

Franklinton ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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ABC
COMMISSION
NORTH CAROLINA



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

CHAIRMAN:
A.D. "ZANDER" GUY, JR.

COMMISSIONER:
DANIEL L. BRIGGS
Lexington

ADMINISTRATOR:
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April 5, 2012

Town of Franklinton ABC Board
Mr. Darrell G. Chalk, Chairman
PO Box 541
Franklinton, NC 27525

Dear Chairman Chalk,

We are pleased to submit this performance audit report of the Town of Franklinton 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 and operational findings and 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. While we did not receive a response to our draft recommendations, we appreciate the efforts your Board is making to comply with the new performance standards.

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

Respectfully,

Michael C. Herring
Administrator

CC: North Carolina Association of ABC Boards
Tammy Ray, Franklinton Town Manager

EXECUTIVE SUMMARY

By state law, the ABC Commission shall ensure that all local ABC Boards comply with established performance standards by conducting regular audits or performance evaluations. Performance standards shall include, but are not limited to, standards that address enforcement of ABC laws, store appearance, operating efficiency, solvency, and customer service. Performance audits are examinations of existing operating policies, practices, controls, and activities to determine those areas in which there may be a need for improvements. This audit was conducted in accordance with Government Auditing Standards. This report details findings and recommendations with regard to organizational and operational issues.

To achieve the objectives of the audit, ABC Commission staff

- Reviewed applicable General Statutes, ABC Commission Rules, and administrative policies;
- Reviewed applicable reports and studies of ABC boards with similar size and geography;
- Verified compliance with Commission and Board policies;
- Reviewed organizational chart and job descriptions;
- Reviewed ABC store annual audit for the fiscal year 2011;
- Visited the store;
- Interviewed key ABC store personnel.

Franklinton ABC Board has neither responded to the written audit prepared by the Commission nor scheduled a meeting with the auditor in the approximate five months that have passed since the completed audit was mailed to the Franklinton ABC Board. Therefore, this audit is being submitted without a response from the board. A follow up visit will be scheduled within six months of the final audit submission to determine whether the recommendations have been addressed and implemented.

BACKGROUND INFORMATION

Franklinton is located in Franklin County between the towns of Youngsville and Louisburg, NC. The town is surrounded by rich farmland but conveniently located on Highway US 1. The US Census Bureau reported in 2010 the population at 2,023.

Chapter 911 of the 1947 Session Law authorized the town of Franklinton to hold an election upon a petition signed by fifteen percent of the registered voters. The referendum was held on July 11, 1947. The vote for an ABC store passed 267 to 80. The date of the first retail sales was on July 24, 1947. A mixed beverage election held on July 7, 1998 passed 101 to 77. The first mixed beverage sale was on February 25, 2011.

Upon election of an ABC store, the town of Franklinton was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members are Darrell Chalk, board chairman, James Caudle and Robert White, board members.

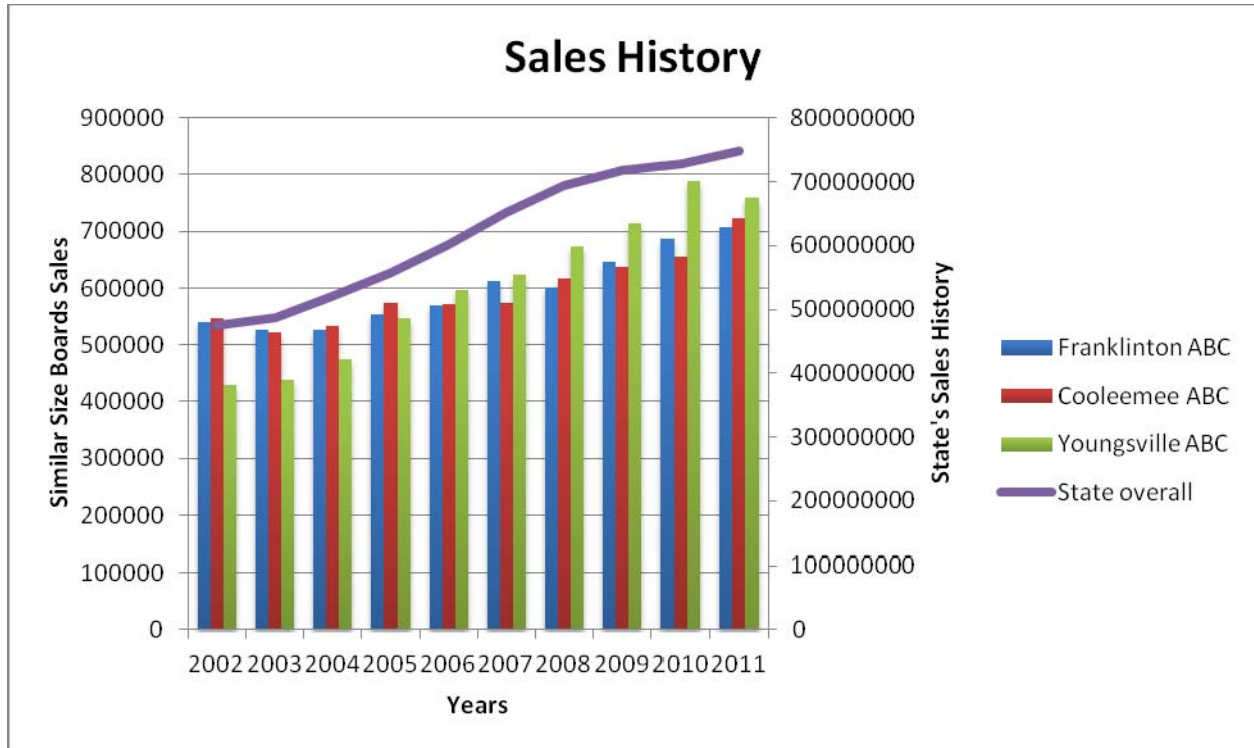
The Franklinton ABC Board operates one retail store located in the Franklinton Square Shopping Center. Including the general manager, the board staffs two full-time and one part-time employee. The general manager/finance officer is responsible for the daily operations of the store including supervising personnel, retail operations, and administrative functions. The clerk duties involve various retail functions including selling products and stock maintenance.

Profitability

For fiscal year 2011, the board showed a profit; gross sales were \$706,039, income from operations was \$12,701, resulting in a profit percentage to sales of 1.80%. Current year sales have increased 12.07% over last year exceeding sales of similar size boards. In comparing similar size boards over the past ten years, Franklinton ABC's sales have risen while other board's sales within the county have fallen. Other similar size boards' sales within the state have increased following the state's increase. *See chart below.*

Factors affecting sales and profitability:

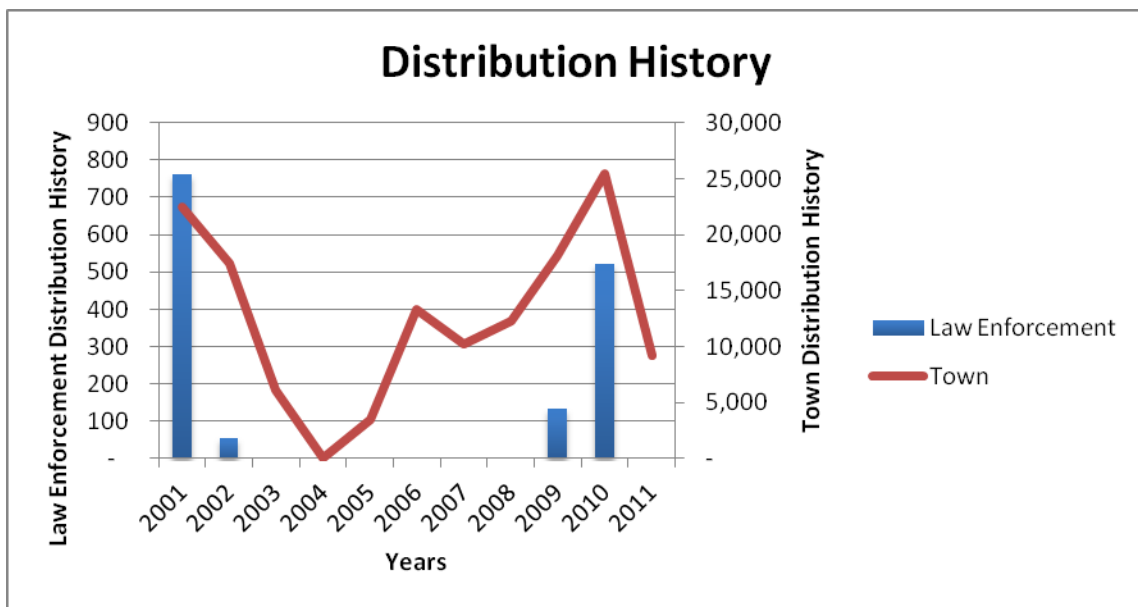
- Total population for the town of Franklinton has increased 14% over the past ten years
- Population twenty-five years and older has increased 37% over the past ten years
- Adult working population has increased 33% over the past ten years
- Poverty levels have increased 22% over the past ten years
- 10% unemployment rate in Franklin County in September which resulted in a 5% decrease from the previous month



Distribution

G.S. 18B-805 (c) (2) requires the board to expend quarterly at least five percent of profits for law enforcement. The remaining net profits are to be expended quarterly to the Franklinton General Fund.

In 2011, the Franklinton ABC Board made distributions only to the town totaling \$9,163. Law enforcement distributions were made in FY2010 totaling \$522. Refer to chart below.



FINDINGS AND RECOMMENDATIONS

On December 6, 2011, ABC Commission Board Auditor, Moniqua S. McLean, visited the Franklinton ABC store and interviewed Beverly Ramey, general manager. The following are the findings and recommendations relating to the performance audit.

1. Inventory Turnover

The inventory turnover rate is calculated by dividing the cost of goods sold by the average inventory in the system. The Commission has set goals for determining an effective rate based on the frequency of deliveries. Below are the turnover rates based on the delivery schedule:

- Weekly deliveries target at 6 times or more per year
- Bi-weekly deliveries target at 5 times or more per year
- Monthly deliveries target at 4.5 times or more per year

The Franklinton ABC Board has a bi-weekly delivery schedule. The inventory turnover rate for Franklinton ABC is 6.0 and exceeds the target rate set by the Commission.

Recommendations:

Continue exceeding the target rates and in addition to current practices, consider the following:

- Request permission from the Commission for a price reduction to sell off dead or discontinued stock.
- Utilize marketing strategies, such as cross merchandizing and product placement, to help in selling off higher priced or discontinued product.

2. Operating costs

Operating costs are calculated by dividing total operating expenses less depreciation by gross profit on sales. Below are the average cost ratios for boards with and without mixed beverage sales:

- Boards with 3 or more stores with MXB – cost ratio .67 or less
- Boards with 3 or more stores without MXB – cost ratio .94 or less
- Boards with 2 stores – cost ratio .83 or less
- Single store boards with MXB – cost ratio .77 or less
- Single store boards without MXB – cost ratio .93 or less

For FY2011, the Franklinton ABC Board had an operating cost ratio of .92 and did not meet the target set by the Commission. In comparison with other similar size boards, Franklinton's expenses are not out of line. Overhead expenses are high due to the lease on the building. To meet the goal of .77 and remain at current expense levels, revenues must be approximately \$825,000. To meet the goal and remain at current revenue levels, expenses must be reduced to approximately \$130,000. *Refer to Appendix A for breakdown of operating expenses of similar size boards.*

Recommendations:

- Because salary and rent expenses are the largest segment of operating expenses, analyze personnel hours to assess efficient personnel usage and re-negotiate rental agreements to get a better rate.
- Monitor budget frequently to ensure that expenses do not exceed budgeted amounts.

3. Profit percentage to sales

The profit percentage to sales is calculated by dividing the total profit before distributions by gross sales. The Commission has set efficiency goals based on the following breakdown:

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

The Franklinton ABC Board has a profit percentage to sales of 1.80% and did not meet the target rate set by the Commission.

Recommendations:

- Consider improving sales using the strategies recommended under inventory turnover.
- Analyze and reduce operating expenses by referring to the recommendations under operating costs.
- Although the store is required to follow the same holiday closing schedule and hours as the mall in which it is situated, take advantage of every selling day possible; do not close the store except when required to by law. Keep store open on all other holidays (Martin Luther King Jr. Birthday, Good Friday/Monday, Memorial Day, and Veteran's Day). Advertise in advance the fact that you will be open by a sign on the door. (The News & Observer prints store openings/closings around each major holiday. Notify them or your local newspaper if you will be open on a day when other stores will likely be closed.)

4. Working Capital

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 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

For FY2011, the Franklinton ABC Board had a working capital of \$87,253 and met the minimum goal set by the Commission.

5. Store Appearance

The Franklinton ABC store has approximately 562 linear feet of shelf space and currently carries approximately 700 product codes. *Refer to Appendix B for photos.*

- The overall store was clean and free of clutter in the counter area.
- The parking and exterior areas were free of trash.
- The price book was available for customers to view but the monthly reductions were not.
- The Fetal Alcohol Syndrome poster was displayed.
- There is no comprehensive shelf management system in place. Some higher priced products appeared on lower shelves.

Recommendations:

- Develop an effective and efficient shelf management system that better utilizes the spacing areas. An acceptable shelf management plan incorporates the concepts found in NCAC 02R.1701. *Refer to Appendix C (1) for rule.*
- Have available the monthly reductions list and price book for customers to view. Provide mixed beverage customers with the monthly reductions list as well. *Refer to Appendix C (2) for rule.*

6. Policies and Procedures

- The employee handbook on file has not been updated since 1999.
- Policies that have not been adopted and submitted:
 - Price discrepancy policy
 - Mixed beverage policy

Recommendations:

- Update the employee handbook and submit to the Commission. *Refer to Appendix C (3) for rule.* Some topics to be included in the handbook are:
 - Hiring practices of the board
 - Job descriptions
 - Duties and responsibilities
 - Store procedures
- Adopt a written price discrepancy policy. While it is true that the State has uniform pricing requirements, if a shelf tag is incorrect and shows a lower price than the register, it is good customer relations to honor it and just book the difference to cash over/short. The Commission will provide a sample policy upon request. *Refer to Appendix C (4) for rule.*
- Adopt a written mixed beverage policy. The Commission prefers an open mixed beverage policy that reflects good customer service and allows customers to order and pickup Monday through Saturday.

7. Administrative Compliance

- Although board meeting minutes were available to view, the minutes did not reflect the order of proceedings nor did they reference the conflict of interest statement.
- Board information on the Commission website does not reflect the board members' latest appointment dates.
- The board or administrative staff does not follow a records retention schedule.
- Nepotism – The board no longer employs immediate family members.
- Law enforcement reports have not been submitted for months March, May, November, December 2011 and February 2012.
- Purchase orders are not used when ordering store and office supplies.
- Orders to LB&B do not bear the pre-audit certificate required by G.S. 18B-702(m). However, all invoices are stamped with the pre-audit certificate.
- All checks display the approved certificate required by G.S. 18B-702(q).

Recommendations:

- ABC boards are required to keep full and accurate minutes of all official meetings, including any closed sessions held. Minutes may be in the form of sound or video records. Minutes shall reflect that the meeting has been called to order, a record of attendees, the minutes of the last meeting have been approved, any votes taken and how members voted, policies adopted, and any other business presented in sufficient detail so that anyone reading the minutes could understand what transpired.
- In an effort to avoid possible conflicts of interest, it is recommended that at the beginning of each board meeting the Chairman asks fellow board members if there are any potential conflicts of interest. *Refer to Appendix C (5) for rule.*
- Update the Commission website to reflect the current board member reappointment dates and compensation amounts. Each ABC board is responsible for maintaining up-to-date, accurate information as required by the Commission.
- Board meeting minutes and store documents are to be maintained according to the records retention schedule. A records retention schedule is available on the Commission website and a condensed version may be found in the Operations Manual.
- Submit all law enforcement reports by the 10th of the month. *Refer to Appendix C (6) for statute.*
- Use purchase orders when ordering all store and office supplies. Purchase orders are required to have the pre-audit certificate signed by the finance officer. *Refer to Appendix C (7) for statute.*
- Orders to LB&B for liquors must have a pre-audit certificate signed by the finance officer. The order must be approved before the liability is incurred.

8. Personnel/Training Compliance

- All board members and general manager have attended the mandatory ethics class.
- Employee training is conducted whenever the need arises and whenever new information is available.
- No employee has been cross-trained to fill in for the general manager should she become unable to work.

Recommendations:

- Have continuous training for employees on topics of customer service, administrative functions, price changes, good customer service, etc.
- Attend free annual training, such as the Responsible Alcohol Seller Program, offered by the Commission and other approved venues.
- For existing and new employees, create a checklist detailing daily functions and expectations as outlined by the job descriptions.
- Once the employee manual has been updated, provide each employee with a copy and have each employee sign an acknowledgement that he/she has received and read it through. Submit a copy to the Commission.
- Cross train employees on key functions that include ordering liquor, closing the month procedures, paying bills, and filing taxes in the event the general manager were suddenly unavailable.

9. Internal Controls

- Currently, the general manager performs the finance officer duties. Checks are signed by the general manager/finance officer and any board member.
- The board chairman has pre-signed a portion of blank checks.
- Physical inventory counts are performed quarterly by all schedules staff with frequent spot checking.
- All employees use their own cash drawer and are responsible for maintaining accurate monies.
- The general manager/finance officer maintains and reconciles the cash fund.
- A deputy finance officer has not been appointed to fill in if the finance officer or board chairman is absent.

Recommendations:

- Work toward appointing a finance officer other than the general manager. *Refer to Appendix C (8) for statute.*

- Blank checks must never be pre-signed.
- To ensure stronger internal controls on inventory, take physical inventory monthly. Have someone other than persons responsible spot check inventory on a regular basis. Provide board members monthly documents detailing inventory adjustments and discrepancies.
- To ensure stronger internal controls on cash management, appoint someone other than the general manager to reconcile the change fund. A board member could do this each month during the course of the monthly board meeting.
- Appoint a deputy finance officer to aid in the duties of the finance officer when he/she is absent. *Refer to Appendix C (9) for statute.*

APPENDIX A

Chart 1

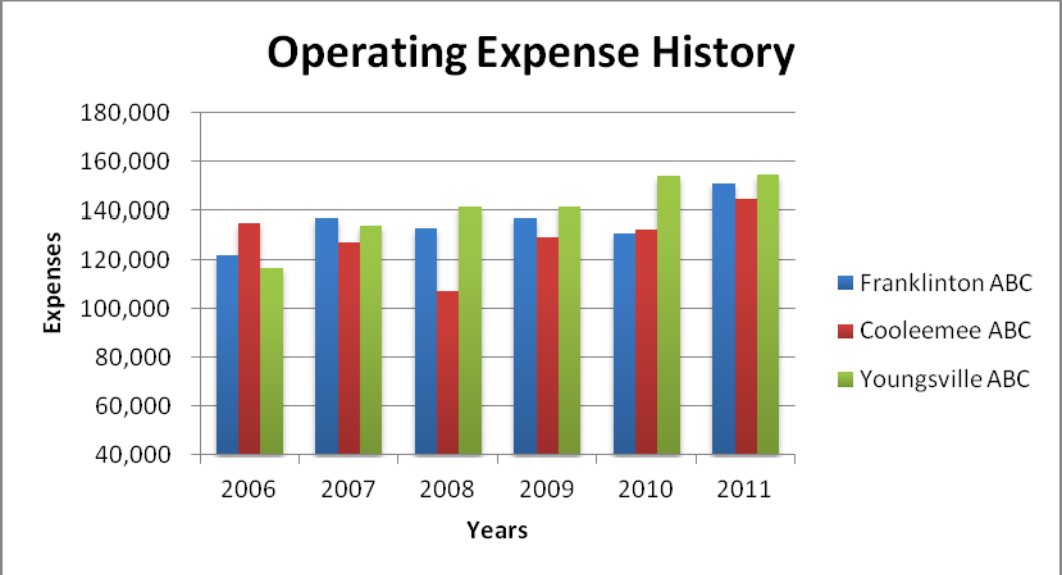


Chart 1 reflects the operating expense comparison of similar size boards.

Chart 2

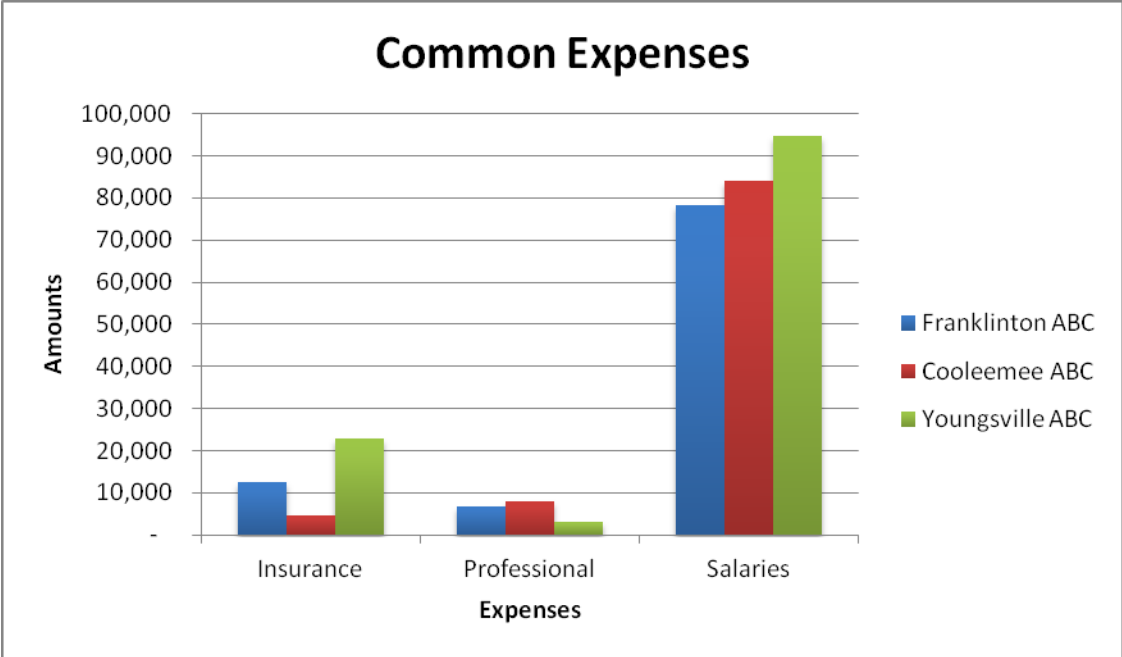


Chart 2 reflects common expense comparison of similar size boards.

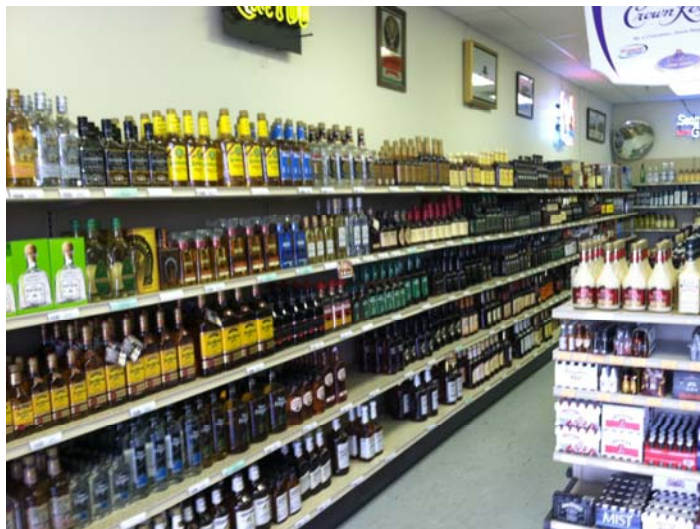
APPENDIX B

Picture 1



Counterview

Picture 2



Shelf view

APPENDIX C

- (1) NCAC 02R.1711 (a) states "Each local board shall establish and maintain a shelf management plan. The local board shall establish policies within its plan that govern the following concepts:
- (1) Set the higher price items on the upper shelves at eye level and set the low profit items on the bottom shelves;
 - (2) Block categories in vertical sets per their category;
 - (3) Arrange bottle sizes so they increase left to right of the same item;
 - (4) Create brand billboard by stacking all sizes together;
 - (5) Set shelf space for a product equal to market share for the individual store after the product has been carried for a year;
 - (6) Set and maintain all bottles at the front of the shelf; and
 - (7) Discontinue low profit slow moving items.
- (b) Each local board shall keep a copy of its shelf management plan at each store location and, upon request, provide a copy to a Commission representative.
- (2) NCAC 02R.1703 (c) states "Every store shall make available for its customers' inspection a copy of the most current complete state price list and any supplemental price lists. A local board may draw up and post its own price list for items or brands sold in its stores, provided the items and prices listed on the local list are also listed on the complete state list."
- (3) NCAC 02R .1009 states "(a) Each local board shall establish policies and rules governing each of the following:
- (1) Initial employment of employees, including qualifications and requirements for new employees;
 - (2) Compensation and benefits;
 - (3) Hours and days of work, holidays, vacation, sick leave and other matters pertaining to the conditions of employment;
 - (4) Promotion, transfer, demotion and suspension of employees;
 - (5) Separation or termination of employees;
 - (6) Granting of salary increases;
 - (7) Employee grievance procedures; and
 - (8) Any other programs or procedures as may be necessary to promote efficiency and to provide for a fair and reasonable system of personnel administration.
- (b) A local board is encouraged to model its personnel policies and procedures after those adopted by the county or municipality in which it operates."
- NCAC 02R .1102 states "(a) 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."
- (4) NCAC 02R.1706 (b) states "If a local board has a price discrepancy between the price on the shelf or bottle and the cash register, and the price on the shelf or bottle is lower, the local board shall sell the item at the shelf or bottle price and correct the shelf or bottle price to match the Commission's published uniform price."

(5) OP 4.19.4 states, "In an effort to avoid possible conflicts of interest it is recommended at the beginning of each meeting the Chairman ask fellow board members if there are any potential conflicts of interest. This can be done by reading the following ethics reminder:"

In accordance with GS 18B-201, it is the duty of every Board member to avoid both conflicts of interest and appearances of conflicts. Does any member have any known conflict of interest or appearance of conflict with respect to any matters coming before the Board today?

(6) 18B-501(f1) states, "To ensure accountability to the appointing authority and the Commission, every local board's ABC officers and those law enforcement agencies subject to an enforcement agreement entered into shall report to the local board, by the fifth business day of each month, on a form developed by the Commission, the following:

- (a) The number of arrests made for ABC law, Controlled Substance Act, or other violations, by category, at ABC permitted outlets,
- (b) The number of arrests made for ABC law, Controlled Substance Act, or other violations, by category, at other locations,
- (c) The number of agencies assisted with ABC law or controlled substance related matters,
- (d) The number of alcohol education and responsible server programs presented,

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.

(7) 18B-702 (m) states "...the contract, agreement, or purchase order shall include on its face a certificate stating that the instrument has been pre-audited to assure compliance. The certificate, which shall be signed by the finance officer or any deputy finance officer approved, shall take substantially the following form:

"This instrument has been pre-audited in the manner required by GS 18B-702."

(Signature of finance officer)

(8) GS 18B-702 (j) states "...the local board shall designate (i) a part-time or full-time employee of the board other than the general manager or (ii) the finance officer of the appointing authority with consent of the appointing authority to be the finance officer for the local board."

(9) GS 18B-702 (p) states "...all checks or drafts on an official depository shall be signed by the finance officer or a properly designated deputy finance officer."

FRANKLINTON ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Store Appearance – **Implement an efficient shelf management system.</p> <p>**Provide a monthly sales list to all customers including mixed beverage customers.</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>**Note: Required by rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>It is unknown whether the Board has implemented recommendations as a response was not submitted.</p>
<p>Policies and Procedures – **Update the employee handbook.</p> <p>**Adopt a written price discrepancy policy.</p> <p>**Adopt a written mixed beverage policy.</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>**Note: Required by rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>It is unknown whether the Board has implemented recommendations as a response was not submitted.</p>

FRANKLINTON ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Administrative Compliance - **Have the Chairman read the conflict of interest statement at each meeting.</p> <p>**Update the Commission website with current board member reappointment dates and compensation amounts.</p> <p>Submit all law enforcement reports.</p> <p>Use purchase orders when ordering all store and office supplies.</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>**Note: Required by rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented ____% complete. (Explain below.)</p> <p><input checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>It is unknown whether the Board has implemented recommendations as a response was not submitted.</p>
<p>Administrative Compliance (continued) – Affix orders to LB&B with the pre-audit certificate.</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented ____% complete. (Explain below.)</p> <p><input checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>It is unknown whether the Board has implemented recommendations as a response was not submitted.</p>

FRANKLINTON ALCOHOL BEVERAGE CONTROL BOARD

Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>Personnel/Training Compliance – Train employees on administrative and retail functions in the even the general manager were unavailable.</p>	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input checked="" type="checkbox"/> Partially implemented 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The general manager is currently training an employee on management duties and administrative functions.</p>
<p>Internal Control – Appoint a finance officer other than the general manager.</p> <p>Appoint a deputy finance officer.</p>	<p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented ____% complete. (Explain below.)</p> <p><input checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>It is unknown whether the Board has implemented recommendations as a response was not submitted.</p>



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

CHAIRMAN:
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Your Name
Director
Permit Division
(this is editable)

June 24, 2013

The Honorable Elic A. Senter, Mayor
Town of Franklinton
PO Box 541
Franklinton, NC 28722

Dear Mayor Senter,

The ABC Commission has completed the follow up to the performance audit which occurred on December 7, 2012 at the Franklinton ABC Board. The purpose of the follow up visit was to determine which recommendations had been addressed and if the ABC Board was now in compliance with all ABC laws.

During the follow up visit, it was confirmed by interviewing board personnel and analyzing documentation that the ABC board has adopted all recommendations and has implemented the required policies to fully comply with the ABC Laws and Regulations. Management is initiating and implementing new procedures in hopes of improving stability and profits.

This concludes the performance audit conducted on December 7, 2012.

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

Respectfully,

Monique S. McLean
ABC Board Auditor

Cc: Tammy Ray, Franklinton Town Manager
Franklinton ABC Board
Michael Herring, ABC Administrator