

# Boiling Spring Lakes 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



# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

CHAIRMAN:  
JAMES C. GARDNER

---

COMMISSIONERS:  
JOEL L. KEITH  
Wake Forest

KEVIN M. GREEN  
Greensboro

---

ADMINISTRATOR:  
MICHAEL C. HERRING

---

LOCATION:  
400 East Tryon Road  
Raleigh NC 27610

---

MAILING:  
4307 Mail Service Center  
Raleigh, NC 27699-4307

PHONE: (919) 779-0700  
FAX: (919) 661-5927  
<http://abc.nc.gov/>

**Your Name**  
Director  
Permit Division  
(this is editable)

September 10, 2013

Boiling Springs Lakes ABC Board  
Mr. George Ball, Chairman  
3130 George II Hwy SE  
Southport, NC 28461

Dear Chairman Ball,

We are pleased to submit this performance audit report on the Boiling Springs Lakes 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 General Managers 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 the steps being taken to increase operating efficiencies at your ABC store.

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

Respectfully,

Michael C. Herring  
Administrator

CC. North Carolina Association of ABC Boards

## **TABLE OF CONTENTS**

Financial Analysis.....	6
Operational Observations, Findings, and Recommendations.....	10
Boiling Spring Lakes ABC Board Response.....	18
Recommendation Follow up.....	20

## **EXECUTIVE SUMMARY**

By state law, the ABC Commission shall ensure that all local ABC Boards comply with established performance standards by conducting regular performance audit 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 store annual audit for the fiscal year 2011;
- Visited the store;
- Interviewed key ABC board personnel.

The Boiling Spring Lakes ABC Board has responded to the performance audit recommendations and is striving to plan steps toward becoming more profitable while reducing costs and meeting the needs of customers. Policies and procedures have been adopted and implemented to maintain compliance with the ABC statutes and rules and to strengthen internal controls.

## **BACKGROUND INFORMATION**

Chapter 291 of the 1975 Session Laws authorized the Town of Boiling Spring Lakes to hold an election upon a petition of at least fifteen percent of registered voters. The referendum was held on September 13, 1975 and passed 109 to 31. The first sale occurred on February 2, 1981. Special legislation allows the board to sell mixed beverages.

Upon election of an ABC store, the Town of Boiling Spring Lakes was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members are George Ball, board chairman, Don Beckley and Donna Baxter, board members.

The Boiling Spring Lakes ABC Board operates one retail store. The board staffs one full-time general manager and two part-time employees. The general manager is responsible for overseeing and managing daily operations of the store including supervising personnel and financial management. The store clerks are primarily responsible for selling products to customers, store upkeep, and inventory management.

## **FINANCIAL ANALYSIS**

Note: Because of a fire and the store closure for more than half of the fiscal year, the financial analyses is based on fiscal year 2011.

### **Inventory Turnover**

The inventory turnover is calculated by dividing the cost of liquor by the average inventory in the system (Cost of Liquor/Average Inventory).

The Boiling Spring Lakes ABC Board receives deliveries twice a month; the inventory turnover rate is 5.8.

#### *Recommendations:*

- Continue increasing inventory turnovers by:
  - Cross-merchandising or moving stock within store to increase visibility and to encourage more impulse shopping,
  - Utilizing end caps and shelf space as much as possible to highlight slow moving and new products;
  - Analyzing sales data and history reports to plan orders and to take advantage of Special Purchase Allowance offers whenever possible;

### **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 with MXB – cost ratio 0.67 or less
- Boards with 3 or more stores without MXB – cost ratio 0.94 or less
- Boards with 2 stores (with and without MXB) – cost ratio 0.83 or less
- Single store boards with MXB – cost ratio 0.77 or less
- Single store boards without MXB – cost ratio 0.93 or less

The Boiling Spring Lakes ABC Board operates one retail store with mixed beverage; the operating cost ratio is 0.92. In fiscal year 2011, the store was under construction for renovations. To meet the cost ratio goal and remain at current operating expense of \$71,067, revenues must be increased to approximately \$400,000, a 26% increase. To meet the cost ratio goal and remain at current revenue of \$316,488, expenses must be decreased to approximately \$58,000, a 23% decrease.

#### *Recommendations:*

- Monitor budget frequently and more closely to ensure that actual expenses do not exceed budgeted amounts. Provide year-to-date reports to board members detailing how much has been spent.
- Request bids annually from various vendors to get the best rates possible on financial audits, specific utilities, maintenance contracts, and credit card processing fees.

### **Working Capital**

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 FY2011, Boiling Spring Lakes ABC had a working capital of \$53,486 which is equivalent to approximately four months gross sales and is within the limits of NCAC 02R .0902.

### **Profit Percentage to Sales**

The profit percentage to sales is calculated by dividing the total income before distributions by the total liquor sales (Total Income before Distribution/Total Liquor Sales). The Commission has set goals based on the following breakdown:

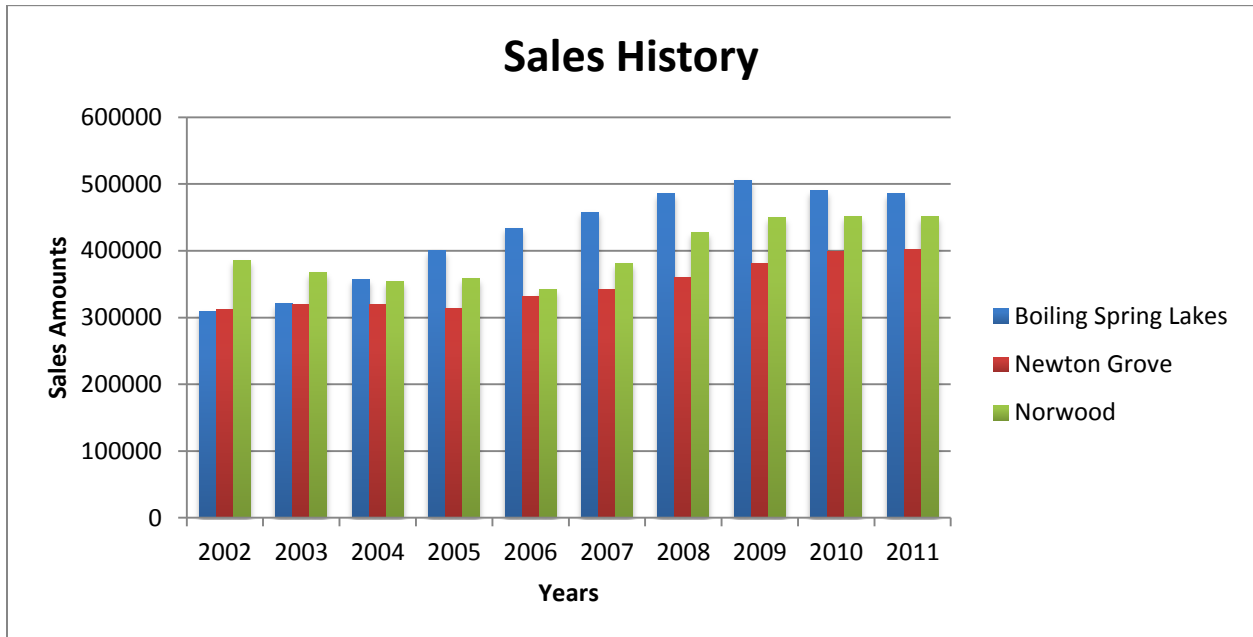
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Boiling Spring Lakes ABC Board had gross sales of \$486,243, income from operations was \$2,885, a 0.59% profit percentage to sales.

Factors affecting sales and profitability:

- US Census Bureau reports an estimated population of 5,506 in 2011;
- Sales decreased 34.9% over previous year due to closure;
- Surrounding counties and towns with ABC stores include Belville, Oak Island, Southport, Brunswick Co, and New Hanover Co.
- Growth and development in surrounding, more heavily populated and tourist attracted areas contribute to the shift in shopping patterns away from rural areas which affect sales and profitability.

Below is a sales history analysis of similar size boards compared with Boiling Spring Lakes ABC Board. This chart analyzes the sales trends for the past ten years.



*Recommendations:*

- To increase profitability, consider testing different marketing strategies such as cross-merchandising, splitting cases with other ABC stores, etc;
- Invite the Association's Efficiency Committee to visit the stores with the possibility of making additional recommendations to improve profitability.

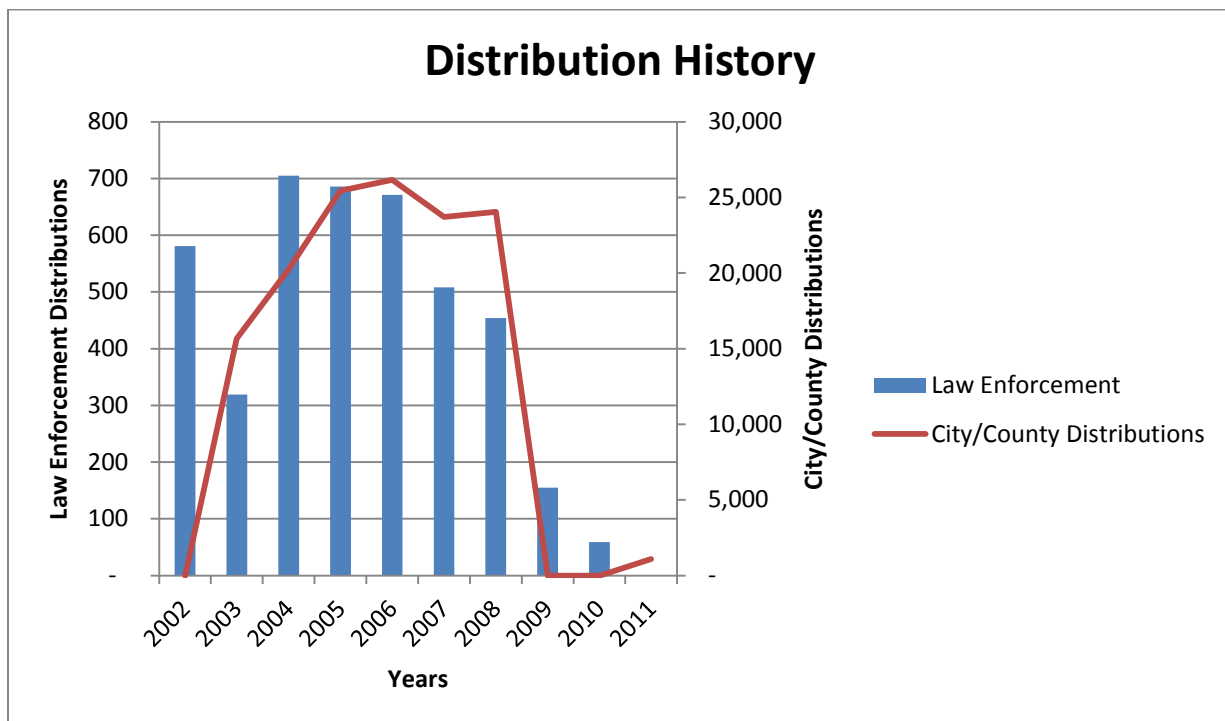


## Distributions

G.S. 18B-805 (c) (2) requires the board to distribute quarterly to law enforcement. The remaining profits are to be distributed to the Boiling Spring Lakes General Fund.

In FY2011, Boiling Spring Lakes ABC did not make the required minimum distributions totaling \$14,510 to the Town of Boiling Spring Lakes. Note: Renovations to the store occurred which resulted in lower profits in 2010/2011. However, the board obtained approval from the City of Boiling Spring Lakes to withhold distributions until project was completed. \$109,628 in Excise and other taxes were paid to the NC Department of Revenue and the town. Additional distribution of \$1,081 was paid to the City of Boiling Spring Lakes.

Below is a chart analyzing the high-low trend of distributions to law enforcement and to the town.



## **OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS**

On April 2, 2013, ABC Board Auditor, Moniqua S. McLean, visited the Boiling Spring Lakes ABC store and interviewed Cheryl Riker, general manager. The following are the findings, observations, and recommendations related to the performance audit.

### **Store Appearance and Customer Service Observations**

The Boiling Spring Lakes ABC Board operates one retail location with shelf space of approximately 500 linear feet and approximately 370 product codes.

- The store has been re-constructed as a result of a fire. The store was clean and well-lit. Bottles were fronted and dusted. Counter areas were free of clutter and supplies were easily accessible. A television was present tuned to the weather channel.
- Exterior signage and landscaping around the store was clean and free of trash.
- The Fetal Alcohol Syndrome poster is displayed.
- Security systems are in place and functional.
- The state price book is available along with monthly sales lists.
- Sales clerks' interaction with customers was attentive, courteous, and eager to meet the needs of customers. When not assisting customers, clerks were busy stocking shelves and cleaning the store.

*No Recommendations.*

### **Personnel and Training**

- Two out of three board members have not attended the initial mandatory ethics class.
- Training is provided as new information becomes available to current staff.
- Cross training opportunities have been extended to key employees in the event the general manager was suddenly unavailable.
- An employee handbook was submitted to the Commission in 1999. The board is currently updating the handbook to reflect current policies and procedures.

*Recommendations:*

- Bring all board members into compliance with state ethics requirement. All board members must receive ethics education within 12 months of the initial appointment date. All reappointed board members must receive ethics education within 12 months of the reappointment date. *Refer to Appendix C (1) for statute.*
- Provide additional training that will include alcohol education, customer service, and product knowledge. Contact the Commission for a list of approved courses and other boards that have a training module(s) in these areas.

## **ABC Board Policies**

- Policies adopted and submitted to the Commission include:
  - Code of Ethics
  - Law Enforcement Contract
  - State Travel Policy
  - FY2012 Annual Audit
  - FY2013 Budget (Proposed and Adopted)
  - Employee Handbook (Adopted 2002)
- A mixed beverage policy was submitted to the Commission in 2006. Management is updating the policy to reflect current practices.
- Policies not adopted include:
  - Price Discrepancy

### *Recommendations:*

- Although understood by all employees, have a written price discrepancy policy. Having written procedures will allow future employees to be knowledgeable about current practices. *Refer to Appendix C (2) for rule.*

## **Internal Control Procedures**

- Physical inventory counts are performed monthly by the general manager and another clerk. Frequent spot checks are performed occasionally throughout the month. The general manager and another clerk often verify each other's counts. If discrepancies occur, the general manager and another clerk will investigate and recount. Once complete, only the general manager will adjust the system to match with the actual store count. Unsalable items are adjusted immediately.
- Cash drawers are counted daily. All clerks are responsible for their own cash drawer. Although understood, there are no written procedures/policies explaining how to handle cash drawer overages and shortages.
- Bank deposits are made regularly as required by the ABC Commission rule. Bank notification is received and matched with corresponding daily register reports. Bank reconciliations are completed monthly by the general manager.
- The board has a credit card used for purchases of office supplies. The general manager is the authorized user and reconciles the credit card statement.

### *Recommendations:*

- Implement procedures for handling cash drawer overages and shortages. Incorporate these procedures into the updated employee manual for current and future employees.

- To ensure stronger internal controls of credit card purchases, adopt a written credit card usage policy. Document procedures for the usage including:
  - Who has authority to use the card,
  - What types of items the card may be used for,
  - Personal usage is prohibited;
  - An itemized receipt for every transaction is required,
  - Maximum limit allowed on purchases before approval is needed from the finance officer,
  - Receipts are to be submitted within 15 days of the purchase;
  - Have someone other than the person purchasing reconcile the credit card statements.
  
- To strengthen internal controls and to ensure accountability, have board members open and review the monthly credit card statement for accuracies and verification.

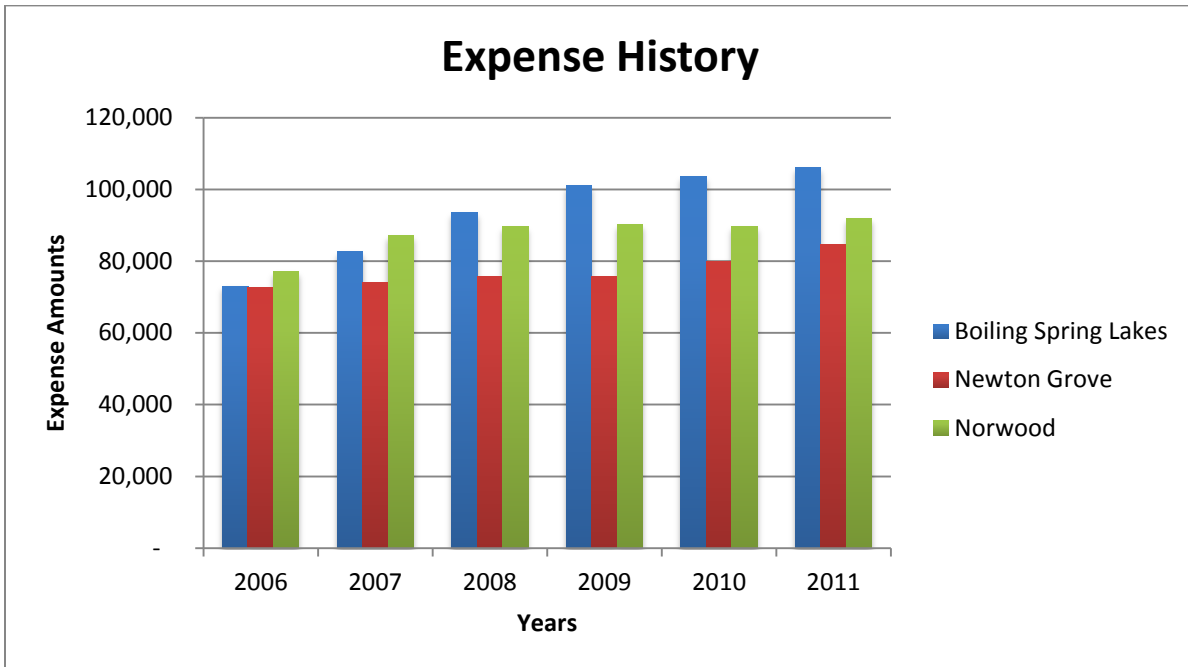
## **Administrative Compliance Findings and Observations**

- Board meeting minutes were viewed and referenced the conflict of interest statement, and followed the order of proceedings for conducting a business meeting.
- Board member appointment dates and compensation amounts is current on the Commission website.
- Board member and general manager compensation is in compliance with G. S. 18B-700 (g) and (g1).
- Law enforcement activity reports have been submitted to the Commission as required by G.S. 18B-501 (f1).
- Nepotism – The board is in compliance with G.S. 18B-700 (k).
- All board members and general manager are bonded for \$50,000 as required by G.S.18B-700 (i).
- The board has obtained a one year extension from the Commission for the general manager to serve as the finance officer.
- Orders for liquor and other common orders do not bear the pre-audit certificate as required by G.S.18B-702 (m).
- All checks bear the approved certificate and are signed by the general manager and usually the board chairman.
- Out of approximately 370 product codes, approximately fifty product codes were sampled and three product codes did not reflect the correct price.

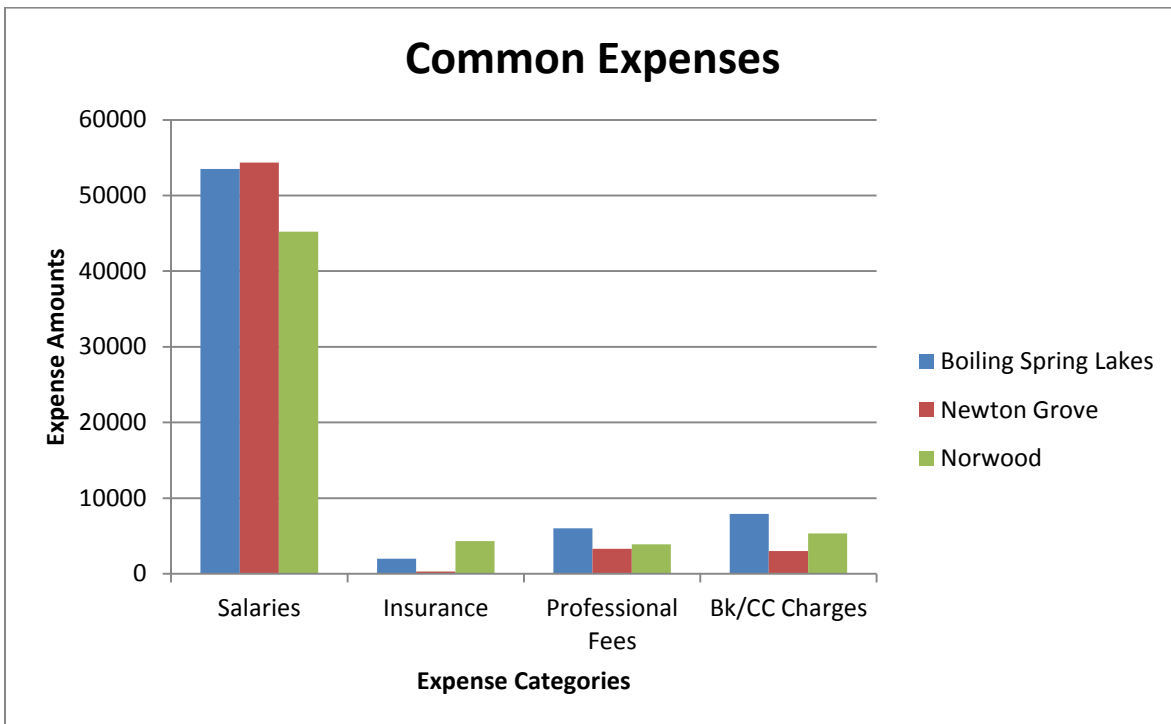
### *Recommendations:*

- Appoint a finance officer other than general manager or ask the Commission for an additional two years' exemption. *Refer to Appendix C (3) for statute.*
- Place the pre-audit certificate with the finance officer's signature on the order to LB&B. When ordering supplies, have a purchase order or order confirmation that will have authorization from the finance officer before the transaction takes place. *Refer to Appendix C (4) for statute.*
- Audit shelf price tags on a rotating schedule to ensure accuracy. Incorporate such practices within spot check time periods.

## APPENDIX A



*Although the overall expenses were low for FY2012 as a result of the fire, for past years Boiling Spring Lakes ABC's expenses have increased and are higher compared to other similar size boards.*



*Boiling Spring Lakes ABC's common expenses are not out of line with other similar size boards. Note: Boiling Spring Lakes ABC's professional fees include quarterly financial reports submitted by the auditor.*

## APPENDIX B



*Exterior view.*



*Counter view.*



*Interior view.*



## APPENDIX C

- (1) *G.S. 18B-706 (b) states, "Each member of a local board shall receive a minimum of two hours of ethics education within 12 months after initial appointment to the office and again within 12 months after each subsequent appointment to the office."*
- (2) *NCAC 02R.1706 (b) states, "If a local board has a price discrepancy between the price on the shelf or bottle and the cash register, and the price on the shelf or bottle is lower, the local board shall sell the item at the shelf or bottle price and correct the shelf or bottle price to match the Commission's published uniform price."*
- (3) *GS 18B-702 (j) states "...the local board shall designate (i) a part-time or full-time employee of the board other than the general manager or (ii) the finance officer of the appointing authority with consent of the appointing authority to be the finance officer for the local board."*
- (4) *18B-702 (m) states "...the contract, agreement, or purchase order shall include on its face a certificate stating that the instrument has been pre-audited to assure compliance. The certificate, which shall be signed by the finance officer or any deputy finance officer approved, shall take substantially the following form:*

*"This instrument has been pre-audited in the manner required by GS 18B-702."*

---

*(Signature of finance officer)*

*City of Boiling Spring Lakes ABC Board*  
3130 George II Hwy, SE  
BSL / Southport, NC 28461

Moniqua McLean  
NC ABC Auditor  
Alcoholic Beverage Commission  
400 East Tryon Rd.  
Raleigh, NC 27610

page 1 of 2

June 10<sup>th</sup>, 2013

Dear Ms. McLean,

Thank you for the opportunity to respond to the audit you performed at our store on April 2<sup>nd</sup>, 2013. We would also like to thank you for attending our May 13<sup>th</sup> Board meeting. Your presentation was helpful in identifying areas of concern.

Our response follows:

**Inventory Turnover:**

We have always practiced moving stock within the store to increase visibility.

We set up displays for each regular Holiday and research and provide recipe cards to generate added purchases.

We also set up displays for other events, such as Superbowl, Cinco de Mayo, the Kentucky Derby, Mother's Day, Father's Day, etc.

We have always used our end-caps to increase visibility.

We always add a "New Item" tag in a bright color when we bring in new products to our store...as well as a new item display.

We analyze sales data and history on a continuing basis. We utilize the "slow movers" report monthly to track those items that show up repeatedly with low sales. However, consideration is given to our regular local customers in that analysis, as well as our Mixed Beverage accounts.

We analyze the monthly Specials available for purchase on a regular basis.

**Operating Cost Ratio:**

We have changed Credit Card vendors this month to cut expenses in that area.

We currently have 2 mixed beverage accounts, the second one coming on board with us May 1<sup>st</sup>, 2013, after the auditor's initial visit. While our cost ratio is close to the target ratio, it is anticipated to steadily move in a favorable direction, as that new MXB is generating a steady increase in revenue for us. It should be taken into consideration that initially there were added expenses to comply with the Mixed Beverage account's requests for new items that we previously didn't carry. But in just one month, we have seen those products being purchased by other customers as well.

While preparing the budget, gaining a new mixed beverage account was not known.

In reviewing the budget since that time, we factored in that the MXB account will bring in extra revenue during the summer, fall and spring months, but will be slow during the winter, and we are comfortable with the revenue projections as they are for fiscal year 2013-2014.

The Budget Officer will monitor the budget to ensure actual expenses do not exceed budgeted amounts, additionally utilizing the quarterly audit reports.

We recently were successful in asking our auditor for a price reduction.

We scheduled a meeting with the representative from EPI and have elected to change credit card processing to EPI to cut our expenses in that area.

**Profit Percent to Sales:**

We do not anticipate any more expenses relative to any remodeling.

We expect our gross sales to increase, in large part due to our mixed beverage account. We therefore project that our profit % to sales will steadily improve over time.

**Distributions:** We expect to resume quarterly distributions to the City this fiscal year.

**Personnel and Training:**

Ongoing; employees attended a customer service presentation & pamphlets were distributed. We purchased an in-depth liquor book that has history of origin and recipes that afford product knowledge.

All employees received alcohol education and took the RASP webinar.

One Board member attended the Ethics class, one is set to go in July, and the third is set to go in the spring.

**Mixed Beverage:**

Our policy was updated & submitted.

**Price Discrepancy Policy:**

Our price discrepancy Policy was updated in written form and submitted.

**Internal Control Procedures:**

Our cash drawer is reconciled twice a day with an End-of-Shift Register Proof sheet designed by the manager, as shown to the auditor. Overages are deposited, shortages are paid by the employee.

We have adopted a credit card policy; copy will be provided if requested.

We utilize our local Law Enforcement, have cameras installed that record 24/7 and also upgraded to a cellular Alarm system.

Our Chairman opens the monthly Credit Card statement & receipts.

**Administrative Compliance:**

Our store was granted a waiver and permitted to appoint the General Manager as Finance Officer in 2012 for a period of 3 years per the Operations Manual that was provided at the Ethics class at that time, Section 6-1; "approval shall be effective for 36 months. We anticipate addressing this issue by that time.

We place the pre-audit certificate with the finance officer's signature on the order to LB&B.

We will continue to audit shelf price tags on a rotating schedule.

We will continue to grow and we will provide excellent customer service as well as strive to meet all the recommendations provided.

Thank you,

Cheryl A. Riker

*Cheryl A. Riker*

General Manager

BSL/ABC Board

## BOILING SPRING LAKES ALCOHOL BEVERAGE CONTROL BOARD

### Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Internal Control/ABC Board Policies:</b></p> <p>Adopt the following policies:</p> <ul style="list-style-type: none"> <li>• Mixed Beverage Policy</li> <li>• **Price Discrepancy Policy</li> <li>• Credit Card Policy</li> <li>• Cash Overage/Shortage Policy</li> </ul>	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>Note: Required by rule.</p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input checked="" type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>All policies have been adopted and submitted to the Commission.</p>
<p><b>Administrative Compliance:</b></p> <p>Appoint a finance officer other than the general manager.</p>	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</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>The board has requested an extension from the Commission allowing the general manager to be the finance officer.</p>

## BOILING SPRING LAKES ALCOHOL BEVERAGE CONTROL BOARD

### Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Training:</b></p> <p>Have all newly appointed board members complete the ethics training.</p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented ____% complete. (Explain below.)</p> <p><input checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>A new board member has been granted an extension from the Commission to complete the upcoming training via webinar. The Commission will continue to follow up until completed.</p>