also observed inventory discrepancies as system amounts and on-hand counts did not agree. Given Retail's focus on physical inventory counts, cycle counts, and revised procedures, we expect to see improvements with inventory variances in FY26.
- Audit results revealed the highest percentage of non-compliance occurred in the review of the Transaction Audit Report with attached receipts and accompanying review of transactions on CCTv security camera footage (known as Morning Paperwork).

Recommendation to update the Morning Paperwork procedures to reduce time-consuming procedures, improve efficiency, and mitigate internal theft risks.

# FY25 Retail Store Audits

After each audit report, we emailed stores a link to complete an optional survey

- Survey used by Internal Audit to gather feedback on audit process, auditor interaction, and general comments.
- Since January 2024, 64 surveys have been completed. 41 responses were from FY25 audits, a response rate of 48%.



# FY25 Distillery Store Audits

## Issued 20 Audit Reports

- 6 – first-time audits
- 9 – routine audits (length of time since last audit or large revenue producer)
- 3 – audited for Net Pay consideration
- 2 – follow-up audits for Net Pay consideration

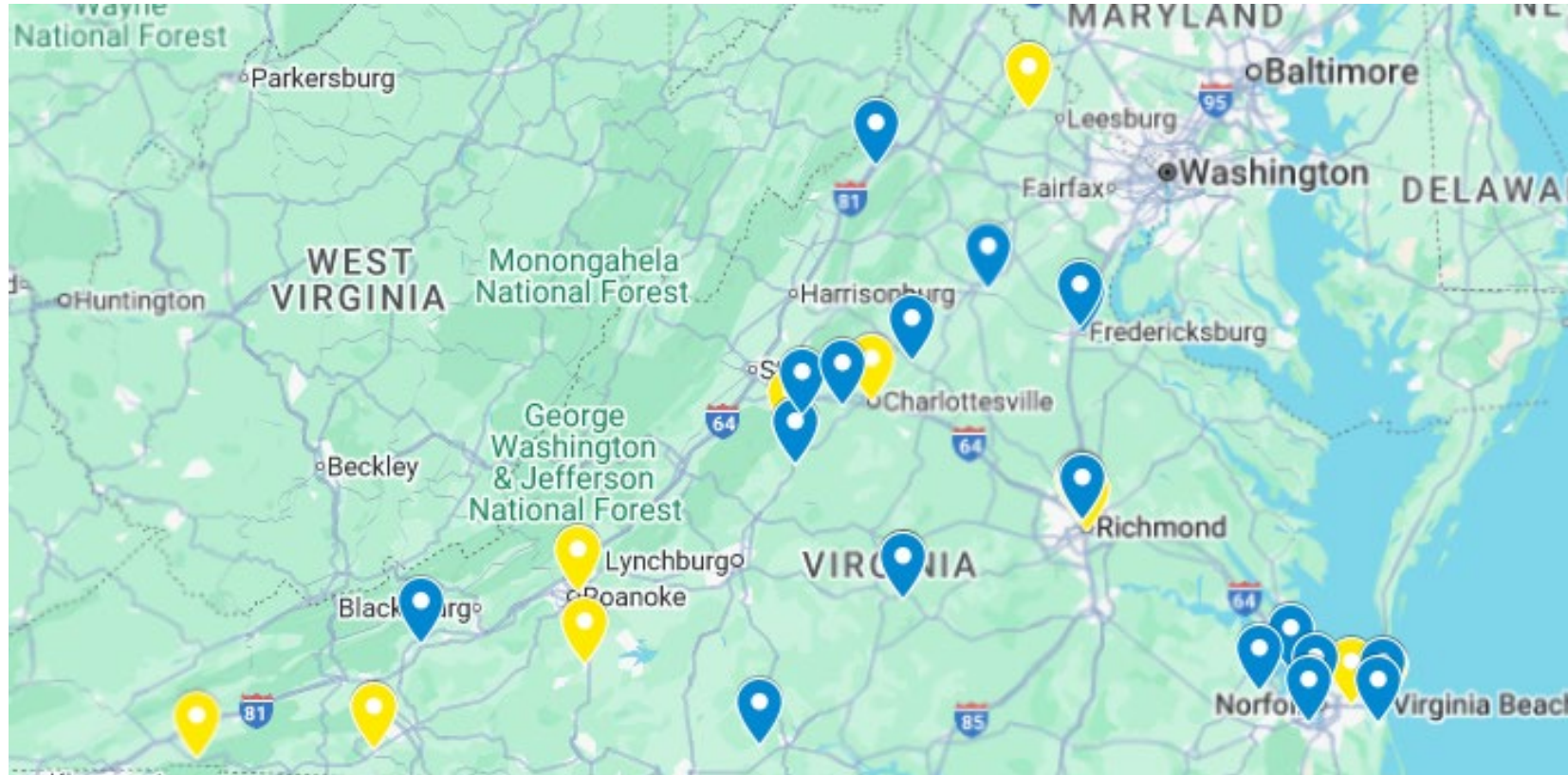
## Year-End Summary Audit Report

- Distilleries were operating in accordance with their store agreement and distillery operating procedures to the best of their ability, given their limited staffing, training, and overall knowledge of federal and state regulations.
- Audit reports normally included minor recommendations for improvement and compliance, in areas such as POS system requirements, monthly ABC reporting, and inventory staging records. No formal findings or recommendations included in the final report.
- Separate Memo issued to management with additional analysis and a suggestion to enhance current training and guidance.

# FY25 Distillery Store Audits

**YELLOW** = FY24 audits (two distilleries were audited twice for required follow-up)

**BLUE** = FY25 audits



# FY25 Investigations

Internal Audit conducts investigations from internal requests/calls and those forwarded from VA OSIG.

**Nine investigations completed**

	Forward from OSIG	Internal Requests
Carryover from FY24	0	0
Completed	5	4
In progress at year-end	0	0
Total	5	4

# FY25 Audit Plan Status

	Division	Status	Details
<b>Retail Store Audits</b>	Retail	Completed	<ul style="list-style-type: none"> <li>Compliance with Store Operating Procedures – focus on cash, inventory, and paperwork procedures.</li> <li>Audit Plan = 80 stores. Actual = 85.</li> <li>New IA processes from Team ROW – rating score on audit reports and monthly dashboards posted on SMART.</li> </ul>
<b>Distillery Store Audits</b>	Legal	Completed	<ul style="list-style-type: none"> <li>Compliance with the Distillery Store Agreement and Manual.</li> <li>Audit Plan = 20 distillery stores. Actual = 20.</li> </ul>
<b>Operational Audit - SPCC Audit</b>	Procurement	Completed	<ul style="list-style-type: none"> <li>Audit Plan included semi-annual reviews in FY25.</li> <li>IA completed the first semi-annual review (July – Dec 2024).</li> <li>Due to minimal findings and controls currently in place from management, this was deemed a low-risk audit area, and the second review was canceled.</li> </ul>
<b>Operational Audit - FOIA Process</b>	Legal	Completed	<ul style="list-style-type: none"> <li>Review the FOIA process and how requests come in, how they are processed, tracked, and how responses are formulated and reviewed.</li> </ul>

# FY25 Audit Plan Status

	Division	Status	Details
<b>Operational Audit - Allocation Process</b>	Marketing	Completed	<ul style="list-style-type: none"> <li>Review the process for selecting products for allocation and/or lottery process. Look for opportunities to move products from allocation to normal inventory or within allocation classification.</li> </ul>
<b>Operational Audit - Expense Review</b>	Accounts Payable	In-progress	<ul style="list-style-type: none"> <li>Perform analysis and review of expenses. Identify any inappropriate expenses or opportunities for cost savings.</li> <li>New IA Director to review progress and determine if resume or cancel.</li> </ul>
<b>Operational Audit - Warehouse – Receiving Process</b>	Logistics	Carryover to FY26	<ul style="list-style-type: none"> <li>Unable to start in FY25 due to focus on Retail &amp; Distillery Store audits and two significant investigations.</li> <li>This is part 1 of a 3-part audit. (Warehouse Receiving, Warehouse Shipping, &amp; Store Receiving)</li> <li>Review operational process around receiving items into warehouse, tracking inventory, security, etc.</li> </ul>

# FY25 Audit Plan Status

	Division	Status	Details
<b>Investigations</b>	Various	Completed	<ul style="list-style-type: none"> <li>• Hotline calls from VA OSIG as the Authority complaints are outside their scope.</li> <li>• Internal Request/Complaints.</li> <li>• Nine investigations completed.</li> </ul>
<b>Special Projects</b>	Various	Completed	<ul style="list-style-type: none"> <li>• Retail support and misc. projects – Retail process updates and reviews, Team ROW (Retail Optimization Workgroup).</li> <li>• PCI Compliance assistance and APA audit support.</li> <li>• Lottery Process Review.</li> <li>• Strategic Plan committee.</li> </ul>

# FY26 Status Update

Retail Store Audits

Distillery Store Audits

Investigations

# FY26 Update – Retail Store Audits

## Conducted 39 Retail Store Audits

- Audited in 16 of 24 districts
- Counted over 18,000 bottles with a total cost over \$187,000
- Overall inventory accuracy is 95.33%
- Issued 37 Audit Reports with 2 in-progress

# FY26 Update – Distillery Store Audits

## Conducted 10 Distillery Store Audits

- 2 – first-time audits (one has Net Pay interest)
- 8 – routine audits (length of time since last audit or large revenue producer)
- Issued 8 Audit Reports with 2 in-progress
- An additional 3 remote audits are in planning phase

# FY26 Update – Investigations

Internal Audit conducts investigations from internal requests/calls and those forwarded from VA OSIG.

**10 investigations received to date**

	Forward from OSIG	Internal Requests
Carryover from FY25	0	0
Completed	2	2
In progress	3	3
Total	5	5

# FY26 Audit Plan

Proposed Audit Plan for Board Approval

# FY26 Audit Plan

	Division	Status	Details
<b>Retail Store Audits</b>	Retail	In-progress	<ul style="list-style-type: none"> <li>• Compliance with Store Operating Procedures – focus on cash, inventory, and paperwork procedures.</li> <li>• Revise audit program as new Retail Procedures are implemented.</li> <li>• Support Retail’s requests and/or investigations.</li> <li>• Goal of 65 Retail stores.</li> </ul>
<b>Distillery Store Audits</b>	Legal	In-progress	<ul style="list-style-type: none"> <li>• Compliance with the Distillery Store Agreement and Manual.</li> <li>• Revise audit program per revisions to Distillery Store Manual.</li> <li>• Goal of 15 Distillery stores.</li> </ul>
<b>Operational Audit - Expense Review</b>	Accounts Payable	In-progress (Carryover from FY25)	<ul style="list-style-type: none"> <li>• Perform analysis and review of expenses. Identify any inappropriate expenses or opportunities for cost savings.</li> <li>• New IA Director to review progress and determine if resume or cancel.</li> </ul>

# FY26 Audit Plan

	Division	Status	Details
<b>Operational Audit - Warehouse – Receiving Process</b>	Logistics/DC	Not Started	<ul style="list-style-type: none"> <li>• Carryover from FY25 – unable to start due to focus on Retail &amp; Distillery Store audits and two significant investigations.</li> <li>• This is part 1 of a 3-part audit of the Distribution Center (DC). (DC Receiving, DC Shipping, &amp; Store Receiving).</li> <li>• Review operational process around receiving items into the DC, tracking inventory, security, etc.</li> </ul>
<b>IT Audit – Manhattan Software</b>	Logistics/DC	Not Started	<ul style="list-style-type: none"> <li>• Identity and Access Management - assess the adequacy of safeguards in place to mitigate risks.</li> <li>• Identify and evaluate key controls around system security.               <ul style="list-style-type: none"> <li>○ Are users and devices connecting properly identified and authenticated?</li> <li>○ Is access properly authorized and restricted to appropriate users per their job function?</li> <li>○ Are activities properly monitored to detect anomalies?</li> <li>○ Are there gaps in the overall security related to user access, including third-party access?</li> </ul> </li> </ul>

# FY26 Audit Plan

	Division	Status	Details
<b>Investigations</b>	Various	In-progress	<ul style="list-style-type: none"> <li>• Hotline calls from VA OSIG as the Authority complaints are outside their scope.</li> <li>• Internal Request/Complaints.</li> <li>• May lead to additional audit.</li> </ul>
<b>Special Projects</b>	Various	In-progress	<ul style="list-style-type: none"> <li>• Update Internal Audit Charter, Policy, and Procedures.</li> <li>• Retail support and misc. projects – Retail process updates and reviews, Team ROW (Retail Optimization Workgroup).</li> <li>• PCI Compliance assistance and APA audit support.</li> <li>• Strategic Plan committee.</li> </ul>

# Questions?

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# Public Comment