

# Sunset Beach ABC Board

## Performance Audit Report



Alcoholic Beverage Control Commission  
400 East Tryon Road, Raleigh, NC 27610  
p: 919-779-0700 | f: 919-661-5927 | <http://abc.nc.gov>



**ABC**  
COMMISSION  
NORTH CAROLINA



# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

CHAIRMAN:  
JAMES C. GARDNER

COMMISSIONERS:  
JOEL L. KEITH  
Wake Forest

KEVIN M. GREEN  
Greensboro

ADMINISTRATOR:  
MICHAEL C. HERRING

LOCATION:  
400 East Tryon Road  
Raleigh NC 27610

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

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

**Moniqua S. McLean**  
ABC Board Auditor

February 20, 2014

Sunset Beach ABC Board  
Mr. Bob Bobinski, Chairman  
7400 High Market Street  
Sunset Beach, NC 28468

Dear Chairman Bobinski,

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

The report consists of an executive summary, background information, operational findings and recommendations along with your general manager'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 along with the efficient 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

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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 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 the store;
- Interviewed key ABC board personnel.

The Sunset Beach ABC Board responded to the performance audit recommendations and continues to establish strategies to maintain profitability while reducing current operating expenses. Policies and procedures have been implemented to ensure compliance with statutes and Commission rules and to ensure efficient operations.

## **BACKGROUND INFORMATION**

Chapter 734 of the 1969 Session Laws authorized the Town of Sunset Beach to hold an election for an ABC store upon a petition signed by at least fifteen percent (15%) of registered voters. The referendum was held on July 15, 1969 and passed 22 to 3. The first retail sale occurred on April 11, 1970. A mixed beverage election was held on January 27, 1979 and passed 43 to 22. The first mixed beverage sale occurred on March 3, 1979.

Upon election of an ABC store, an ABC board was created consisting of a chairman and two members to serve for three year terms. Current board members are Bob Bobinski, board chairman, Betty Oakes and Donald Koser, board members.

The Sunset Beach ABC Board operates one retail store. The board staffs one full-time general manager and seven part-time employees including an assistant manager. The general manager's duties consist of overseeing and managing daily operations of the store including supervising personnel, inventory control, budget maintenance, and providing customer service. The assistant manager provides assistance to the general manager as well as providing customer service. All store employees are responsible for providing friendly customer service, store upkeep, and stock maintenance.

## **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 Sunset Beach ABC Board receives deliveries twice a month: the inventory turnover rate is 5.3. 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):

- 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 Sunset Beach ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.66. Mixed beverage sales make up 8.2% of total gross sales. In fiscal year 2013, sales increased 1.6% as expenses increased 11.6% over the same time period. *An expense comparison is located in Appendix A.*

*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 FY2013, the Sunset Beach ABC Board had a working capital of \$239,477, which is equivalent to less than four months gross sales and is within the limits of NCAC 02R .0902.

## Profit Percentage to Sales

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

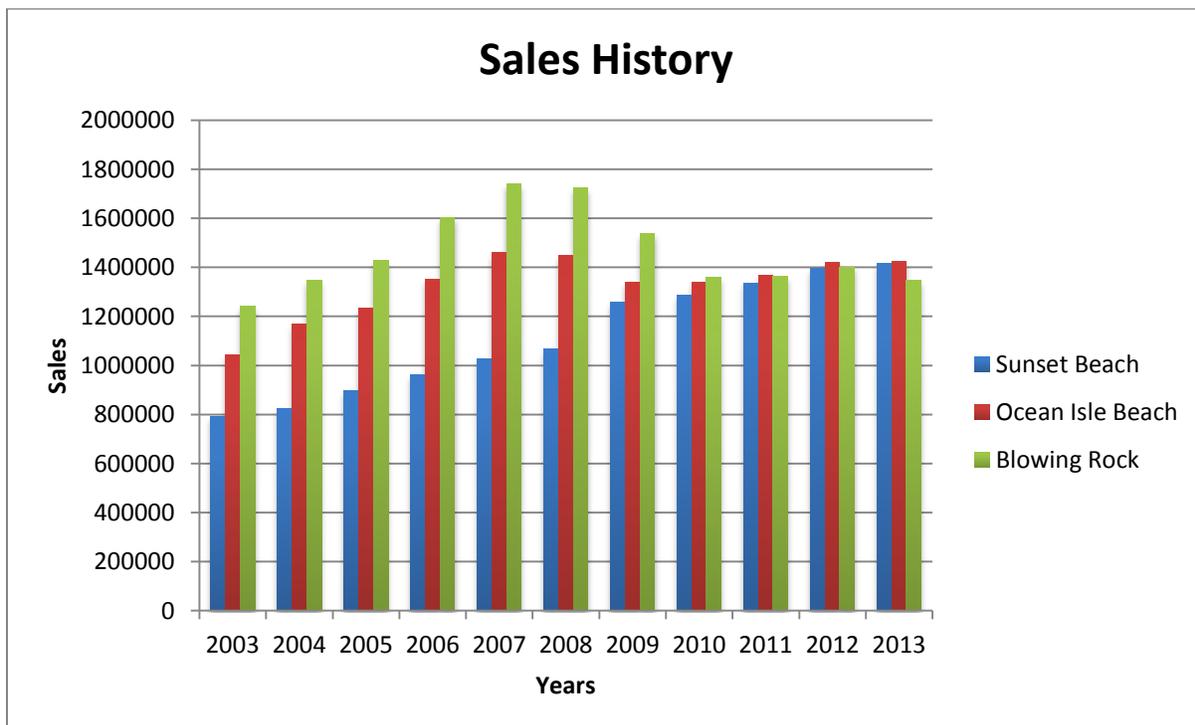
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2013, the Sunset Beach ABC Board had gross sales of \$1,416,744; income before distributions was \$102,628, a 7.24% profit percentage to sales.

Factors affecting sales and profitability:

- Surrounding ABC boards within a twenty mile radius include, Ocean Isle Beach, Shallotte, and Calabash;
- South Carolina border is less than 10 miles from the ABC store;
- Sales increased 1.6% over the previous fiscal year;
- Population of Sunset Beach, NC is estimated to be 3,572 in 2010.

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

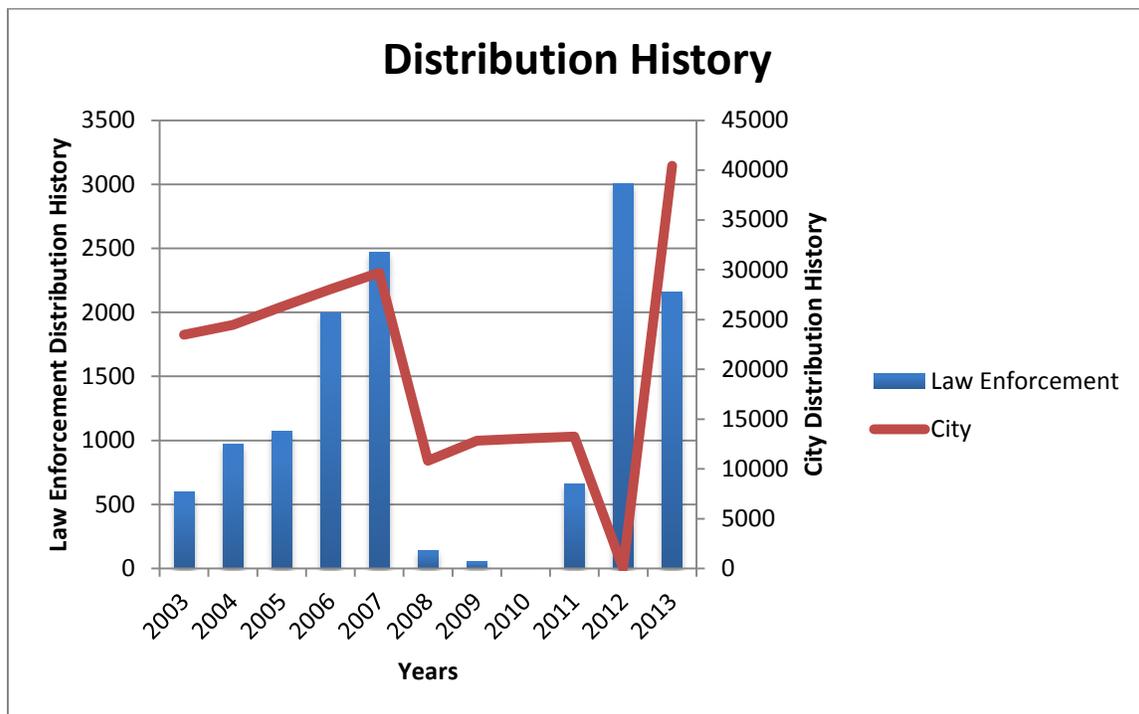


## Distributions

G.S. 18B-805 (c) (2) requires the board to distribute at least five percent (5%) of profits to law enforcement. The board follows the local enabling act for alcohol education distribution. The remaining profits are to be distributed to the Town of Sunset Beach General Fund.

In FY2013, Sunset Beach ABC made the required minimum distribution to the county totaling \$40,438. \$326,419 in Excise and other taxes were paid to the NC Department of Revenue and the town. A total of \$2,159 was paid to law enforcement.

Below is a distribution chart analyzing the high-low trend of the Sunset Beach ABC Board for the past ten years. In 2007, the board obtained a waiver from the appointing authority withholding distributions for five years ending in 2012.



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

On November 25, 2013, ABC Board Auditor, Moniqua S. McLean, visited the Sunset Beach ABC board and interviewed Michael Wheat, general manager, Bob Bobinski, board chairman, and Betty Oakes, board member. The following are the operational observations, findings, and recommendations related to the performance audit.

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

The Sunset Beach ABC Board operates one retail store with approximately 1,400 linear feet of shelf space and carries approximately 1,450 product codes. *Pictures are found in Appendix B.*

- The store was clean, well-dusted, and maintained. Bottles were fronted and neat. Counter areas were free of clutter and supplies were easily accessible.
- Exterior signage and landscaping around the store was clean and free of trash. Interior signage was neat and visible. The Fetal Alcohol Syndrome poster was displayed.
- Security systems are in place and functional in all locations.
- A consistent shelf management plan that exhibits a strategy per category following the highest priced product on the top shelf and the lowest priced product on the bottom shelves. *See pictures on page 13.*
- The state price book is available should customers ask for specific product. Sales clerks' often refer to the price book for verification of product listing and pricing.
- Sales clerk's interaction with customers is attentive, courteous, and all are eager to meet the needs of the customers. Employees are knowledgeable about the product and customers' needs.

*No Recommendations.*

### **Personnel and Training**

- All board members, the general manager, and the finance officer have completed ethics training. One board member has been reappointed and has not completed the ethics training.
- Cross training opportunities have been extended to key employees in the event the general manager is suddenly unavailable.
- Training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities on a continual basis.

*Recommendations:*

- Have all reappointed board members complete the ethics requirement within 12 months of reappointment. *Refer to Appendix C (1) for statute.*

## **ABC Board Policies**

- Policies adopted and submitted to the Commission include:
  - Code of Ethics
  - Law Enforcement Contract
  - Travel Policy (Town of Sunset Beach Policy Approval 2013)
  - FY2013 Annual Audit
  - Employee Manual
  - FY2014 Budget (Proposed and Adopted)
  - Mixed Beverage Policy
  - Price Discrepancy Policy
  - Shelf Management Policy

*No Recommendations.*

## **Internal Control Procedures**

- All clerks use time sheets to maintain scheduled hours. The assistant general manager verifies all time sheets to determine accuracy and inputs data into payroll software to calculate tax and other withholdings. Once payroll checks are drafted, the general manager will verify before checks are signed. The master payroll activity report is verified and reconciled by the general manager. Back up is conducted daily or every other day.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer.
- 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 and assisted by the bookkeeper.
- Physical inventory counts are completed every other month. Spot checks are conducted more frequently throughout the month by category. If discrepancies occur, the general manager and assistant manager will investigate and recount for accuracy and verification. Once completed, the assistant manager will adjust the inventory system to match with the actual store counts. The general manager is also able to adjust the inventory system.

*No Recommendations.*

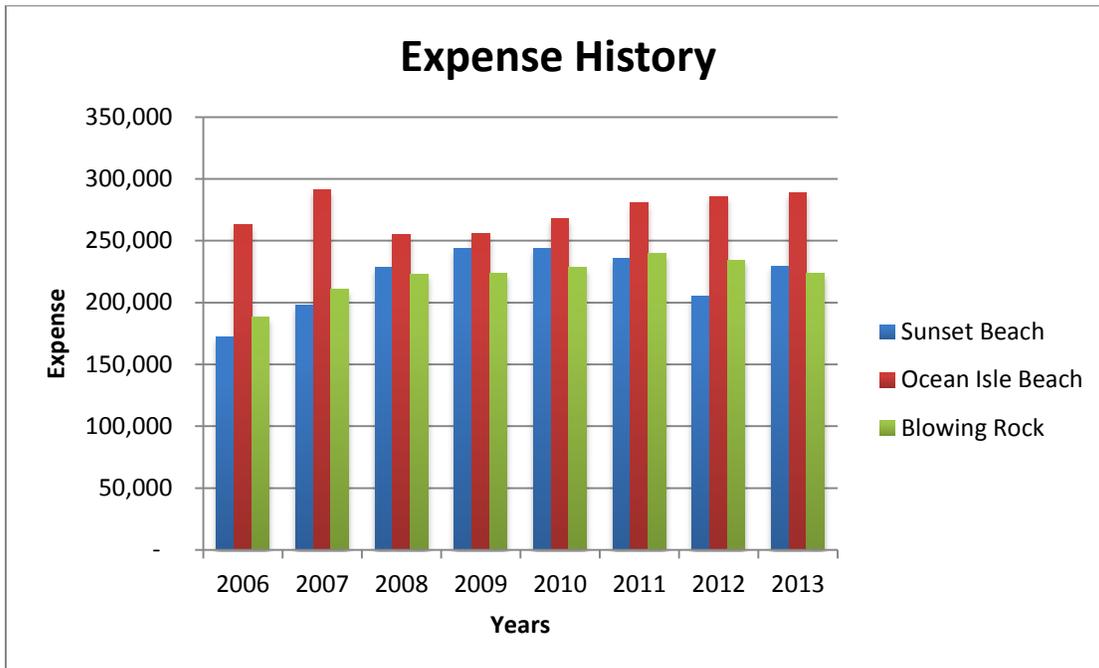
## **Administrative Compliance Findings and Observations**

- Board meeting minutes were viewed and followed the order of proceedings providing information that a reasonable person would be able to follow. Board meeting minutes referenced a conflict of interest statement.
- Board member and general manager information, appointment dates and compensation amounts, are current on the Commission website.
- Board member and general manager compensation is in compliance with G.S. 18B-700 (g) and (g1).
- Law enforcement activity reports have been submitted to the Commission as required by G.S. 18B-501 (f1).
- Nepotism – The board is in compliance with G.S. 18B-700 (k).
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- The general manager serves as the finance officer of the board. The board has obtained an approval from the Commission for the general manager to serve as the finance officer until May 2015.
- A review of travel reimbursements revealed that expenses follow the travel policy adopted with documentation attached.
- Orders for liquor and other miscellaneous orders bear the pre-audit certificate as required by G.S. 18B-702 (m).
- All checks bear the approved certificate and are signed by the general manager and a board member. In the event the general manager is unavailable, other board members are authorized to sign checks.
- Out of approximately 1,450 product codes, approximately 180 product codes were sampled, and one was incorrect.

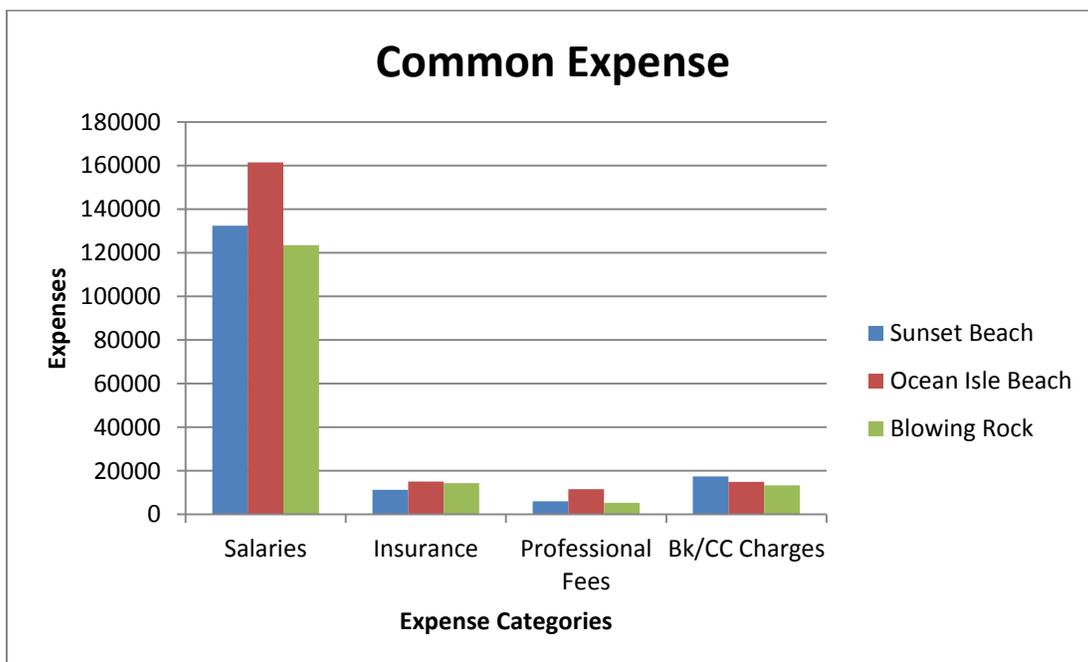
### *Recommendations:*

- Begin to work on a plan to designate someone other than the general manager as finance officer by 2015. *Refer to Appendix C (2) for statute.*
- Audit shelf tags more frequently. Incorporate such practices within spot check time periods.

## APPENDIX A



*The expense history data indicates that Sunset Beach ABC's total expenses have increased 11.6% since fiscal year 2012. Compared with other similar size boards, Sunset Beach ABC's expenses are not out of line.*



*Common expense analysis indicates that Sunset Beach ABC's expenses are relatively lower compared with other similar size boards.*

## APPENDIX B



*Exterior view*



*Counter view of the store*



*Interior view with shelf management*

## APPENDIX C

- (1) G.S. 18B-706 (b) states, "Each member of a local board shall receive a minimum of two hours of ethics education within 12 months after initial appointment to the office and again within 12 months after each subsequent appointment to the office."*
- (2) 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."*

Sunset Beach ABC Board #97  
7400 High Market Street  
Sunset Beach, NC 28467  
910-575-6872

February 4, 2014

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

Dear Moniqua:

I am writing to you in response to our recent Performance Audit conducted by yourself on November 25, 2013.

We would like to thank you for your time and attendance in performing the audit as well as attending our board meeting on January 16, 2014 to assist with any question or concerns.

Currently, we are in the process of making plans to address the situation as regards the Finance Officer. While we do have a waiver from the ABC Commission for the General Manager to act in this capacity, our plans are to have someone in place by May 2015 as our Finance Officer.

As well, our newly appointed board member is planning to complete the ethics requirement in the near future.

Again, we would like to thank you for time. It had been a pleasure working with you during this process. If I may be of further assistance with this or any other matter please do not hesitate to contact me.

Sincerely,



Michael T. Wheat

General Manager  
Sunset Beach ABC Board

## SUNSET BEACH ALCOHOL BEVERAGE CONTROL BOARD

### Recommendation Follow-Up

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Personnel and Training:</b></p> <p>Have all reappointed or newly appointed board members complete the required ethics training.</p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p>	<p>(Please provide documentation supporting implementation status.)</p> <p><input type="checkbox"/> Fully Implemented</p> <p><input type="checkbox"/> Partially implemented ___% complete. (Explain below.)</p> <p><input checked="" type="checkbox"/> Not implemented (Explain below.)</p> <p>Board members are planning to purchase the webinar on-demand to complete the ethics training. Once completed, a verification form will be submitted to the Commission.</p>
<p><b>Administrative Compliance:</b></p> <p>Appoint a finance officer other than the general manager.</p>	<p><input checked="" type="checkbox"/> <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 acquired a waiver from the Commission allowing the general manager to serve as finance officer until 2015. The board plans to have someone in place other than the general manager by the expiration date.</p>