

Roseboro ABC Board

Performance Audit Report



TABLE OF CONTENTS

ABC Commission Statement	3
Objective, Purpose & Background Information	4
Financial Analysis, Observations & Findings	6
Recommended Actions & Additional Considerations	13-14
<i>Appendix A – Commission’s Summary Narrative</i>	15



ABC

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NORTH CAROLINA

Alcoholic Beverage Control

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June 24, 2023

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Chairperson James,

On the following pages, you will find the performance audit report conducted by the staff of the ABC Commission reviewing the operations of the Roseboro ABC Board. The report consists of an overview of the objectives & background summary, financial analysis and findings, and a summary of actions recommended based upon your board's performance and related findings. Additional considerations are listed as well to provide further guidance and enhance awareness to promote ABC board success.

Please reach out if you have any questions or require assistance in implementing any of the statute requirements, Commission rules, or other recommendations included in the report. On behalf of the North Carolina ABC Commission, I thank you and your staff for your assistance and cooperation in conducting this periodic review. We appreciate the continued efforts by your board to comply with the performance standards, as well as the board's commitment to increase profitability and reduce expenses.

If we can be of assistance in the future, please do not hesitate to reach out to the Commission staff.

Respectfully,

Michael DeSilva
Deputy Commissioner

OBJECTIVE, PURPOSE & BACKGROUND INFORMATION

In addition to regular and special financial audits, G.S. 18B-705(a) authorizes the NC 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 audit's 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
- Verify compliance with Commission and Board policies
- Verify results of previous performance audit recommendations
- Review ABC Board annual independent financial audits
- Review ABC Board reporting and documentation reports
- Visit the store(s)
- Interview key ABC Board personnel

Roseboro, NC is in western Sampson County and was founded when the Cape Fear and Yadkin Valley Railroad built a line from Fayetteville to Wilmington. The National Register of Historic Places features on its list the Dan E. Caison Sr. House, Troy Herring House, and Howell-Butler House. Rufus G. Herring, a World War II Medal of Honor recipient, was born in Roseboro and resided here until his passing in 1996. The town's population per the 2020 Census was approximately 1,200 residents which was virtually unchanged since 2010.

Chapter 48 of the 1963 Session Law authorized the Town of Roseboro to hold an election for an ABC store. The referendum was held June 8, 1963, and the vote passed 262 to 223. The first retail sales occurred on July 6, 1963. A mixed beverage referendum occurred November 6, 2007, and it passed 152 to 137. *Currently, the Town of Roseboro appoints a chairperson and four (4) additional board members to serve on the ABC board.* ***Special note: In May 2023, the town officially increased the size of the ABC board from three to five members.***

The Roseboro ABC Board currently operates one (1) retail store. The board staffs approximately seven (7) total employees. These include a full-time general manager and six (6) part-time personnel. The general manager is responsible for the daily store operations including supervising personnel, inventory management, and various retail functions. The finance officer provides the general manager/budget officer and the board with fiscal management, administrative support, and assists with routine operations of the ABC store. Sales associate responsibilities include selling products, daily stocking, and floor upkeep & maintenance.

The last performance audit for the Roseboro ABC Board occurred in 2013. The Commission audit serves as a continuous way to provide local boards with information and best practices that target areas for improvement.



OPERATIONAL OBSERVATIONS, FINDINGS, REQUIRED ACTIONS, & RECOMMENDATIONS

On Tuesday, April 18, 2023, ABC Board Program Analyst Quinn Woolard, visited the Roseboro ABC Board and interviewed William Gates (General Manager) and Kenneth Johnson (Finance Officer). Below is a financial analysis followed by operation observations, findings, and recommendations related to the performance audit.

FINANCIAL ANALYSIS

PROFIT PERCENTAGE TO SALES & OPERATING COST RATIO

In fiscal year (FY) 2021-2022, the Roseboro ABC Board had a profit percentage to sales of 8.63%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales less than \$2M is 5.0%. The Roseboro ABC Board's gross sales totaled \$1,475,471, which was a 5.04% increase from the previous fiscal year.

The operating cost ratio for the Roseboro ABC Board was .60 in FY 2021-2022. The NC ABC Commission standard for ABC Boards with one or two stores and mixed beverage sales is .73 or less.

Thus, the Roseboro ABC Board met both the profitability standard and the operating cost standard set by the NC ABC Commission. Below is a chart showing gross profit on sales and income from operations for the previous two years.

	FY 2021-2022	FY 2020-2021
Gross Profit on Sales	\$342,650	\$359,863
Income from Operations	\$127,322	\$162,648

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores within an approximate ten to fifteen (10-15) mile range of Roseboro ABC: Clinton ABC operating one store also in Sampson County.
- An ABC Board's average cost of goods sold (COGS) is between 52% & 54% per year. The Roseboro ABC Board's cost of goods sold was approximately **54.0%** in FY 2021-2022.
 - *Mixed beverage sales were roughly 1.4% of total sales in FY-2022, and there are currently four (4) mixed beverage customers.*

BUDGET ANALYSIS

	FY 2021-2022 Budget Projections	FY2021-2022 Actual	Variance	Variance %
Sales	\$1,482,500	\$1,475,471	\$6,825	0.4%
Revenue over or (under) Expenditures		\$63,025		

In reviewing the budget to actual analysis of the FY 2021-2022 financial audit, actual sales revenues were over budgeted projections by 0.4%. In addition, the net income change during the fiscal year was \$52,819. *The board's collective net position on June 30, 2022, was around \$500k; the net position has steadily increased over the last five (5) fiscal years, and the FY-2022 figure reflects the board's highest overall net position during the five-year period.*

DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, and rehabilitation taxes. G.S. 18B-805(c)(2) requires the board to *typically* distribute at least five percent (5%) of applicable gross receipts to law enforcement and *typically* at least seven percent (7%) for alcohol education. *Before assigning these percentage distributions, G.S. 18B-805(c)(1) requires the board to first make a minimum quarterly distribution of the 3.5% markup & relevant bottle charges to certain county/municipal recipients. **Some of these distribution percentages are designated by an official local enabling act (and thus distribution requirements and recipients are subject to vary).***

In FY 2021-2022, Roseboro ABC made other statutory distributions totaling \$74,503 (Net profit distribution recipients received \$47,039 of this). The amount of \$335,906 in primary distributions and other taxes were paid to the NC Department of Revenue (NCDOR), NC Department of Health & Human Services (NCDHHS), and the county commissioners of Sampson County.

Per the local enabling act, the distribution formula for recipients of net profits is as follows:

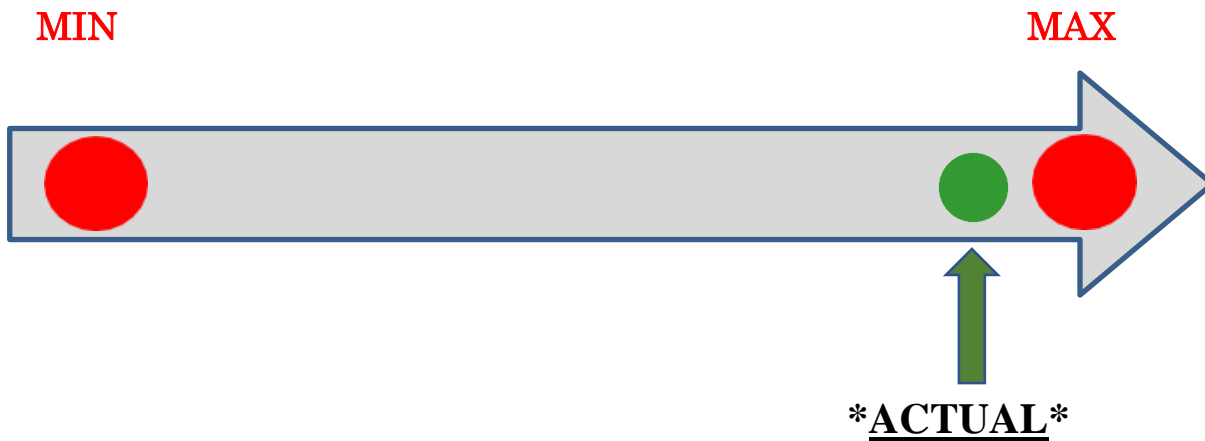
- One hundred percent (100%) to Roseboro General Fund

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. The NC ABC Commission has set a working capital standard for boards with annual gross sales less than \$1.5M an amount equal to four (4) months of sales revenue.

Based upon the existing rules, as of June 30, 2022, the Roseboro ABC Board is required to maintain a minimum working capital of \$43,829 with a maximum working capital amount of \$379,855. The Roseboro ABC Board had a working capital balance of \$374,197, which falls within the Commission requirements for this section (*).

*** FY 2021-2022: Working Capital (WC) graphic**



Under 18B-805(d), with approval of the appointing authority for the board, the local board may set aside a portion of the remaining gross receipts as a fund for specific capital improvements whenever working capital is exceeded.

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE

The findings for personnel, operational & administrative compliance are as follows:

- The board holds board meetings the fourth Tuesday of each month at 10:00 AM, records regular meeting minutes, and provides public notification and awareness of these meetings. The meeting minutes are organized in a folder for review. *The minutes provided have the conflict-of-interest disclosure statements referenced and the final versions are attested as being routinely signed by the Chairperson.*
 - **Training records review:** Board members and personnel are compliant on ethics training, and one new member will need to complete before March 2024 for adherence to 18B-706(b).
 - **Board member compensation & General Manager (GM) salary:** Board member compensation fully adheres to statute requirements as does the GM salary.
 - **Board website review:** The board's login website was updated by the Commission in 2022 for board member term tenure information (*begin dates & end dates*). **Special note:** As part of a revalidation effort, the Commission has worked to revalidate term tenure information for all ABC boards across the state, working directly with the appointing authorities. As a value-added measure for all ABC boards and Commission records tracking in summer 2022, the term begin dates as well as term end dates were entered on all individual ABC board websites.
 - *The expectation going forward is that ABC boards will routinely manage this information online, and work to communicate with the Commission particularly when new members are added, or whenever any current serving members resign before a term has ended.*
 - **Board Personnel & Board Members:** The general manager provides board members with monthly sales information and previous year's applicable sales and operational concerns. The finance officer provides various financial reports for the board's review. Board members will rotate for the second signature on checks. Board members are heavily encouraged by the Commission to use checks and balances to ensure that cash management practices are upheld especially on payroll; also, boards should routinely review any notes and recommendations provided by the CPA firm on annual audits.
- **POLICIES:** The board has a current personnel policy manual, and the Commission does not have an electronic copy. The board chooses to adhere to the state travel policy.
- **BUDGETS:** In FY-2022, the board exceeded budgeted sales in June 2022. While a budget amendment could not be located within Commission records, the CPA audit reflects and validates most of the revised budget increase. *Based on sales trajectory for the current fiscal year and with 75% of the current budget year completed, the board is already tracking at 82% of annual budgeted sales. Thus, a budget amendment will potentially be needed before fiscal year end if sales continue a strong trend.*
- **FINANCIAL INSIGHT:** The finance officer is signing checks as required per statute with one of the board members completing the second signature. Invoice records for recent liquor purchases reflect them as being paid routinely well inside of 30 days. Taxes and distributions are paid in a routine and timely manner.

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- Bank deposits are routinely made each business day per review of bank Statements and discussion with the finance officer. For safeguard measures and adherence to *Commission rule 15A .0905 Daily Deposits*, the board utilizes a locked fireproof safe for integrity of funds that remain at the board at any given time.
- Payroll is processed weekly by the general manager through QuickBooks and paper checks are issued. Board members will alternate review of monthly financial records and signing checks.
- The pre-audit certificate is not stamped on the orders at the time they are placed; however, board checks bear the disbursal certificate.
- All board members and applicable personnel are each bonded for \$50,000 per G.S. 18B-700(i).
- Local CPA will conduct monthly reconciliation and as well as paying all monthly taxes of sales tax, excise tax, and mixed beverage surcharges due to NCDOR and NCDHHS.
- The annual CPA audit was received and logged by the Commission on October 1, 2022.

➤ **STATUTORY DISTRIBUTIONS:**

- **Net Profit Distributions** - The Roseboro ABC board has improved net profit distributions over the last two fiscal years, slightly exceeding the minimum mandatory distribution in reference to NCGS 18B-805(c)(1). **The table below references distributions calculated by CPA on the left and total distributions made by the ABC Board for the last five (5) years on the right.**
- **Law Enforcement Distributions:** Have been properly disbursed well above the 5% statute amount for FY-2022 and FY-2021. During the three fiscal years before this period, the distributions were below the statute amount.
- **Alcohol Education Distributions:** Have been properly disbursed well above the regular 7% statute amount. Over the last five (5) fiscal years, this distribution category has been generous averaging 14-15% annually. The recipients have been providing documentation to the board on how these funds are spent in connection with NCGS 18B-805(h).

NC GENERAL STATUTE: 18B-805 (c)(1)			
Calculation of Minimum Mandatory Distribution for Net Profit to Designated Recipients		Roseboro ABC Board Net profit distribution made annually by fiscal year	
<i>Note: Referencing CPA Audit Reports</i>			
CPA Calculated Amount		Total paid to recipient(s)	
FY-2022	\$43,085	FY-2022	\$47,039
FY-2021	\$41,211	FY-2021	\$57,957
FY-2020	\$33,702	FY-2020	\$20,440
FY-2019	\$36,494	FY-2019	\$12,410
FY-2018	\$34,490	FY-2018	\$15,515

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- **LAW ENFORCEMENT (LE) REPORTS:** Reports are being submitted routinely and they are current to date as well. Reports for a few recent months were not final submitted on the board website. The sheriff's department has not been providing information to the board, and it was discussed for the board to contact department and liaise to request monthly information. Otherwise, the board should continue filing reports monthly and list "No data available from law enforcement" where applicable for any months where no data has been obtained.
- **LAW ENFORCEMENT (LE) CONTRACT:** The board has a law enforcement contract on file at the Commission with the Sampson County Sheriff. The town does not have a police department.
- **INVENTORY:** Full store inventories are conducted twice per year. In addition, inventory spot checks in certain categories are conducted whenever possible. The inventory turns over moderately well at the store with a 6.4 turnover ratio. *To improve operations, the board is considering procurement of an electronic scanner system to make inventory management more efficient for all personnel involved.*
- **INTERNAL CONTROLS:**
 - The board has an assistant manager to support the general manager.
 - The board has a CPA who will complete monthly financial statements and pays taxes on behalf of the board.
 - Invoice information is entered into QuickBooks, cash requirements are printed for the truck shipments and the Purchase Orders History from BOSS is utilized to balance totals to make sure invoices / inventory match the system.
 - Board members alternate reviewing financial statements and monthly reconciliations.
 - Board members alternate monthly review for petty cash and sign off in book.
 - Bank deposits are made by different people at different times of the day.
- **EXPENSES:**
 - Total expenses increased roughly eight percent (8%) over the last fiscal year.
 - Board payroll was roughly 7.5% of total annual sales. Payroll increased roughly five percent (5%) from the previous fiscal year.
 - Cost of Goods Sold (COGS) was around 54% for the fiscal year. The COGS could easily be reduced through selectively pursuing more buy-ins / special purchase allowances. *However, the current stockroom is very limited on space to hold inventory.*

STORE INSIGHT & OVERVIEW

The findings for store insight & overview are as follows:

- Store has modern layout and good ergonomics for shoppers. The store interior was remodeled in August 2020 to include new floors, new shelves, and building structure modification which provided increased retail space. The building was painted, and a decal sign was updated on the front of the location. The store is in a prime location at a center intersection in town.
- Sales associate interactions with customers are attentive, courteous, and all are eager to meet the needs of the customers.
- The board has four (4) MXB customers as of February 2023. None of the business customers are really interested in delivery service or requested this service to date. However, the board has provided a delivery service policy to the Commission - Referencing Rule 15A . 1903 Delivery of MXB Permittee Orders.
- A random sample of approximately 100 items were selected to determine if uniform pricing is displayed. Of those selected, every item reflected the current quarterly or monthly SPA price.
- Besides closing on the five (5) required annual holidays and every Sunday, the board opted to close on the day after Christmas 2022.
- The store displays the required Fetal Alcohol Syndrome poster required by G.S. 18B-808.
- North Carolina products cross merchandised according to product category.
- Products are placed within the designated categories; premium products are found at eye-level or top shelf. Regular occurrences were found with various bottle sizes of the same products increasing appropriately from left to right. Bottles were fronted and dusted.
- Outside area surrounding the store is well-maintained and free of debris or trash.
- Security systems are in place and functional in all designated areas.
 - *Sixteen (16) cameras work to cover the property footprint.*
 - *Safety bollards are present in front of the store.*

RECOMMENDED ACTIONS (PER STATUTES OR COMMISSION RULES)

- ABC Boards are required to operate within a balanced budget each fiscal year. Budget amendments must be approved by the board before any funds are transferred between accounts and utilized, occurring at the actual point of time an adjustment of funds is necessary. This would include the point in time during the fiscal year when the board will exceed its annual forecasted sales budget. *Ensure budget amendment copies are submitted to the ABC Commission as required per NCGS 18B-702(h), to include a final reconciliation budget amendment for the fiscal year end.*
- Please ensure all newly adopted policies or any updated policies are submitted electronically to the Commission for recordkeeping and review per NCAC 15A .1102 Rule. An electronic copy of the personnel manual should be emailed to Commission personnel for recordkeeping.
- In connection with the periodic audit, a Certificate of Accountability attestation form should be reviewed and signed by board members and applicable personnel. A signed copy would then only need to be emailed to Commission personnel for recordkeeping.
- Ensure all purchase orders to include obligations evidenced by a contract or agreement requiring the payment of money, shall include or bear a certificate stating that the instrument (or order) has been pre-audited to ensure compliance with *G.S. 18B-702(m)* with a signature by the finance officer. The specific statement should read, *“This instrument has been pre audited in the manner required by G.S. 18B-702.”*
Special note: This would be most reasonably accomplished by signing & stamping the summary total of the Order Edit List from inventory system *before* any liquor orders are placed with state warehouse.
- ABC board members must complete ethics training within one (1) year of each appointment and again following all reappointments. *General managers, finance officers (and any applicable deputies) have a one-time training requirement for ethics training yet are highly encouraged to complete training periodically as a good refresher along with any other personnel interested.*

ADDITIONAL CONSIDERATIONS & GUIDANCE

- The Commission's primary focus for ABC board members:
 - ABC board members are highly encouraged to meet monthly for the best formal oversight and review of board operations, routinely recording meeting minutes (*adhering to closed meeting requirements where applicable*) and ensuring either no conflicts of interest are present or that they are addressed appropriately when presented. Monthly sales should be reported to the Commission at beginning of next month, providing annual budgets, budget amendments, miscellaneous financial reporting to Commission following timelines, and ensuring Commission has annual CPA audits by Oct 1st.
 - ABC boards are highly encouraged to keep term begin dates & term end dates updated on the Commission's board login website for all ABC board members and other information such as store hour changes, pictures, email updates, etc. *Moreover, liaising with the Commission when new members are appointed or when member resign early before term has ended is very important for recordkeeping efforts of the Commission.*
- ABC boards are highly encouraged to find straightforward ways to lower any recurring expenses. *A very tangible way to lower operating costs is to fully maximize monthly special purchase allowance (SPA) liquor products that routinely sell well in the store to lower cost of goods sold (COGS).* ABC Boards can limit the number of personnel travelling to conference and convention events across the state. Other ways to try to improve expenses include requesting bids annually from various vendors to get the best rates possible on financial audits, various utilities, maintenance contracts, and *credit card processing companies*.
- ABC boards are encouraged to closely review financial statements monthly, comparing with the annual budget forecast, approving budget amendments when necessary and submitting copies to the Commission for anticipated sales increases as well as other adjustments for budgeted accounts.
- Law enforcement reports must be submitted on the Commission's board website by the 7th of each month referencing G.S. 18B-501(f1). *In cases where law enforcement provides no information in any given month, simply enter "No data provided by law enforcement" in narrative of report. ABC Boards should make sure reports are in a "Final Submitted" status and not just in saved status. For any saved reports, the only transaction necessary to finalize them is to click the preview button and then click the submit button.*
- Cross training opportunities for personnel should be maximized to ensure solid continuity of operations occurs for ABC boards. Also, training opportunities can work well to develop store employees for increased responsibility roles and serving to make both the routine operations and employee morale stronger.
- NCAC Rule 15A .1701 requires quarterly reports be submitted for any unsaleable merchandise (breakage) and retain original copies for three (3) years. *All breakage reports should only be transmitted via email submission to Commission staff; copies should not be mailed.*
- As a reminder, remove all faded posters and replace with new ones when applicable. Reach out to the Commission to provide fetal alcohol syndrome posters, NC Dept of Labor can provide wage & hour posters, and OSHA can provide some applicable federal posters if any are needed.
- ABC boards can explore additional training opportunities periodically available through the ABC Commission as well as partnering with other ABC boards on specific areas such as best retail and marketing practices.

Please network with the ABC Commission whenever needed for guidance and assistance to support local ABC board mission and success.

APPENDIX A

Commission's Summary Narrative

The performance audit report was submitted to the Roseboro ABC Board in April 2023. The general manager was contacted via phone in May 2023 to determine if there were any questions on the report or any consultation requested by the ABC board members. The ABC Board agrees with all recommendations as presented and will work toward compliance over the next fiscal year. The board continues to be vigilant with profitability enhancement and expense reduction while operating a modern store with a robust customer service focus.