

Oak Island 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:
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Your Name
Director
Permit Division
(this is editable)

June 19, 2013

Oak Island ABC Board
Mr. Everett Norton, Chairman
5402 East Oak Island Drive
Oak Island, NC 28465

Dear Chairman Norton,

We are pleased to submit this performance audit report on the Oak Island 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 efficient manner in which your Board is operated and for the efforts 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 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 Oak Island ABC Board submitted a response to the performance audit recommendations. The board continues to improve profitability through analyzing and reducing current costs while continuing 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

House Bill 221 of the 1999 Session Laws authorized the consolidation of ABC boards between the Towns of Yaupon Beach and Long Beach to form the Oak Island ABC Board. The first sale occurred on July 1, 1999.

Under the merger, the Town of Oak Island was authorized to create an ABC Board consisting of a chairman and two members to serve for three year terms. Current board members are Everett Norton, board chairman, Willie Williams and Joe Stanton, board members.

The Oak Island ABC Board operates one retail store. The board staffs five full-time, one part-time, and two seasonal employees. The general manager is responsible for the supervisory, administrative, and financial work for the ABC store. The assistant general manager is responsible for assisting the general manager and performing other functions but not limited to providing customer service, store upkeep, and inventory management. All store clerks are primarily responsible for providing 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 Oak Island ABC Board receives deliveries twice a month; the inventory turnover rate is 5.8.

Recommendations:

- Continue with the following strategies already in place;
 - Analyzing sales and history reports to determine the bestselling products needed and to avoid overstock;
 - Watching customer shopping patterns and using the information to optimize product placement

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 Oak Island ABC Board operates one retail store with mixed beverage sales; the operating cost ratio is 0.68. Mixed beverage sales make up 23% of total gross sales. In fiscal year 2012, sales increased 9.9% over fiscal year 2011 and overall expenses increased 4.9% over the same time period. Expenses have increased due to specific reporting requirements.

No Recommendations.

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:

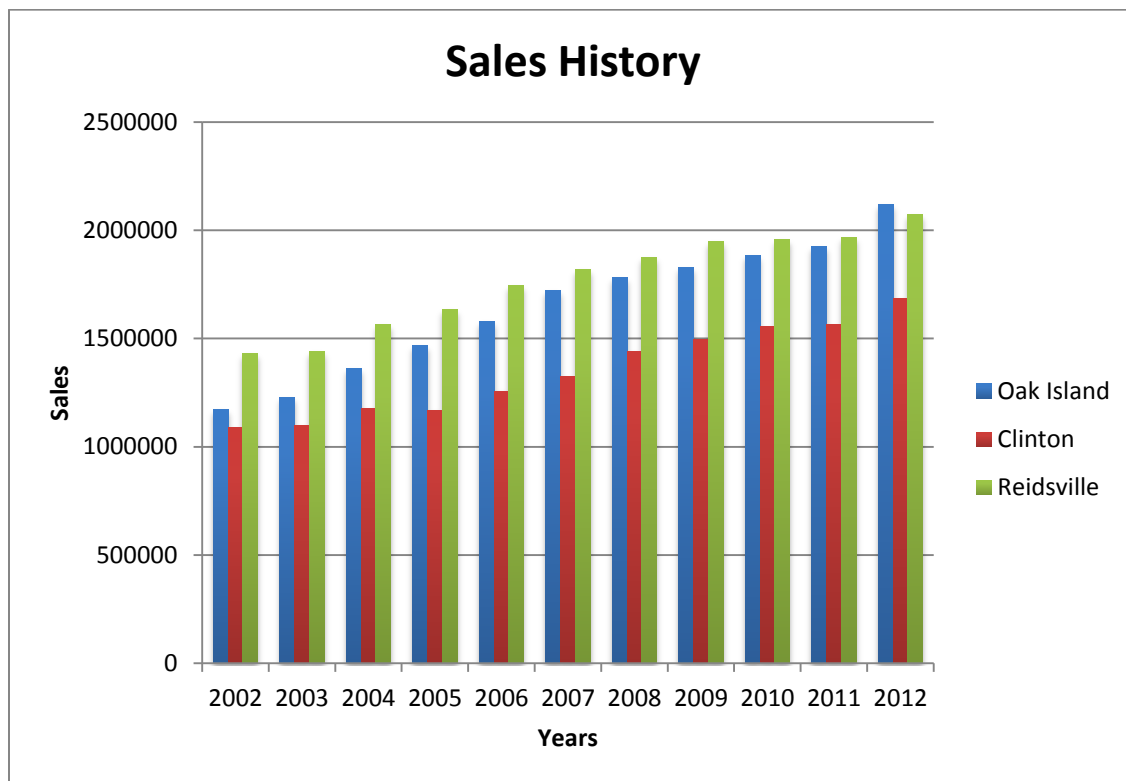
- Gross sales greater than \$10M – target rate at 9%
- Gross sales between \$2M to \$10M – target rate at 6.5%
- Gross sales less than \$2M – target rate at 5%

In fiscal year 2012, the Oak Island ABC Board had gross sales of \$2,116,838; income from operations was \$152,773, a 7.22% profit percentage to sales.

Factors affecting sales and profitability:

- US Census Bureau reports an estimated population of 6,961 in 2011;
- Surrounding counties and towns with ABC stores include New Hanover County, Brunswick County, Boiling Spring Lakes, Belville, Calabash, Shallotte, and Sunset Beach;
- Sales increased 9.9% over the previous fiscal year;
- Growth and development in area contribute to increased shopping patterns which affect sales and profitability.

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



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

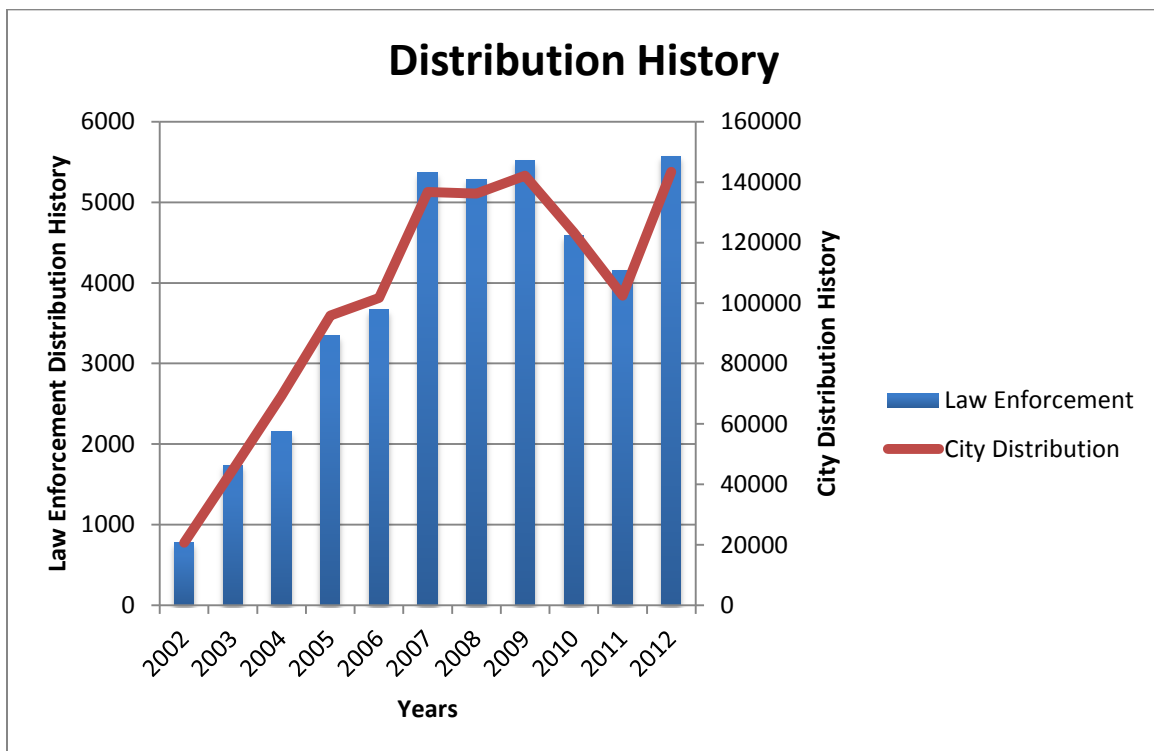
In FY2012, Oak Island ABC had a working capital of \$269,281, which is equivalent to less than three months gross sales and is within the limits of NCAC 02R .0902.

Distributions

G.S. 18B-805 (c) (2) requires the board to distribute quarterly to law enforcement. Alcohol education distributions are not required by the board's enabling act. The remaining profits are to be distributed to the Oak Island General Fund.

In FY2012, Oak Island ABC made the minimum distribution to the town totaling \$58,875, plus additional distribution of \$148,966. \$505,732 in Excise and other taxes were paid to the NC Department of Revenue and \$5,572 was distributed to law enforcement.

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



OPERATIONAL FINDINGS, OBSERVATIONS, AND RECOMMENDATIONS

On April 3, 2013, ABC Board Auditor, Moniqua S. McLean, visited the Oak Island ABC store and interviewed Kaye England, general manager, Orphia Hoppes, assistant general manager, and Joe Stanton, board member. The following are the findings, observations, and recommendations related to the performance audit.

Store Appearance and Customer Service Observations

The Oak Island ABC Board operates one retail store with shelf space of approximately 700 linear feet and carries approximately 900 product codes.

- The store was clean and well-lit. Bottles were fronted and dusted. Counter areas were free of clutter and supplies were easily accessible.
- Exterior signage and landscaping around the store was clean and free of trash.
- The Fetal Alcohol Syndrome poster is displayed.
- Security systems are in place and functional.
- The state price book is available along with the 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 and filling mixed beverage orders.

No Recommendations.

Personnel and Training

- All board members and general manager have attended the initial mandatory ethics class. One board member has been reappointed since and is planning to take the online ethics training.
- Training is provided as new information becomes available to current staff.
- Cross training opportunities have been extended to key employees in the event the general manager was suddenly unavailable.
- An employee handbook was submitted to the Commission in 1999. The board has amended and updated current policies and procedures. Copies of amendments have been submitted to the Commission.

Recommendations:

- When appropriate provide additional training that will include alcohol education, customer service, and product knowledge. The Commission's website has a list of approved alcohol seller/server classes.

ABC Board Policies

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Law Enforcement Contract
 - Travel Policy (City of Oak Island)
 - FY2012 Annual Audit
 - FY2013 Budget (Proposed and Adopted)
 - Mixed Beverage Policy
 - Price Discrepancy Policy
 - Shelf Management Policy

No Recommendations.

Internal Control Procedures

- Physical inventory counts are performed monthly by the general manager and scheduled clerks. Frequent spot checks are performed throughout the month. Counting procedures have two clerks count the sales floor and two clerks count the warehouse. If discrepancies occur, the general manager and another clerk will investigate and recount both places for accuracy and verification. Once completed, mostly the general manager will adjust the system to match with the actual store count. The assistant manager will rarely adjust the inventory counts with the system. Unsalable items are adjusted immediately.
- Cash drawers are counted by clerks. All clerks have their own clerk number for sales transactions. Bank deposits are made daily. The general manager receives deposit verification and matches with the corresponding daily register reports. The assistant general manager reconciles the deposits with the bank statements at the end of the month.

No Recommendations.

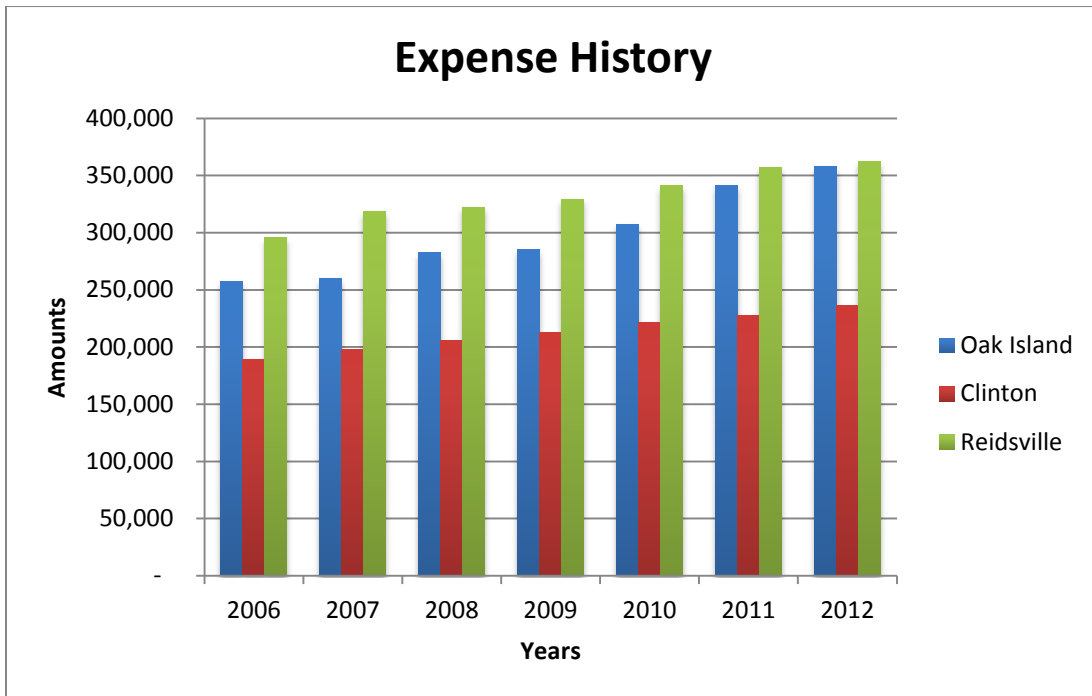
Administrative Compliance Findings and Observations

- Board meeting minutes were viewed and followed the order of proceedings for conducting a business meeting. At each meeting, the board members read and sign the Certificate of Accountability.
- Board member appointment dates and compensation amounts 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 is in compliance with G.S. 18B-700 (k).

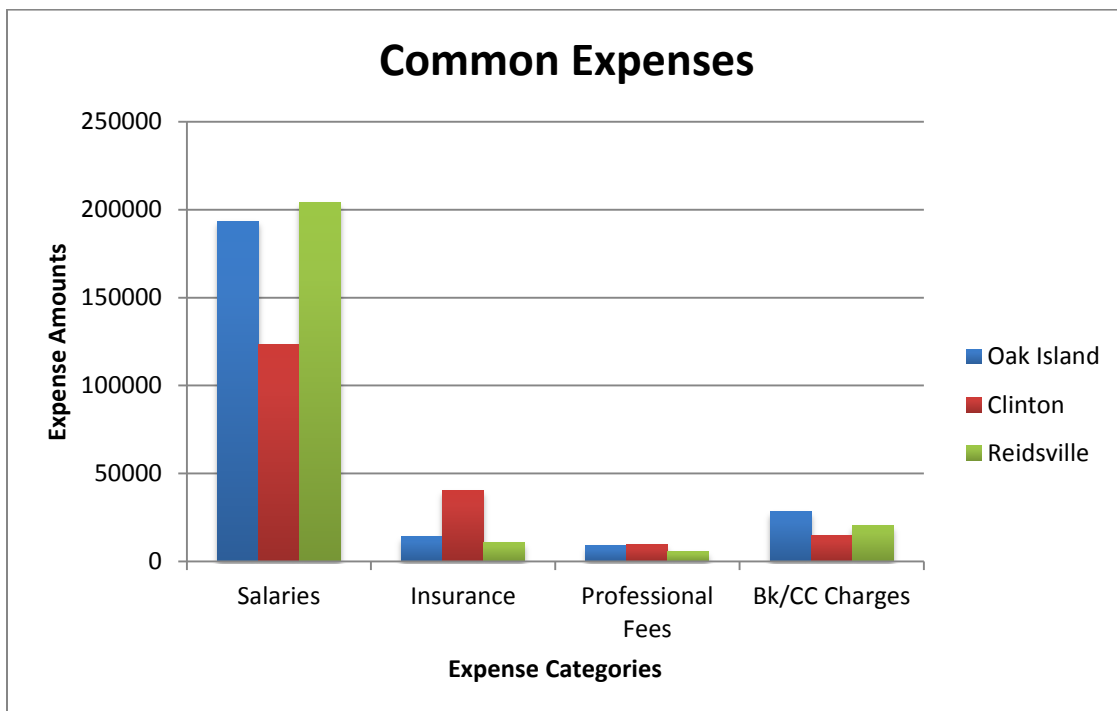
- All board members and the general manager is bonded for \$50,000 as required by G.S. 18B-700 (i).
- The board has obtained a three year extension from the Commission for the general manager to serve as the finance officer. The extension expires November 8, 2013.
- Orders for liquor and other common orders bear the pre-audit certificate as required by G.S. 18B-702 (m). Common orders are accompanied with a purchase order and signed by the general manager/finance officer.
- All checks bear the approved certificate and are signed by the general manager/finance officer and the board chairman.
- Out of approximately 900 product codes, approximately seventy-five product codes were sampled and all were correct.

No Recommendations.

APPENDIX A



The expense history data indicates that Oak Island ABC's total expenses have increased 4.98% since FY2011. Although Oak Island ABC's overall expenses are comparable, expenses will continue to increase due to benefits provided to full-time employees.



Oak Island 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



Exterior view



Counter view.



Interior view.

Oak Island ABC Board

5402 East Oak Island Drive
Oak Island, NC 28465
(910) 278-5551

TO: NC State ABC Commission

From: Oak Island ABC Board

Date: May 15, 2013

Subject: ABC Performance Audit Response

This memorandum is to officially respond to the Performance Audit of the Oak Island ABC Board performed on April 3, 2013. Moniqua McLean performed the audit and also attended our monthly Board meeting on May 14, 2013 to present her findings and answer any questions about her recommendations. Our audit included that we were in compliance with all performance standards.

1. Personnel/Training Compliance

Commission Recommendations

- There was a recommendation to provide additional training that would include alcohol education, customer service and product knowledge.

Oak Island ABC Board

- Orphia Hoppes and Kay England attended Excel 2010 Classes in April 2013
- Everett Norton (Chairman) renewed his ethics and responsibility training online and received a perfect score of 100 on May 7, 2013.
- Kay England (General Manager/FO) called Eleanor Johnston to schedule a refresher training class for the employees and she responded that her job was ending in a week and the training departments no longer exist. I guess I will have to rely on the NC ABC Commission Website and other educational programs I can find.

The Oak Island ABC Board is very pleased with the results of this performance audit and strives to improve in all areas so we can be efficient as possible. The Oak Island ABC Board would like to thank Moniqua McLean for a very professional and productive audit.

Thank You,



Marian Kay England

Oak Island ABC Board

General Manager/Finance Officer

Everett Norton (Chairman)
Willie Williams (Board Member)
Joe Stanton (Board Member)