

Franklin 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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Moniqua S. McLean
ABC Board Auditor
919-779-8365

January 4, 2016

Franklin ABC Board
Mr. George R. Pattillo, Chairman
P.O. Box 719
Franklin, NC 28744-0719

Dear Chairman Pattillo,

We are pleased to submit this performance audit report on the Franklin 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, operational findings and recommendations along with your response to our 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. Additionally, we appreciate the efforts your Board has made to comply with the new performance standards along with your efforts to increase profitability and reduce expenses.

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

Respectfully,

Robert A. Hamilton
Administrator

CC: Summer Woodard, Town of Franklin Town Manager
North Carolina Association of ABC Boards

EXECUTIVE SUMMARY

By state law, the ABC Commission shall ensure that all local ABC Boards comply with established performance standards by conducting regular audit 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 board annual audit for the fiscal year 2015;
- Visited the store;
- Interviewed key ABC board personnel.

BACKGROUND INFORMATION

G.S. 18B-600 (d) authorized the Town of Franklin to hold an election for an ABC store. The referendum was held on August 2, 1994 and passed 631 to 573. A mixed beverage election occurred on July 25, 2006 and passed 443 to 342. The first retail sale occurred on November 25, 1994.

Upon election of an ABC store, the town was authorized to create an ABC board consisting of a chairman and two board members to serve for three staggered year terms. Current board members are George Pattillo, III, chairman, Alton J. Sutton and Wayne T. Swank, board members.

The Franklin ABC Board operates one retail store with mixed beverage sales. The board staffs two full-time and eight part-time employees. The general manager's duties consist of providing oversight of all daily operations including policy implementation, human resource management, and store operations. The board has hired a finance officer from within the organization to provide financial duties relating to ABC statutes and Commission rules. All store employees have a primary responsibility of providing friendly customer service, store upkeep, and regular stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On October 5, 2015, ABC Board Auditor, Moniqua S. McLean, visited the Franklin ABC store and interviewed Todd Mason, general manager and Willene Conner, assistant manager/finance officer. Below is a financial analysis followed by operational observations, findings, and recommendations related to the performance audit.

FINANCIAL ANALYSIS

PROFIT PERCENTAGE TO SALES

The profit percentage to sales is calculated by dividing the total income from operations by the total liquor sales (Total Income from Operations/Total Liquor Sales). The Commission has set 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%

In fiscal year 2015, the Franklin ABC board had gross sales of \$2,518,581; income from operations was \$64,404, a 2.6% profit percentage to sales.

Factors affecting sales and profitability:

- Population reported to the US Census Bureau as 3,845 in 2010;
- One other ABC board within the county, Highlands ABC;
- Other surrounding ABC boards include Jackson County and Clay County;
- Approximately 13 miles to the Georgia border;
- High rent expense for the store contributes to a lower profit percentage.

DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, mixed beverage and bottle taxes. G.S. 18B-805 (c) requires the board to make a minimum quarterly distribution of the 3 ½% markup rate to the town. In FY2015, the Franklin ABC Board did not make the required minimum distribution of \$71,187. However, a distribution of \$70,000 was paid to the town. \$579,747 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, and the town.

G.S. 18B-805 (c) (2) and (3) requires the board to distribution at least five percent (5%) of profits to law enforcement and at least seven percent (7%) for alcohol education purposes. The remaining profits are to be distributed to the Town of Franklin General Fund.

Based upon FY2015 financial audit, the Franklin ABC Board was not required to distribute toward alcohol education or law enforcement. The ABC Board has contracted with the Town of Franklin Police Department.

NO RECOMMENDATIONS

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. 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

In FY2015, the Franklin ABC Board had working capital of \$449,523, which is less than the maximum allowed to retain of three months gross sales (\$480,567) and is within the limits of NCAC 15A .0902.

OPERATING COST RATIO

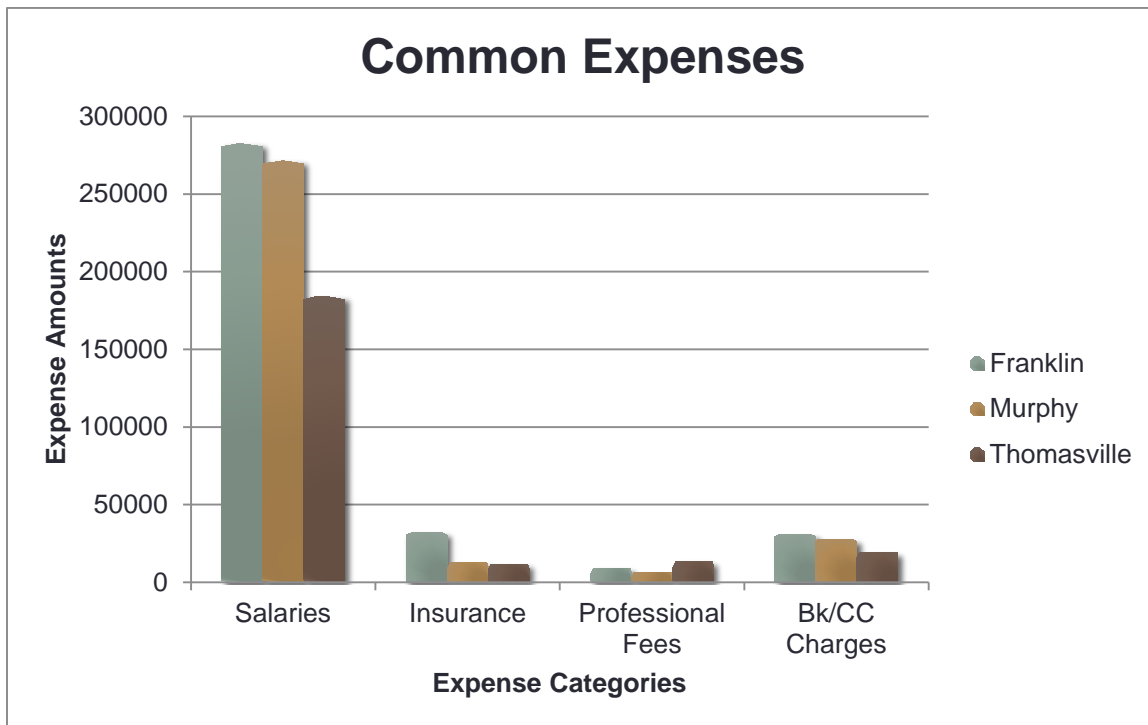
Operating costs are calculated by dividing total operating expenses less depreciation by the gross profit on sales (Total Operating Expenses less Depreciation/Gross Profit). Below are the average cost ratios for boards with and without mixed beverage sales (MXB):

- Boards with 3 or more stores – cost ratio 0.63 or less
- Board with 1 or 2 stores with MXB – cost ratio .73 or less
- Boards with 1 or 2 stores without MXB – cost ratio .85 or less

The Franklin ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.86. Mixed beverage sales make up 9% of total gross sales. Compared with the state's estimated increase in sales of 7.68% in fiscal year 2015, the Franklin ABC Board's sales increased 3.1% over fiscal year 2014. Expenses increased 4.1% over the same time period.

To meet the goal and remain at current revenue levels of \$2,518,581, expenses must be reduced to \$442,500, a seventeen percent (17%) decrease. To meet the goal and remain at current expense levels of \$518,315, revenues must be increased to \$2,950,000, a seventeen percent (17%) increase.

Below is a common expense analysis showing the Franklin ABC Board's expenses compared with other similar size boards. Note: Franklin ABC's insurance expenses include general and employee insurance benefits. The staffing is as follows: Franklin – 2 full-time and 8 part-time employees, Murphy – 5 full-time and 2 part-time employees, Thomasville – 4 full-time and 6 part-time employees.



STORE APPEARANCE

The Franklin ABC Board operates one retail store with approximately 1,000 linear feet of shelf space and carries approximately 1,900 product codes.

- The store appeared clean and free of trash. Counter areas were neat and well-organized with limited signage.
- The store displayed neat and well-visible signage. The Fetal Alcohol Syndrome poster is in an area visible to the public.
- Landscaping around the store is well-maintained with no appearance of trash.
- Management has adopted a shelf management plan that gives specifics on category management and product placement in the store. Each product is displayed within its designated category. Bottles are fronted and dusted throughout the store. See attachment for shelf management policy.
- Product placement shows the premium products at eye level and lowest price products on the bottom shelves. Sizes are consistent going from largest on the right and smallest to the left. Cross merchandising is utilized where possible to encourage impulse shopping.

CUSTOMER SERVICE

- The state price book is available for retail and mixed beverage customers. Sales clerks often refer to the price book for verification of products and pricing. Monthly sales information is shared with mixed beverage and retail customers on a consistent basis.
- Sales clerks' interaction with retail and mixed beverage customers is attentive, courteous, and all are eager to meet the needs of the customers.

NO RECOMMENDATIONS

PERSONNEL AND TRAINING

- All board members, the general manager, and the finance officer have completed the ethics training required by the ABC statute. However, management has not attended Commission approved courses within three years.
- Cross training has been extended on key administrative duties to employees in the event the general manager or finance officer were unavailable.
- Other training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities.
- Personnel files are available and include the required human resource documentation and other personnel information as needed.

RECOMMENDATIONS

1. Have the manager and finance officer attend Commission approved training courses every three years. *Refer to Appendix A (1) for rule.*
2. Consider additional training opportunities through the Commission, such as the Responsible Alcohol Sellers Program, and other Commission-approved courses.

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract (Franklin Police Department)
 - Travel Policy (Town of Franklin Approval and Policy Submitted)
 - FY2015 Annual Audit
 - Employee Handbook
 - FY2016 Budget (Proposed and Adopted)
 - Mixed Beverage Policy
 - Price Discrepancy Policy
 - Shelf Management Policy

- Policies not adopted include:
 - Sale to Underage Drinking Policy

RECOMMENDATIONS

1. Adopt a written policy that details the board's expectations when faced with an employee selling to a minor.

INTERNAL CONTROL OBSERVATIONS

Internal control is the process by which the board provides assurance that operations are effective and efficient, reliable, and in compliance with applicable rules, laws and regulations. Internal control is strongest when activities are segregated creating a system of checks and balances, and adopting policies and procedures that follow current practices. Below are internal control findings that were observed during the audit fieldwork.

- The general manager makes the schedule, notifies employees of work schedule, and forwards to the finance officer. Time cards are used for all employees. Management requires two persons at all times on each shift. Management usually works the day shift hours. In the event an employee fails to clock in/out, the general manager is notified and adjusts the schedule or finds a replacement. At the end of the payroll week, the finance officer calculates manually and forwards to the general manager for verification. Adjustments to payroll are made at the end of the month.
- Cash drawers are maintained by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures in handling cash drawer overages/shortages.
- Bank deposits are made regularly by the ABC Commission rule. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed by the finance officer.
- The board and staff rarely travel consequently there were no travel expense reports to view.
- A credit card is issued to the board with the general manager as the authorized user. Credit card reconciliations are performed by the finance officer monthly. Board members review all transactions purchased with the card. A credit card policy has been adopted and implemented.
- Physical inventory counts are performed twice a month to coincide with the truck deliveries. Spot checks are conducted frequently in between scheduled inventory times as part of the daily work activity. If discrepancies occur, someone other than the person counting will recount. Once completed, the general manager or the finance officer will adjust the inventory system to match with the actual store counts. Unsalable merchandise is adjusted from inventory immediately. Breakage forms are submitted as required by the Commission rule.
- Out of approximately 1,100 product codes, approximately 100 product codes were sampled to ensure accurate pricing and two were incorrect.

RECOMMENDATIONS

1. To ensure correct pricing on the store shelves and in the computer system, audit shelf tags on a regular basis by incorporating this practice during or in between the regularly scheduled inventory counts.

ADMINISTRATIVE COMPLIANCE FINDINGS

- Board meeting minutes were viewed and followed the order of proceedings, providing sufficient detail that a reasonable person would be able to follow what transpired. Board meeting minutes included a conflict of interest statement asking board members if conflicts existed with items on the meeting agenda.
- Date/time/location of board meetings are posted for public knowledge.
- Board member appointment dates and compensation amounts are current on the Commission website.
- Board member and general manager compensation is in compliance with G.S. 18B-800 (g) and (g1).
- Law enforcement activity reports have been submitted to the Commission as required by G.S. 18B-501 (f1).
- The board is in compliance with G.S. 18B-700 (k); there are no immediate family members who are related to board members or the general manager.
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- In reviewing the budget to actual expenses as referenced in the financial audit of FY2015, the board did not meet the projected sales budget.
- Liquor orders and miscellaneous purchases are pre-audited by the finance officer. Vendors often invoice the board when office and store supplies are needed and are pre-audited by the finance officer utilizing the certificate as required in G.S. 18B-702 (m).
- In reviewing a sample of liquor invoices, payments were made within thirty days.
- Checks bear the approved certificate as required by G.S. 18B-702 (q) indicating that the items have been approved by the finance officer for payment. Two signatures are located on all paid checks; that of the finance officer and the general manager. In the event the general manager or finance officer is unavailable, the board chairman is authorized to sign checks.

RECOMMENDATIONS

1. Monitor budget more closely, particularly towards the year end, to determine whether amendments are needed. Amendments are required when expenses are over budget or have not been budgeted for and when sales are not meeting or are exceeding budgeted amounts.

AUDITOR'S SUMMARY

On November 10, 2015 the performance audit recommendations were presented to the Franklin ABC Board. The board strives to implement strategies to maintain and improve profitability while maintaining or reducing costs and meeting budget appropriations. Policies and procedures have been implemented to ensure compliance with statutes and Commission rules and to ensure efficient operations while maintaining sufficient checks and balances.



FRANKLIN A.B.C. BOARD

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December 01, 2015

Mrs. Moniqua S. McLean
ABC Board Auditor
NC Alcoholic Beverage Control Commission
4307 Mail Service Center
Raleigh, NC 27699-4307

Dear Mrs. McLean:

The Franklin ABC Board would like to thank you for attending the November 10th board meeting, as well as presenting the findings of the performance audit. We are truly grateful for the kind words regarding our store, management and staff. The board takes great pride in what we do for our customers, the Town of Franklin, and the North Carolina ABC Commission in regards to a friendly, modern, clean, spacious shopping environment with a great selection of products.

In regards to your recommendations from the Performance Audit, the following items were immediately adjusted:

- The manager and finance officer have completed the on-line ethics training seminar and submitted the necessary forms to the Commission
- Additional training opportunities through the Commission, such as the Responsible Alcohol Sellers Program, and other courses will be considered.
- The boards policy and expectations when faced with an employee selling to a minor were re-written, approved and a copy sent to the Commission.
- Shelf tags will be audited on a regular basis between scheduled inventory counts.
- The budget will be monitored closely towards the end of the year, to determine whether amendments are needed.

The following items will be noted in the future:

- All purchase orders over the amount of fifty dollars will include the pre-audit stamp certification.
- The Code of Ethics Policy shall be reviewed annually and noted within the board minutes.

Once again, thank you for the recent Performance Audit Report. We are very pleased with the report, as well as the dedication and pride of our staff to operate the board with professionalism and efficiency for the Town of Franklin and North Carolina ABC Commission.

Sincerely,



George R. Pattillo, Chairman
Franklin ABC Board

cc: Wayne Swank, Member
Alton Sutton, Member

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NC ABC COMMISSION

APPENDIX A

- 1) *NCAC 02R .2001 (a) (3) states, "After taking the initial Commission training course for local boards, all finance officers and general managers shall complete a Commission training course for local boards every three years that they are employed by a local board."*

APPENDIX B

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>ABC Board Policies:</p> <p>Adopt the following written policies:</p> <ul style="list-style-type: none"> • Sale to Underage Drinking Policy 	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>**Note: Required by Commission rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input checked="" 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>Management has implemented procedures and updated the employee manual. A copy of the policy has been submitted to the Commission.</p>
<p>Administrative Compliance:</p> <p>Monitor budget more closely to determine whether amendments are needed.</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>**Note: Required by Commission rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input checked="" 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>Management has implemented procedures to be in compliance with the statute.</p>