

# Lake Waccamaw ABC Board

## Performance Audit Report



Alcoholic Beverage Control Commission  
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**ABC**  
COMMISSION  
NORTH CAROLINA



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NORTH CAROLINA

**Alcoholic Beverage Control**

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April 3, 2012

Lake Waccamaw ABC Board  
Mr. Harold Cains, Chairman  
PO Box 225  
Lake Waccamaw, NC 28450-0225

Dear Chairman Cains,

We are pleased to submit this performance audit report of the Lake Waccamaw 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 and operational findings and recommendations along with your Finance Officer's 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.

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

Respectfully,

Michael C. Herring  
Administrator

CC: North Carolina Association of ABC Boards

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## **EXECUTIVE SUMMARY**

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

The Lake Waccamaw ABC Board has responded to the performance audit recommendations and has begun to take steps toward becoming more profitable through analyzing and reducing current costs. Internal controls have been improved to maintain proper segregation of duties and to adhere to statutes. Since the performance audit fieldwork, a board member has resigned. The town has appointed Martha Floyd to serve on the board. The ABC Commission has approved for Ms. Floyd to act as finance officer. A follow up visit will be scheduled within six months to determine if other recommendations are being addressed.

## **BACKGROUND INFORMATION**

Located in Columbus County, Lake Waccamaw is an oval shaped fresh water lake that measures approximately five miles by seven miles with an average depth of 7.5 feet. The Lake Waccamaw store is approximately eleven miles from an ABC store in Whiteville, NC and approximately twenty miles from the borders of Brunswick, Pender, and New Hanover counties. The US Census Bureau reports the population in 2009 1,432.

Chapter 540 of the 1967 Session Law authorized the town of Lake Waccamaw to hold an election upon a petition signed by at least thirty percent of the registered voters. The referendum was held on October 24, 1967. The vote for an ABC store passed 187 to 64. The date of the first retail sales was December 9, 1967. Lake Waccamaw does not have mixed beverage sales.

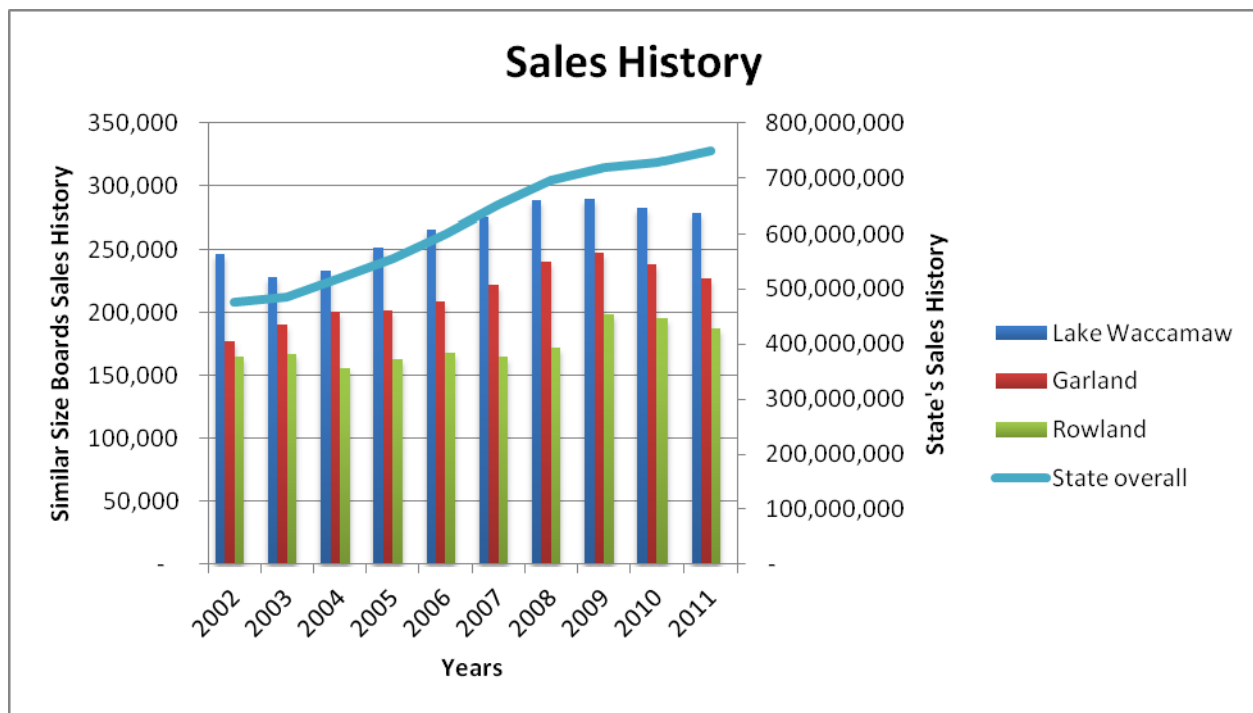
The Lake Waccamaw ABC Board staffs one full-time general manager/finance officer and one part-time clerk. The general manager is responsible for the daily operations of the store including supervising personnel, retail operations, and administrative functions as well as the responsibilities of finance officer. The clerk duties involve various retail functions including selling products and stock maintenance.

## Profitability

For fiscal year 2011, the board showed a small profit; gross sales were \$278,488, income from operations was \$1,704, resulting in a profit percentage to sales of 0.61%. Lake Waccamaw ABC's sales and other similar size boards have trended down over the past three fiscal years while the state's sales have increased. Current year sales have increased 7.40% over last year. See chart below.

Factors affecting sales and profitability:

- While adult working population has increased 10%, overall population has decreased 42% over the past ten years
- Population below poverty levels has decreased 39% over the past ten years
- 13.1% unemployment rate in Columbus County



## Distribution Schedule

GS 18B-805 (c) (2) requires the board to expend quarterly at least five percent of profits for law enforcement. The local enabling act exempts the Board from expending the seven percent of profits for alcohol education and rehabilitation purposes.

S.L. 1967-540 requires the Lake Waccamaw ABC Board to make the following distributions quarterly:

- 5% to Lake Waccamaw General Fund for fire department
- 50% to Lake Waccamaw General Fund
- 45% to Columbus County General Fund

In 2011, Lake Waccamaw ABC did not make any distributions. Distributions have not been made since 2007.

## **FINDINGS AND RECOMMENDATIONS**

On August 30, 2011, ABC Commission Auditor, Moniqua S. McLean, visited the Lake Waccamaw ABC store and interviewed Carolyn Moore, general manager, Harold Cains, board chairman, and Gary Winters, board member. The following are the findings and recommendations relating to the performance audit.

### 1. Inventory Turnover

The inventory turnover rate is calculated by dividing the cost of goods sold by the average inventory in the system. The Commission has set goals for determining an effective rate based on the frequency of deliveries. Below are the turnover rates based on the delivery schedule:

- Daily/weekly deliveries target at 6 times per year
- Bi-weekly deliveries target at 5 times per year
- Monthly deliveries target at 4.5 times per year

The Lake Waccamaw ABC board has a monthly delivery schedule. The inventory turnover rate for Lake Waccamaw ABC is 5.3 and exceeds the target rate set by the Commission.

#### **Recommendations:**

- Continue taking advantage of SPA's and quarterly price reductions whenever possible.
- Continue developing relationships with nearby ABC boards to take advantage of the following:
  - Splitting cases of higher end products when appropriate to increase variety while keeping costs down
  - Sharing resources to avoid out of stocks

### 2. Operating Cost

Operating costs are calculated by dividing total operating expenses less depreciation by the gross profit on sales. Below are the average cost ratios for boards with and without mixed beverage sales:

- Boards with 3 or more stores with MXB – cost ratio .67 or less
- Boards with 3 or more stores without MXB – cost ratio .94 or less
- Boards with 2 stores – cost ratio .83 or less
- Single store boards with MXB – cost ratio .77 or less
- Single store boards without MXB – cost ratio .93 or less

The Lake Waccamaw ABC board has an operating cost ratio of 1.03 while the average for similar size boards is .93. In comparison with other single store boards without MXB sales, Lake Waccamaw's operating expenses are slightly higher. To meet the cost ratio goal with current expense levels, gross sales will need to increase to approximately \$350,000. *See Appendix A for operating expense history and common expense comparisons of similar size boards.*

**Recommendations:**

- Request bids annually from various vendors to get the best rates possible on audit, credit card processing fees, telephone, and insurance and bonding rates

**3. Profit percentage to sales**

The profit percentage to sales is calculated by dividing the total profit before distributions by the total liquor sales. The Commission has set efficiency goals based on the following breakdown:

- Gross sales > \$10M – target rate at 9%
- Gross sales > \$2M – target rate at 6.5%
- Gross sales < \$2M – target rate at 5%

The Lake Waccamaw ABC board has a profit percentage of 0.61% and does not meet the targeted goal set by the Commission.

**Recommendations:**

- Convert to self service store. This has been proven to increase sales.
- Analyze and reduce operating expenses to increase profits. Refer to above recommendations.
- Utilize merchandising techniques to increase interest and sales.

**4. 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:

- 4 months for boards with gross sales less than \$1.5M
- 3 months for boards with gross sales less than \$50M and greater than or equal to \$1.5M
- 2 months for boards with gross sales greater than or equal to \$50M

For FY2011, the Lake Waccamaw ABC Board had a working capital of \$98,687. The working capital retained exceeded the maximum working capital allowed by \$26,809. The board has implemented a capital improvement plan detailing plans to construct a new building on a different site or in the short term, to improve the current location.

**Recommendations:**

- Under the new rule, the maximum amount allowed for retention would have been \$71,878. Distribute more on a quarterly basis so as not to exceed the maximum allowed or designate for capital improvements with the appointing authority's approval.
- Obtain approval from the appointing authority to set aside distributions for a capital improvement project. *Refer to Appendix C (1) for statute.*



## 5. Store Appearance

The Lake Waccamaw store is one of the last remaining counter stores in North Carolina. The store was clean, free of clutter on the counter, and smoke-free. A typical shelf management system would not apply in this case. However, there are still things that can be done to increase customer interest. *See Appendix B for photos.*

### **Recommendations:**

- Place a locked cabinet in the foyer to display monthly sale and discontinued items
- Make a list of monthly sale items available to customers

## 6. Policies and Procedures

- The Code of Ethics policy and the law enforcement contract were not filed with the Commission by the required due date. The ABC Commission auditor collected the documents during her visit.
- The board has not yet adopted either the appointing authority's or the state's travel policy.

### **Recommendations:**

- While the Commission recognizes that the board does not travel, put a travel policy in place in case the need arises. *Refer to Appendix C (2).*

## 7. Personnel/Training Compliance

- Employee training is conducted when need arises and whenever new information is available.
- Employees refer to a calendar for scheduling purposes. The general manager/finance officer relies on the calendar to determine when employees have signed in or out for work.
- No employee has been cross-trained to fill in for the general manager should she become unable to work.

### **Recommendations:**

- Have training for employees on topics of customer service, administrative functions, price changes, etc.
- Attend free annual training, such as the Responsible Alcohol Seller Program, offered by the Commission and other approved venues.
- Create a checklist for use in training new and existing employees and have each employee sign it once training is completed.
- Review and sign all time records to verify accurate time worked. The signature of the employee and manager is required to ensure that all is correct.
- Cross-train employees on key functions that include ordering liquor, closing the month, paying bills, and filing taxes in the event the general manager were suddenly unavailable.

- Provide each employee with a copy of the personnel manual and have employees sign an acknowledgement that he/she has read it through.

#### 8. Administrative Compliance

- Current fiscal year board meeting minutes were viewed and followed the order of proceedings
- Board meeting minutes did not reflect the conflict of interest statement as referenced in the Operations Manual.
- Board meetings are not regularly scheduled. Notices of meetings are not posted for the public.
- Board information on the Commission website does not reflect the board members' latest appointment date or compensation amounts. Currently, board members' compensation meets the statutory requirements.
- Law enforcement reporting required by the Commission has not been submitted since January.
- Nepotism – The board does not employ immediate family members.
- Some liquor invoices were not paid within the thirty day time period as required.
- All board members have attended the mandatory ethics training.
- Out of approximately 600 product codes in the store, approximately 129 codes were sampled and two prices were found that did not reflect the price set by the Commission. Jim Beam 4Y and Rich & Rare Canadian Whiskey, for example, reflected May prices in the month of August.

#### **Recommendations**

- Board meeting minutes are to be kept permanently in a binder and available in the store.
- Local boards shall retain all records pursuant to the records retention schedule. A records retention schedule is available on the Commission website and in the Operations Manual.
- Set up a regular schedule for board meetings; post all board meetings with town clerk or in the store. *Refer to Appendix C (3) for statute.*
- Update board information on the Commission website to reflect current appointment dates.
- Submit law enforcement reports to the Commission and to the appointing authority by the tenth business day of each month. *Refer to Appendix C (4).*
- Pay all liquor bills within thirty days of receipt of inventory.
- North Carolina statutes require uniform pricing in all ABC stores. Immediately audit all shelf tags in the store and the cash register system for correct pricing.

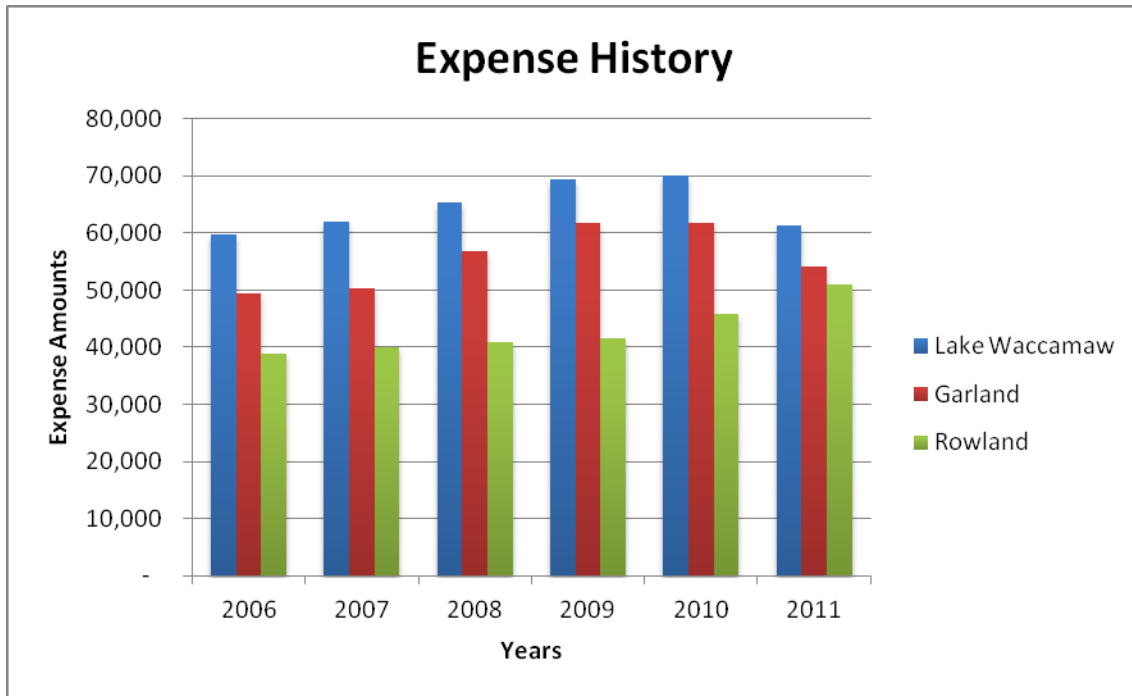
## 9. Internal Controls

- When approving the purchase of store and office supplies, purchase orders are not used.
- Orders to LB&B and purchase orders do not bear the pre-audit certificate required by GS18B-702(m). Effective May 1, all order acknowledgements to LB&B, contracts, and purchase orders must bear the certificate.
- Checks are currently signed by finance officer/general manager and a board member. Checks do not bear the certificate which is required by GS18B-702(q). Effective May 1, all checks must include the certificate.
- Inventory counts are performed monthly by the general manager.
- The general manager is currently the finance officer.

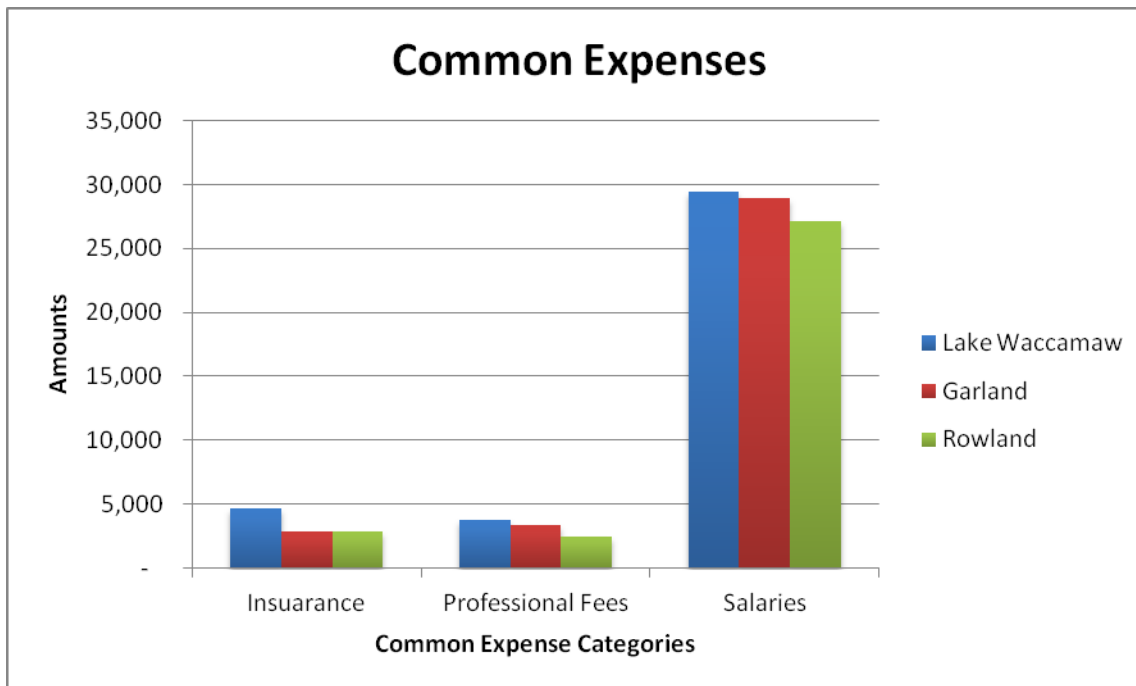
### **Recommendations**

- Use purchase orders when ordering all store and office supplies. Purchase orders are required to have the pre-audit certificate signed by the finance officer. *Refer to Appendix C (5).*
- Orders to LB&B for liquor, not the liquor invoices, must have a pre-audit certificate signed by the finance officer. Approval must take place before the liability is incurred.
- Either obtain checks that are pre-printed with the approval certificate or have a stamp made with the correct verbiage. *Refer to Appendix C (6).*
- Have someone other than the people responsible for handling inventory perform spot-checks.
- Appoint a finance officer to aid in financial duties and responsibilities. Once a finance officer is appointed, appoint a deputy finance officer in the absence of the finance officer. *Refer to Appendix C (7) for statute.*

## APPENDIX A



*The expense history comparisons of similar size boards reveals that Lake Waccamaw ABC's expenses are above other similar size boards.*



*Common expense comparisons of similar size boards reveals that Lake Waccamaw ABC's expenses are slightly higher than other similar size boards.*

## APPENDIX B

Picture 1



*Current shelf price is incorrect in August.*

Picture 2



*Front view*

## APPENDIX C

- (1) 18B-805 (d) states, "With the 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."
- (2) 18B-700(g2) states "...the local board adopts a travel policy that conforms to the travel policy of the appointing authority and such policy is approved by the appointing authority [or adopts the state policy]."

NCAC02R. 0909 (c) Rules to be filed with Commission. Each local board shall file a certified copy of its travel policies and procedures, and any amendments thereto, with the Commission within 10 days of the adoption, or amendment, of the policies by the local board.

- (3) S143-318.12. Public notice of official meetings. (a) If a public body has established, by ordinance, resolution, or otherwise a schedule of regular meetings, it shall cause a current copy of that schedule, showing the time and place of regular meetings, to be kept on file as follows (3) For the governing board and each other public body that is part of a city government, with the city clerk. If a public body changes its schedule of regular meetings, it shall cause the revised schedule to be filed at least seven calendar days before the day of the first meeting held pursuant to the revised schedule.
- (4) 18B-501(f1) states, "To ensure accountability to the appointing authority and the Commission, every local board's ABC officers and those law enforcement agencies subject to an enforcement agreement entered into shall report to the local board, by the fifth business day of each month, on a form developed by the Commission, the following:
- (a) The number of arrests made for ABC law, Controlled Substance Act, or other violations, by category, at ABC permitted outlets,
  - (b) The number of arrests made for ABC law, Controlled Substance Act, or other violations, by category, at other locations,
  - (c) The number of agencies assisted with ABC law or controlled substance related matters,
  - (d) The number of alcohol education and responsible server programs presented,
- The local board shall submit a copy of the enforcement report to the appointing authority and the Commission not later than five business days after receipt of the enforcement report by the local board.
- (5) 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."

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(Signature of finance officer)

(6) 18B-702(q) states "...each check or draft on an official depository shall bear on its face a certificate signed by the finance officer or a deputy finance officer approved for this purpose by the local board. The certificate shall take substantially the following form:

*"This disbursement has been approved in the manner required by G.S. 18B-702."*

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*(Signature of finance officer)*

(7) GS18B-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."

(8) GS 18B-702 (p) states ""...all checks or drafts on an official depository shall be signed by the finance officer or a properly designated deputy finance officer."

Ms. Moniqua McLean  
ABC Board Auditor  
4307 Mail Service Center  
Raleigh NC, 27699-4307

### Lake Waccamaw ABC Board

On August 30, 2011, ABC Commission Auditor Moniqua S. McLean visited the Lake Waccamaw ABC store and interviewed Carolyn Moore, general manager, Harold Cain, Board chairman, and Gary Winters, board member. The following is a response to the audit.

#### Inventory Turnover:

- ❖ Columbus Country ABC store is partnered with Whiteville and Brunswick to transfer unsold inventory.
- ❖ Each month a board is used to display SPA'S for the month. Bright colored signs will be used to draw attention to SPA'S.
- ❖ Low selling items are featured. Recipes are available to customers for specialty drinks using featured liquor.
- ❖ The commission will be asked for a price reduction for dead stock.

#### Operating Cost:

- ❖ The board will take a look at operating cost and will research the possibility of changing vendors.
- ❖ Many repairs to the ABC store are made by board members to help reduce operating cost.

#### Profit Percentage to Sales:

- ❖ The board has adopted a capital plan detailing plans to construct a new building on another site, improvements to the current store is an ongoing work in progress.
- ❖ Merchandising techniques being implemented as described above.

#### Store Appearance:

- ❖ New shelves have been added to the store.
- ❖ The board is watching for sales on Sun Setter shades for the front windows to match side windows.
- ❖ The board will acquire a locked cabinet for the front of the store to display monthly sale items and discontinued items
- ❖ Monthly special items are listed on a board in the front of the store.
- ❖ Lake Waccamaw ABC store is partnered with Whiteville ABC enabling us to split high end products.

#### Policies and Procedures:

- ❖ ABC Board members will use the same travel policy as the Town of Lake Waccamaw.

#### Personnel/Training Compliance:



- ❖ Cross training of part-time employee has started with ordering liquor. This will be an ongoing goal until training in all areas is complete.
- ❖ New board member is planning to attend annual free training session.
- ❖ Time sheets will be viewed by finance officer and initialed.
- ❖ A copy of personnel manual will be provided for employees and they will be asked to sign statement to the fact they have read manual.

Administrative Compliance:

- ❖ Minutes of board meetings will be kept at ABC.
- ❖ Time and date for board meetings will be posted at the ABC store.
- ❖ In talking with law enforcement, any violations involving alcohol will be reported.
- ❖ Finance officer will make a check and balance of pricing in the store monthly.
- ❖ Finance officer will check on promptness of invoice payments.

Internal Control:

- ❖ Purchase orders will be used for ordering store and office supplies, and will be signed by finance officer.
- ❖ Checks have approval certificates.
- ❖ Finance officer will sign pre-audit certificate for LB&B liquor orders.
- ❖ A Finance officer has been appointed and approved as of February 7, 2011

Martha Floyd, Finance Officer

RECEIVED

FEB 26 2012

NC ABC COMMISSION

## LAKE WACCAMAW ALCOHOL BEVERAGE CONTROL BOARD

### Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Working Capital</b> – Have an approval from the appointing authority to set aside more than the maximum amount allowed for a capital improvement.</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 checked="" type="checkbox"/> Partially implemented 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The Board has not obtained approval from the appointing authority to set aside a portion of the working capital. However, the board has implemented a capital improvement plan and a copy was submitted to the Commission.</p>
<p><b>Policies and Procedures</b> – Adopt a travel policy that conforms to the appointing authority or the state.</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 checked="" type="checkbox"/> Partially implemented 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The Board has adopted the travel policy of the appointing authority. However, a copy of the travel policy has not been submitted to the Commission.</p>

## LAKE WACCAMAW ALCOHOL BEVERAGE CONTROL BOARD

### Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Personnel/Training Compliance</b> – Cross train employees on key administrative functions in the event the general manager were suddenly unavailable.</p> <p>Have the new board member attend the mandatory ethics training (Required by statute).</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 checked="" type="checkbox"/> Partially implemented 25% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Cross training is being implemented and will continue. The new board meeting is planning to attend the Ethics training in March or April.</p>
<p><b>Administrative Compliance</b> - Submit law enforcement activity for the missing months.</p> <p>Pay all invoices within thirty days.</p> <p>Audit shelf tags and the cash register system for correct pricing.</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>Law enforcement activity reports have not been submitted since January 2011. It is unknown as to whether the board has implemented the other recommendations. A follow up visit will determine implementation.</p>

## LAKE WACCAMAW ALCOHOL BEVERAGE CONTROL BOARD

### Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Internal Controls</b> – Use purchase orders when ordering store and office supplies.</p> <p>Affix the pre-audit certificate on all orders to LB&amp;B.</p> <p>Appoint a finance officer other than the general manager.</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 checked="" type="checkbox"/> Partially implemented 25% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The Board obtain approval from the Commission to have a board member serve as the finance officer. It is unknown as to whether the board has implemented the other recommendations. A follow up visit will determine implementation.</p>