

Franklinton 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

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February 17, 2022

Franklinton ABC Board
Mr. Joel Callihan, Chairman
PO Box 541
Franklinton, NC 27525

Chairman Callihan,

On the following pages, you will find the performance audit report conducted by the staff of the ABC Commission reviewing the operations of the Franklinton 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,

Terrance Merriweather
Deputy Commissioner

cc: North Carolina Association of ABC Boards

OBJECTIVE, PURPOSE AND 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

Franklinton is in Franklin County between the towns of Youngsville and Louisburg, NC. The town is surrounded by ample farmland but conveniently located on US Highway 1. The US Census Bureau reported in 2010 the population at 2,023, and the 2021 population is approximately 2,321.

The Board was organized under the provisions of Senate Bill #435 of the North Carolina Legislature, General Assembly of 1947 and implemented by a town wide election held April 15, 1947. A mixed beverage election held on July 7, 1998 passed. At the time of the June 2021 visit, four (4) individuals are appointed by the town council to serve on the ABC Board. A fifth board member resigned in May 2021.

The ABC Board, as provided by North Carolina Alcoholic Beverage Control laws, and through its law enforcement division, investigates violations of such laws. North Carolina General Statutes [18B-805(c)(2)(3)] requires that the ABC Board expend at least 5% of profits for law enforcement and at least 7% of the same profits for alcohol education and rehabilitation purposes.

The Franklinton ABC Board operates one (1) retail store located in the Franklinton Square Shopping Center. Along with the full-time general manager and finance officer employees, the board staffs five part-time employees. The general manager and finance officer are primarily responsible for overseeing the daily operations pertaining to the store including personnel management, inventory management, and various administrative functions. Store clerks are responsible for providing customer-friendly service, store upkeep, and stock maintenance.

The Franklinton ABC Board had its last performance audit back in 2012. This follow-up round of performance audits serves as a continuous way for the Commission to provide local boards with information and best practices that target areas for improvement.



OPERATIONAL OBSERVATIONS, FINDINGS, REQUIRED ACTIONS & RECOMMENATIONS:

On Wednesday, June 2, 2021, ABC Board Auditor Quinn Woolard, visited the Franklinton ABC Board and interviewed Debbie Bennett, General Manager and Finance Officer, Linda Grogan. 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) 2019-2020, the Franklinton Board had a profit percentage to sales of 8.59%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales less than \$2M is 5%. The Franklinton ABC Board's gross sales totaled \$1,679,987, which was a 37.79% increase over FY 2018-2019.

The operating cost ratio for the Franklinton ABC Board was .59 in FY 2019-2020. The NC ABC Commission standard for ABC Boards with 1 or 2 stores and mixed beverage sales is .73 or less.

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

| | FY2019-2020 | FY2018-2019 |
|-------------------------------|-------------|-------------|
| Gross Profit on Sales | \$409,567 | \$286,138 |
| Income from Operations | \$144,238 | \$76,179 |

Factors affecting profitability and cost include:

- Surrounding municipalities with other ABC Boards operating stores within a fifteen (15) mile range include: Youngsville (within the same county), and the neighboring towns of Wake Forest and Creedmoor.
- The ABC Board currently has a bank loan for a 2019 store remodel and leases the store location.

- An ABC Board’s average cost of goods sold (COGS) is between 52% & 54% per year. The Franklinton Board’s cost of goods sold was approximately 53.14% in FY 2019-2020.
- *Mixed beverage sales total approximately 0.05% in FY 2019-2020, with only one retail permittee currently.*

BUDGET ANALYSIS

| | FY2019-2020 Budget Projections | FY2019-2020 Actual | Variance | Variance % |
|---|--------------------------------|--------------------|------------|------------|
| Sales | \$1,556,725 | \$1,679,987 | \$123,262 | 7.9% |
| Total Expenditures (to include Capital Outlay) | \$1,482,961 | \$1,546,041 | (\$63,080) | (4.3%) |

In reviewing the budget to actual analysis of the FY2019-2020 financial audit, actual sales revenues were over the budgeted projections by 7.9%. Total operating expenses were over budget for the same period by 4.3%. The chart above shows the final budget to actual amounts and the appropriate positive or negative variances.

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 distribute at least five percent (5%) of applicable gross receipts to law enforcement and 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 specific recipients are designated by an official local enabling act (*and thus will vary*).

In FY 2019-2020, Franklinton ABC made distributions totaling \$140,896 (Town of Franklinton received \$129,345 of this). The amount of \$377,662 in excise and other taxes were paid to the NC Department of Revenue (NCDOR), the NC Department of Health and Human Services (NCDHHS), and county commissioners of Franklin County.

The remaining profits are to be distributed as follows per the current local enabling act:

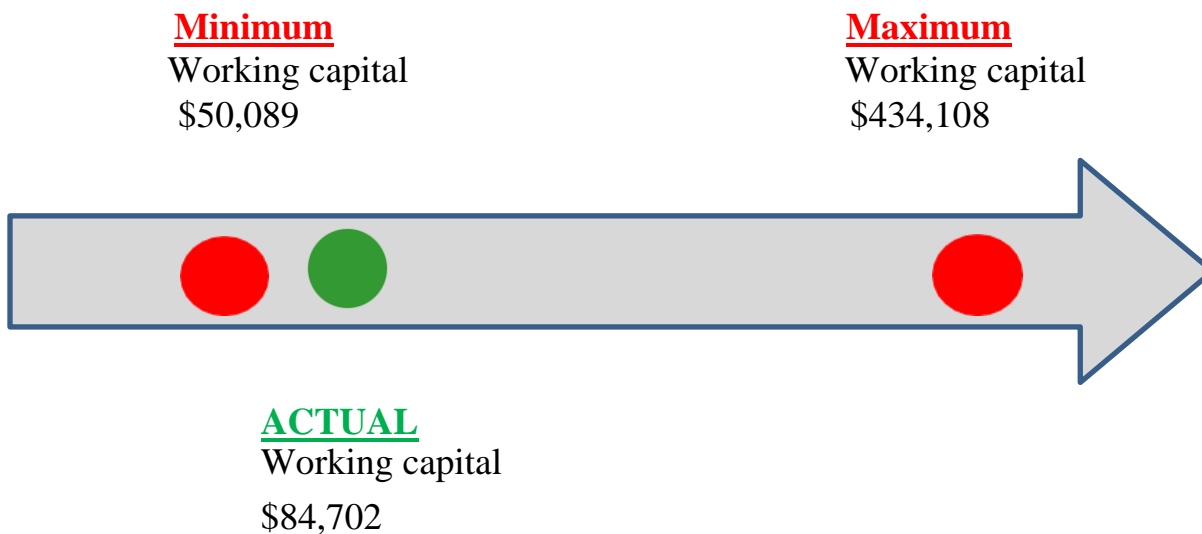
- One hundred percent (100%) to the Town of Franklinton

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 greater than \$1.5M but less than \$50M an amount equal to three (3) months of sales revenue.

Based upon the existing rules, as of June 30, 2020, the Franklinton ABC Board is required to maintain a minimum working capital of \$50,089 with a maximum working capital amount of \$434,108. The Franklinton ABC Board had a working capital balance of \$84,702 which falls *within* the Commission requirements for this section (*).

* FY 2019-2020 Working Capital graphic



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

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE

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

- The board holds regular meetings the second Monday of each month at 6:30 PM, records regular meeting minutes, and provides public notification and awareness of these meetings.
- The Commission has a personnel & policy manual on file from March 2013. The general manager stated this version is still in use currently.
- The finance officer is signing checks as required per statute, with the board members reviewing bank statements and financial records monthly. The CPA firm, May & Place, maintains financial oversight for financial statements and the yearly required audit and provide copies of financial statements. No year to date (YTD) financial statements were able to be accessed during the visit. However, the general manager and finance officer have been receiving training and assistance from an Intuit QuickBooks representative to manage financial operations of the board more efficiently. Board members are encouraged to conduct checks and balances to ensure that cash management practices are upheld.
- Bank deposits are not made daily, and instead are made semi-routinely, approximately twice per week per review of bank statements.
- The board holds regular meetings, records regular meeting minutes, and provides public notification and awareness via announcement through town meetings of the Town of Franklinton.
- Board members have completed the required ethics training as required by G.S. 18B-706(b). The Chairman is soon up for potential reappointment, and upon this occurring, is required to take ethics training within one year of reappointment, as required by statute.
- One (1) of the five (5) board members, Christine Wright, recently resigned from the board in May 2021, and the vacant seat has not yet been filled.
- Law enforcement (LE) reports have been properly submitted but do not reflect any regulatory activity and training occurring in the current fiscal year of 2020-2021. Also, the LE contract on file is from 2011 and was signed by a former police chief.
- Five County Mental Health has been receiving alcohol education distributions, yet they have not been providing documentation of utilization of funds.
- All board members and general manager are bonded as required; board members and general manager compensation adhere properly to general statutes.

STORE APPEARANCE & SHELF MANAGEMENT

The findings for store appearance are as follows:

- The store underwent a beneficial remodel and expansion in early 2019. These updates have given the store an inviting and modern appearance.
- A new exterior sign that will include the full name of the ABC Board is slated to be added later in 2021.
- The store displayed the required Fetal Alcohol Syndrome poster required by G.S. 18B-808.
- North Carolina products have their own section as required by law but are also cross merchandised according to product category. Green North Carolina product tags are displayed on the shelves throughout the stores to help stimulate sales.
- 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.
- A few areas in the store had noticeable sections of empty shelf space. It was communicated that new product inventory is being surveyed and considered to increase variety and adhere to customer demand.
- 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.
- Store clerks' interactions with customers are attentive, courteous, and all are eager to meet the needs of the customers.
- While inspecting the store, a random sample of 55 items was selected to determine if uniform pricing is displayed. Of those selected, all had the correct pricing except for one item which has been corrected.
- As a reminder, remove all faded posters and replace with new ones. The ABC Commission can 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.

RECOMMENDED ACTIONS (APPLICABLE PER STATUTE OR RULES)

- ABC Boards are required to operate within a balanced budget each fiscal year. Budget amendments must be submitted before any funds are transferred between accounts and utilized, occurring at the actual point of time an adjustment of funds is necessary. Ensure budget amendments are submitted to the ABC Commission as required per NCGS 18B-702(h).
- Checks or drafts must bear a certificate, and the certificate shall take substantially the following form: “This disbursement has been approved in the manner required by G.S. 18B-702.” *No certificate however is required on payroll checks or for expenditures from petty cash of \$50.00 or less per 18B-702(q).*
- Any agencies receiving distributed funds from the ABC Board for the treatment of alcoholism or substance abuse or alcohol education or substance abuse research must submit an annual report to the board describing how the funds were spent, as required by G.S.18B-805(h). No documentation or evidence for this requirement was able to be located.
- Cash revenues are to be deposited daily with an official depository per NCAC 15A .0905(a). Alternately, per item (d) of this Rule, the board may request a waiver through the Commission if adequate security for the funds is demonstrated.
- An updated law enforcement (LE) contract must be provided to the Commission per G.S. 18B-501(f). The current contract on file does not accurately reflect the police chief.
- Ensure all policies are submitted to the Commission prior to official board approval. It is recommended to submit a board credit card policy that addresses use of card, authorized expenses, authorized users, and so forth. NCAC 15A .1102 states, “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.”
- G.S. 18B-700(a) states that “a local ABC board shall consist of three or five members appointed for three-year terms...” The recently vacant board member seat will need to be filled as soon as possible to ensure the board is meeting the statute requirement. Also, Commission records reflect the board as being authorized for only three (3) board members. A documentation letter from the Town of Franklinton formally approving the increase to five (5) board members must be secured and a copy provided to the Commission for proper updating of local enabling act records.
- All reappointed board members are required to complete ethics training within one (1) year of their reappointment per G.S. 18B-706(b).

ADDITIONAL CONSIDERATION

- Continue to 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). The specific statement should read, *“This instrument has been preaudited in the manner required by G.S. 18B-702.”*
- Quarterly distributions of profits must occur, unless the applicable distribution recipients approve of distributions made otherwise periodically.
- The Board is encouraged to review financial statements monthly, comparing with the annual budget forecast, and approving budget amendments within the board. All budget amendments should be forwarded to the Commission when applicable.
- Consider using existing liquor inventory to fill in empty sections, until new product inventory has been established in the store and shelf space.
- Ensure unsaleable merchandise (breakage) reports are submitted to the Commission quarterly. NCAC Rule 15A .1701 requires quarterly reports be submitted for any unsaleable merchandise and retain original copies for three years.
- The Board 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.

APPENDIX A

Program Analyst Summary

The performance audit recommendations were presented to the board on June 14, 2021. The board has not provided a formal response, yet the board agrees with all recommendations as presented. The board continues to focus on improving profitability and reducing expenses when possible.