

Louisburg ABC Board

Performance Audit Report



Alcoholic Beverage Control Commission
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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	13-14
<i>Appendix A – Louisburg ABC Board Response Letter</i>	15-16



ABC

COMMISSION
NORTH CAROLINA

Alcoholic Beverage Control

CHAIRMAN:
Hank Bauer

COMMISSIONER:
Norman A. Mitchell, Sr.
Charlotte

June 5, 2023

Louisburg ABC Board
Thomas Clancy, Chair
605 N. Bickett Blvd
Louisburg, NC 27549

Chairperson Clancy,

Deputy Commissioner:
Mike DeSilva

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

Louisburg is the county seat of Franklin County and was originally established in 1779. The town was named in honor of King Louis XVI of France who was aiding the American Revolution at the time. The police department was also founded in this same year. It is the home of Louisburg College which is the oldest two-year coeducational college in the country. In 2020, the Town's population per the Census was approximately 3,064 residents which decreased slightly since 2010.

Chapter 862 of the 1947 Session Laws authorized the Town of Louisburg to hold an election for an ABC store. The referendum was held on July 1, 1947, and it passed 394 to 148. The first retail sale occurred on July 11, 1947. A mixed beverage election was held on September 21, 1978, and it passed 197 to 186. *Currently, the Town of Louisburg appoints a chairperson and two (2) additional board members to serve on the ABC board.*

The Louisburg ABC Board currently operates one (1) retail store. The board staffs approximately seven (7) total employees. These include three (3) full-time employees and four (4) 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 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 Louisburg 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, February 22, 2023, ABC Board Program Analyst Quinn Woolard, visited the Louisburg ABC Board and interviewed Greg Tharrington (General Manager) and Jessica Vajanyi (Asst GM). 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 Louisburg ABC Board had a profit percentage to sales of 11.6%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales more than \$2M but less than \$10M is 6.5%. The Louisburg ABC Board's gross sales totaled \$2,506,560, which was a slight increase over the previous fiscal year.

The operating cost ratio for the Louisburg ABC Board was .54 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 Louisburg ABC Board far surpassed both 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.

	FY 2021-2022	FY 2020-2021
Gross Profit on Sales	\$649,971	\$616,333
Income from Operations	\$290,684	\$276,103

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 Louisburg ABC: Bunn ABC, Franklinton ABC, and Youngsville ABC all operating one store each in Franklin County.
- An ABC Board's average cost of goods sold (COGS) is between 52% & 54% per year. The Louisburg ABC Board's cost of goods sold was approximately **51.3%** in FY 2021-2022 which is a very good COGS percentage.
 - *Mixed beverage sales were roughly five percent (5%) of total sales in FY-2022, and there are currently around five (5) mixed beverage customers.*

BUDGET ANALYSIS

	FY 2021-2022 Budget Projections	FY2021-2022 Actual	Variance	Variance %
Sales	\$2,503,421	\$2,506,560	3,139	0.1%
Total Expenditures (to include Distributions)	\$2,493,436	\$2,495,716	(2,280)	0.092%

In reviewing the budget to actual analysis of the FY 2021-2022 financial audit, actual sales revenues were over budgeted projections by 0.1%. In addition, total expenditures were also above budget by 0.092%. Overall, revenues over expenditures were reflected as \$10,952 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 ending net position on June 30, 2022, was around \$356k; the net position has slightly 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 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 2021-2022, Louisburg ABC made other statutory distributions totaling \$280,792 (Net profit distribution recipients received \$232,572 of this). The amount of \$571,132 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 Franklin County.

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

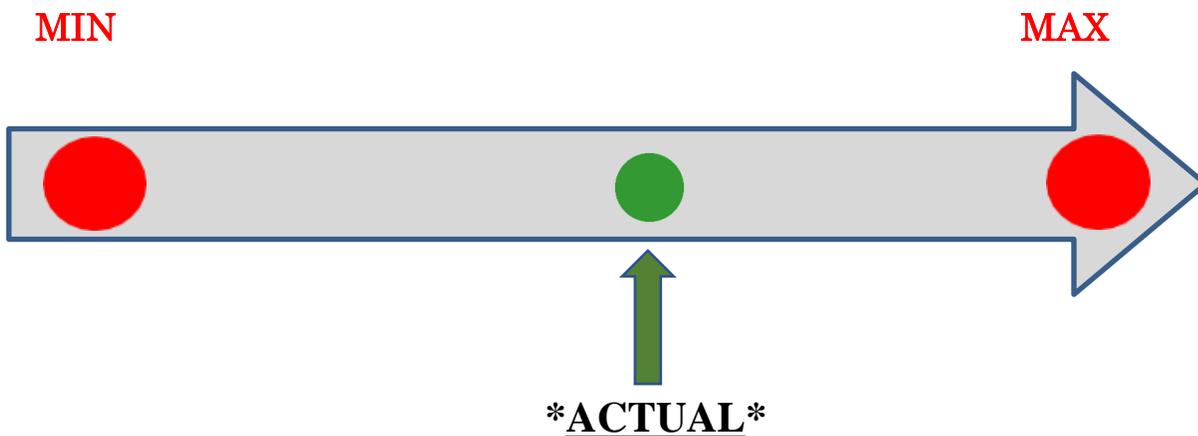
- One hundred percent (100%) to Louisburg General Fund

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 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, 2022, the Louisburg ABC Board is required to maintain a minimum working capital of \$74,440 with a maximum working capital amount of \$483,857. The Louisburg ABC Board had a working capital balance of \$296,166, 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 second Thursday of each month at 6:00 PM, 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 and are signed by the Chairperson and General Manager.*
 - Training records review: All board members are current on ethics training, with one member due by September 2023. The general manager and several store employees have all completed ethics training recently.
 - 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 has recently been updated 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 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 better 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; among these are profit & loss statements. Board members are heavily encouraged to use checks and balances to ensure that cash management practices are upheld; also, boards should routinely review any notes and recommendations provided by the CPA firm on annual audits.
- POLICIES: The board has a personnel policy manual and code of ethics. The Commission does not have a copy of the personnel policy manual.
 - The board provided an updated mixed beverage policy during the visit.
 - The board has a business credit card, but no policy is available. The board will conduct tastings occasionally, but a policy is unavailable.
- BUDGETS: The board planned very well for the FY-2022 original budgeted sales as they were essentially in line with the final total sales for the fiscal year. For the current fiscal year, forecasted sales are tracking along well with the potential to exceed budgeted sales.
- FINANCIAL INSIGHT: The finance officer is signing checks as required per statute with the General Manager or the Chairman as secondary signature. The finance officer provides a monthly profit & loss statement and balance sheet for board review. 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. The general manager routinely processes bi-weekly payroll through QuickBooks, pays liquor invoices, and pays monthly taxes.

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- *The board’s finance officer works full-time for the Town of Louisburg and recently became the Town Administrator in late 2022. As a result, it is probable that a new finance officer will have to be selected for the ABC Board.*
- Bank deposits are routinely made daily whenever possible per discussion with general manager and review of bank statements. 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.
- The pre-audit certificate is not stamped on any orders at the time they are placed. Checks currently do not bear the required disbursal certificate.
- All board members and applicable personnel are each bonded for \$50,000 per G.S. 18B-700(i). The policy for this is secured with Penn National.

➤ **STATUTORY DISTRIBUTIONS:**

- Net Profit Distributions - The Louisburg ABC board has been routinely making well above the minimum required distributions to the Town of Louisburg in recent years. **Over the last five (5) years, the board has made generous net profit distributions which at times well exceeded the minimum calculated annual amount required by statute. Reference table below - The left side is CPA calculated amount & right side is combined amount distributed by the Louisburg ABC Board.**
- Law Enforcement Distributions: Have been properly disbursed at the 5% statute amount over the last five (5) fiscal years.
- Alcohol Education Distributions: Have been properly disbursed at the 7% statute amount over the last five (5) fiscal year. *Recent recipients have not provided documentation to the board on the use of the funds 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		Louisburg ABC Board Net profit distribution made annually by fiscal year	
<i>Note: Referencing CPA Audit Reports</i>			
		Recipients by law: Town	
FY-2022	\$71,611	FY-2022	\$232,572
FY-2021	\$71,883	FY-2021	\$221,235
FY-2020	\$62,150	FY-2020	\$165,763
FY-2019	\$51,460	FY-2019	\$104,826
FY-2018	\$48,073	FY-2018	\$57,642

PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)

- LAW ENFORCEMENT (LE) REPORTS: Reports are being submitted routinely. Recent reports contain helpful statistical reference information.
- LAW ENFORCEMENT (LE) CONTRACT: The board has a law enforcement contract on file at the Commission from 2010 with the Louisburg Police Department. A new police chief has been sworn in since then, and a new contract will be needed in connection with NCGS 18B-501(f).
- INVENTORY: Store inventories are conducted monthly whenever possible with intermittent spot checks. Product moves well at the store and the board took great advantage of buy-ins to lower liquor costs where possible. *The board utilizes electronic scanners to make inventory management much more efficient for all personnel involved.*
 - Retail space is limited for shelf inventory.
 - Warehouse space is limited, and the board could benefit tremendously from a new store location.
 - Palletized delivery is not a possibility with the space and narrow door entry. Trucks must be unloaded on hand trucks. The parking lot perimeter is on the tighter side for delivery trucks.
 - *The board would benefit tremendously by having a bigger, modern store location with more ample warehouse and retail space to greatly increase efficiency in operations.*
- INTERNAL CONTROLS:
 - For cash management, the general manager verifies cash from daily register reports. Sometimes, the assistant general manager will do this. Thus, the general manager & assistant general manager may also work in tandem on these activities.
 - Sales associates closing the store will send daily register report screenshots to general manager.
 - General manager has remote access to security camera system on phone and will monitor when not at the store.
- EXPENSES:
 - Total expenses increased just over five percent (5%) from FY-2021 to FY-2022.
 - Board personnel payroll was roughly eight percent (8%) of fiscal year sales. Payroll increased roughly four percent (4%) from the previous year.
 - Cost of goods sold (COGS) was a very low 51.3% for the fiscal year.

STORE INSIGHT & OVERVIEW

The findings for store insight & overview are as follows:

- The store recently replaced the sales floor carpet with new beige flooring which offers a sharper appearance. While the store is tight on retail space, there is an overall appealing décor via interior alcohol accessories and memorabilia.
- The board has around five (5) MXB customers as of January 2023. None of the business customers are interested in delivery service as they are all within a mile or two of the ABC Board. Thus, the board has already requested an exemption with the Commission - Referencing Rule 15A . 1903 Delivery of MXB Permittee Orders.
- Besides closing on the five (5) required annual holidays and every Sunday, the board opts to also close the day after Christmas.
- The store displays the required Fetal Alcohol Syndrome poster required by G.S. 18B-808.
- North Carolina products are 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.
 - **Special note:** *The board reached out to the owner of the immediately adjacent property to determine interest in sale, but the owner has declined. This neighboring business detracts from the exterior ABC store environment. This dilapidated bordering property is listed as an auto sales company. However, there are many older model vehicles located here, and the general manager discussed that the Town of Louisburg has taken previous legal action against the business owner for junk accumulation. The junk items behind the business have been removed yet the rundown vehicles remain. Currently, around 30-40 of these vehicles are located here just feet from the ABC store building. The business apparently is used mainly for vehicle inspections and not retail sales of vehicles.*
- 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. The personnel work well to support the MXB customers well on quick turnaround as experienced during the visit.
- A random sample of approximately 100 items were selected to determine if uniform pricing is displayed. *Of those selected, every shelf item displayed the correct quarterly or monthly SPA price. The GM and Assistant GM both discussed they are meticulous with auditing shelf prices to ensure outstanding accuracy.*

RECOMMENDED ACTIONS (PER STATUTES, RULES, OPS MANUAL)

- 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.*
- ABC board members must complete ethics training within one (1) year of each appointment and again following all reappointments in connection with NCGS 18B-706(b). Then, the one-year window for ethics training starts at the time of new term beginning or appointment/reappointment. *General managers, finance officers (and any applicable deputies) have a one-time training requirement for ethics training but are encouraged to complete training periodically as a good refresher along with any other personnel interested.*
- 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. *Electronic copies of the personnel manual should be emailed to Commission personnel for recordkeeping. The board is recommended to draft a business credit card policy and tastings policy.*
- Due to new Town officials (Police Chief / Mayor), the board needs to draft a new law enforcement contract with Louisburg Police Department and provide a copy to the Commission *per G.S. 18B-501(f).*
- 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.
- 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.”* This is most applicable for the payment of liquor invoices. Technically, no certificate is required on payroll checks or for expenditures from petty cash of \$50.00 or less per 18B-702(q).
- The recipients of alcohol education distributions must provide annual documentation to the board describing the activity for which these awarded funds are spent *per G.S. 18B-805(h)*. *The board may want to consider obtaining documentation before the alcohol education funds are officially awarded / transmitted to any recipients.*

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). 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 is to click the preview button and then click the submit button for the reports.
- 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

LOUISBURG ABC BOARD

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

Dear Mr. Woolard,

We truly appreciate your support and recommendations from the audit recently performed. 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: Meeting Minutes

All recommendations will be followed.

Item 3: Ethics Training

All recommendations will be followed.

Item 4: Policies

Our Business Credit Card Policy was submitted to the ABC Commission on 3/10/23

Item 5: Alcohol Education/ Research funds

All recommendations will be followed per NCGS 18B-805(h)

Item 6: Code of Ethics & Certificate of Accountability

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

Item 7: 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 8: Certificate of Accountability (COA) form

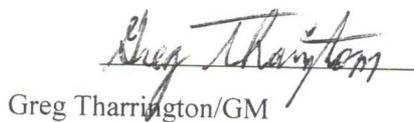
The board has signed and submitted a COA form.

Sincerely,



Tom Clancy/Chairman

Louisburg ABC Board



Greg Tharrington/GM

Louisburg ABC Board

Date: 3-9-23