

# Brunswick County 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

CHAIRMAN:  
JAMES C. GARDNER

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COMMISSIONERS:  
JOEL L. KEITH  
Wake Forest

KEVIN M. GREEN  
Greensboro

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ADMINISTRATOR:  
MICHAEL C. HERRING

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**Moniqua S. McLean**  
ABC Board Auditor

October 10, 2014

Brunswick County ABC Board  
Mr. Mitchell Williams, Chairman  
2567 Holden Beach Road SW  
Supply, NC 28462

Dear Chairman Williams,

We are pleased to submit this performance audit report on the Brunswick County 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.

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

Respectfully,

Michael C. Herring  
Administrator

CC. North Carolina Association of ABC Boards

## **EXECUTIVE SUMMARY**

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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 store annual audit for the fiscal year 2013;
- Visited both stores;
- Interviewed key ABC board personnel.

## **BACKGROUND INFORMATION**

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G.S. 18B-600 authorized Brunswick County to hold an election for an ABC store. The referendum was held on November 7, 1989 and passed 5,155 to 3,803. The first sale occurred on June 1, 1990. A mixed beverage election was held on the same date and passed 5,114 to 3,855.

Upon election of an ABC store, the county was authorized to create an ABC board consisting of a chairman and two board members to serve for three year terms. Current board members are Mitchell Williams, board chairman, Alfonso Beatty and Ambier Lanier, board members.

The Brunswick County ABC Board operates two retail stores. The board staffs four full-time and three part-time employees that include one full-time general manager and two full-time store managers. The general manager is primarily responsible for the overall oversight of the daily operations of both stores including personnel, inventory control, accounts payable, and other administrative functions. Each store manager is responsible for supervising personnel and inventory control within the store. All store clerks are primarily responsible for extending friendly customer service, assisting with routine store upkeep, and stock maintenance.

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

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On April 9, 2014, ABC Board Auditor, Moniqua S. McLean, visited the Brunswick County ABC stores and officer and interviewed Karen Stineman, general manager. Below is a financial analysis followed by operational observations, findings, and recommendations related to the performance audit.

## **FINANCIAL ANALYSIS**

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### **PROFIT PERCENTAGE TO SALES**

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The profit percentage to sales is calculated by dividing the total income from operations by total liquor sales (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 2013, the Brunswick County ABC Board had gross sales of \$2,341,083; income from operations was \$161,286, a 6.89% profit percentage to sales.

Factors affecting sales and profitability:

- Surrounding towns and counties with ABC stores include New Hanover County, Belville, Boiling Spring Lakes, Calabash, Oak Island, Ocean Isle, Shallotte, Southport, and Sunset Beach;
- Population of Brunswick County is approximately 115,301, a 7.3% increase since 2010;
- ABC Board owns the main store and office complex but rents the second store;
- The board has purchased property to build a new, modern store to replace the Holden Beach location;
- Heavy area for traffic going to the beach during the peak times (Summer months).

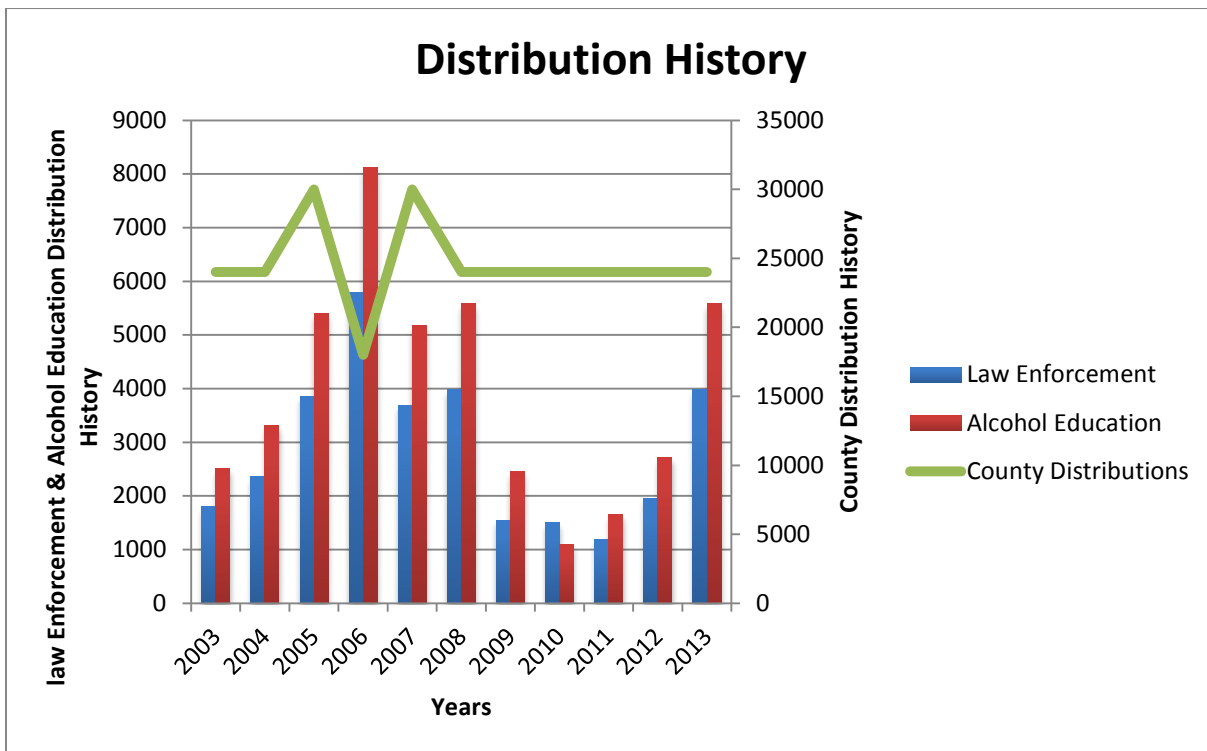
## DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, mixed beverage, and bottle tax. G. S. 18B-805 (c) (1) requires the board to make a minimum quarterly distribution of the 3½% markup rate to the county. In FY2013, the Brunswick County ABC board made the required minimum distribution to the county totaling \$66,349, plus additional distributions of \$24,000. \$550,398 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, and the county.

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

The Brunswick County ABC Board has distributed \$3,988 to local law enforcement and \$5,584 for alcohol education/rehabilitation purposes.

Below is a distribution chart analyzing the high-low trend of the Brunswick County ABC Board in the past ten years.



## **WORKING CAPITAL**

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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 FY2013, the Brunswick County ABC Board had a working capital of \$197,519, which is less than three months gross sales and is within the limits of NCAC 02R .0902.



## OPERATING COST RATIO

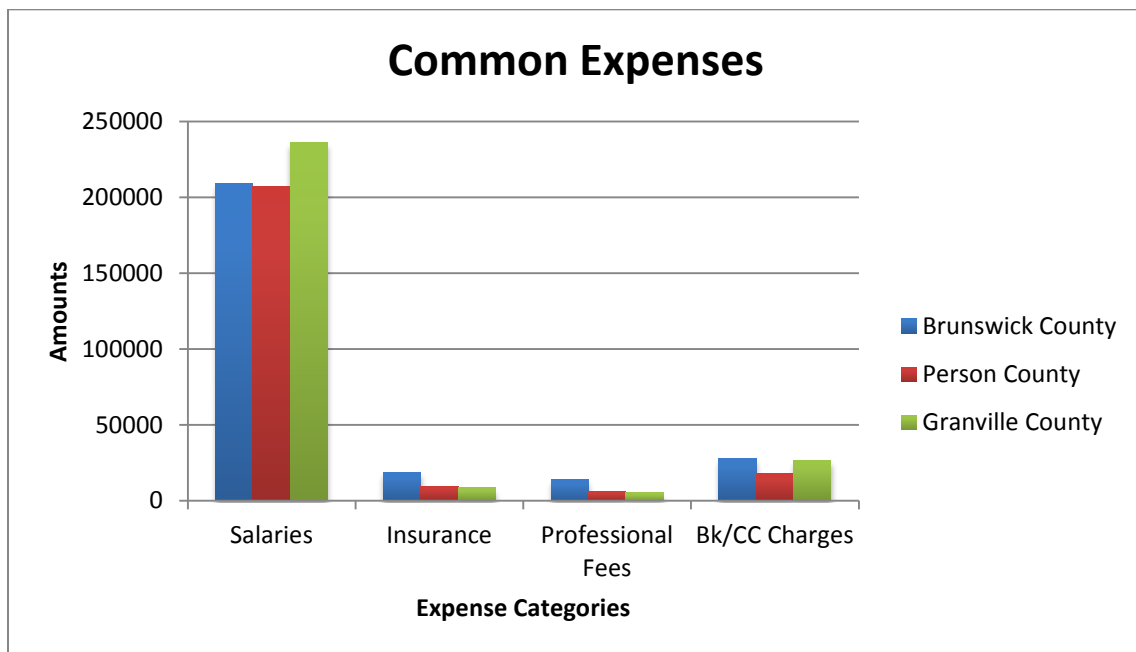
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Operating costs are calculated by dividing total operating expenses less depreciation by the gross profit on sales (Total Operating Expenses less Depreciation/Gross Profit). Below are the average cost ratios for boards with and without mixed beverage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

- Single store boards with MXB sales that are equal to or greater than 25% of gross sales – cost ratio 0.75
- Single store boards with MXB sales less than 25% of gross sales – cost ratio 0.85
- Single store boards without MXB sales – cost ratio 0.85
- Boards with 2 stores with and without MXB sales – cost ratio 0.74
- Boards with 3 or more stores with and without MXB sales – cost ratio 0.64

The Brunswick County ABC Board operates two retail stores with mixed beverage sales: the operating cost ratio is 0.70. Mixed beverage sales make up 15% of total gross sales. In fiscal year 2013, sales increased 1.9% over last fiscal year as expenses decreased 4.05% over the same time period. The board acquired a loan for \$770,000 to pay for land for a future store location. The board also leases the second location (Hwy74/76) on a monthly basis for \$1,200.

A common expense analysis shows that Brunswick County ABC Board expenses compared with other similar size boards are slightly higher, except for salaries.



## **INVENTORY TURNOVER**

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

The Brunswick County ABC Board receives deliveries at the main store location twice a month and the second store receives deliveries once a month. The inventory turnover rate is based upon the store that receives the most deliveries from the Commission: the inventory turnover rate is 6.9. The average inventory turnover rate for similar boards with the same delivery schedule is 5.6.

## **NO RECOMMENDATIONS**

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## **STORE APPEARANCE AND CUSTOMER SERVICE**

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The Brunswick County ABC Board operates two retail stores with shelf space ranging from 650 to 1,000 linear feet and carries an average of 867 product codes per store.

- Both stores appeared clean and free of trash. Counter areas were clear making supplies easily accessible to staff.
- Both stores' signage, interior and exterior, is clear and visible to passing traffic. The Fetal Alcohol Syndrome poster is displayed and visible to the public.
- Landscaping around the stores is clean with no evidence of trash.
- The television at second location was showing a movie.
- A basic shelf management plan is used that exhibits a strategy following the highest priced product on the top shelves and lowest priced product on the bottom shelves. Product placement is consistent with sizes going from largest to the right and smallest to the left. However, some shelves were empty. End caps are used for spotlighting bestselling or newest items.
- The state price book is available in both stores should customers ask for specific product. Sales clerks' often refer to the price book for verification of product and pricing.
- Sales clerk's interaction with customers is attentive, courteous, and all are eager to meet the needs of the customers.

## **RECOMMENDATIONS**

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1. Either remove televisions from stores or keep tuned to news or weather stations. *Refer to Appendix B (1) for rule.*
2. To minimize empty spacing consider the following practices:
  - Reallocating shelf space from declining categories to those showing growth;
  - Allow more space for your more popular brands and re-allocating space when eliminating underperforming brands;
  - Optimize shelf space to incorporate displays within shelves
  - Cross-merchandising by placing products that mix together on the same shelves.

## **PERSONNEL AND TRAINING**

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- All board members, the general manager, and the finance officer have completed the initial ethics training. Board members have since been reappointed and have completed the additional ethics training required by statute.
- Cross training opportunities are being extended to key employees in the event the general manager was suddenly unavailable on key administrative duties.
- Training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities on a continual basis. Management often attends the NC Association of ABC Boards General Manager conferences for training opportunities on these specific areas. Responsible Alcohol Sellers Program is offered to mixed beverage permit holders and staff on a routine basis.
- Personnel files are available and included human resource documentation and other personnel information as needed.

## **NO RECOMMENDATIONS**

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## **ABC BOARD POLICIES**

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- Policies adopted and submitted to the Commission include:
  - Code of Ethics
  - Law Enforcement Contract
  - Travel Policy (State Travel Policy)
  - FY2013 Annual Audit
  - FY2014 Budget (Proposed and Adopted)
  - Employee Manual
  - Price Discrepancy Policy
  - Credit Card Usage Policy
  - Mixed Beverage Policy
  - Vehicle Usage Policy

## **NO RECOMMENDATIONS**

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## **INTERNAL CONTROL PROCEDURES**

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- Time cards are used by all clerks to record hours worked. Each store manager verifies time cards for accuracy and forwards to the general manager for payroll. The accounting/payroll software calculates the taxes and other withholdings and creates payroll checks. Due to a new system, backup procedures have not occurred.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures when cash drawers are over or short.
- 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.
- Physical inventory counts are performed at each store monthly by whoever is scheduled. Spot checks are not conducted as frequently. If discrepancies occur, the general manager will investigate and recount for accuracy and verification. Once completed, the general manager will adjust the inventory system, excluding any unsalable items, to match with the actual store counts.
- Out of an average of 800 product codes per store, approximately 165 product codes were sampled to ensure accurate pricing and one was incorrect.
- The board has acquired a vehicle to assist in transporting liquor between stores and making deposits. In reviewing expense records, a mileage or gas log was not available. A vehicle usage policy has since been adopted excluding the mileage documentation.
- A credit card is issued to the board with the general manager as the only authorized person to use the card. The card is intended to be used for office and store supplies and excludes travel. A credit card usage policy has since been adopted.

## **RECOMMENDATIONS**

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1. To ensure that files can be restored, backup computer software on a routine basis.
2. 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.
3. To ensure that the vehicle is used for purposes outlined in the policy, include a mileage log. A mileage log should specify the beginning and destination points and the miles generated for each trip.

## **ADMINISTRATIVE COMPLIANCE FINDINGS AND OBSERVATIONS**

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- 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 referenced a conflict of interest statement asking board members if conflicts existed with items on the meeting agenda.
- Board member appointment dates and general manager compensation 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 employs two family members that have no relation to board members or the general manager. In referencing G.S. 18B-700 (k), the relationship is not considered a conflict nor are they supervised by each other.
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- Orders for liquor do not bear the pre-audit certificate before the transaction occurs as required by G.S. 18B-702 (m). However, a purchase order is used when ordering supplies.
- Checks bear the approved certificate indicating payments have been approved by the finance officer or deputy finance officer as required by G.S. 18B-702 (q). Checks are signed by 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**

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1. Place the pre-audit certificate with the finance officer/deputy finance officer's signature on the order to LB&B or common orders before the transaction takes place. *Refer to Appendix B (1) for statute.*

## **AUDITOR'S SUMMARY**

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ABC Board Auditor, Moniqua S. McLean, presented to the board the performance audit recommendations on June 16, 2014. The board has since responded to the performance audit recommendations and has implemented strategies to maintain profitability while 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.



# BRUNSWICK COUNTY ALCOHOLIC BEVERAGE CONTROL BOARD

2567 Holden Beach Road SW  
SUPPLY, NORTH CAROLINA 28462  
910-842-8839  
Fax 910-842-9228

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

September 3, 2014

Dear Ms. McLean,

The Brunswick County ABC Board has reviewed the performance audit you conducted on April 9, 2014 and our response to your recommendations are as follows.

**Store Appearance and Customer Service:**

Televisions at both Supply and Delco stores will have on the weather channel or news stations.

To minimize empty shelf space, the Supply store will be relocating products, and adding displays within the shelves. This will be done over the course of the slow retail months.

**Internal Control Procedures:**

Computer systems are backed up daily.

Quarterly and monthly price changes are double checked with the register tape that is generated with the price changes.

**Administrative Compliance**

The pre-audit certificate is now stamped on all LB&B orders and signed by the finance officer.

The Brunswick County ABC Board and staff would like to thank you for your time and patience with this audit. It was a great pleasure to finally get to meet you. Should you need and additional information please do not hesitate to contact me.

Sincerely,



Karen A. Stineman  
General Manager  
Brunswick County ABC Board

**RECEIVED**

SEP 05 2014

**NC ABC COMMISSION**

## APPENDIX A

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*Illustration 1*



*Exterior view of the main location at Holden Beach*

*Illustration 2*



*Counter view*

*Illustration 3*



*Shelf management view*

*Illustration 4*



*Exterior views of the second location*

*Illustration 5*



*Entrance view*

*Illustration 6*



*Shelf management*

## APPENDIX B

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(1) NCAC 02R .1703 (a) (5) states, "Televisions that are on shall be tuned to a news, weather or community service channel when not providing liquor related information and the volume shall be kept low enough so as not to interfere with sales."

(2) 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)' "*

## APPENDIX C

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Administrative Compliance:</b></p> <p>Affix the pre-audit certificate on all orders before the transaction occurs.</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 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 ABC statutes and Commission rules.</p>