

# Murphy 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

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# ABC

COMMISSION  
NORTH CAROLINA

## Alcoholic Beverage Control

December 16, 2015

**CHAIRMAN:**  
JAMES C. GARDNER

Murphy Alcoholic Beverage Control Board  
Mr. Brian T. Smith, Chairman  
P.O. Box 554  
Murphy, NC 28906

**KEVIN M. GREEN**  
Greensboro

**ADMINISTRATOR:**  
ROBERT A. HAMILTON

Dear Chairman Smith,

**LOCATION:**  
400 East Tryon Road  
Raleigh NC 27610

We are pleased to submit this performance audit report on the Murphy Alcoholic Beverage Control 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.

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

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.

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

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 increase profitability and reduce expenses.

**Moniqua S. McLean**  
ABC Board Auditor

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**

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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 2015;
- Visited the store;
- Interviewed key ABC board personnel.

## **BACKGROUND INFORMATION**

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S.L. 1979-212 authorized the Town of Murphy to hold an election for an ABC store upon a petition signed by at least twenty percent (20%) of registered voters. The referendum was held on June 28, 1979 and passed 403 to 375. The first sale occurred on December 10, 1979. A mixed beverage election was held on January 8, 2008 and passed 251 to 243.

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 for three staggered year terms. Current board members are Brian Smith, board chairman, John A Fowler and Sandra Sumpter, board members.

The Murphy ABC Board operates one retail store with mixed beverage sales. The board staffs five full-time and two part-time employees. General manager duties consist of providing oversight of all daily operations including accounts payable, policy implementation, and human resource management. All store employees have a primary responsibility of providing friendly customer service, store upkeep, and regular stock maintenance.

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

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On September 15, 2015, ABC Board Auditor, Moniqua S. McLean, visited the Murphy ABC store and interviewed Olivia Anderson, general manager. Below is a financial analysis followed by operational observations, findings, and recommendations related to the performance audit.

### **FINANCIAL ANALYSIS**

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#### **PROFIT PERCENTAGE TO SALES**

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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 2015, the Murphy ABC board had gross sales of \$2,580,550; income from operations was \$150,507, a 5.8% profit percentage to sales.

Factors affecting sales and profitability include:

- Population reported to the US Census Bureau as 1,627 in 2010;
- One other ABC board within the county, Andrews ABC;
- Other surrounding ABC boards include Clay County;
- Approximately 20 miles to the Tennessee border and approximately 10 miles to the Georgia border;
- Recently opened casino resort operated by the Tribal ABC Commission.

## **DISTRIBUTIONS**

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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) requires the board to make a minimum quarterly distribution of the 3 ½% markup rate to the town. In FY2015, Murphy ABC made the minimum distribution of \$73,736, plus additional distribution of \$56,264. \$586,545 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 board is not required to distribute toward alcohol education. The remaining profits are to be distributed as follows:

- Seventy percent (70%) to the Town of Murphy General Fund;
- Thirty percent (30%) to the Cherokee County General Fund.

In FY2015, the Murphy ABC Board distributed to the town \$5,000 for law enforcement. The ABC Board has contracted with the Town of Murphy Police Department.

## **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 or cash equivalents 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 FY2015, the Murphy ABC Board had working capital of \$474,399 which is less than the maximum allowed to retain of three months gross sales (\$495,171) and is within the limits of NCAC 15A .0902.

## OPERATING COST RATIO

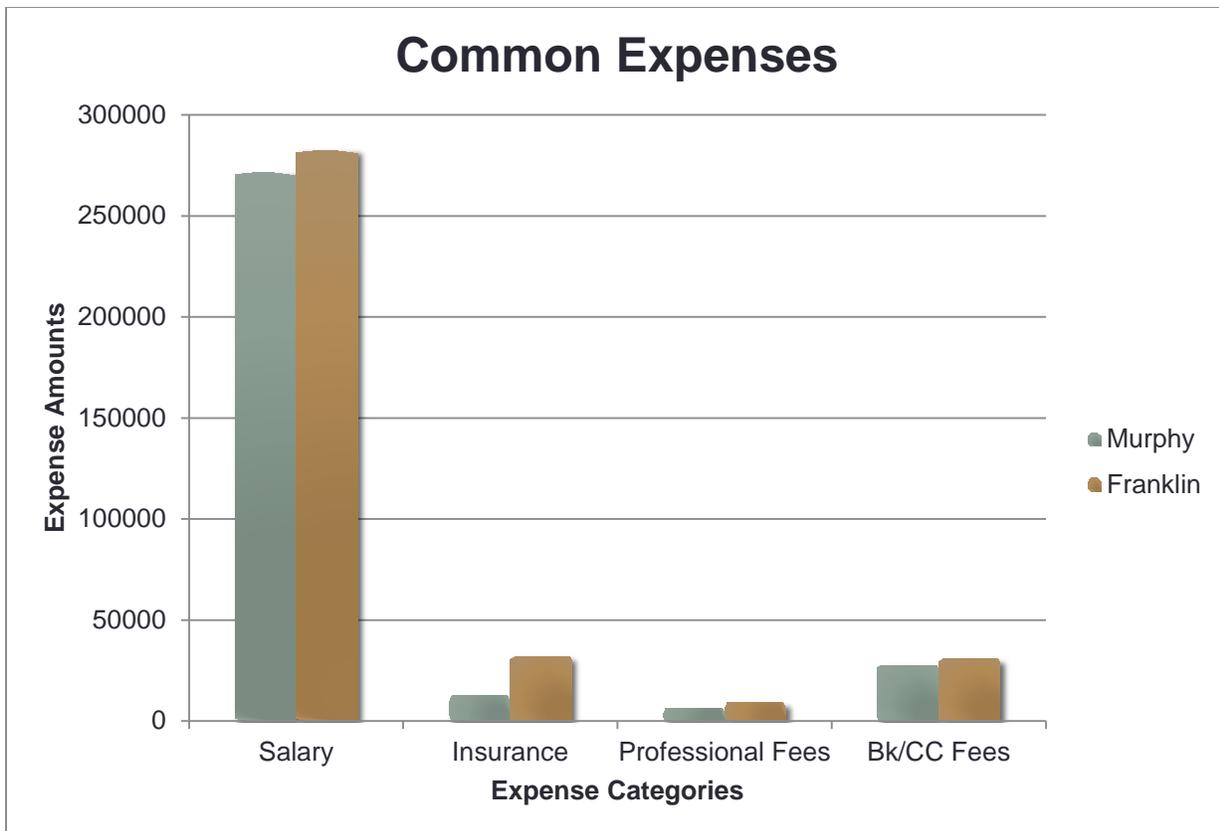
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Operating costs are calculated by dividing total operating expenses less depreciation by the gross profit on sales (Total Operating Expenses less Depreciation/Gross Profit). Below are the average cost ratios for boards with and without mixed beverage sales (MXB):

- Boards with 3 or more stores – cost ratio 0.63 or less
- Board with 1 or 2 stores with MXB – cost ratio .73 or less
- Boards with 1 or 2 stores without MXB – cost ratio .85 or less

The Murphy ABC Board operates one retail store with mixed beverage sales: the operating cost ratio is 0.73. Mixed beverage sales make up 4.9% of total gross sales. Compared with the state's estimated increase in sales of 7.68% in fiscal year 2015, the Murphy ABC Board's sales increased 6.0% over fiscal year 2014. Expenses increased 1.8% over the same time period.

Below is a common expense analysis showing the Murphy ABC Board's expenses compared with another similar size board. Significant savings have occurred as a result of owning the store, reducing overhead, and reducing salary benefits. Note: Franklin ABC's insurance expenses include general and employee insurance benefits.



## **STORE APPEARANCE**

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The Murphy ABC Board operates one retail store with approximately 1,300 linear feet and carries approximately 1,400 product codes.

- The store appeared clean and free of trash. Counter areas were neat and well-organized with limited signage.
- The store displayed neat and well-visible signage. The Fetal Alcohol Syndrome poster is in an area visible to the public.
- Landscaping around the store is well-maintained with no appearance of trash.
- Management has adopted a shelf management plan that details the outline of product placement and category management. Each product is displayed within its designated category. Bottles are fronted and dusted throughout the store.
- Product placement shows the premium products at eye level and lowest price products on the bottom shelves. Sizes are consistent going from largest on the right and smallest to the left. Cross merchandising is utilized in areas where possible to encourage impulse shopping.

## **CUSTOMER SERVICE**

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- The state price book is available for retail and mixed beverage customers. Sales clerks often refer to the price book for verification of products and pricing. Monthly sales information is shared with mixed beverage and retail customers on a consistent basis.
- Sales clerks' interaction with retail and mixed beverage customers is attentive, courteous, and all are eager to meet the needs of the customers.

## **NO RECOMMENDATIONS**

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## **PERSONNEL AND TRAINING**

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- Two out of three board members have completed the ethics training required by the statute. One board member has since been newly appointed and has not yet completed the ethics training.
- Limited cross training opportunities are available to staff due to lack of interest. However, management has established back up procedures in the event the general manager is suddenly unavailable.
- Other training is provided to new and existing staff on key areas, such as product knowledge, customer service, and clerk responsibilities.
- Personnel files are available and include the required human resource documentation and other personnel information as needed.

## **RECOMMENDATIONS**

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1. Have all newly appointed board members complete the ethics requirement within 12 months of appointment. *Refer to Appendix A (1) for statute.*
2. Consider additional training opportunities through the Commission and other Commission-approved courses. *Refer to Appendix A (2) for rule.*
3. Cross train key employees on various administrative duties in the event the general manager and/or finance officer is unavailable.

## **ABC BOARD POLICIES**

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- Policies adopted and submitted to the Commission include:
  - Code of Ethics
  - Law Enforcement Contract
  - Travel Policy (State Travel Policy Adopted)
  - FY2015 Annual Audit
  - Employee Handbook
  - FY2016 Budget (Proposed and Adopted)
  - Mixed Beverage Policy
  - Shelf Management Policy
  
- Policies not adopted include:
  - Price Discrepancy Policy
  - Sale to Underage Drinking Policy

## **RECOMMENDATIONS**

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1. Adopt written policies that incorporate customer friendly practices. Once adopted, communicate to all employees should the need arise. *Refer to Appendix A (3) for rule.*

## **INTERNAL CONTROL OBSERVATIONS**

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Internal control is the process by which the board provides assurance that operations are effective and efficient, reliable, and in compliance with applicable rules, laws and regulations. Internal control is strongest when activities are segregated creating a system of checks and balances, and adopting policies and procedures that follow current practices and appropriate. Below are internal control findings that were observed during the audit fieldwork.

- The general manager schedules and notifies employees for work shift hours. Time sheets are used for all employees. Management requires two persons at all times on each shift. Management usually works the day shift hours. In the event an employee fails to clock in/out, the general manager is notified and adjusts the schedule or finds a replacement. At the end of payroll week, the manager calculates and processes payroll through the accounting/payroll system.
- Cash drawers are maintained by all clerks. All clerks are responsible for their own cash drawer. Management has implemented procedures in handling cash drawer overages/shortages.
- Bank deposits are made regularly by the ABC Commission rule. Bank notifications are received and matched with corresponding daily register reports. Bank reconciliations are completed by the general manager.
- Physical inventory counts are performed yearly by all employees. Spot checks are conducted but not as frequent. If discrepancies occur, someone other than the person counting will recount. Once completed, the general manager will adjust the inventory system to match with the actual store counts.
- Unsalable merchandise is adjusted from inventory monthly. Breakage forms have not been submitted recently but the auditor has collected the most recent during the audit fieldwork.
- Out of approximately 1,400 product codes, approximately 130 product codes were sampled to ensure accurate pricing and one was incorrect.

## **RECOMMENDATIONS**

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1. To ensure stronger internal controls in inventory, consider performing more frequent spot checks to help in determining if potential problems exist.
2. Submit breakage forms quarterly as required by the Commission rule. *Refer to Appendix A (4) for rule.*
3. To ensure correct pricing on the store shelves and in the computer system, audit shelf tags on a regular basis by incorporating this practice during or in between the regularly scheduled inventory counts.

## **ADMINISTRATIVE COMPLIANCE FINDINGS AND OBSERVATIONS**

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- 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. Board meeting minutes do not include a conflict of interest statement asking board members if conflicts exist with items on the meeting agenda.
- Date/time/location of board meetings are not posted for public knowledge.
- Board member appointment dates and compensation amounts are 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 who are 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).
- Liquor orders and miscellaneous purchases are not pre-audited by the finance officer. Vendors often invoice the board when office and store supplies are needed. These invoices are not pre-audited.
- In reviewing a sample of liquor invoices, payments were made within thirty days.
- 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 the general manager. In the event the general manager or finance officer is unavailable, all board members are authorized to sign checks.

## **RECOMMENDATIONS**

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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 A (5).*
2. Post signage at the store and Town Hall notifying the public, when, where, and the time meetings are held. *Refer to Appendix A (6) for statute.*
3. Place the pre-audit certificate with the finance officer's signature on the order to LB&B. When ordering supplies, place the pre-audit certificate on the invoice with the authorization from the finance officer before the transaction takes place. *Refer to Appendix A(7) for statute.*

## **AUDITOR'S SUMMARY**

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On October 22, 2015, ABC Board Auditor, Moniqua S. McLean, presented the performance audit findings and recommendations to the board. The board strives to implement strategies to maintain and improve profitability while maintaining or reducing costs and meeting budget appropriations. 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.

# Murphy Alcoholic Beverage Control Board

Post Office Box 554, Murphy, North Carolina 28906  
(828) 837-5514

Brian T. Smith  
*Chairman*

Olivia O. Anderson  
*General Manager*

John A. Fowler  
Sandra N. Sumpter  
*Board Members*

November 11, 2015

Moniqua S. McLean  
ABC Board Auditor  
4307 Mail Service Center  
Raleigh, NC 27699-4307

Dear Ms. McLean:

On behalf of the Murphy ABC Board we want to thank you for your time and effort put into the Performance Audit you conducted on our store and also for presenting and reviewing the report with us at our board meeting held on October 22, 2015.

The Murphy ABC board members and employees take pride in our store and strive to maintain excellent store appearance and customer service. Our intent is to strictly operate and comply with the established standards and rules as set forth by the North Carolina ABC Commission and General Statutes.

Your comments and recommendations have been duly noted and have been fully implemented.

We appreciate your time and your assistance in helping us to build on and to improve our existing policies, practices, and controls within our Board.

Sincerely,



Brian T. Smith  
Chairman  
Murphy ABC Board

**RECEIVED**

NOV 30 2015

**NC ABC COMMISSION**

## APPENDIX A

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- 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) *NCAC 02R .2001 (a) (3) states, "After taking the initial Commission training course for local boards, all finance officers and general managers shall complete a Commission training course for local boards every three years that they are employed by a local board."*
- 3) *NCAC 02R.1706 (b) states, "If a local board has a price discrepancy between the price on the shelf or bottle and the cash register, and the price on the shelf or bottle is lower, the local board shall sell the item at the shelf or bottle price and correct the shelf or bottle price to match the Commission's published uniform price."*
- 4) *NCAC 02R .1701 (b) states, "...A Destruction of Unsalable Merchandise Report shall be completed and signed by the witnessing parties. A written copy of the report shall be sent to the distiller and a written or electronic copy shall be sent quarterly to the Commission. The original shall be retained by the local board for a period of three years."*
- 5) *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.'*"

- 6) *Operations Manual states "North Carolina General Statute 143-318.12 requires the following from public bodies:*
  - a. *Must have regular meetings*
  - b. *Post schedule with the Town Clerk (if the regular schedule changes, notice must be given to the clerk)*
  - c. *If a meeting is to be held at a time other than the regular time*
    - i. *Announce the time and place during a meeting or*
    - ii. *Written notice stating the purpose – bulletin board, and notice mailed to the media and interest persons who have requested notice*
    - iii. *Notice given at least 48 hours in advance*
    - iv. *If an emergency meeting is called because of generally unexpected circumstances that require immediate attention, and then notice to the media and interested persons shall be made by telephone or other means."*

7) 18B-702 (m) states "...the contract, agreement, or purchase order shall include on its face a certificate stating that the instrument has been pre-audited to assure compliance. The certificate, which shall be signed by the finance officer or any deputy finance officer approved, shall take substantially the following form:

*"This instrument has been pre-audited in the manner required by GS 18B-702."*

\_\_\_\_\_  
*(Signature of finance officer)*

## APPENDIX B

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Personnel and Training</b></p> <p>Have all reappointed board members complete the ethics requirement within 12 months of reappointment</p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p> <p><b>**Note:</b> 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 50% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>All board members have completed the ethics training as required. Verification forms have been submitted to the Commission.</p>
<p><b>ABC Board Policies:</b></p> <p>Adopt the following written policies:</p> <ul style="list-style-type: none"> <li>• Price Discrepancy Policy</li> <li>• Sale to Underage Drinking Policy</li> </ul>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p> <p><b>**Note:</b> 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 25% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management has implemented procedures and updated the employee manual. A copy of the revised manual has been submitted to the Commission.</p>

RECOMMENDATION	REQUIRED BY STATUTE	IMPLEMENTATION STATUS
<p><b>Administrative Compliance:</b></p> <p>Have the board chairman read the conflict of interest statement to all board members for transparency.</p> <p>Post signage notifying the public of all meeting times and locations.</p> <p>Affix the pre-audit certificate on all orders before the transaction occurs.</p>	<p><input checked="" type="checkbox"/> <b>Yes</b></p> <p><input type="checkbox"/> <b>No</b></p> <p><b>**Note:</b> 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 25% complete. (Explain below.)</p> <p><input type="checkbox"/> Not implemented (Explain below.)</p> <p>Management has implemented procedures to be in compliance with the statute.</p>