



Finance Department

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To: Alcohol License Review Committee (ALRC)
From: David Schmiedicke, Finance Director *DPS*
Subject: Tiki Shack Audit - Final Report

In October 2016, the ALRC requested that an audit be conducted of the Tiki Shack restaurant's compliance with Madison General Ordinance Sec. 38.05(10)(b) which requires sale of alcoholic beverages to be 50% or less of gross receipts for a restaurant. Per the data provided to Finance, the Tiki Shack is operating as a restaurant when the monthly average from Table 1 is used. All data collected for this audit is presented in the tables below.

Table 1- Monthly Percentage of Alcoholic/Non-Alcoholic Beverage Sales Based on Gross Receipts

Month	Alcoholic Beverage Sales as a Percentage of Gross Receipts	Non-Alcoholic Beverage Sales as a Percentage of Gross Receipts
October-15	25.46%	74.54%
November-15	24.65%	75.35%
December-15	30.59%	69.41%
January-16	48.91%	51.09%
February-16	61.18%	38.82%
March-16	58.16%	41.84%
April-16	57.31%	42.69%
May-16	64.59%	35.41%
June-16	65.26%	34.74%
July-16	46.04%	53.96%
August-16	31.45%	68.55%
September-16	32.56%	67.44%
Monthly Average	45.51%	54.49%

The results in Table 1 are based on the period October 2015-September 2016 in which 5 of the 12 months Tiki Shack was operating over the 50% alcoholic beverage threshold. The average for the twelve-month period is 45.51%. This table is based on gross receipts which is the total amount of revenue received from the sale of food and alcohol.

Table 2 – Monthly Percentage of Alcoholic / Non-Alcohol Related Purchased Based on Invoices

Month	Alcoholic Purchases as a Percentage of Total Purchases	Non-Alcoholic Purchases as a Percentage of Total Purchases
October-15	51.00%	49.00%
May-16	44.00%	56.00%
August-16	65.00%	35.00%
Monthly Average	53.33%	46.67%

The results in Table 2 are based on a three-month sample period of food and alcohol purchased from an outside vendor by Tiki Shack. During 2 of the 3 months sampled, over 50% of total purchases were for alcoholic beverages. The average of the three-month period is 53.33% of total purchases were for alcoholic beverages. The information in this table is based on invoices that were issued to Tiki Shack by outside vendors for the purchase of food and alcohol for sale at the Tiki Shack.

Table 3 – Variance of Prices Per Daily Receipts

Category	October-15	May-16	August-16
2 For 1 Specialty Cocktail	\$5.00	\$3.00	\$7.00
Bomb Shot	\$7.00	\$4.00	\$3.00
Bottle Craft	\$3.50	\$5.00	\$5.00
Bottle Domestic	\$2.00	\$4.00	\$5.00

The results in Table 3 represent variation in prices for several alcoholic beverages over a three-month sample period. This variance could affect the amount of gross sales of alcoholic beverages for any given period and thereby affect the ratio of food sales to alcoholic beverages sales during these periods.

Conclusion

Generally, these audits rely on data from sales receipts, as represented in Table 1. However, since Tiki Shack identified that they reduce the cost of alcoholic beverages, the reliance on receipts alone did not satisfy this audit. The request for additional receipts was needed to determine compliance with the existing ordinance.

During the three-month sample period using data from invoices, Tiki Shack is purchasing more alcohol than food. If the average of sale receipts for the year and purchases for the three-month period are combined, Tiki Shack would be at 49.42% alcoholic beverage sales out of all purchases, which meets the 50% requirement.

CC: Jennifer Zilavy, Assistant City Attorney

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