

# Southport ABC Board

## Performance Audit Report



Alcoholic Beverage Control Commission  
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**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

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**Moniqua S. McLean**  
ABC Board Auditor

January 14, 2014

Southport ABC Board  
Mr. Robert Jones, Chairman  
714 N Howe Street  
Southport, NC 28461

Dear Chairman Jones,

We are pleased to submit this performance audit report on the Southport ABC Board. The objective of this audit was to examine existing policies, practices, and controls and to provide recommendations on methods to improve operating efficiency at the ABC Board in accordance with new legislative mandates.

The report consists of an executive summary, background information, operational findings and recommendations along with your response to our recommendations. This report will be posted on the Commission's public web site.

We would like to thank you, the ABC Board and your staff for the assistance and cooperation provided to us during the audit. Additionally, we appreciate the efforts your Board has made to comply with the new performance standards along with the profitable manner in which your ABC store is operated.

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 Findings, Observations, and Recommendations.....	9
Southport ABC Board Response.....	16
Recommendation Follow up.....	17

## **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 2012;
- Visited the store;
- Interviewed key ABC board personnel.

The Southport ABC Board has responded to the performance audit recommendations and strives to develop goals and strategies to improve and maintain profitability through analyzing and reducing current costs while striving to meet the demands of customers. Policies and procedures have been adopted and implemented to maintain compliance with statutes and Commission rules and to maintain stronger segregation of duties.

## **BACKGROUND INFORMATION**

Chapter 819 of the 1957 Session Laws authorized the Town of Southport to hold an election upon a petition of at least fifteen percent of registered voters. The referendum was held on August 13, 1957 and passed 470 to 144. The first sale occurred on September 13, 1957. A mixed beverage election occurred on January 27, 1979 and passed 350 to 231.

Upon election of an ABC store, the Town of Southport was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members are Robert Jones, board chairman, Harold Spencer and William Davis, board members.

The Southport ABC Board operates one retail store. The board staffs five full-time employees including the general manager. The general manager is responsible for overseeing and managing daily operations of the store including supervising personnel and customer service. The store clerks are primarily responsible for sales, store upkeep, and inventory management.

## **FINANCIAL ANALYSIS**

### **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 Southport ABC Board receives deliveries twice a month: the inventory turnover rate is 9.2. This rate compares favorably to the benchmark of 5.0 for boards with the same delivery schedule.

*No Recommendations.*

### **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 Southport ABC Board operates one retail store with mixed beverage sales; the operating cost ratio is 0.54. Mixed beverage sales make up 18.1% of total gross sales. In fiscal year 2012, sales increased 6.7% over fiscal year 2011 and overall expenses increased 14.73% over the same time period. Expenses increased due to employee status changes from part-time to full-time.

*No Recommendations.*

### **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 FY2012, Southport ABC had a working capital of \$197,271 with gross sales \$2,125,116, which is equivalent to less than three 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:

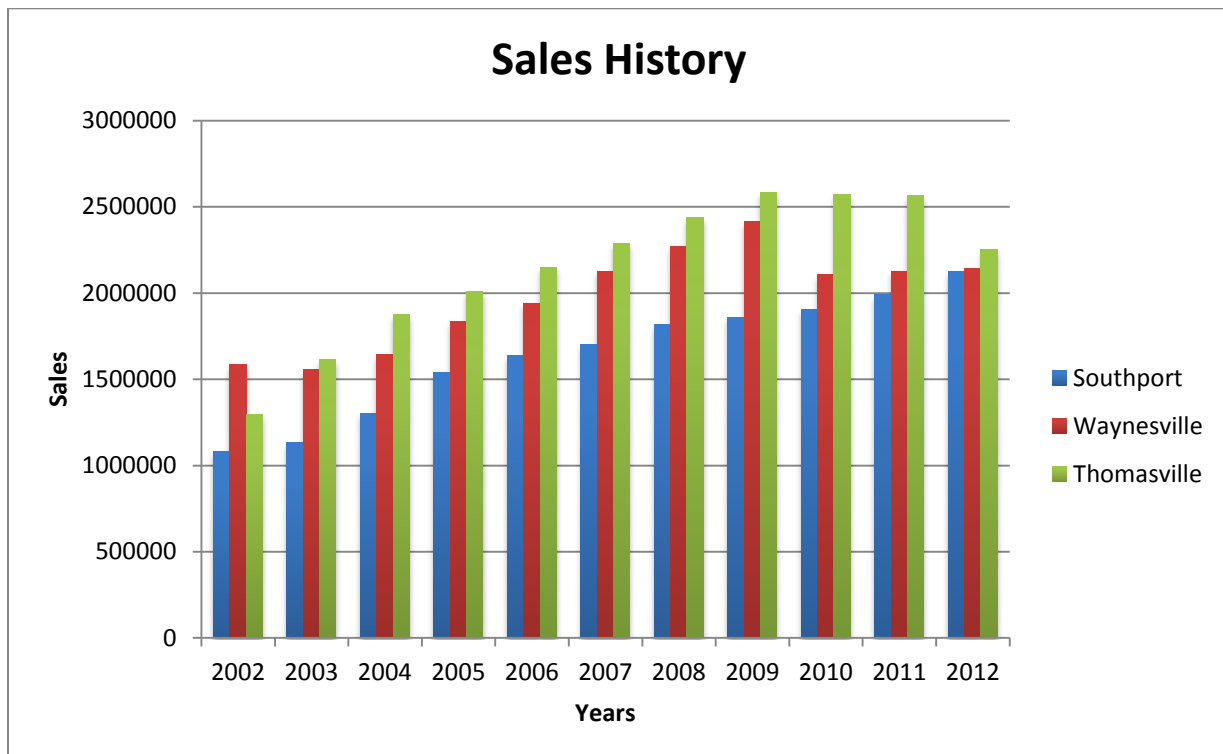
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Southport ABC Board had gross sales of \$2,125,116; income from operations was \$230,268, a 10.84% profit percentage to sales.

Factors affecting sales and profitability:

- US Census Bureau reports a population of 2,833 in 2010;
- Surrounding counties and towns with ABC stores within a twenty mile radius include Brunswick County, Boiling Spring Lakes, Oak Island, and Shallotte;
- Sales increased 6.7% over the previous fiscal year;

Below is a sales history analysis of similar size boards compared with Southport ABC Board. This chart analyzes the sales trend for the past ten years.

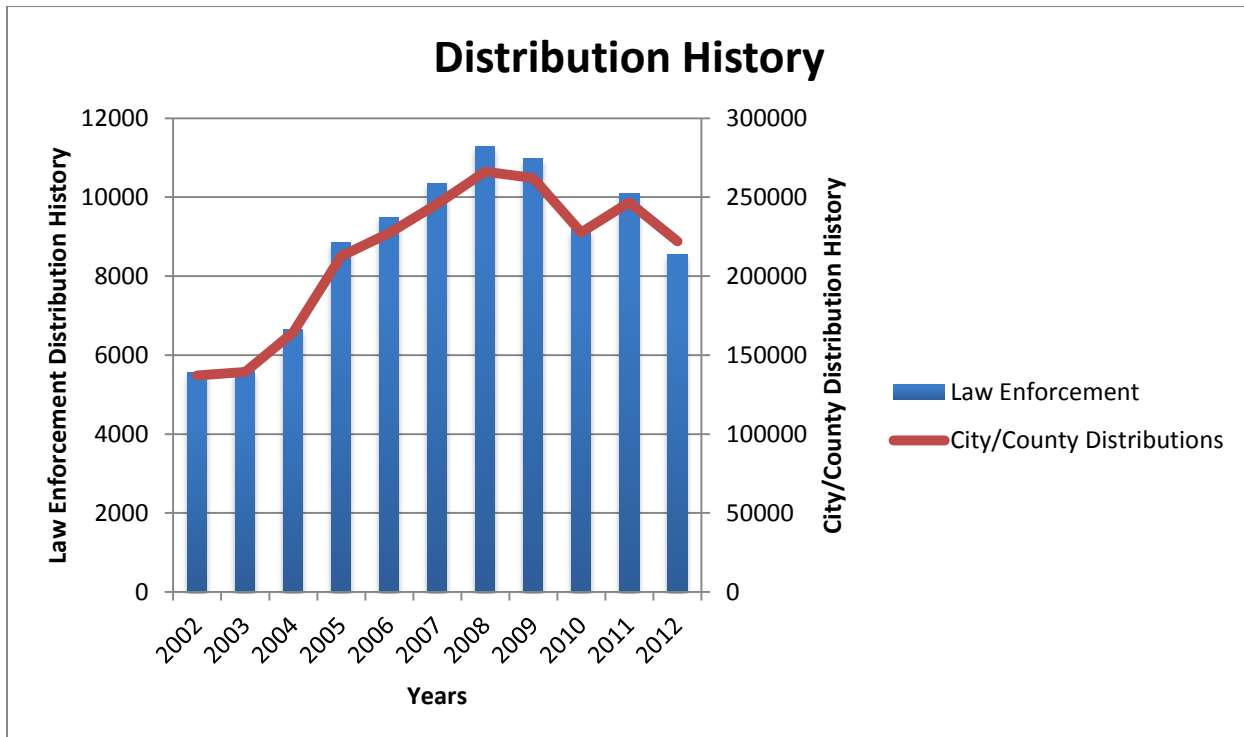


## Distributions

G.S. 18B-805 (c) (2) requires the board to distribute quarterly to law enforcement. The board follows the local enabling act for alcohol education distributions, whereas alcohol education distributions are not required. The remaining profits are to be distributed to the Southport General Fund.

In FY2012, Southport ABC made the minimum distribution to the town totaling \$59,411, plus additional distribution of \$222,015. \$500,590 in Excise and other taxes were paid to the NC Department of Revenue and \$8,558 was distributed to law enforcement.

Below is a distribution chart analyzing the high-low trend of the Southport ABC Board.





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

On April 4, 2013, ABC Board Auditor, Moniqua S. McLean, visited the Southport ABC store and interviewed Cynthia Frazier, general manager. The following are the findings, observations, and recommendations related to the performance audit.

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

The Southport ABC Board operates one retail store with shelf space of approximately 900 linear feet and carries approximately 850 product codes.

- Although the store was built in the 1950's, it is clean and well-lit. Bottles were fronted and dusted. Counter areas were free of clutter and supplies were easily accessible. Shelves are wooden; limited spacing is available to make shelves full with existing and newer products.
- Exterior signage and landscaping around the store was clean and free of trash.
- The Fetal Alcohol Syndrome poster is displayed.
- Security systems are an older model but 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, filling mixed beverage orders, and cleaning the store.

#### *Recommendations:*

- Consider renovating the store for a more modern appearance or make improvements to the store to include updating shelving, purchasing a newer more efficient security system and other areas where needed.

### **Personnel and Training**

- All board members and the general manager have attended the initial mandatory ethics class.
- Training is provided to existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities on a continual basis. However, cross training opportunities have not been extended to key employees in the event the general manager was suddenly unavailable.
- The board does not maintain personnel files other than what is currently on the computer.
- An employee handbook was submitted to the Commission in 1997. Since then, practices have changed.

*Recommendations:*

- 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.
- Create personnel files on all employees. Every employee should have a personnel file that includes authorization for hiring, salary history, hours authorized to work, federal and state withholding forms, health insurance, and retirement information, when applicable, and support for any other payroll deduction.
- Update the employee handbook/manual to include current practices and policy changes. Once completed, submit a copy to the Commission.

### **ABC Board Policies**

- Policies adopted and submitted to the Commission include:
  - Code of Ethics
  - Travel Policy (City of Southport)
  - FY2012 Annual Audit
  - FY2013 Budget (Proposed and Adopted)
  - Mixed Beverage Policy
- Policies not adopted include:
  - Law Enforcement Contract
  - Price Discrepancy Policy

*Recommendations:*

- Have an agreed upon law enforcement contract and submit to the Commission. All local boards are required to have an agreement, even if the agreement results in enforcement activity without compensation. *Refer to Appendix C (1) for statute.*
- 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 all staff. Counting procedures incorporate two clerks counting the sales floor and two clerks counting the warehouse. If discrepancies occur, the general manager will investigate and recount both places for accuracy and verification. Once completed, the general manager will adjust the system to match with the actual store count. Unsalable items are adjusted immediately.
- Cash drawers are counted by all clerks. Although clerks have their own clerk number, cash drawers are often shared among clerks. Although understood, there are no written procedure/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.

### *Recommendations:*

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

## **Administrative Compliance Findings and Observations**

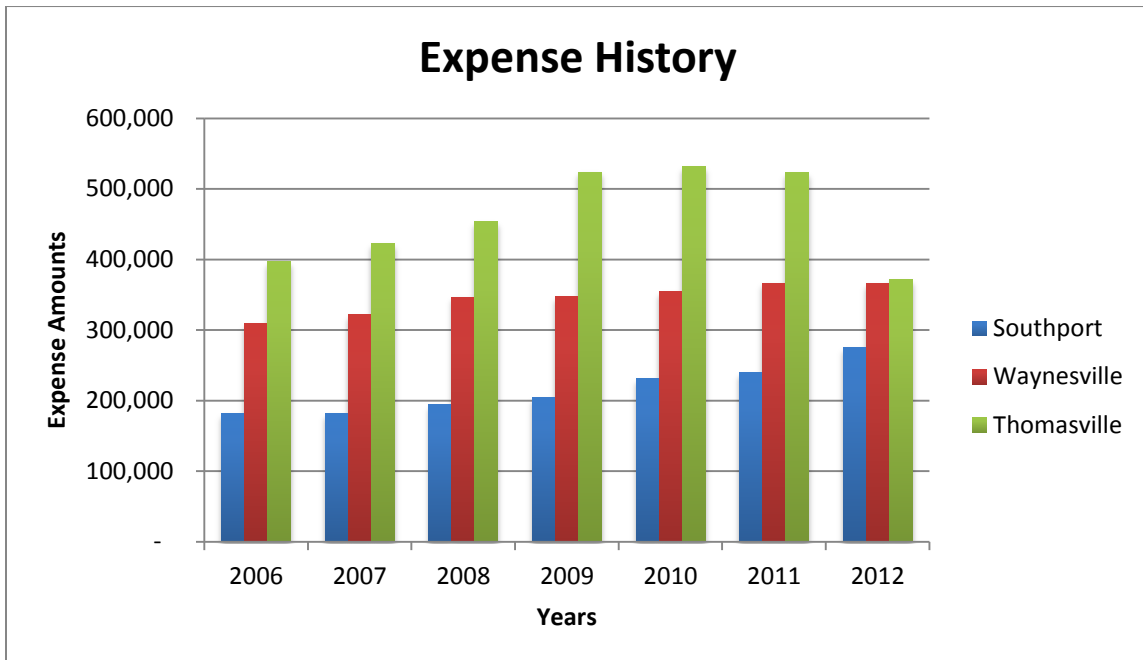
- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting. However, they did not reference the conflict of interest statement read by the chairman.
- Board member appointment dates were not current on the Commission website. However, board member and general manager compensation amounts were correct.
- 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 is bonded for \$50,000 as required by G.S. 18B-700 (i).
- The board has obtained an extension from the Commission allowing the general manager to serve as the finance officer. The extension expires December 2013.
- Actual expenses exceeded budgeted amounts for the fiscal year 2012.
- Orders for liquor do not bear the pre-audit certificate as required by G.S.18B-702 (m). However, common orders are accompanied by a purchase order with the pre-audit certificate and the finance officer's signature.

- All checks bear the approved certificate and are signed by the general manager/finance officer and the board chairman.
- Out of approximately 850 product codes, approximately seventy product codes were sampled and all were correct.

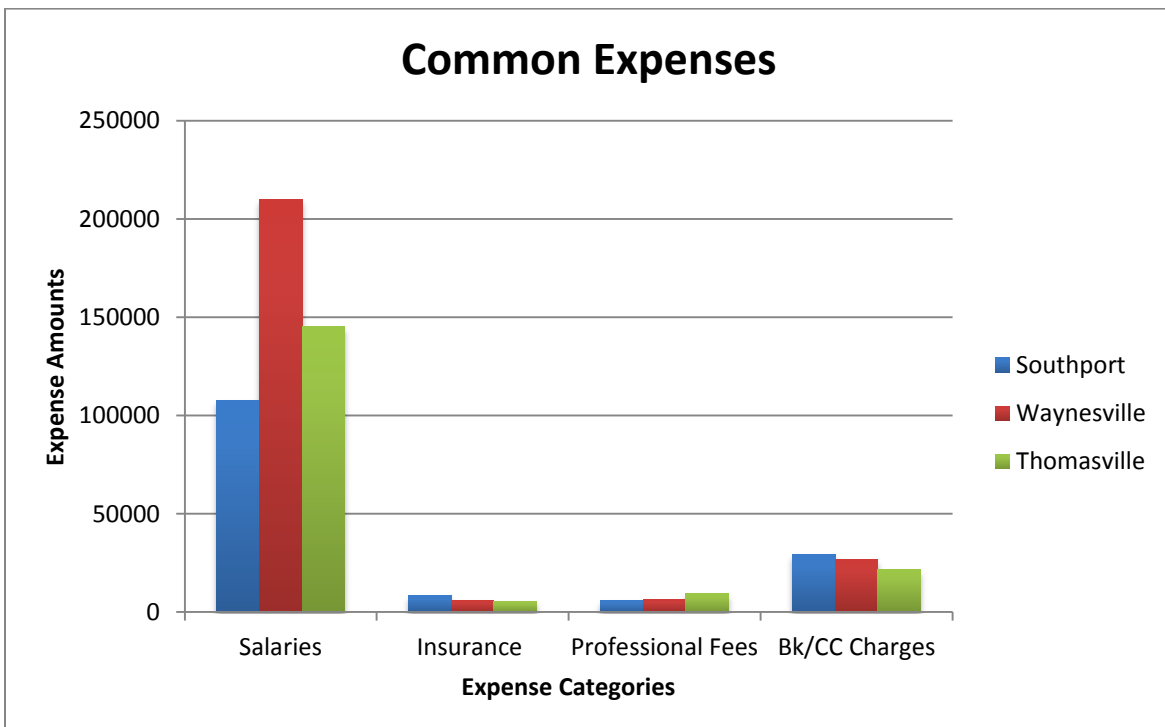
*Recommendations:*

- For transparency, have the board chairman read the conflict of interest statement to all board members at the start of each meeting. Reference the conflict of interest statement was read in the board minutes. *Refer to Appendix C (3) for rule.*
- Update the Commission website when notified of reappointment dates and other changes.
- Appoint a finance officer other than the general manager or request an exemption from the Commission. *Refer to Appendix C (4) for statute.*
- Monitor budget frequently and more closely to ensure that actual expenses do not exceed budgeted amounts. Make budget amendments where appropriate before year-end.
- Place the pre-audit certificate with the finance officer's signature on the order to LB&B. *Refer to Appendix C (5) for statute.*

## APPENDIX A



*The expense history data indicates that Southport ABC Board's total expenses have increased 14.73% since FY2011. Southport ABC's overall expenses are lower compared with other similar size boards. Note: Thomasville closed the second store in FY2012 which has lowered expenses.*



*Southport ABC's common expenses are relatively lower than other similar size boards. Bank and credit card charges have increased to reflect the increase of credit card sales.*

## APPENDIX B



*Counter view.*



*Interior view.*

## APPENDIX C

- (1) 18B-203 (f) states, "Instead of hiring local ABC officers, a local board may contract to pay its enforcement funds to a sheriff's department, city police department, or other local law enforcement agency for enforcement of the ABC laws within the law enforcement agency's territorial jurisdiction. Enforcement agreements may be made with more than one agency at the same time."
- (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) OP 4.19.4 states, "In an effort to avoid possible conflicts of interest it is recommended at the beginning of each meeting the Chairman ask fellow board members if there are any potential conflicts of interest. This can be done by reading the following ethics reminder:
- 'In accordance with G.S. 18B-201, it is the duty of every Board member to avoid both conflicts of interest and appearances of conflicts. Does any member have any known conflict of interest or appearance of conflict with respect to any matters coming before the Board today? If so, please identify the conflict or appearance of conflict and refrain from any undue participation in the particular matter involved.'*"
- (4) 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."
- (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)*

Date: November 14, 2013

To: Moniqua S. McLean  
ABC Board Auditor

From: Cynthia Frazier, Manager  
Southport ABC Board

Hello Moniqua,

Thank you for the performance audit performed at our store and attending the Board Meeting to explain our audit. Excuse the extreme lateness of our response.

**Store Appearance:** Presently we have no plans of renovation. Recently we reroofed our building, improving our appearance. We are still planning on a new surveillance system.

**Board Policy & Internal Control:** The policy for price discrepancy has been written. Also written is procedure for cash drawer overages and shortages.

**Personnel & Training:** Our employees have participated in the RASP, presented through the Commission. Our new assistant manager has participated in the Ethics Training for ABC Boards. We are cross training him in the major duties of the manager to be able to back up when necessary.

Given the awareness of the positive recommendations offered us, we will continue to improve our store and the service extended to our customers.

Your personable professional demeanor meant much throughout the process of the audit. Many Thanks.

  
Cynthia Frazier



## SOUTHPORT ALCOHOL BEVERAGE CONTROL BOARD

### Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>ABC Board Policies:</b></p> <ul style="list-style-type: none"> <li>• Adopt and/or update the following policies               <ul style="list-style-type: none"> <li>○ **Employee manual</li> <li>○ Law Enforcement Contract</li> <li>○ **Price Discrepancy Policy</li> <li>○ **Cash Drawer Overage/Shortage</li> </ul> </li> </ul>	<p> <input checked="" type="checkbox"/> <b>Yes</b>  <input type="checkbox"/> <b>No</b> </p> <p>**Note: Required by rule</p>	<p>(Please provide documentation supporting implementation status.)</p> <p> <input type="checkbox"/> Fully Implemented  <input checked="" type="checkbox"/> Partially implemented 95% complete. (Explain below.)  <input type="checkbox"/> Not implemented (Explain below.)         </p> <p>Except for the employee manual, the board has adopted the following policies. However, copies have not been sent for verification.</p>
<p><b>Administrative Compliance:</b></p> <ul style="list-style-type: none"> <li>• Appoint a finance officer other than the general manager.</li> <li>• Monitor budget more closely to ensure that actual expenses do not exceed budgeted amounts.</li> <li>• Affix the pre-audit certificate on orders before transaction takes place.</li> </ul>	<p> <input checked="" type="checkbox"/> <b>Yes</b>  <input type="checkbox"/> <b>No</b> </p>	<p>(Please provide documentation supporting implementation status.)</p> <p> <input type="checkbox"/> Fully Implemented  <input checked="" type="checkbox"/> Partially implemented 50% complete. (Explain below.)  <input type="checkbox"/> Not implemented (Explain below.)         </p> <p>The board's exemption for a finance officer expired on December 2013. A finance officer has not been appointed. Management has implemented procedures to remain in compliance with the statute.</p>