

# Brunswick 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

COMMISSIONERS:

A. D. "ZANDER" GUY, JR.  
Surf City

DANIEL L. BRIGGS  
Lexington

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) 662-3583  
<http://abc.nc.gov/>

June 21, 2012

Brunswick ABC Board  
Ms. Coletta Faulk, Chairperson  
PO Box 7  
Brunswick, NC 28424

Dear Chairperson Faulk,

We are pleased to submit this performance audit report on the Brunswick 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 response and your CPA'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 store personnel.

The Brunswick ABC Board has responded to the performance audit recommendations and has begun to take steps toward becoming profitable by analyzing and reducing costs. While it is has been the board's priority to maintain direct control over operations, there are still areas identified that do not meet statutory requirements and areas where internal controls can be improved.

## **BACKGROUND INFORMATION**

Located in Columbus County, the town of Brunswick is one of five locations with ABC stores. Other stores are located in Lake Waccamaw, Tabor City, West Columbus (Chadbourn), and Whiteville. The US Census Bureau reports a population of 355 in 2009.

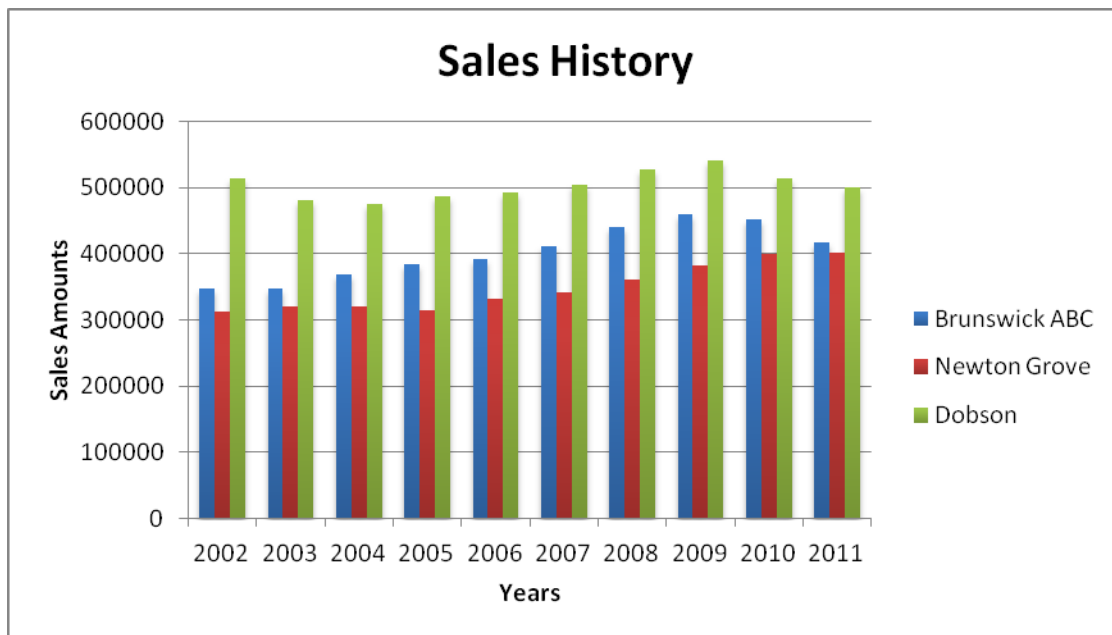
Chapter 540 of the 1967 Session Laws authorized the town of Brunswick to hold an election upon a written petition signed by at least thirty percent of the registered voters. The vote for an ABC store passed. The date of the first retail sales was held on February 1, 1968.

Upon election of an ABC store, the town of Brunswick was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members are Coletta Faulk, board chairperson, Linwood Williams and Tammy Blackmon, board members.

The Brunswick ABC Board operates one retail store and staffs one part-time supervisor and three part-time clerks. The supervisor is responsible for the daily operations of the store including supervising personnel, retail operations, and administrative functions. The clerks are responsible for daily stocking, floor upkeep, and retail functions including selling products. An external accountant has been appointed as the finance officer and provides bookkeeping services for the ABC board.

## Profitability

For fiscal year 2011, the board showed a profit; gross sales were \$417,128, income from operations was \$13,141, resulting in a profit percentage to sales of 3.15%. Current year sales have increased 5.27% over fiscal year 2010; a 5.47% decrease since the previous month. In comparing Brunswick ABC with other similar size boards, sales over the past two years have begun to decrease while the state continues to increase. *See chart below.*



Factors affecting sales and profitability:

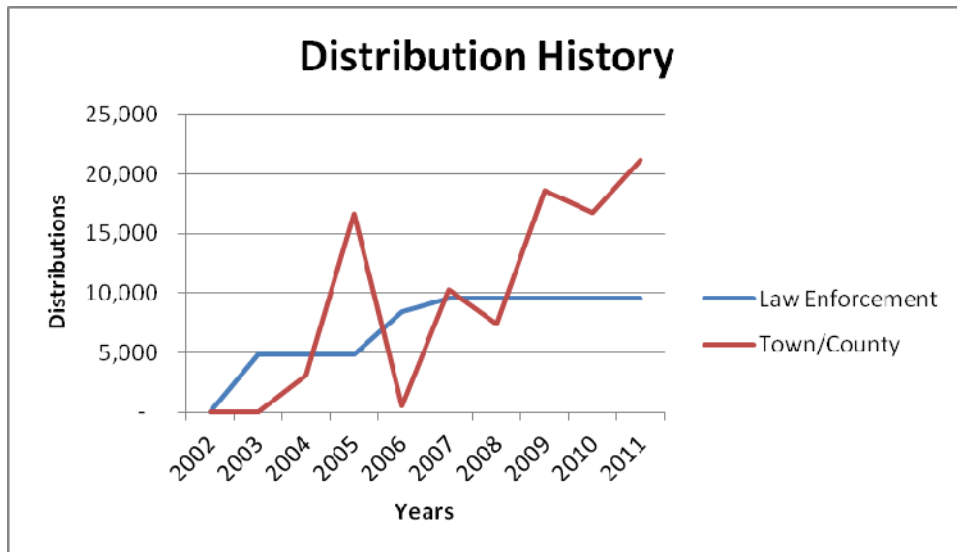
- Although population twenty-five years and older has increased 5%, total population has decreased 2% over the past ten years
- Adult working population has increased 14% over the past ten years
- Poverty levels have decreased 26% over the past ten years
- Another ABC store within a 5 mile radius

## Distribution

G.S. 18B-805 (c) (2) requires the board to expend quarterly at least five percent of profits for law enforcement. The remaining profits are to be expended quarterly as follows:

- 5% to Brunswick General Fund for fire department
- 50% to Brunswick General Fund
- 45% to Columbus County general fund

In 2011, the Brunswick ABC Board made distributions to law enforcement, \$9,600, the town of Brunswick, \$11,659, and to the county, \$9,539. *See chart below.*



## **FINDINGS AND RECOMMENDATIONS**

On January 21, 2012, ABC Commission Board Auditor, Moniqua S. McLean, visited the Brunswick ABC store and interviewed Deb Sunderland, supervisor. The following are the findings and recommendations relating to the performance audit.

### **Inventory Turnover**

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

- Once a week deliveries target at 6 times or more per year
- Twice a week deliveries target at 5 times or more per year
- Monthly deliveries target at 4.5 times or more per year

The Brunswick ABC Board has a monthly delivery schedule. The inventory turnover rate for the Brunswick ABC Board is 3.7 and does not meet the target rate set by the Commission.

#### *Recommendations:*

- Explore different strategies for increasing turnover by:
  - Requesting permission from the Commission for a price reduction to sell off slow moving products
  - Moving stock within the store to increase visibility; use recipe cards, displays, and other marketing techniques to increase sales,
  - Identifying unsold inventory for transfer to another board which has demand,
  - Initiating new marketing strategies to encourage impulse shopping
  - Analyzing sales history reports carefully to avoid overstocking
- Take advantage of SPA's and quarterly price reductions whenever possible
- Contact boards whose inventory turnover rate exceeds the target for new ideas that may be implemented in your store

### **Operating Cost**

Operating costs are calculated by dividing total operating expenses less depreciation by the gross profit sales (Total Operating Expenses less Depreciation/Gross Profit). 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 Brunswick ABC Board has an operating cost ratio of .82 and is within the limits of the goal set by the Commission. *An analysis of historical data on operating expenses and common expenses is found in the Appendix A.*

### **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 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%

The Brunswick ABC Board has a profit percentage of 3.15% and does not meet the goal set by the Commission.

#### *Recommendations:*

- Increase sales using the strategies recommended under inventory turnover.
- Take advantage of every selling day possible; do not close the store except when required by law. If sales warrant, keep store open on all other holidays (Martin Luther King Jr. Birthday, Good Friday/Monday, Memorial Day, Veteran's Day) and advertise in advance the fact that you will be open by a sign on the door.
- Consider merging with another ABC board to reduce overhead and share in expenses.

### **Working Capital**

Working capital is total cash, investments, and inventory less all unsecured liabilities. Gross sales mean gross receipts from the sale alcoholic beverages less distributions as defined in GS 18B-805 (b) (2), (3), and (4). The Commission has set efficiency goals based on the following breakdown:

- Four months for board 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

Under the new guidelines, the Brunswick ABC Board's minimum working capital is \$12,425 and the maximum working capital is 107,684. The actual working capital for the Brunswick ABC Board is \$138,883 as of June 2011 and has exceeded the maximum working capital allowed by \$31,198. Although the board has elected to keep \$10,000 for capital improvements and to distribute the remaining \$21,198 to the town, there is not approval from the appointing authority granting the withholdings.

#### *Recommendations:*

- Ask the appointing authority for approval to withhold a portion of distributions for capital improvements or consider distributing more of the working capital retained.

- Once approval is granted from the appointing authority, develop a strategic plan detailing future capital improvements for which these funds are being retained. Once drafted, submit a copy to the Commission.

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

The Brunswick ABC store has approximately 816 linear feet of shelf space and currently carries approximately 825 product codes. *Refer to Appendix B for photos.*

- The store, though dated, was clean, smoke-free, well-lit, and free of clutter in the counter area. The exterior area was free of trash and well manicured.
- Although the current shelf management system goes beyond placing products in code number order, management is in the process of further improving the system to cater to current marketing and industry standards. An ABC Commission representative was requested to help with a shelf management plan.
- The Fetal Alcohol Syndrome poster was displayed.
- The price book and monthly sales list were available to customers at the counter area.
- Sales clerks greeted and attended customers in a professional manner exhibiting good customer service.
- The board does not have a written policy for handling price discrepancies between shelf and the register.

#### *Recommendations:*

- Develop an effective and efficient shelf management system that better utilizes the spacing areas. An acceptable shelf management plan incorporates the concepts found in NCAC 02R.1707. *Refer to Appendix C (1) for rule.*
- To exhibit good customer service, have a written price discrepancy policy and include in the employee handbook so that all employees will know what to do if a customer has a discrepancy. The Commission will provide a sample policy upon request. *Refer to Appendix C (2) for rule.*

### **Policies and Procedures**

- A travel policy has not been adopted and filed with the Commission.
- Accounts payable and bookkeeping services are performed by an external accounting firm. Once the utility and liquor invoices are received and approved by the finance officer, the accounting office submits for payment. The checks are signed by the finance officer and a board member and are mailed by the store supervisor.
- All employees maintain their own cash drawer/till. The cash drawer is counted before and after each shift.
- Physical inventory counts are performed monthly by all scheduled staff with frequent spot checks.

*Recommendations:*

- Adopt a travel policy that meets requirements of 18B-700 (g) and file a copy with the Commission (2R.0909 (c)). *Refer to Appendix C (3) for statute.* If the board decides to adopt the travel policy of the appointing authority, submit to the Commission a copy of the appointing authority's travel policy, a written copy of the board's travel policy, and an approval from the appointing authority allowing the board to adopt the policy. If the board decides to adopt the State's travel policy, a copy of the minutes approving the adoption of the travel policy must be provided to the Commission.

**Personnel/Training Compliance**

- Training is provided to new and existing employees as new information is available.
- Employees rely on a calendar for scheduling hours. A time clock is used by all employees to verify the hours worked. The current supervisor approves the time cards, calculates the individual payroll tax, and forwards to the finance officer for review.
- The newly appointed board member and the supervisor have not attended the mandatory ethics class. Once the new dates are available, both will schedule to attend.

*Recommendations:*

- Attend free annual training, such as the Responsible Alcohol Seller Program, offered by the Commission and other approved venues. Document training opportunities and place employee's personnel file.

**Administrative Compliance**

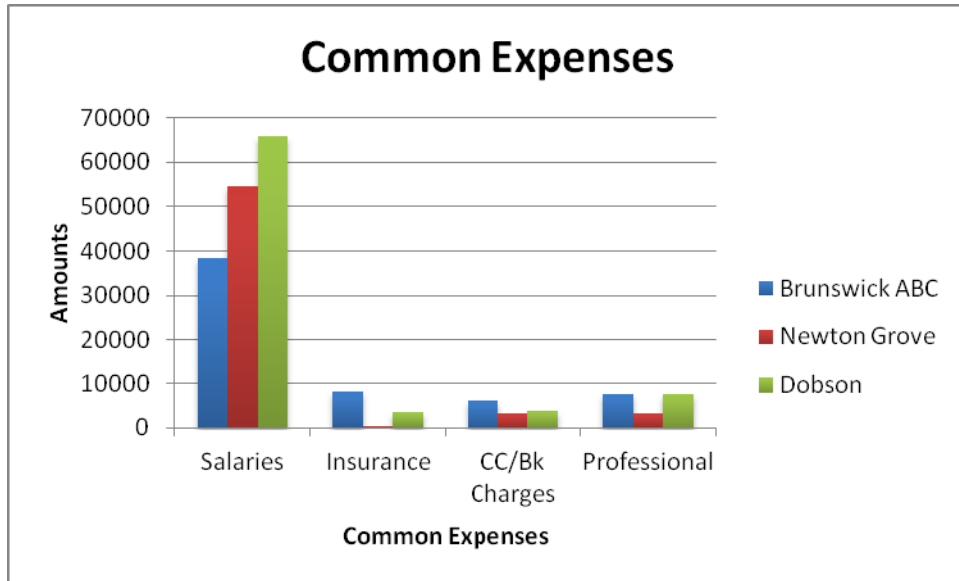
- Board meeting minutes were available to view and followed the order of proceedings for conducting a business meeting. However, they did not reference the conflict of interest statement.
- Board information on the Commission website does not reflect the board members' latest appointment dates. Board member compensation met the current statutory requirements. The Commission auditor updated this information once provided.
- Nepotism – The board is in compliance with G.S. 18B-700(k).
- Current shelf prices do not reflect the prices set by the Commission. Canadian Lord Calvert 38-769 1.75L and Canadian Lord Calvert .375L showed August 2009 prices, Absolut 12Pk 21-363 showed November 2010 prices.
- Orders to LB&B do not bear the pre-audit certificate as required by GS 18B-702 (m).
- There is no written confirmation from the appointing authority approving distributions to be made annually or to retain over the maximum allowed of working capital for a capital improvements project.
- The board does not have a full or part-time manager.

- A deputy finance officer has not been appointed to fill in if the finance officer is unable to work.

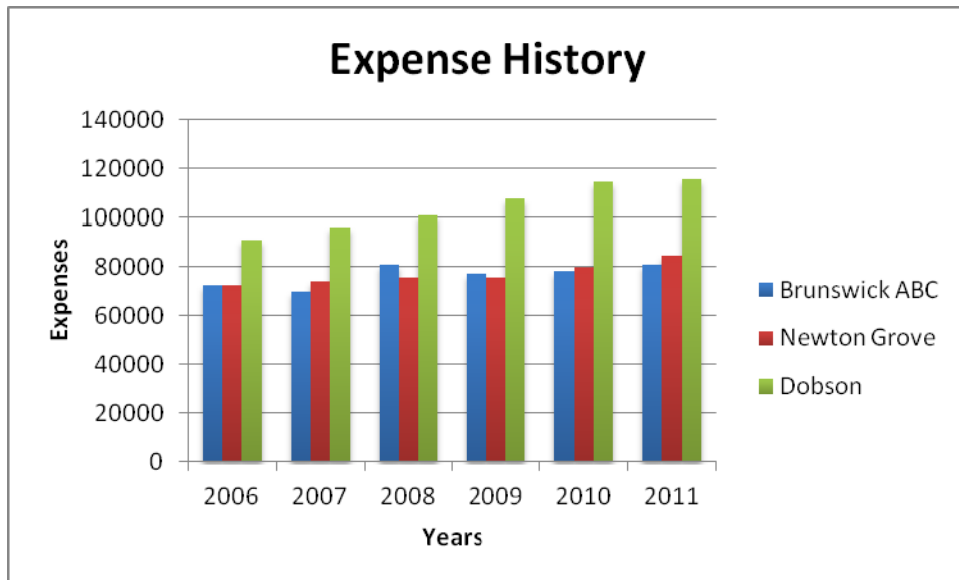
*Recommendations:*

- In an effort to avoid possible conflicts of interest, it is recommended that at the beginning of each board meeting the Chairman ask fellow board members if there are any potential conflicts of interest. *Refer to Appendix C (4).*
- 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.
- Orders to LB&B for liquors must have the pre-audit certificate stamped and signed by the finance officer before the orders are placed.
- Have the appointing authority provide an approval to withhold distribution payments until the end of the year.
- Hire a full or part-time manager to perform the administrative and managerial functions pertaining to store operations. *Refer to Appendix C (5) for statute.*
- Appoint a deputy finance officer to aid in the duties of the finance officer when he/she is absent. *Refer to Appendix C (6) for statute.*

## APPENDIX A Operating Expense Analysis

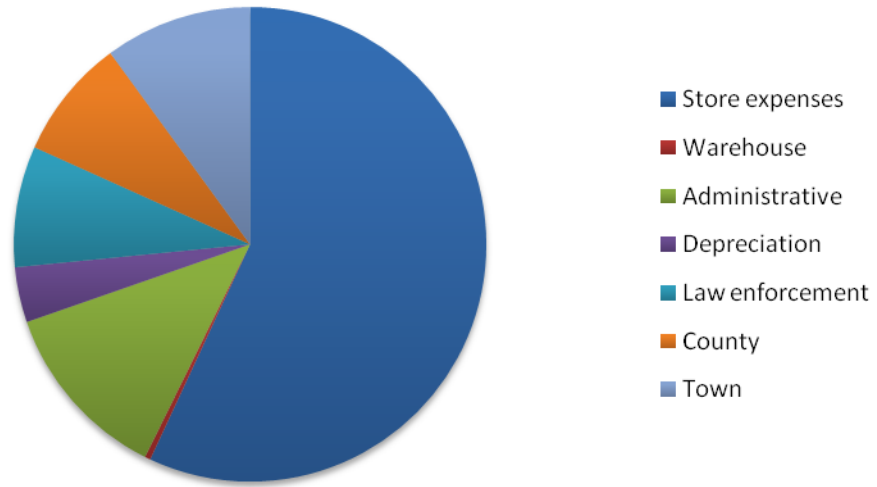


Common expenses comparison of similar size boards reveals Brunswick ABC's expenses are not out of line.



The expense history comparison of similar size boards reveals that Brunswick ABC's expenses are a little lower compared to other similar size boards.

## Breakdown of Expense/Distributions



This chart analyzes the breakdown of expenses and distributions of the Brunswick ABC Board.

# APPENDIX B



Counter area of the store.



Incorrect shelf price on 38-775 and 38-769



*Incorrect prices on 21-363.*



## APPENDIX C

(1) NCAC 02R.1711 (a) states, "Each local board shall establish and maintain a shelf management plan. The local board shall establish policies within its plan that govern the following concepts:

- (1) Set the higher price items on the upper shelves at eye level and set the low price items on the bottom shelves;
- (2) Block categories in vertical sets per their category;
- (3) Arrange bottle sizes so they increase left to right of the same item;
- (4) Create brand billboard by stacking all brand sizes together;
- (5) Set shelf space for a product equal to market share for the individual store after the product has been carried for a year;
- (6) Set and maintain all bottles at the front of the shelf; and
- (7) Discontinue low profit slow moving items."

(b) Each local board shall keep a copy of its shelf management plan at each store location and, upon request, provide a copy to a Commission representative."

(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) 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]."

(4) 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 GS 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?'*

(5) 18b-803 (a) states, "A local board shall provide for the management of each store operated by it. The board shall employ at least one manager for each store, who shall operate the store pursuant to the directions of that board."

(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)

# **ABC COMMISSION AUDIT 2012** **FINDINGS AND RECOMMENDATIONS**

## **INVENTORY TURNOVER**

**IMPLEMENTED NEW MARKETING STRATEGIES FOR SLOW MOVING ITEMS**

## **OPERATING COSTS**

**PER THE AUDIT FINDINGS, THE BRUNSWICK ABC BOARD HAS AN OPERATING COST RATIO OF .82 AND IS WITHIN THE LIMITS SET BY THE COMMISSION.**

## **PROFIT PERCENTAGE TO SALES**

**SINCE PERFORMANCE AUDIT DATE, TARGET HAS BEEN MET OR EXCEEDED EACH MONTH.**

## **WORKING CAPITAL**

**OUR WORKING CAPITAL IS TO BE DISTRIBUTED ON A QUARTERLY BASIS BY OUR ACCOUNTING FIRM**

## **STORE APPEARANCE**

**OUR STORE MANAGER HAS ALREADY CHANGED, AND IN THE PROCESS OF STILL CHANGING SOME SHELVING IN OUR STORE TO BETTER UTILIZE STORE SPACE AND PREVENT THEFT.**

## **CUSTOMER SERVICE**

**OUR PRICE DISCREPANCY POLICY IS THE SAME AS THE STATE. THIS IS INCORPORATED IN OUR HANDBOOK.**

## **POLICY AND PROCEDURE COMPLIANCE**

**OUR TRAVEL POLICY THAT HAS BEEN ADOPTED BY OUR STORE IS THE SAME AS THE STATE POLICY.**

### PERSONNEL/TRAINING COMPLIANCE

OUR STORE MANAGER, DEBORAH SUNDERLAND, AND BOARD MEMBER TAMMY BLACKMON HAVE ATTENDED THE ETHICS TRAINING CLASS AND STORE MANAGER, DEBORORAH SUNDERLAND, ALSO ATTENDED THE GENERAL MANAGERS MEETING LAST MONTH.

### ADMISTRATIVE COMPLIANCE

A CONFLICT OF INTEREST STATEMENT HAS BEEN ADDED TO OUR AGENDA EACH MONTH AND ADDRESSED AT THE BEGINNING OF EVERY MEETING.

THE BOARD MEMBERS LATEST APPOINTMENT DATES WERE UPDATED BY MONIQUE PER MY REQUEST ON MARCH 12, 2012.

DISTRIBUTIONS PAYMENTS ARE TO BE DONE QUARTERLY.

DEB IS ACTING AS PART-TIME MANAGER TO ASSUME HANDLING ADMINISTRATIVE AND MANAGERIAL DUTIES PERTAINING TO THE STORE OPERATIONS.

### INTERNAL CONTROL

DEBORAH SUNDERLAND IS GOING TO BE APPOINTED AS DEPUTY FINANCE OFFICER SINCE SHE HAS NOW COMPLETED ETHICS TRAINING.

### LETTER OF SUGGESTION FROM OUR CPA FIRM, ALAN THOMPSON

BRUNSWICK ABC BOARD  
PO BOX 7  
BRUNSWICK, NC 28424

Alcoholic Beverage Control Commission  
400 East Tryon Rd  
Raleigh, NC 27610

In response to the findings and recommendations provided by Moniqua McLean, we offer the following response:

Inventory Turnover

We will explore different strategies for eliminating slow moving products. In the past, we have sold inventory that does not sale well in our store to other local ABC Board's, and we will continue analyzing sales to see which items can be sold to other stores. In addition, we will request permission from the Commission for a price reduction to sell off slow moving products, and we will move stock within the store to increase visibility.

Profit Percentage to Sales

Brunswick ABC Board's profit percentage of 31.5% does not meet the goal set by the Commission. We feel that better controls on the Inventory as identified above will help this percentage.

Working Capital

The Board has elected to establish a capital improvement account to retain \$10,000 for capital improvements. A copy of this plan will be provided to the Commission upon completion and approval by the Board. In addition, the Board has made distributions of the working capital as calculated using the formula provided on the ABC Commission's website. Each quarter, the working capital calculation is reviewed to see if a distribution needs to be made. So far in fiscal year 2012-2013

Store Appearance

We are working on developing an effective and efficient shelf management system that better utilizes the spacing areas, as described in the concepts found in NCAC 02R.1707.

Policy and Procedural Compliance

We have adopted a travel policy and have filed it with the Commission. A copy of the minutes are provided.

Personnel / Training Compliance

We will review the Commission's website and mailings to ensure that our personnel are obtaining appropriate training. A file will be maintained on each employee, to include documentation on training.

Administrative Compliance

We have adopted the practice of asking if there are any potential conflicts of interest at the beginning of each board meeting.

We will audit the prices listed on the shelves more thoroughly to ensure that the listed price matches the uniform pricing list as provided by the Commission. This was clearly an oversight.

The pre-audit certificate is used for purchases. This was clearly an oversight as well.

Per G.S. 18B-805, the Board is to make quarterly distributions of profits. However, it would be simpler to calculate this amount at year-end, so we will propose an approval to withhold distribution payments until the end of the year as recommended.

The Board has not hired a general manager at this time. Deborah Sunderland is the store supervisor.

Internal Control

We are in the process of finding a deputy finance officer to fill in when the finance officer is not available. The finance officer position is held by a local CPA.

The Board and Finance Officer are currently working on a plan to implement the recommendations provided by your review. Should you need any additional information, please feel free to give us a call.

Sincerely,



Alan Thompson, Finance Officer

## TOWN OF BRUNSWICK ALCOHOL BEVERAGE CONTROL BOARD

### Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Policies and Procedures:</b> Adopt a travel policy that conforms to either 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 type="checkbox"/> Partially implemented __% complete. (Explain below.)</p> <p><input checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>The board has submitted a travel policy but it does not conform to the appointing authority or the State's policy. A sample copy of the State's travel policy was forwarded to the board.</p>
<p><b>Administrative Compliance:</b> Include in the board meeting minutes the conflict of interest statement.</p> <p>Affix the pre-audit certificate on all orders.</p> <p>Audit shelf tags more often for correct pricing.</p> <p>Hire a full or part-time manager.</p> <p>Appoint a deputy finance officer.</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 30% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>The finance officer is currently placing the pre-audit certificate on all orders. Management has implemented a procedure for checking pricing. The board has not hired a general manager but has appointed a supervisor. The board has also appointed a deputy finance officer.</p>