

# Oak Island 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

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June 5, 2023

Oak Island ABC Board  
Willie Williams, Vice Chair  
5402 E. Oak Island Dr  
Oak Island, NC 28465

Vice Chairperson Williams,

On the following pages, you will find the performance audit report conducted by the staff of the ABC Commission reviewing the operations of the Oak Island ABC Board. The report consists of an overview of the objectives & background summary, financial analysis and findings, and a summary of actions recommended based upon your board's performance and related findings. Additional considerations are listed as well to provide further guidance and enhance awareness to promote ABC board success.

Please reach out if you have any questions or require assistance in implementing any of the statute requirements, Commission rules, or other recommendations included in the report. On behalf of the North Carolina ABC Commission, I thank you and your staff for your assistance and cooperation in conducting this periodic review. We appreciate the continued efforts by your board to comply with the performance standards, as well as the board's commitment to increase profitability and reduce expenses.

If we can be of assistance in the future, please do not hesitate to reach out to the Commission staff.

Respectfully,

Michael DeSilva  
Deputy Commissioner

## **OBJECTIVE, PURPOSE & BACKGROUND INFORMATION**

In addition to regular and special financial audits, G.S. 18B-705(a) authorizes the NC ABC Commission to conduct performance audits of all local ABC boards in the state. Performance audits are examinations of existing operating policies, practices, controls, and activities to determine those areas in which there may be a need for improvement.

The audits are designed to ensure that all local ABC Boards comply with established performance standards pursuant to G.S. 18B-203(a)(20). The audit's scope addresses compliance with ABC laws and rules, store appearance, operating efficiency, solvency, and customer service.

To achieve the objectives of the audit, auditors:

- Review applicable General Statutes, ABC Commission Rules, and Administrative Policies
- Review applicable reports and studies of ABC Boards with similar size and geography
- Verify compliance with Commission and Board policies
- Verify results of previous performance audit recommendations
- Review ABC Board annual independent financial audits
- Review ABC Board reporting and documentation reports
- Visit the store(s)
- Interview key ABC Board personnel

The town of Oak Island is a beach community located in Brunswick County. During the summer, the population can increase to as many as 50,000 people. The town features an important lighthouse which is managed by the Friends of Oak Island Lighthouse. Over the years, the area has encountered impacts from numerous hurricanes. The “Run Oak Island” marathon is held here each February. In 2020, the Town’s population per the Census was approximately 8,400 residents which increased over 20% since 2010.

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 retail sale occurred on July 1, 1999, and mixed beverage sales also began this year. *Currently, the Town of Oak Island appoints a chairperson and two (2) additional board members to serve on the ABC board.*

The Oak Island ABC Board currently operates one (1) retail store. The board staffs approximately ten (10) total employees. These include four (4) full-time employees and six (6) part-time personnel. The general manager is responsible for the daily store operations including supervising personnel, inventory management, and various retail functions. The finance officer provides the general manager/budget officer and the board with fiscal management, administrative support, and assist with routine operations of the ABC stores. Sales associate responsibilities include selling products, daily stocking, and floor upkeep & maintenance.

*The last performance audit for the Oak Island ABC Board occurred in 2013. The Commission audit serves as a continuous way to provide local boards with information and best practices that target areas for improvement.*



# OPERATIONAL OBSERVATIONS, FINDINGS, REQUIRED ACTIONS, & RECOMMENDATIONS

On Tuesday, April 4, 2023, ABC Board Program Analyst Quinn Woolard, visited the Oak Island ABC Board and met with Kay England (General Manager) and Debra Rose (Finance Officer). Below is a financial analysis followed by operation observations, findings, and recommendations related to the performance audit.

## FINANCIAL ANALYSIS

### PROFIT PERCENTAGE TO SALES & OPERATING COST RATIO

In fiscal year (FY) 2021-2022, the Oak Island ABC Board had a profit percentage to sales of 13.8%. The NC ABC Commission profit to sales standards for ABC Boards with gross sales more than \$2M but less than \$10M is 6.5%. The Oak Island ABC Board's gross sales totaled \$4,740,315, which was a 6.57% increase from the previous fiscal year.

The operating cost ratio for the Oak Island ABC Board was .44 in FY 2021-2022. The NC ABC Commission standard for ABC Boards with one or two stores and mixed beverage sales is .73 or less.

Thus, the Oak Island ABC Board well exceeded both the profitability standard and the operating cost standard set by the NC ABC Commission. Below is a chart showing gross profit on sales and income from operations for the previous two years.

	FY 2021-2022	FY 2020-2021
<b>Gross Profit on Sales</b>	\$1,197,402	\$1,104,010
<b>Income from Operations</b>	\$654,206	\$566,791

*Factors affecting profitability and cost include:*

- Surrounding areas with other ABC Boards operating stores within an approximate ten to fifteen (10-15) mile range of Oak Island ABC: Southport ABC, Boiling Spring Lakes ABC, and Brunswick County ABC each operating one store within range.
- An ABC Board's average cost of goods sold (COGS) is between 52% & 54% per year. The Oak Island ABC Board's cost of goods sold was approximately **51.3%** in FY 2021-2022.
  - *Mixed beverage sales were roughly 17.6% of total sales in FY-2022, and there are currently around twenty (20) mixed beverage customers.*

## BUDGET ANALYSIS

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	FY 2021-2022 Budget Projections	FY2021-2022 Actual	Variance	Variance %
Sales	\$5,000,000	\$4,740,315	(259,685)	5.2%
<b>Revenue over or (under) Expenditures</b>		\$82,479		

In reviewing the budget to actual analysis of the FY 2021-2022 financial audit, actual sales revenues were under budgeted projections by 5.2%. In addition, revenue exceeded expenditures by \$82,479. *The board's collective net position on June 30, 2022, was around \$943k; the net position has steadily increased over the last five (5) fiscal years, and the FY-2022 figure reflects the board's highest overall net position during the five-year period.*

## DISTRIBUTIONS

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G.S. 18B-805 (b) requires the board to pay from gross receipts, all expenses, excise, and rehabilitation taxes. G.S. 18B-805(c)(2) requires the board to typically distribute at least five percent (5%) of applicable gross receipts to law enforcement and typically at least seven percent (7%) for alcohol education. *Before assigning these percentage distributions, G.S. 18B-805(c)(1) requires the board to first make a minimum quarterly distribution of the 3.5% markup & relevant bottle charges to certain county/municipal recipients. **Some of these distribution percentages are designated by an official local enabling act (and thus distribution requirements and recipients are subject to vary).***

In FY 2021-2022, Oak Island ABC made other statutory distributions totaling \$595,423 (Net profit distribution recipients received \$532,568 of this). The amount of \$1,109,889 in primary distributions and other taxes were paid to the NC Department of Revenue (NCDOR), NC Department of Health & Human Services (NCDHHS), and the county commissioners of Brunswick County.

*Per the local enabling act, the distribution formula for recipients of net profits is as follows:*

- One hundred percent (100%) to Oak Island General Fund

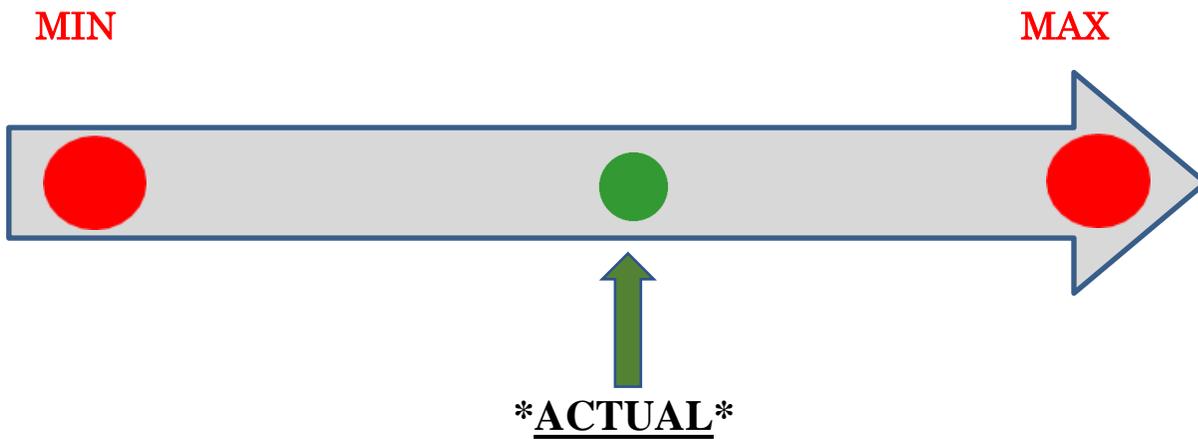
## WORKING CAPITAL

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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. The NC ABC Commission has set a working capital standard for boards with annual gross sales greater than \$1.5M yet less than \$50M an amount equal to three (3) months of sales revenue.

Based upon the existing rules, as of June 30, 2022, the Oak Island ABC Board is required to maintain a minimum working capital of \$139,632 with a maximum working capital amount of \$907,607. The Oak Island ABC Board had a working capital balance of \$610,805, which falls within the Commission requirements for this section (\*).

### **\* FY 2021-2022: Working Capital (WC) graphic**



Under 18B-805(d), with approval of the appointing authority for the board, the local board may set aside a portion of the remaining gross receipts as a fund for specific capital improvements whenever working capital is exceeded.

## **PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE**

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*The findings for personnel, operational & administrative compliance are as follows:*

- The board holds board meetings the second Tuesday of each month at 10:00 AM, records regular meeting minutes, and provides public notification and awareness of these meetings. The meeting minutes are organized in a folder for review. *The minutes provided have the conflict-of-interest disclosure statements referenced and are not signed.*
  - **Training records review:** Board members and personnel are compliant on ethics training.
  - **Board member compensation & General Manager (GM) salary:** Board member compensation fully adheres to statute requirements as does the GM salary.
  - **Board website review:** The board's login website was updated by the Commission in 2022 for board member term tenure information (*begin dates & end dates*). **Special note:** As part of a revalidation effort, the Commission has worked to revalidate term tenure information for all ABC boards across the state, working directly with the appointing authorities. As a value-added measure for all ABC boards and Commission records tracking in summer 2022, the term begin dates as well as term end dates were entered on all individual ABC board websites.
    - *The expectation going forward is that ABC boards will better manage this information online, and work to communicate with the Commission particularly when new members are added, or whenever any current serving members resign before a term has ended.*
  - **Board Personnel & Board Members:** The general manager provides board members with monthly sales information and previous year's applicable sales and operational concerns. The finance officer provides various financial reports for the board's review; among these are spreadsheets and profit & loss statements. Information for other ABC boards in Brunswick County is referenced along with referencing mixed beverage permittee sales information. Board members are heavily encouraged by the Commission to use checks and balances to ensure that cash management practices are upheld; also, boards should routinely review any notes and recommendations provided by the CPA firm on annual audits. **Special note:** The board coordinates with their annual CPA auditor to also provide quarterly audits & reconciliation for the ABC board.
- **POLICIES:** The board has a personnel policy manual and code of ethics. The Commission did not have a copy of the personnel policy manual, and one was provided after the visit. The board adheres to the local appointing authority travel policy, and an electronic copy was previously provided to the Commission. The board provided a recent Certificate of Accountability form as well.
- **BUDGETS:** In FY-2022, the board reached about 95% of anticipated sales from the annual budget. *Based on sales trajectory for the current fiscal year, the forecasted sales are tracking along at 75% of budgeted sales per month equivalent across eight (8) months. A budget amendment will potentially be needed in May or June if sales are believed to be below the annual budget figures.*
- **FINANCIAL INSIGHT:** The finance officer is signing checks as required per statute with the general manager or a board member as secondary signature. Invoice records for recent liquor purchases reflect them as being paid routinely well inside of 30 days. Taxes and distributions are paid in a routine and timely manner. The board uses Traverse for routine journal entries.

**PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)**

- Bank deposits are routinely made each business day per review of bank Statements and discussion with the finance officer. For safeguard measures and adherence to *Commission rule 15A .0905 Daily Deposits*, the board utilizes a locked fireproof safe for integrity of funds that remain at the board at any given time.
- Payroll is processed bi-weekly and paper checks issued through Traverse. The general manager and finance officer work in tandem on this.
- The pre-audit certificate is stamped on the orders at the time they are placed, and board checks bear the disbursal certificate.
- All board members and applicable personnel are each bonded for \$50,000 per G.S. 18B-700(i).
- The annual CPA audit was received and logged by the Commission on September 29, 2022.

➤ **STATUTORY DISTRIBUTIONS:**

- Net Profit Distributions - The Oak Island ABC board has made robust distributions to the town general fund over the last five years which have well exceeded the minimum referenced in GS 18B-805(c)(1). **The table below references distributions calculated by CPA on the left and distributions made by the ABC Board for the last five (5) years on the right.**
- Law Enforcement Distributions: Have been properly disbursed at the 5% statute amount over the last five (5) fiscal years.
- Alcohol Education Distributions: Have been properly disbursed at the regular 7% statute amount over the last five (5) fiscal years. Recently, the Town of Oak Island has been receiving these alcohol education distributions. However, the board had no documentation on file from the town demonstrating how these funds are spent in connection with NCGS 18B-805(h). The general manager has already been in contact with the town for awareness on this item.

<b>NC GENERAL STATUTE: 18B-805 (c)(1)</b>			
<b>Calculation of Minimum Mandatory Distribution for Net Profit to Designated Recipients</b>		<b>Oak Island ABC Board Net profit distribution made annually by fiscal year</b>	
<i>Note: Referencing CPA Audit Reports</i>			
<b>CPA Calculated Amount</b>		<b>What was paid to recipient(s)</b>	
FY-2022	\$130,806	FY-2022	<b>\$532,568</b>
FY-2021	\$123,535	FY-2021	<b>\$463,100</b>
FY-2020	\$102,879	FY-2020	<b>\$323,069</b>
FY-2019	\$90,448	FY-2019	<b>\$284,532</b>
FY-2018	\$88,584	FY-2018	<b>\$256,944</b>

## **PERSONNEL, OPERATIONAL & ADMINISTRATIVE COMPLIANCE (cont.)**

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- **LAW ENFORCEMENT (LE) REPORTS:** Reports are being submitted routinely by the ABC board, and they are current to date as well. Reports submitted in recent months are referenced as not having any law enforcement statistics provided. The general manager has been in touch with the town to liaise on monthly report requirements.
- **LAW ENFORCEMENT (LE) CONTRACT:** The board receives law enforcement services from the Oak Island Police Department. A new contract will be needed due to new personnel in place with the town since the last contract was enacted.
- **INVENTORY:** Full store inventories are conducted quarterly, and the store will work on various liquor categories over time. For efficiency, the board utilizes hand-held scanners. **Special note:** The inventory turns over extremely well at the store with nearly a monthly turnover occurring during the year ending June 2022. During busier tourist season, the board will receive weekly trucks. Otherwise, the board receives trucks twice per month.
- **INTERNAL CONTROLS:**
  - The board has a full-time finance officer to support the general manager.
  - The general manager has been the finance officer also and will ensure continuity of efforts on financial affairs.
  - Invoice information is entered into Traverse, cash requirements are printed for the truck shipments and the Purchase Orders History from BOSS is utilized to balance totals to make sure invoices / inventory match the system.
  - CPA auditor will provide quarterly audits for the board.
  - Bank deposits are made by different people at different times of the day.
- **EXPENSES:**
  - Total expenses increased very slightly at one percent (1%) over the last fiscal year, and the profit percent to revenue as well as the operating cost ratio are at very good levels.
  - Board payroll was roughly 5.5% of the total annual sales. Payroll increased roughly three percent (3%) from the previous fiscal year.
  - Cost of Goods Sold (COGS) was around 51.3% for the fiscal year. The board is managing this item very well and is well poised to continue doing this in the new store location.

## STORE INSIGHT & OVERVIEW

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*The findings for store insight & overview are as follows:*

- Store is in the heart of the island and a busy hub during the tourist season. The retail space is limited, and thus the board has already received approval for a modern store location; the new location is very near the current site. *While this specific information is not yet determined, it is possible the new store could be open in late 2024 or early 2025.*
- Sales associate interactions with customers are attentive, courteous, and all are eager to meet the needs of the customers.
- The board has around twenty (20) MXB customers as of April 2023. None of the business customers are really interested in delivery service. However, the board has provided a delivery service policy to the Commission - Referencing Rule 15A . 1903 Delivery of MXB Permittee Orders.
- A random sample of approximately 100 items were selected to determine if uniform pricing is displayed. Of those selected, every shelf price reflected the current quarterly or monthly SPA price.
- Besides closing on the five (5) required annual holidays and every Sunday, the board chooses to also close on Memorial Day and the day after Christmas.
- The store displays the required Fetal Alcohol Syndrome poster required by G.S. 18B-808.
- North Carolina products have their own section as required by law and are also cross merchandised according to product category.
- Products are placed within the designated categories; premium products are found at eye-level or top shelf. Regular occurrences were found with various bottle sizes of the same products increasing appropriately from left to right. Bottles were fronted and dusted.
- Outside area surrounding the store is well-maintained and free of debris or trash.
- Security systems are in place and functional in all designated areas. *Thirteen (13) cameras work to cover the property footprint.*

## **RECOMMENDED ACTIONS (PER STATUTES OR COMMISSION RULES)**

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- ABC Boards are required to operate within a balanced budget each fiscal year. Budget amendments must be approved by the board before any funds are transferred between accounts and utilized, occurring at the actual point of time an adjustment of funds is necessary. This would include the point in time during the fiscal year when the board will exceed its annual forecasted sales budget or sales are projected to be below the annual budget amount. *Ensure budget amendment copies are submitted to the ABC Commission as required per NCGS 18B-702(h). A final reconciliation budget amendment for the fiscal year end is recommended for ABC boards.*
- Due to new town officials in place since the last contract was enacted, the board needs to draft a new law enforcement contract with Oak Island Police Department and provide a copy to the Commission per G.S. 18B-501(f).
- The recipients of alcohol education distributions must provide annual documentation to the board describing the activity for which these awarded funds are spent per G.S. 18B-805(h). *The board may want to consider obtaining documentation before the funds are officially awarded / transmitted to any recipients to ensure good stewardship of this special category of distributions.*
- Board meeting minutes are recommended to be signed per Commission's Operations Manual.
- ABC board members must complete ethics training within one (1) year of each appointment and again following all reappointments. *General managers, finance officers (and any applicable deputies) have a one-time training requirement for ethics training yet are highly encouraged to complete training periodically as a good refresher along with any other personnel interested.*

## **ADDITIONAL CONSIDERATIONS & GUIDANCE ....**

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- The Commission's primary focus for ABC board members:
  - ABC board members are highly encouraged to meet monthly for the best formal oversight and review of board operations, routinely recording meeting minutes (*adhering to closed meeting requirements where applicable*) and ensuring either no conflicts of interest are present or that they are addressed appropriately when presented. Monthly sales should be reported to the Commission at beginning of next month, providing annual budgets, budget amendments, miscellaneous financial reporting to Commission following timelines, and ensuring Commission has annual CPA audits by Oct 1<sup>st</sup>.
  - ABC boards are highly encouraged to keep term begin dates & term end dates updated on the Commission's board login website for all ABC board members and other information such as store hour changes, pictures, email updates, etc. *Moreover, liaising with the Commission when new members are appointed or when member resign early before term has ended is very important for recordkeeping efforts of the Commission.*
- ABC boards are highly encouraged to find straightforward ways to lower any recurring expenses. *A very tangible way to lower operating costs is to fully maximize monthly special purchase allowance (SPA) liquor products that routinely sell well in the store to lower cost of goods sold (COGS).* ABC Boards can limit the number of personnel travelling to conference and convention events across the state. Other ways to try to improve expenses include requesting bids annually from various vendors to get the best rates possible on financial audits, various utilities, maintenance contracts, and *credit card processing companies.*
- ABC boards are encouraged to closely review financial statements monthly, comparing with the annual budget forecast, approving budget amendments when necessary and submitting copies to the Commission for anticipated sales increases as well as other adjustments for budgeted accounts.
- Law enforcement reports should be submitted on the Commission's board website by the 7<sup>th</sup> of each month referencing G.S. 18B-501(f1). ABC Boards should make sure reports are in a "*Final Submitted*" status and not just in saved status. *For any saved reports, the only transaction necessary is to click the preview button and then click the submit button for the reports.*
- Cross training opportunities for personnel should be maximized to ensure solid continuity of operations occurs for ABC boards. Also, training opportunities can work well to develop store employees for increased responsibility roles and serving to make both the routine operations and employee morale stronger.
- NCAC Rule 15A .1701 requires quarterly reports be submitted for any unsaleable merchandise (breakage) and retain original copies for three (3) years. *All breakage reports should only be transmitted via email submission to Commission staff; copies should not be mailed.*
- As a reminder, remove all faded posters and replace with new ones when applicable. Reach out to the Commission to provide fetal alcohol syndrome posters, NC Dept of Labor can provide wage & hour posters, and OSHA can provide some applicable federal posters if any are needed.
- ABC boards can explore additional training opportunities periodically available through the ABC Commission as well as partnering with other ABC boards on specific areas such as best retail and marketing practices.

**Please network with the ABC Commission whenever needed for guidance and assistance to support local ABC board mission and success.**

# APPENDIX A

Oak Island Board of Alcoholic Control  
5402 East Oak Island Drive  
Oak Island, NC 28465  
(910) 278-5551

May 15, 2023

Mr. Quinn Woolard  
North Carolina ABC Commission  
400 E. Tryon Road  
Raleigh, NC 27610

Dear Mr. Woolard:

We are reaching out to the audit you performed On April 4, 2023. We wish to thank you for your time as well as presenting the audit findings. Our recommendations actions are as to follow:

1. Budget Amendments. The Amendments for the fiscal year 2022-2023 were sent via email to the Commission.
2. The Town of Oak Island updated our Law Enforcement Contract and has been sent to the Commission via email.
3. The Town of Oak Island will be sending the Board documentation on how the Distributions are being distributed after the end of this fiscal year.
4. Board meeting Minutes will be signed by the Chair person or Board member after any corrections or changes are completed.
5. All Board members that are appointed or reappointed have to complete an Ethics Training within one year of appointment.
6. Oak Island Police Dept. is back on board sending my monthly Law Enforcement reports as per statute.

Sincerely, Kay England  
General Manager/Oak Island ABC Board