

Lillington ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
400 East Tryon Road, Raleigh, NC 27610
p: 919-779-0700 | f: 919-661-5927 | <http://abc.nc.gov>



ABC
COMMISSION
NORTH CAROLINA

TABLE OF CONTENTS

ABC Commission Statement	3
Objective, Purpose & Background Information	4
Financial Analysis, Observations & Findings	6
Recommended Actions & Additional Considerations	11
<i>Appendix A</i> – Program Analyst’s Summary	14
<i>Appendix B</i> – Lillington ABC Board Response	15



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

CHAIRMAN:
Hank Bauer

COMMISSIONERS:
Norman A. Mitchell, Sr.
Charlotte

Karen L. Stout
Black Mountain

Deputy Commissioner:
Terrance L. Merriweather

LOCATION:
400 East Tryon Road
Raleigh NC 27610

MAILING:
4307 Mail Service Center
Raleigh NC 27699-4307

PHONE: (919) 779-0700
<http://abc.nc.gov/>

October 26, 2022

Lillington ABC Board
Marshall Page, Chair
PO Box 1087
Lillington, NC 27546

Chairperson Page,

On the following pages, you will find the performance audit report conducted by the staff of the ABC Commission reviewing the operations of the Lillington 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 L. Merriweather
Deputy Commissioner

cc: North Carolina Association of ABC Boards

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

The Town of Lillington serves as the county seat in Harnett County, and it was named for John Alexander Lillington. This Patriot officer from North Carolina served in the Revolutionary War, notably fighting in the Battle of Moore's Creek Bridge in 1776. The Summer Villa & McKay-Salmon House and Summerville Presbyterian Church & Cemetery are listed on the National Register of Historic Places. In 2020, the town's population per the Census was approximately 3,657 residents reflecting a 14.5% increase since 2010.

Chapter 798 of the 1963 Session Laws authorized the Town of Lillington to hold an election upon a petition of at least 15% of registered voters. The referendum was held on October 8, 1966 and passed 351 to 243. The first retail sale occurred on December 12, 1966. A mixed beverage election was held on September 21, 2004 and passed 214 to 91. As the appointing authority of the ABC board, the Town of Lillington appoints a chairperson and two (2) board members to serve for three-year terms on the ABC board.

The Lillington ABC Board currently operates one (1) retail store. The board staffs approximately nine (9) total employees including a general manager, sales associates, and off-site contracted finance officer. These include three (3) full time employees and six (6) part-time personnel, with some additional alternate personnel available as fill-ins. The general manager is responsible for the daily store operations including supervising personnel, inventory management, and various retail functions. The off-site finance officer provides the general manager/budget officer and the board with fiscal management, administrative support, and assist with routine operations of the ABC stores. Sales associate responsibilities include selling products, daily stocking, and floor upkeep & maintenance.

The last performance audit for the Lillington 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 Wednesday, June 22, 2022, ABC Board Program Analyst Quinn Woolard, visited the Lillington ABC Board and interviewed Courtney Chandler (General Manager) and Marshall Page (Chairman). 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) 2020-2021, the Lillington ABC Board had a profit percentage to sales of 13.03%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales greater than \$2M is 6.5%. The Lillington ABC Board's gross sales totaled \$2,960,185, which was a 25.02% over the previous fiscal year.

The operating cost ratio for the Lillington ABC Board was .47 in FY 2020-2021. The NC ABC Commission standard for ABC Boards with one or two stores and mixed beverage sales is .73 or less.

Thus, the Lillington ABC Board well exceeded the profitability standards and the 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.

	FY2020-2021	FY2019-2020
Gross Profit on Sales	\$766,960	\$577,313
Income from Operations	\$385,566	\$232,979

Factors affecting profitability and cost include:

- Surrounding areas with other ABC Boards operating stores within a fifteen (15) mile range of Lillington ABC: Dunn ABC operating two (2) stores also in Harnett County; Angier ABC operating one store also in same county; Wake County ABC operating their Fuquay-Varina ABC store location.
- An ABC Board's average cost of goods sold (COGS) is between 52% & 54% per year. The Lillington ABC Board's cost of goods sold was approximately **50.9%** in FY 2020-2021.
 - *Mixed beverage sales were roughly 12.5% of total sales in FY-2021, and there are currently around twelve (12) mixed beverage business customers.*

BUDGET ANALYSIS

	FY 2020-2021 Budget Projections	FY2020-2021 Actual	Variance	Variance %
Sales	\$3,000,000	\$2,960,185	(39,815)	1.3%
Total Expenditures (to include Distributions)	\$3,000,100	\$2,939,821	60,279	2.0%

In reviewing the budget to actual analysis of the FY2020-2021 financial audit, actual sales revenues were over budgeted projections by 1.3%. In addition, total expenditures were under budget by 2.0%. Overall, revenues over expenditures were reflected as \$20,707 for the fiscal year period. The chart above shows the final budget to actual amounts and the appropriate positive or negative variances. *The board's FY-2021 ending net position was around \$1.1M; the net position has increased 42% since FY-2017. Over the last two (2) fiscal years, generous net profit distributions have been made.*

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 2020-2021, Lillington ABC made other statutory distributions totaling \$385,909 (Net profit distribution recipients received \$349,540 of this). The amount of \$686,563 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 Harnett County.

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

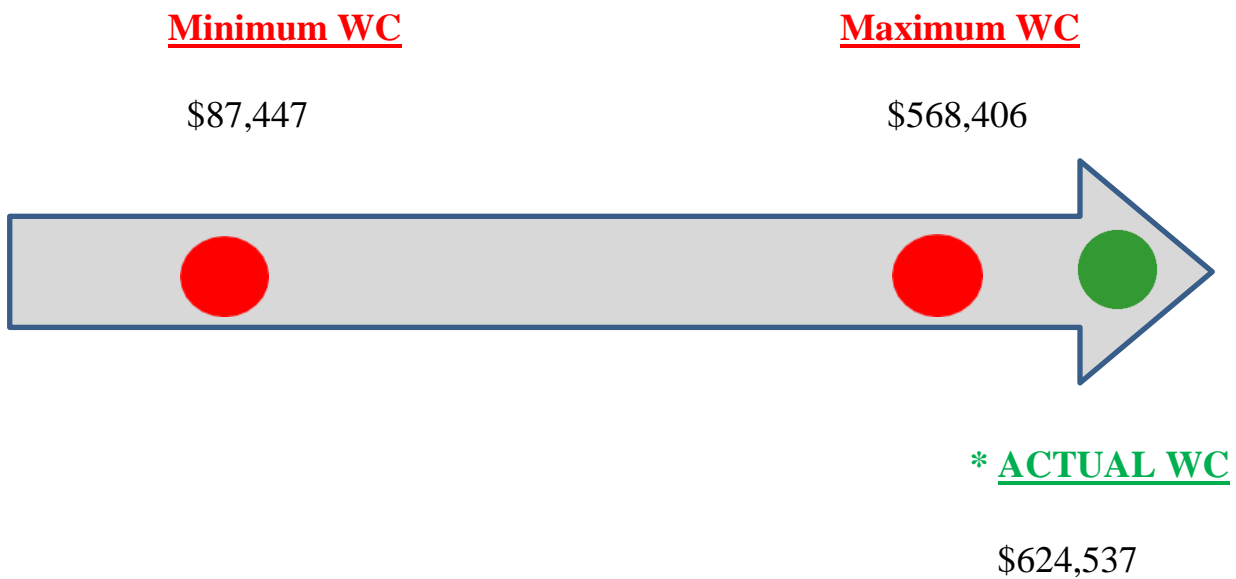
- Seventy-five percent (75%) to Lillington general fund
- Twenty-five (25%) to Harnett County Public Library

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

Based upon the existing rules, as of June 30, 2021, the Lillington ABC Board is required to maintain a minimum working capital of \$87,447 with a maximum working capital amount of \$568,406. The Lillington ABC Board had a working capital balance of \$624,537, which falls *outside* the Commission requirements for this section (*).

*** FY 2020-2021: Working Capital (WC) graphic**



**Per the FY-2021 CPA audit report, it was stated the board planned to make excess distributions to the net profit distribution recipients. 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 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 third Monday of each month at 1:30 PM, records regular meeting minutes, and provides public notification and awareness of these meetings. The minutes provided have the conflict-of-interest disclosure statements and discussion. The meeting minutes are organized in a binder for review. The ABC Board Chairman also represents the Town of Lillington on the town council. The current Lillington police chief serves as one of the ABC board members.
- The board has a personnel policy manual; no copy was formally on file with the Commission. The board has an adopted code of ethics policy in place.
- The board exceeded original budgeted sales in FY-2021 during the month of April 2021; a budget amendment was not adopted by the board until June 2021. Currently, the board is on track to reach and exceed FY-2022 budgeted sales in June 2022.
- The finance officer is contracted through a CPA firm. The finance officer is signing checks as required per statute. Invoice records for liquor purchases reflect them as being paid inside of 30 days. Taxes and distributions are paid in a routine and timely manner. Bank reconciliation was stated to occur monthly. The board uses QuickBooks for journal entries as well as processing payroll twice per month.
- The Chairman and general manager stated board members conduct checks and balances to ensure that cash management practices are upheld, and review financial statements, monthly sales, sales to date, and miscellaneous items.
- Bank deposits are routinely made daily per review of bank statements and discussion with the general manager and Chairman.
- Liquor orders are being signed by the finance officer, however there is no pre-audit certificate stamped or present on the orders. The disbursement approval certificate statement is present on blank checks.
- The board has a law enforcement contract from 2011 with the Lillington Police Dept, and the contract is valid due to the same police chief heading the department.
- Law enforcement (LE) reports have been submitted routinely on the board website with regular statistics being listed.
- The Lillington ABC board has exceeded allowable amounts for maximum working capital each year since FY-2018. No capital improvement plan was forwarded to the Commission or receipt could not be verified. In FY-2018 and FY-2019, no net profit distributions were made to the town or county library.
- The minimum mandatory net profit distribution to local recipients was calculated as being \$82,831 in the FY-2021 CPA annual audit, and \$349,540 were made in distributions. *Law enforcement distributions and alcohol education distributions have been paid in accordance with statute requirements.*
- Alcohol education distributions were made to Town of Lillington per annual CPA audit. The board does not have any documentation from the town describing how the alcohol education funds were utilized in recent years, referencing G.S. 18B-805(h).
- Store inventories are conducted monthly with intermittent spot checks whenever possible.
- The general manager verified that all board members and general manager and finance officer are bonded as required; board members' compensation amounts adhere properly to general statute requirements.

STORE INSIGHT & OVERVIEW

The findings for store insight & overview are as follows:

- The store has a welcoming foyer and modern interior design. The board recently purchased the vacant parcel of land adjacent to the ABC store. In addition, the Chairman stated the board will remain cognizant of potential opportunities for a second ABC store location due to all the influx of new residents and new home construction in the area.
- Due to being designated a Tier 2 county per NC Dept of Commerce records, the board has pursued a waiver for Rule 15A .1903 Delivery of MXB Permittee Orders. Currently, the board has no delivery vehicle. Also, the board has five mixed beverage business customers in town, yet there are seven additional business customers in the county and logistics involved are not feasible to offer delivery service.
- Along with closing on the five required annual holidays, the board chooses to also close on the day after Christmas.
- The store was displaying the required Fetal Alcohol Syndrome poster required by G.S. 18B-808.
- North Carolina products do not have their own section as required by law but are cross merchandised according to product category. Green shelf tags were provided to increase awareness of local products available.
- 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. *There were some areas where bottle size increased in size from right to left.* 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.
- Sales associate interactions with customers are attentive, courteous, and all are eager to meet the needs of the customers.
- A random sample of roughly 60-70 items was selected to determine if uniform pricing is displayed. Of those selected, two items had incorrect prices listed and were immediately updated.

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.*
- Ensure all new policies or updated policies are submitted electronically to the Commission for recordkeeping and review per NCAC 15A .1102 Rule. *The Commission needs to secure an electronic copy of the board's personnel policy.*
- Local boards shall establish and maintain a shelf management plan *per Commission Rule 15A .1708 Shelf Management*. The board needs to work to rearrange all liquor inventory on the shelves to follow shelf management requirements, in particular ensuring bottles increase in size from left to right.
- Because the board exceeded the maximum working capital calculation referenced in the FY-2021 annual CPA audit, an official capital improvement plan must be coordinated with the appointing authority per 18B-805(d). *Once a plan has been finalized and approved with the Town of Lillington, please forward a copy via email to the Commission for review. In any instance the board exceeds maximum working capital allowances, a capital improvement plan should continue to be coordinated with the appointing authority and applicable copies routinely forwarded to the Commission each fiscal year.*
- 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: The general manager [GM] (or in combination with the off-site finance manager) would ensure the board has enough available funds in advance before each liquor order is officially submitted to the state warehouse. With the finance officer being external and not physically at the board location, this action would be most reasonably accomplished routinely by the general manager (GM) signing & stamping the last page of the Order Edit List from the inventory software.
- Recipients of alcohol education/research funds must annually provide an annual report to the Lillington ABC Board, describing how the funds were spent [*Referencing 18B-805(h)*]. *Consider the request to obtain documentation before the funds are officially awarded or transmitted to the recipient.*

RECOMMENDED ACTIONS (PER STATUTES OR COMMISSION RULES)

- Terms for all board members are not to exceed three (3) years at which time reappointment is necessary, *referencing G.S. 18B-700(a)*.
 - Realignment of board member terms: *The board will need to explore term realignment based upon the term expiration dates for BM Powers & BM Lewis both occurring in October 2023. The board would need to work with the Town of Lillington as the appointing authority communicating that board member terms must be staggered to ensure term expirations are roughly one (1) year apart.*
 - Oaths of office for board members: *Going forward, the board must ensure oath of office information is maintained at the ABC board location for all current serving board members. This will allow the board to routinely communicate to the Commission on all board member appointment dates and term expiration dates.*

- The board has an existing code of ethics. The following is an additional needed administrative action: *A Certificate of Accountability attestation form should be reviewed and signed by applicable personnel. A signed copy should be emailed to the Commission.*

ADDITIONAL CONSIDERATIONS & GUIDANCE

- The Commission encourages ABC boards to meet monthly for the best formal oversight and review of board operations. All boards are encouraged to track and monitor board members' current appointment dates and term expiration dates. *Oaths of office documents for board members should be available at the board.* This will increase visibility and allow for seamless board member updates with the Commission. *It also allows ABC boards to easily communicate necessary reappointment dates and offer high visibility to the applicable appointing authorities involved, who may or may not be maintaining awareness.*
- The Commission encourages and requests ABC boards to routinely update the Commission's board website when applicable (*the same general online location where boards log on monthly with password to report sales on the Commission's board website*). Some key pieces of information for updating would include updated board member information such as email addresses, member appointment dates, board member compensation changes, and store location hours changes and interior and exterior pictures of new / remodeled store locations. *Alternately, ABC boards can email communicating on any applicable changes to Commission staff who are ready to assist with processing online updates.*
- Any ABC board members who also serve on the board of the appointing authority must recuse themselves from voting on or being involved in any decisions involving net profit distributions or other applicable distributions that will be dispersed to the appointing authority, adhering properly to avoiding conflicts of interest referenced in G.S. 18B-201.
- ABC boards are highly encouraged to find straightforward ways to lower any recurring expenses. *A very tangible way to lower expenses is to take full advantage of monthly special purchase allowance (SPA) liquor products that routinely sell well in the store. By purchasing liquor on sale whenever possible, this will enhance the board's posture on lowering cost of goods sold (COGS).* Another way to do this is by limiting the amount 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.
- 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 the Commission; 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 reach out to and lean on the Commission when guidance or assistance is needed to support local ABC board mission and success!**

Appendix A

Program Analyst's Summary

The performance audit recommendations were presented to the board on July 18, 2022. The board agrees with all recommendations as presented and will work toward compliance with recommended actions in the coming months. The board continues to be vigilant with profitability enhancement and expense reduction while operating modern stores with a robust customer service focus.

APPENDIX B - Lillington ABC Board Response

Lillington ABC Board
Lillington, North Carolina

Quinn Woolard
ABC Auditor
400 E. Tryon Rd.
Raleigh, NC 27610

September 15, 2022

Dear Mr. Woolard,

We genuinely appreciate your support and recommendations from the recently conducted performance audit. This performance audit will help us with the areas that need improvement. Please find below our responses to the findings and recommendations.

Item 1: Budget Amendments

All recommendations will be followed.

Item 2: Electronic Copy of Personnel Policy Manual

The personnel policy manual was provided electronically on August 2, 2022.

Item 3: Shelf Management Plan

All recommendations will be followed.

Item 4: Working Capital / Capital Improvement Plan

All recommendations will be followed.

Item 5: Pre-Audit Certificates on Liquor Orders

The board will ensure pre-audit certificates are present on liquor orders to adhere to NCGS 18B-702(m).

Item 6: Alcohol Education Recipients Annual Report

The board will obtain documentation on the use of the funds before the funds are awarded or transmitted to the recipient.

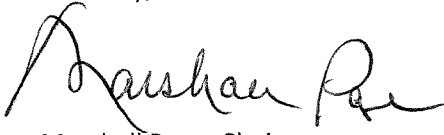
Item 7: Board Member Terms / Oath of Office

The board will adhere to the term limits recommended and work to stagger the terms to ensure the term expirations are roughly one year apart. Oath of Office information will be maintained at the ABC Board location.

Item 8: Code of Ethics / Certificate of Accountability

An updated Code of Ethics & Certificate of Accountability have been submitted.

Sincerely,

A handwritten signature in black ink, appearing to read "Marshall Page". The signature is fluid and cursive, with a large initial "M" and a long, sweeping underline.

Marshall Page, Chairman
Lillington ABC Board