

Ocean Isle Beach 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

COMMISSIONERS:
JOEL L. KEITH
Wake Forest

KEVIN M. GREEN
Greensboro

ADMINISTRATOR:
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Moniqua S McLean
ABC Board Auditor
919-779-8365

March 2, 2015

Ocean Isle Beach ABC Board
Mr. George B. Montague, Chairman
1505 Ocean Isle Beach Road
Ocean Isle Beach, NC 28469

Dear Chairman Montague,

We are pleased to submit this performance audit report on the Ocean Isle 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 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 your efforts to maintain profitability and reduce expenses. Congratulations on the success of your new location.

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

Respectfully,

Robert A. Hamilton
Administrator

CC. North Carolina Association of ABC Boards

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 board annual audit for the fiscal year 2014;
- Visited the store;
- Interviewed key ABC board personnel.

BACKGROUND INFORMATION

Chapter 344 of the 1961 Session Law authorized the Town of Ocean Isle Beach to hold an election upon a written petition of at least fifteen percent (15%) of registered voters. The first retail sale occurred on August 11, 1961. A mixed beverage election was held on March 20, 1979 and passed 36 to 34. The first mixed beverage sale occurred on July 25, 1979.

Upon election of an ABC store, the town was authorized to create an ABC board consisting of a chairman and two board members to serve three staggered year terms. Current board members are George Montague, board chairman, Bob Calhoun and Buddy Russel, board members.

The Ocean Isle Beach ABC Board operates one retail store. The board staffs three full-time and four part-time employees. The general manager is responsible for oversight of all daily operations pertaining to the store, inventory management, human resources, accounts payable, and implementation of other administrative decisions for the board. The finance officer is responsible for approving payments, check signature, and budget maintenance. The board has hired an external accountant to provide additional checks and balances pertaining to monthly adjustments, payroll, and taxes. Store employees are primarily responsible for providing friendly customer service to all customers, general store upkeep, and stock maintenance.

OPERATIONAL OBSERVATIONS, FINDINGS, AND RECOMMENDATIONS

On October 29, 2014, ABC Board Auditor, Moniqua S. McLean, visited the Ocean Isle Beach ABC store and interviewed Kevin Dillow, general manager, and Wayne Rowell, finance officer. Below is a financial analysis followed by operational observations, findings, and recommendations related to the performance audit.

FINANCIAL ANALYSIS

PROFIT PERCENTAGE TO SALES

The profit percentage to sales is calculated by dividing the total income from operations by the total liquor sales (Total 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 2014, the Ocean Isle Beach ABC board had gross sales of \$1,519,325; income from operations was \$96,722, a 6.37% profit percentage to sales.

Factors that affect sales and profitability:

- Agreement with developer that prohibits the sale of mixers in direct competition with the neighboring grocery store;
- Relocation to a site off island is expected to increase sales.

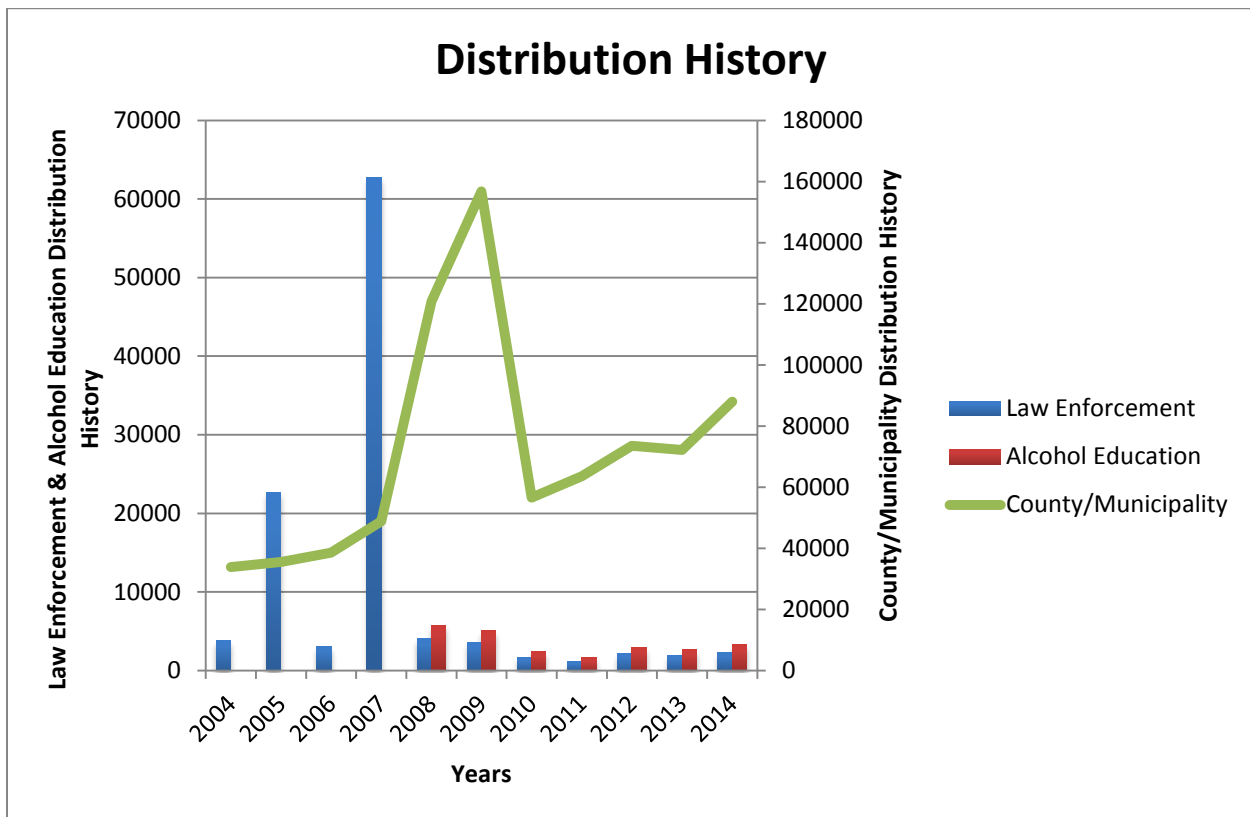
DISTRIBUTIONS

G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, mixed beverage and bottle taxes. G.S. 18B-805 (c) (1) requires the board to make a minimum quarterly distribution of the 3 ½% markup rate to the town. In FY2014, Ocean Isle Beach ABC made the required minimum distribution to the town totaling \$41,697, plus additional distribution of \$40,654. \$361,402 in excise and other taxes were paid to the NC Department of Revenue, the Department of Health and Human Services, and the town.

G.S. 18B-805 (c) (2) requires the board to distribute at least five percent (5%) of profits to law enforcement. The local enabling act does not require the ABC board to distribute for alcohol education. However, the board has approval from the appointing authority to fund an alcohol education program for the current fiscal year.

The remaining profits are to be distributed 100% to the Ocean Isle Beach General Fund out of which the town shall make an annual distribution to Union Primary, Shallotte Middle and West Brunswick Schools in amounts to be determined by the Ocean Isle Town Council. The board pays additional distribution (\$36,000) to the town for renting the store's location.

Below is a law enforcement and municipality distribution chart analyzing the high-low trend of the Ocean Isle Beach ABC Board for the past ten years.



WORKING CAPITAL

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 FY2014, the Ocean Isle Beach ABC Board had a working capital of \$324,114, which is less than the maximum allowed of four months gross sales (\$363,075) and is within the limits of NCAC 02R .0902.

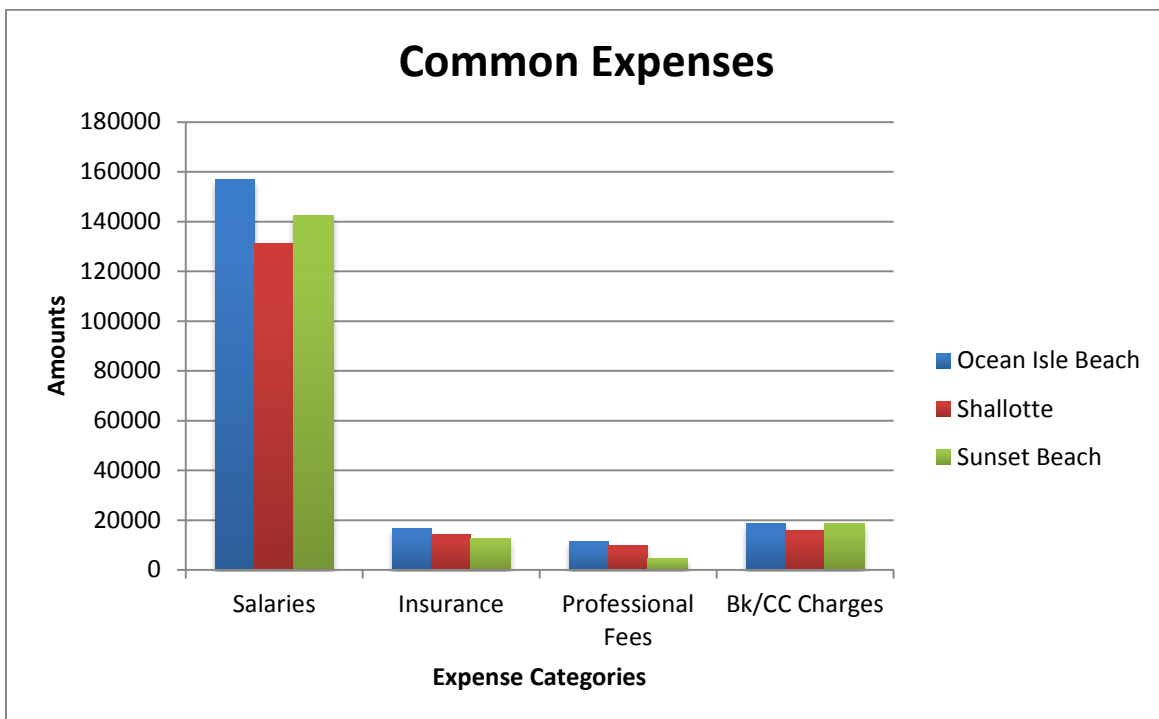
OPERATING COST RATIO

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 Ocean Isle Beach ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.74. Mixed beverage sales make up 22.8% of total gross sales. In fiscal year 2014, sales increased 6.71% over fiscal year 2013 as expenses increased 1.31% over the same time period. During fiscal year 2014, the board relocated the store to the mainland. Costs for the relocation were minimal due to the developer paying for the cost of the property in exchange for the existing location. The board has contributed to significant savings in overhead expenses as a result of owning the store.

A common expense analysis shows that Ocean Isle Beach ABC Board expenses are slightly higher than similar boards.



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 Ocean Isle Beach ABC Board receives deliveries two times a month: the inventory turnover rate is 3.8. The average inventory turnover rate for similar boards with the same delivery schedule is 5.6.

Note: With the relocation to a much larger store, the board has acquired a larger inventory of products to attract more business in a tourist area.

RECOMMENDATIONS

1. Consider the following to increase inventory turns:
 - Incorporating a shelf management plan that analyzes sales data to targeted shopping patterns;
 - Utilizing end caps and empty shelf space as much as possible to highlight slow moving and new products;
 - Moving stock within the store to increase visibility and to encourage more impulse shopping;
 - Splitting cases with other boards or taking advantage of the Special Purchase Allowance and the Boutique collections to increase variety;
 - Eliminating poor performing items to drive category sales and increase shopper satisfaction.

STORE APPEARANCE AND CUSTOMER SERVICE

The Ocean Isle Beach ABC Board operates one retail store with approximately 1,300 linear feet of shelf space and carries approximately 1,600 product codes.

- The store appeared clean and free of trash. Counter areas were neat and well-organized.
- The store displayed neat and well visible signage. The Fetal Alcohol Syndrome poster is displayed in an area visible to the public.
- Landscaping around the store is well-maintained with no evidence of trash.
- Bottles are fronted and dusted.
- A shelf management plan is in use that exhibits a strategy following the premium products at eye level, ultra-premium products on the top shelves, and value products on bottom shelves. Product placement is consistent with sizes arranged from largest on the right and smallest on the left. Horizontal brand blocking is used for similar products. Cross merchandising is utilized to encourage impulse shopping. Each product is displayed within its designated category. End caps display new or bestselling items.
- The state price book is available should customers ask for specific product. Sales clerks often refer to the price book for verification of product pricing. Monthly sales information is shared with mixed beverage and retail customers on a consistent basis.
- Sales clerk's interaction with customers is attentive, courteous, and all are eager to meet the needs of the customers.

NO RECOMMENDATIONS

PERSONNEL AND TRAINING

- All board members and the general manager have completed the initial ethics training as required by G.S. 18B-706.
- Cross training opportunities are being extended on key administrative duties to key employees in the event the general manager was suddenly unavailable.
- Training is provided continuously to new and existing staff on areas applicable to job performance.
- Personnel files are available and include human resource documentation and other personnel information as required.

RECOMMENDATIONS

1. Consider additional training opportunities through the Commission and other ABC boards on specific areas such as customer service, best retail and marketing practices, etc.

ABC BOARD POLICIES

- Policies adopted and submitted to the Commission include:
 - Code of Ethics
 - Employee Handbook
 - Mixed Beverage Policy
 - Price Discrepancy Policy
 - FY14 Annual Audit
 - FY15 Budget (Proposed and Adopted)

- Policies not adopted include:
 - Law Enforcement Contract
 - Travel Policy

RECOMMENDATIONS

1. 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 no enforcement activity without pay. *Refer to Appendix B (1) for statute.*
2. Request approval annually from the town to adopt the town's travel policy or adopt the state's travel policy. *Refer to Appendix B (2) for statute.*
3. Update the employee manual to incorporate current practices.

INTERNAL CONTROL PROCEDURES

- Time sheets are used for all clerks, shift managers, and the general manager. During payroll, the general manager will verify all time sheets. Time sheets are forwarded to the accountant for processing. A payroll activity report is generated and forwarded to the general manager for review and for record retention.
- Cash drawers are counted by all clerks. All clerks are responsible for their own cash drawer. Management has incorporated procedures to handle cash drawer overages/shortages.
- Bank deposits are made regularly as required by the ABC Commission rule. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed by the external accountant and forwarded to the general manager to discuss at monthly board meetings.
- Physical inventory counts are performed quarterly per section with frequent spot checks in between scheduled counts. At the end of the fiscal year, a full inventory count is performed by all employees. If discrepancies occur, the general manager will recount and investigate for accuracy and verification. Once the recount is completed, the general manager will adjust the inventory system to match with the actual store counts.
- Out of approximately 1,600 product codes, approximately 110 product codes were sampled to ensure accurate pricing and all were correct.

NO RECOMMENDATIONS

ADMINISTRATIVE COMPLIANCE FINDINGS AND OBSERVATIONS

- 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. However, the board meeting minutes indicated that a conflict of interest statement asking board members if potential conflicts existed with items on the meeting agenda are not read.
- The board approved bonuses for employees. However, the approval vote was not indicated in the board minutes.
- Board member appointment dates and compensation is not current on the Commission website.
- Board member and general manager compensation is in compliance with G.S. 18B-800 (g) and (g1).
- Law enforcement activity reports have been submitted to the Commission as required by G.S. 18B-501 (f1).
- The board is in compliance with G.S. 18B-700 (k); there are no immediate family members employed related to board members or the general manager.
- All board members, the general manager, and the finance officer are bonded for \$50,000 as required by G.S. 18B-700 (i).
- The liquor order acknowledgement form submitted by LB&B displays the pre-audit certificate, required by G.S. 18B-702 (m), indicating the order was approved by the finance officer to place the order. However, management obtains a verbal authorization from the finance officer of common orders.
- All checks bear the approved certificate as required by G.S. 18B-702 (q) indicating that the items have been approved by the finance officer for payment. Two signatures are located on all paid checks; that of the finance officer and a board member. In the event the finance officer is unavailable, the general manager and other board members are authorized to sign checks.

RECOMMENDATIONS

1. Have the board chairman read the conflict of interest statement to all board members at the beginning of each meeting. Reference the conflict of interest statement was read in the board minutes. *Refer to Appendix B (3).*
2. When the board discusses and approves any employee salary adjustments, indicate the vote and the amounts of the adjustments in board meeting minutes.
3. Update the Commission website to reflect current information on board members and the general manager.
4. When getting a verbal authorization, upon the next visit provide the documentation to the finance officer for signature.

AUDITOR'S SUMMARY

ABC Board Auditor, Moniqua S. McLean, presented the performance audit recommendations on December 23, 2014. The board has since responded to the performance audit recommendations and continues to implement strategies to improve profitability while maintaining or reducing costs. The board has relocated to a new location within town limits that has increased profits on average of 23% for fiscal year 2015 and continues to increase. 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.

Ocean Isle Beach ABC Board

1505 Ocean Isle Beach Rd.

Ocean Isle Beach, NC. 28469

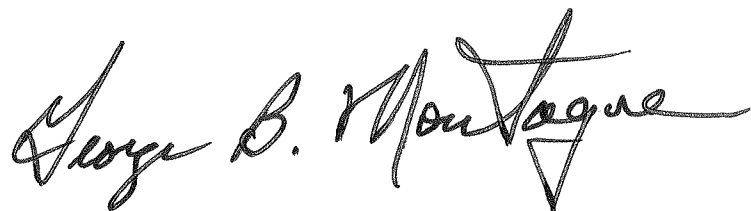
TO: Moniqua McLean – ABC Board Auditor

Our establishment has reviewed and taken the actions listed below on your list of items that needed to be addressed by us:

- 1) Copy of local ALE contract.**
- 2) Copy of written permission from appointing authority to use travel policy.**
- 3) Prepare an agenda for all board meetings.**
- 4) Insert a penalty clause in employee's manual for sale to under-aged or intoxicated individuals.**
- 5) Employees are no longer required to make up shortages in their cash drawer. The store will reconcile any shortages at the end of the month.**

Our establishment has made all the necessary corrections requested by you according to your findings and has forwarded copies to you. We appreciated your input and expertise to make sure we are in compliance with the state's guidelines. If there such be anything else we can do as a board or management, please let us know and it will be corrected immediately. Thank you for attending our board meeting and explaining our shortcomings. It was very helpful and informative to our appointed authorities present.

Thank you again.

A handwritten signature in black ink that reads "George B. Montague". The signature is written in a cursive style with a large, stylized initial "M" at the end.

APPENDIX A

Illustration 1



Illustration 2



Shelf management/product placement

Illustration 3



Shelf management/product placement

APPENDIX B

- (1) *G.S. 18B-501 (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."*
- (2) *G.S. 18B-700 (g2) states, "...The local board shall annually provide the appointing authority's written confirmation of such approval to the Commission and a copy of the travel policy authorized by the appointing authority."*
- (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.' "

APPENDIX C

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p>ABC Board Policies:</p> <p>Adopt the following policies and forward to the Commission:</p> <ul style="list-style-type: none"> • Law Enforcement Contract • Travel Policy 	<p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p>**Note: Required by Commission rule.</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 and adopted all policies mentioned.</p>