

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Special Financial Audit
For the Period July 2013 through February 2015

Report No. 15-01



OFFICE OF THE
UTAH STATE AUDITOR

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

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AUDIT LEADERSHIP:

Hollie Andrus, CPA, Audit Director
Ariane Gibson, CPA, Audit Senior



OFFICE OF THE
UTAH STATE AUDITOR

May 26, 2015

Members of the Utah Alcoholic Beverage Control Commission
and
Mr. Salvador D. Petilos, Executive Director
Department of Alcoholic Beverage Control

We performed various procedures on certain aspects of the Department of Alcoholic Beverage Control's (DABC) internal control for the period July 2013 through February 2015. These procedures were performed in accordance with *Utah Code*, Section 32B-2-302, were agreed to by DABC management, and were approved by the DABC Commission. We will perform additional procedures over the next several months and will issue a report on these additional procedures upon completion. This report covers the procedures enumerated in the "Executive Summary."

The procedures do not constitute an audit conducted in accordance with generally accepted auditing standards, the objectives of which would be the expression of an opinion on DABC's internal control. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Our findings resulting from the procedures are found within this report.

By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by DABC's personnel during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please contact me at handrus@utah.gov or 801-808-0467.

Sincerely,

Hollie Andrus, CPA
Audit Director

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

FOR THE PERIOD JULY 2013 THROUGH FEBRUARY 2015

Executive Summary

The Department of Alcoholic Beverage Control (DABC) is statutorily required to be audited every year. This report provides recommendations in five areas to strengthen DABC internal controls, accounting practices, and compliance with law. Each area is outlined below.

Management Practices

We interviewed top level management at DABC to better understand their responsibilities, the performance metrics they use, and the critical decisions they must make. Based on our discussions, we recommend that DABC:

- Evaluate the level of detailed information and data retention needed to make critical decisions and then modify their data entry and management procedures accordingly.
- Consider hiring an outside consultant to review DABC's data entry and decision-making processes and to implement improved processes, where necessary.
- Provide more outside training opportunities for management to enable them to enhance their professional development and learn from industry best practices and decision-making tools.

Accounting Controls and Procedures

Our audit procedures identified weaknesses in the internal control structure in DABC's accounting office. Specifically, the accounting office has inadequate separation of duties and lacks secondary reviews for various accounting procedures.

DABC has not reconciled its subsidiary ledger to the State's general ledger for over a year and uses inconsistent and unreliable procedures to determine unsellable product and recover the appropriate funds from the manufacturer.

We recommend that DABC:

- Provide training to accounting staff on internal controls and their importance;
- Separate conflicting duties, as appropriate, or implement compensating controls as needed;
- Sufficiently review all supporting documentation for write-offs;
- Reevaluate and simplify current procedures for calculating credit memos or review credit memos applied to package agencies' monthly billings to ensure accuracy;
- Implement and document consistent and reliable policies and procedures for unsellable product; and,
- Reconcile the subsidiary ledger to the general ledger at least quarterly.

Package Agency Controls

We reviewed the contracts and policies and procedures over Brewery, Distillery, and Winery package agencies, Secondary Basis package agencies, and Full Operation Basis package agencies. Various weaknesses over the monitoring, billing, and compensation paid to package agencies were identified, as described below.

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

FOR THE PERIOD JULY 2013 THROUGH FEBRUARY 2015

- DABC does not monitor the accuracy and timeliness of the monthly sales reports submitted by Breweries, Distilleries, and Winery package agencies. These reports are used for calculation of the alcohol tax; therefore, inaccuracies may result in lost revenue to the State.
- DABC does not bill or receive payment for the alcohol tax in a timely manner.
- Secondary Basis package agencies receive a monthly compensation from DABC; however, DABC does not use a consistent basis or calculation to determine the amount of compensation paid.
- Full Operation Basis package agencies receive monthly compensation from DABC according to a classification system based on average monthly unit bottle sales. However, 38% of the compensation paid to the package agencies in fiscal year 2015 is incorrectly calculated.

We recommend that DABC:

- Verify the accuracy of sales reports prepared by Brewery, Distillery and Winery package agencies;
- Monitor monthly sales reports submitted by Brewery, Distillery, and Winery package agencies;
- Bill these package agencies in a timely and consistent manner;
- Implement and enforce written procedures and guidelines for calculating compensation paid to Secondary Basis package agencies; and,
- Ensure payments to Full Operation Basis package agencies are calculated in accordance with DABC's policies.

Warehouse Management

We observed various procedures and processes in order to determine if adequate internal controls are in place for efficient warehouse operation. We found the weaknesses described below:

- Warehouse workers vary in how they collect product for shipment. Since DABC has no policy or standard in place, employees are incentivized to skip product in the system when it has not actually been retrieved and retrieve it at a future time, leading to potential inaccuracies and incorrect efficiency data.
- DABC does not require its shipping department or the common carrier to properly complete all appropriate sections of the Bill of Lading (BOL), thus eliminating a third-party verification of the products being shipped.
- DABC reports only the product weight on the BOL; the weight of the wooden pallets that accompany the shipment is not reported, causing the gross shipment weight to be understated.

We recommend that DABC:

- Create standard procedures for employees to follow during product collection to ensure accuracy of product shipped and accuracy of efficiency reports;
- Design and implement internal controls to properly complete Bills of Lading; and,
- Include the weight of wooden pallets in gross shipment weight.

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

FOR THE PERIOD JULY 2013 THROUGH FEBRUARY 2015

Licensee Practices

We surveyed a group of DABC licensees to ascertain customer service satisfaction pertaining to the licensing process, compliance, education, and procurement. From this survey, we found that many licensees were not aware of the free training, including the alcohol laws education program, that DABC offers to its licensees. We recommend that DABC improve its communication of licensee training opportunities.

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

FOR THE PERIOD JULY 2013 THROUGH FEBRUARY 2015

Table of Contents

Executive Summary i

Management Practices..... 1

 Recommendations..... 2

Accounting Controls and Procedures 2

 Separation of Duties..... 2

 Reviews..... 3

 FINET Reconciliations..... 4

 Recommendations..... 4

Package Agencies 5

 Brewery, Distillery, and Winery Package Agency (Type 5) Monitoring and Billing Timeliness 5

 Secondary Basis Package Agency (Type 2) Compensation..... 6

 Full Operation Basis Package Agency (Type 3) Compensation..... 7

 Recommendations..... 7

Warehouse Management..... 8

 Inventory Selection 8

 Order Fulfillment 9

 Recommendations..... 10

Licensee Practices 13

 Recommendations..... 17

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

FOR THE PERIOD JULY 2013 THROUGH FEBRUARY 2015

Management Practices

We interviewed top level management at the Department of Alcoholic Beverage Control (DABC) to gain an understanding of the following:

- The level of education for top level management;
- The level of management's applicable work experience prior to their current positions;
- The amount of time management has worked at a State Liquor Store or in the DABC Warehouse before advancing to their current positions;
- The critical decisions management personnel are required to make and the data sets provided to make those decisions; and
- Suggestions on areas for which an audit would be useful.

Results of our interviews with management team members are:

- Half of the management team have Bachelor Degrees; only two members of the team have advanced degrees; the remaining members have some education beyond high school.
- Each team member had at least 10 or more years of applicable experience prior to his current position.
- A majority of management worked for 10 or more years at State Liquor Stores or in the DABC warehouse before advancing to their current positions.
- Each team member believes that he/she is making critical decisions at least every other week and is given adequate information to make those decisions, which include purchasing and inventory management, staffing needs, fiscal management, and shipping decisions.
- Some team members believe that DABC could provide more opportunities, such as conferences, to help advance professional development.
- All of the respondents have a vision for DABC with a common goal of efficiency and meeting customers' expectations while keeping the State safe.

As we met with management and other DABC employees, we noted instances where DABC could improve data entry, streamline processes, and better retain data electronically to provide management with key data sets for analysis and decision making. For example, Detailed Point of Sales data is not retained past 90 days, making comparative year-to-year analytics difficult. An analysis of staffing needs based on historical sales data—an analysis we were asked to perform—would also be difficult because the sales data is not retained and employee time records are not electronically maintained. Additionally, batches of DABC freight charges are recorded in the accounting system as one accounting transaction, making it impracticable to analyze shipment charges by region, State store, or package agency.

During our discussions, management provided suggestions of areas for which an audit would be useful. We believe that management should have already been performing analyses in some of the suggested areas. However, based on our discussions and research, we determined that these analyses are not currently being performed because management lacks sufficient data for the analyses even though, as stated above, they believed they had adequate data available.

Although top level management may have adequate levels of formal education and applicable experience, DABC does not foster the use of best industry practices within the organization. Providing management with opportunities to participate in outside training and conferences could strengthen their understanding

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

FOR THE PERIOD JULY 2013 THROUGH FEBRUARY 2015

of industry best practices and decision-making tools which would help them identify DABC data sets that are inadequate.

Recommendations

We recommend that DABC:

- Evaluate the level of detailed information and data retention needed to make critical decisions and then modify their data entry and management procedures accordingly.
- Consider hiring an outside consultant to review DABC's data entry and decision-making processes and implement improved processes, where necessary.
- Provide more outside training opportunities for management to enable them to enhance their professional development and learn from industry best practices and decision-making tools.

DABC's Response:

- *DABC will evaluate information and retention needs in relation to the capabilities of the new warehouse management system. The DABC is aware that the current system has limitations due to its size and programming.*
- *DABC will evaluate information and retention needs in relation to the capabilities of the new warehouse management system. The DABC is aware that the current system has limitations due to its size and programming.*
- *DABC recognizes the importance of professional training to improve management personnel skill level. DABC approves attendance at training opportunities offered by the State and outside entities when agendas indicate subject areas of value.*

Accounting Controls and Procedures

During our cash disbursement and package agency testwork, we reviewed the accounting procedures and internal controls in DABC's accounting office and identified various internal control weaknesses as discussed below.

Separation of Duties

We performed a separation of duties analysis for all personnel in the accounting office. We discussed with the employees their specific job duties to determine if duties are adequately separated or if adequate reviews and approvals are in place to compensate.

One financial analyst has access to cash, reviews expected receipts, mails or handles signed checks, records transactions in the subsidiary ledger, and prepares and sends billings. These responsibilities should be performed by separate individuals, or other internal controls should be in place to mitigate the weakness. Inadequate separation of duties can allow errors and fraud to occur without detection.

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

FOR THE PERIOD JULY 2013 THROUGH FEBRUARY 2015

Reviews

While performing the separation of duties analysis described above, as well as other testwork throughout our audit, we discovered additional reviews that are not being completed, weakening the effectiveness of controls and increasing the risk of errors or misappropriations in the accounting office, such as:

- Write-offs in the accounts receivable subsidiary ledger, Carillon, require a secondary approval. Although the financial analyst performs the secondary approval of the write-offs, she does not adequately review documentation supporting the write-offs to ensure they are valid and appropriate. Supporting documentation should be reviewed before write-offs are approved.
- Receipt records should be reconciled to the validated deposit tickets or bank statements. At the time of our testwork, the accounting office was not reconciling the receipt log to the deposit receipt. The lack of this reconciliation could lead to the misappropriation of money whether due to fraud or error.
- The process for tracking credits to package agencies is convoluted, making it difficult to ensure that credits for package agency sales are valid and accurate. Full Operation Basis package agencies sell only DABC product, thus acting as a liquor store. In order to collect the revenues from credit card sales, DABC has installed credit card machines at each Full Operation Basis package agency, whereby the revenues generated can be transmitted directly to a DABC-maintained bank account on a daily basis. DABC accounting personnel apply a weekly credit (credit memo) to each package agency's outstanding balance for the credit card revenues collected at the package agency that week. The amounts from all credit memos applied during the month are subtracted from the monthly amount billed to the package agency by DABC.

We selected five Full Operation Basis package agency credit memos to determine whether the policies and procedures over billing are consistent. For each of the five credit memos selected, we were able to determine, within reason, that the credit amount was included on the monthly billing statement sent to the package agency and that the package agency's payment was received within a month following the statement issuance. However, this was difficult to determine because the process for calculating the credit amounts has many steps and is not easily traceable. DABC should look for opportunities to simplify the credit memo process in order to reduce the potential number of errors and to increase efficiencies. If the process cannot be simplified, DABC should perform a secondary review over the calculation of the credits since miscalculations can lead to potential errors or inaccuracies. Although the risk is reduced (package agencies may complain if proper credit is not given), secondary reviews should be performed to detect errors.

- When a store deems alcoholic product to be unsellable, the store holds the product until a DABC inventory specialist can verify the condition of the product. The inventory specialist then certifies an Order of Destruction and disposes of the product. DABC accounting personnel issue a debit memo to the applicable manufacturer which reduces the amount that DABC pays on the manufacturer's next billing. However, accounting personnel do not verify the reasons for product being unsellable or reconcile the debit memos to the items listed on the Orders of Destruction, but rather they create the debit memos in a somewhat inconsistent and unreliable manner using information the store provides regarding damaged product. At the time of our audit, we could not identify any formal policies or procedures for recovering funds from manufacturers for unsellable products.

The above weaknesses occurred due to DABC's limited accounting expertise combined with a lack of training on the importance of proper internal controls.

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

FOR THE PERIOD JULY 2013 THROUGH FEBRUARY 2015

FINET Reconciliations

We traced four transactions from Carillon, the DABC subsidiary ledger, to FINET, the State's general ledger, in order to obtain limited assurance of the completeness of the information transferring between the two systems. However, for one of the four transactions (25%) there was a difference of \$302.40, and DABC had not made an adjusting entry to correct the difference. When we asked DABC accounting staff about this error, they said they had not reconciled Carillon to FINET in over a year. DABC Policy 01-01 requires accounting personnel to perform a quarterly reconciliation of Carillon to FINET to ensure that receipts in Carillon agree with revenues in FINET and that all Carillon receipts are deposited in the bank. Failure to reconcile Carillon to FINET could result in uncorrected errors, such as the one noted above. As a result, DABC's financial information could be misstated in the State's financial statements.

Recommendations

We recommend that DABC provide its accounting staff with training on internal controls and their importance. In addition, we recommend that DABC:

SEPARATION OF DUTIES

- Separate all conflicting duties, as appropriate, or implement compensating controls as needed.

REVIEW OF SUPPORTING DOCUMENTATION

- Sufficiently review all supporting documentation for write-offs before approval to ensure the write-offs are appropriate.
- Reconcile receipt records to validated deposit tickets or bank statements to ensure that all receipts have been deposited into the bank.
- Reevaluate and simplify current procedures for calculating credit memos or, if the process cannot be simplified, review credit memos applied to package agencies' monthly billings to ensure accuracy.
- Implement and document consistent and reliable policies and procedures for verifying why product is unsellable and for recovering funds from manufacturers for unsellable product. Such policies and procedures should include a reconciliation of the debit memos to the Certificates of Destruction.

FINET RECONCILIATIONS

- Reconcile Carillon to FINET at least quarterly.

DABC's Response:

SEPARATION OF DUTIES

- *Responsibilities have been re-allocated within the staff to bolster internal controls. The department will continue its efforts to ensure that conflicts in duties detrimental to strong internal controls are eliminated. It may be necessary at some point in the future to increase staffing to ensure segregation of duties required to optimize internal controls.*

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

FOR THE PERIOD JULY 2013 THROUGH FEBRUARY 2015

REVIEW OF SUPPORTING DOCUMENTATION

- *Moving forward, before an account is written off, all supporting documentation will be reviewed by the Director of Finance to determine completeness and validity.*
- *As part of the monthly bank reconciliation process all validated deposit tickets will be reconciled to the bank statements to ensure completeness and timeliness of deposits.*
- *The credit memo process is under review and will be simplified. In addition, all package agency credit memos will be reviewed by the Director of Finance before they are applied to the account.*
- *Procedures will be updated for identification and disposal of unsellable product. These procedures will be applied to all items deemed to be unsellable. The Breakage Credit Form has been updated to more clearly delineate coding for the reasons why product is unsellable. The codes applicable to manufacturer or shipper problems will be charged back to the appropriate party. The debit memos for chargebacks will be reconciled to the Certificates of Destruction. The breakage recording process will be automated as part of the new warehouse management system.*

FINET RECONCILIATIONS

- *Carillon records will be reconciled to FINET on a monthly basis beginning with the May, 2015 period.*

Package Agencies

Per *Utah Code 32B-2-601*, package agencies are liquor outlets operated by agents under contract with DABC for the purpose of selling, offering for sale, or furnishing liquor in sealed containers from premises other than those owned or leased by the State. There are five types of package agencies: Resort (Type 1), Secondary Basis (Type 2), Full Operation Basis (Type 3), Room Service (Type 4), and Brewery, Distillery, and Winery (Type 5). We reviewed the contracts and policies and procedures over Brewery, Distillery, and Winery package agencies, Secondary Basis package agencies, and Full Operation Basis package agencies. We detected various weaknesses related to the monitoring of, billing to, and compensation paid to package agencies as described below.

Brewery, Distillery, and Winery Package Agency (Type 5) Monitoring and Billing Timeliness

A licensed manufacturer, such as a brewery, distillery, or winery, may operate a package agency (Type 5 PA) on their premises for the purpose of selling their products in sealed packages to the general public for off-premise consumption. A portion of the Type 5 PA's revenues are to be taxed (referred to as an "alcohol tax") and remitted to DABC for use by the Department of Public Safety (*Utah Code 32B-2-305(4)*), the Uniform School Fund (*Utah Code 32B-2-304(4)*), and DABC (*Utah Code 32B-2-202(1)(h)*). Section 17 of the DABC Rules and Procedures Manual requires Type 5 PAs to submit monthly sales reports to DABC within five working days following the end of the month. These reports are then used by DABC to determine the alcohol tax to be remitted by Type 5 PAs.

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

FOR THE PERIOD JULY 2013 THROUGH FEBRUARY 2015

We selected ten monthly sales reports from Type 5 PAs to determine if DABC has controls in place to verify that the reports are correct and complete as follows:

- We ascertained whether the sales reports contained the required elements;
- We analyzed the timing of sales reports submissions;
- We recalculated the tax to be remitted from gross sales to ensure they were accurately calculated and billed; and
- We determined whether the tax payments were received within 30 days of billing.

We observed the following weaknesses relating to DABC's monitoring and billing of Type 5 PAs:

- DABC accounting personnel do not verify the accuracy of the sales reports prepared by the Type 5 PAs. Not verifying the sales represented in the monthly reports may create an incentive to the package agencies to underreport their sales, which could potentially create a substantial loss of funds to the State.
- DABC is not sufficiently monitoring and enforcing the timeliness of sales reports. Three of the 10 reports reviewed included three months' worth of sales, indicating each of these three Type 5 PAs was late in submitting two of their reports.
- DABC is not billing the package agencies consistently. The invoices created for the 10 reports reviewed were dated between 1 and 75 days after the monthly report required submission dates. These problems occurred not only because the Type 5 PAs are submitting their reports late, but also because DABC accounting personnel are not consistent in their billing practices.
- DABC is not enforcing timely payments. Two payments associated with the 10 reports reviewed were received past the due date (i.e., more than 30 days after the invoice date). One payment was received a week past the due date and another was received 24 days past the due date.

Timely and consistent billing practices are key to optimal cash flow.

Secondary Basis Package Agency (Type 2) Compensation

DABC contracts with Secondary Basis package agencies (Type 2 PAs) which have been established to operate in conjunction with another business where the primary source of income to the operator is not the sale of liquor. They have been established by DABC in order to provide service to communities too small to warrant the establishment of a state liquor store. As such, they receive compensation from DABC "based on sales, department needs, and size and selection of inventory" in accordance with Section 2 in the Type 2 PA Rules and Procedures manual.

We selected three Type 2 PAs to determine if they received the correct compensation in fiscal year 2014 and are receiving the correct compensation in fiscal year 2015 and noted that DABC accounting personnel have no consistent basis or calculation method to determine the compensation paid to Type 2 PAs. Because DABC was unable to provide documentation on how these amounts were determined, we were unable to determine whether the factors enumerated in the Rules and Procedures manual were used. While the amounts of these payments are insignificant to DABC as a whole, we consider appropriate accounting practices key to a sound control environment.

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

FOR THE PERIOD JULY 2013 THROUGH FEBRUARY 2015

Full Operation Basis Package Agency (Type 3) Compensation

DABC contracts with Full Operation Basis package agencies (Type 3 PAs) which have been established for the sole purpose of selling liquor and are not operated in conjunction with another business. They have been established by DABC in order to provide service to communities too small to warrant the establishment of a state liquor store. As such, they receive compensation from DABC “according to a classification system based on average monthly unit bottle sales,” in accordance with Section 2 of the Type 3 PA Rules and Procedures manual.

We reviewed the sales information for three Type 3 PAs to determine if they received the correct compensation in fiscal year 2014. We also reviewed the sales information for eight Type 3 PAs to determine if they are receiving the correct compensation in fiscal year 2015. We found that 1 of the 3 package agencies tested for 2014 and 3 of the 8 package agencies tested for 2015 received a total of \$8,663 less than their sales permitted them to receive according to the classification system. DABC has no reviews in place to verify that Type 3 PAs are receiving the correct compensation.

Recommendations

We recommend that DABC:

BREWERY, DISTILLERY, AND WINERY PACKAGE AGENCY (TYPE 5) BILLING TIMELINESS

- Verify the accuracy of sales reports prepared by the Type 5 PAs;
- Implement and enforce policies and procedures for monitoring monthly sales reports submitted by Type 5 PAs to ensure the reports are timely, accurate, and complete.
- Bill and collect payment from Type 5 PAs in a timely and consistent manner.

SECONDARY BASIS PACKAGE AGENCY (TYPE 2) COMPENSATION

- Implement and enforce written procedures and guidelines for calculating the amount of compensation paid to Type 2 PAs.

FULL OPERATION BASIS PACKAGE AGENCY (TYPE 3) COMPENSATION

- Implement and enforce written policies and procedures regarding the compensation paid to Type 3 PAs to ensure payments are calculated in accordance with DABC policies.

DABC's Response:

BREWERY, DISTILLERY, AND WINERY PACKAGE AGENCY (TYPE 5) BILLING TIMELINESS

- *DABC licensing and compliance staff will improve verification of the accuracy of the sales reports. As part of this process, Compliance staff will conduct announced audits of the manufacturing license, type 5 package agency and any retail license (club, restaurant) that is associated with the manufacturing facility. Additionally, accounting staff would verify the accuracy of the sales report during one unannounced audit a year.*
- *The Type 5 PA invoices will be updated to include a reminder that as part of the contract the operator must pay on time and that failure to pay on time could result in suspension or*

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

FOR THE PERIOD JULY 2013 THROUGH FEBRUARY 2015

termination of the package agency contract. Failure to report within the 5 day period is also violation of administrative rule and state statute related to reporting - a moderate violation.

For repeat offenders, the DABC will send a warning letter stating that if we do not receive the report by 5th day of the month following the sales month, a hearing will be held before the Commission regarding whether the agency contract should be suspended or terminated.

- *Type 5 Package agencies will be billed on the 20th of the month following sales activity. Billing on the 20th of the month following sales activity will provide accounting staff with time to investigate any credit activity and to ensure that billings are accurate.*

SECONDARY BASIS PACKAGE AGENCY (TYPE 2) COMPENSATION

- *DABC accounting staff is preparing a schedule of payments for Type 2 package agencies. This schedule will be based upon units purchased and provide an objective basis for compensation. Through the use of such a schedule, agency owners can verify their commission amounts and the DABC can plan for commission increases and decreases in the budget.*

FULL OPERATION BASIS PACKAGE AGENCY (TYPE 3) COMPENSATION

- *Type 3 package agency compensation is based on annual sales. Compensation is reviewed during annual close in accordance with the Type 3 package agency manual to determine if compensation is understated or overstated on the basis of annual sales. This process is necessary to calculate any required additions or subtractions to budget requests for package agency compensation. DABC Finance will closely monitor changes in payments to package agencies to ensure compliance with DABC compensation policies.*

Warehouse Management

We observed various procedures and processes at the DABC warehouse to determine whether adequate internal controls are in place for an efficient warehouse operation. We also reviewed purchases, receipts, and deliveries to retail outlets and package agencies for completeness and timeliness.

Inventory Selection

We visited the DABC warehouse to observe the process for gathering inventory (described by DABC as “picking”) for shipment to DABC stores and package agencies. Based on this observation, we developed the criteria for the testwork which included the following steps:

- We examined the product and number of cases picked/collected for a pallet for accuracy;
- We reviewed DABC’s standards for skipping collection of product; and
- We ascertained whether DABC has appropriate standards and procedures for confirming that a product has been accurately picked for shipment.

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

FOR THE PERIOD JULY 2013 THROUGH FEBRUARY 2015

During our testwork, we observed:

- One case of the wrong product was placed on a pallet instead of the product ordered (there are approximately 30-50 cases on a pallet). On February 4 and 5, 2015 we observed three warehouse workers picking inventory. Afterwards, we broke down six pallets to test for accuracy in picking inventory, at which time we identified the error.
- DABC lacks adequate policies and procedures relating to the picking process. Current policies require warehouse employees to correctly pick product at the rate established in their performance plans. Warehouse management reviews and evaluates employees' efficiency using a Daily Productivity Report generated from the Voxware system—an order fulfillment system which tracks a picker's location in the warehouse, the products picked, and any product that is skipped. However, the Voxware system permits the pickers to confirm they have picked product when they have not yet done so or when they are in the process of picking. This weakness in the Voxware system, along with DABC's lack of specific standards relating to this aspect of picking product, can incentivize employees to increase reported efficiency by skipping product, entering it in the system when it has not actually been retrieved, and retrieving it at a future time. This can result in potential inaccuracies in shipment fulfillment, which creates additional inefficiencies by requiring those receiving the product to prepare discrepancy reports which must later be verified by an inventory specialist. In addition, this weakness can result in incorrect employee efficiency data, leading to inaccurate employee performance evaluations.

Order Fulfillment

We visited the DABC Warehouse to observe the shipping process to DABC retail outlets. The purpose of our observation was to gain an understanding of the shipping process currently used by the warehouse and compare the process to DABC written policy. Our audit procedures included the following:

- We monitored the receiving and shipping functions to ensure they are separate;
- We verified that a purchase order existed for the shipment;
- We determined whether shipping documents are generated following the established DABC policies;
- We verified that high dollar goods are stored in a secure location and adequately monitored, and that movement of such goods is adequately controlled and documented;
- We reviewed the Bill of Lading (BOL) and contacted the drop-off location to determine whether the items were received by the retail outlet or package agency;
- We determined whether a physical counting of goods (cases/pallets in trailer) is conducted at time of shipment by persons other than those who: a) have custody or access to inventories or b) authorize or make shipments; and
- We verified that shipping documents are forwarded to the appropriate person(s) for organization and retention purposes.

We examined the shipping packet of 20 individual shipments and found that the BOL was completed incorrectly for all 20 shipments reviewed. The DABC does not require either its shipping department or the common carrier to properly complete all of the appropriate sections of the BOL. As such, the following weaknesses were noted:

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

FOR THE PERIOD JULY 2013 THROUGH FEBRUARY 2015

- All 20 BOLs lacked the shipment date, the National Motor Freight Class/Number, and DABC's authorized signature as the shipper.
- DABC allows the common carrier to omit the third party count of shipment contents, which is supposed to provide verification of the shipment's case or pallet quantity. In addition, we noted that the BOLs were not signed and dated by the common carrier.
- DABC reports only the product weight on BOLs but not the weight of the wooden pallets that accompany the shipment, causing the gross shipment weight to be understated. Disclosing the proper weight is important to comply with Utah commercial vehicle highway weight limitations (R909-2-5(1)).

These errors occurred due to insufficient knowledge and lack of DABC policy. The BOL provides evidence of the shipment occurring and the specific items included in the shipment. Each BOL should be completed in its entirety, as it is a legal contract between DABC and its chosen common carrier.

Recommendations

We recommend that DABC:

INVENTORY SELECTION

- Create and enforce standard procedures for collection of product for shipments to ensure the accuracy of product shipment, as well as the accuracy of efficiency reports.

ORDER FULFILLMENT

- Design and implement internal controls to ensure that each BOL is completed by the DABC shipping department and includes the shipment date, National Motor Freight Class/Number, and DABC's authorized signature.
- Require the common carrier to properly complete each BOL to include an authorized signature, date, and count of shipment contents.
- Include the weight of the wooden pallets in gross shipment weight.

DABC's Response:

INVENTORY SELECTION

- *Procedures have been written to instruct employees on proper protocol for product collection. These procedures dictate the Standard Operating Procedure (SOP) for order collection/fulfillment. This document outlines each step required to complete an order using the Voxware system.*

To ensure compliance with policy and to quantify a per-employee accuracy rating, a Picking accuracy report is used to track the accuracy rating of each picker and shows an average of 0.4% error rate. This rate is in line with national standards. A sample of this report is attached as Exhibit (1).

ORDER FULFILLMENT

- *The attached example (Exhibit 2) of an actual BOL illustrates changes in procedure implemented by DABC warehouse for completing the BOL. This document highlights the national motor*

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

FOR THE PERIOD JULY 2013 THROUGH FEBRUARY 2015

freight code to be used on all shipments (111450) along with the class of (100) on all BOL's going forward.

- *The DABC and the carrier representative are now required to sign and date each BOL and confirm the count of shipment contents.*
- *DABC warehouse staff weighed random pallets to come up with an average weight per pallet to include on each BOL. The average weight of the wooden pallets is a separate line item to be added to the gross shipment weight. On our "example" BOL you can see the NMFC Number/Class and the DABC's authorized signature and date, and where the wooden pallet weight will be entered.*

Exhibit 1 to DABC Response:

April 2015 Picking Accuracy report													
Totals	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Totals
1	23	49	47	20									139
2	36	32	35	38									141
3	30	13	14	29									86
4	11	12	10	10									43
5	10	9	4	15									38
6	18	25	24	19									86
7	6	6	0	11									23
8	11	19	24	9									63
9	28	45	18	12									103
10	10	15	8	13									46
11	13	13	8	6									40
12	19	16	8	8									51
13	9	13	6	11									39
14	10	8	8	10									36
15	47	49	28	40									164
16	37	48	57	22									164
17	4	17	8	4									33
18	4	9	22	14									49
19	6	14	21	16									57
20	0	0	0	0									0
21	19	36	23	27									105
22	9	8	9	8									34
23	11	14	14	21									60
24	29	21	23	9									82
25	29	19	14	14									76
26	27	20	22	35									104
27	15	11	17	22									65
28	11	13	10	5									39
29	32	23	27	37									119
30	23	25	28	18									94
31	14	31	22	24									91
32	6	9	13	10									38
33	27	23	27	21									98
34	27	11	26	11									75
35	15	13	16	10									54
36	17	5	2	2									26
37	48	19	19	22									108
38	37	27	47	25									136
39	14	19	16	17									66
40	30	22	22	24									98
41	9	14	8	15									46
42	12	7	14	15									48
43	13	9	10	21									53
44	20	18	10	11									59
45	22	16	7	25									70
Totals	848	845	796	756	0	0	0	0	0	0	0	0	3245
	207,490	208,828	200,519	198,308									
	0.41%	0.40%	0.40%	0.38%									

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL
FOR THE PERIOD JULY 2013 THROUGH FEBRUARY 2015

Exhibit 2 to DABC Response:

STRAIGHT BILL OF LADING
 ORIGINAL - NOT NEGOTIABLE
SVXL
 Call 801-462-2335 for Rate Quotes
 www.SST.com

Superior Service Transport

NOTE: DRIVER AFFIX PRO NUMBER LABEL HERE

06/00/0000

BLT# NO	CUSTOMER P.O. NUMBER	ROUTE/DESCRIPTION	SHIPPER'S NUMBER			
Store 0002						
FROM STORE (DABC/UTSLA) UTAH DEPT OF ALCOHOL & BEV		STREET 1828 S 900 W				
STREET 12345 30 4000 WEST		CITY STATE ZIP SALT LAKE CITY, UT 84104				
CITY STATE ZIP City, State, ZIP						
FREIGHT CHARGES:		SHIPPER'S MARK				
<input type="checkbox"/> Charges are to be collect. <input type="checkbox"/> Third Party Billing		STREET				
		CITY STATE ZIP				
Number Shipping Units	HAZMAT	Kind of Packaging, Description of Articles, Special Marks and Exceptions <small>(IMPORTANT: List Hazardous Materials First)</small>	NWFC Number	Class <small>(SUBJECT TO CORRECTION)</small>	Weight	Charges
	<input type="checkbox"/>	ALCOHOL 0000 CASES	11450	100	00000	
	<input type="checkbox"/>	Shipment #				
	<input type="checkbox"/>	# of Pallets				
	<input type="checkbox"/>	Temperature Controlled <small>except when the box otherwise indicates</small>				
If goods are being shipped COD, check the box below and complete the section to the right. <input type="checkbox"/> Goods are COD		COD AMOUNT is \$ 3	COD FEE is <input type="checkbox"/> Prepaid <input type="checkbox"/> Collect	Is the customer's check Acceptable for C.O.D.? <input type="checkbox"/> NO	Total Charges	
NOTE (1) Where the use is shipment on return, shippers are required to state specifically in writing the agreed or declared value of the property as follows: "The agreed or declared value of the property is hereby specifically stated by the shipper to be not exceeding _____ per pound."		AUTHORIZED SIGNATURE Shipped in violation of the conditions if the shipment is to be delivered to the consignee without receipt on the consignee, the consignee shall sign the following statement: The Carrier shall not make delivery of this shipment without payment of freight and all other lawful charges.				
NOTE (2) Liability limitation for loss or damage on the shipment may be applicable. See 49 U.S.C. § 14706(a)(2)(A) and (B).		(14706) Subject to the classification and liability effect on the date of the issue of this Bill of Lading, the property described above, in apparent good order, except as noted, contents and condition of packages unknown, marked, consigned, and delivered as indicated above, which said carrier (the word carrier being understood throughout this contract as meaning any person or corporation in possession of the property under the contract) agrees to carry to its usual place of delivery at said destination. If on its route otherwise to deliver to another carrier on the route to said destination, it is mutually agreed as to each carrier of all or any of the terms of said route to destination and as to each party of any time interested in all or any of said property that every service to be performed hereunder shall be subject to all the rest of lading terms and conditions in the governing classification on the date of shipment.				
Shipper here by certifies that he is familiar with all the Bill of Lading terms and conditions in the governing classification and the said terms and conditions are hereby agreed to by the shipper and accepted for himself and his agents.						
Required by HAZMAT Shipments: Shipper also certifies that the above named materials are properly classified, packaged, marked and labeled, and are in proper condition for transportation according to the applicable regulations of the DOT. Signed _____ Date: _____						
SHIPPER			CARRIER			
Name DABC	Phone Number 801-877-8800	Name Superior Service Transport, Inc.	2013-01-08 (DD)			
Authorized Signature [Signature]		Authorized Signature	Date & Time of Receipt	Rc. Places Received		

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

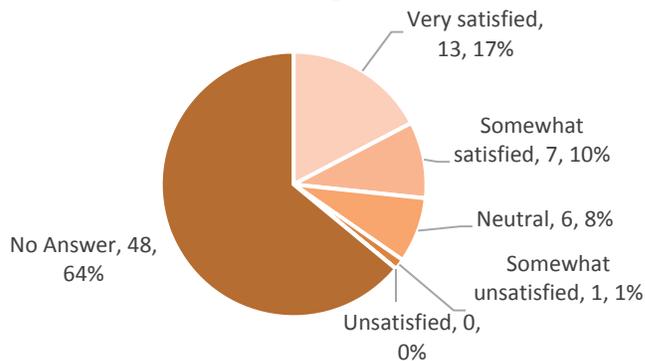
FOR THE PERIOD JULY 2013 THROUGH FEBRUARY 2015

Licensee Practices

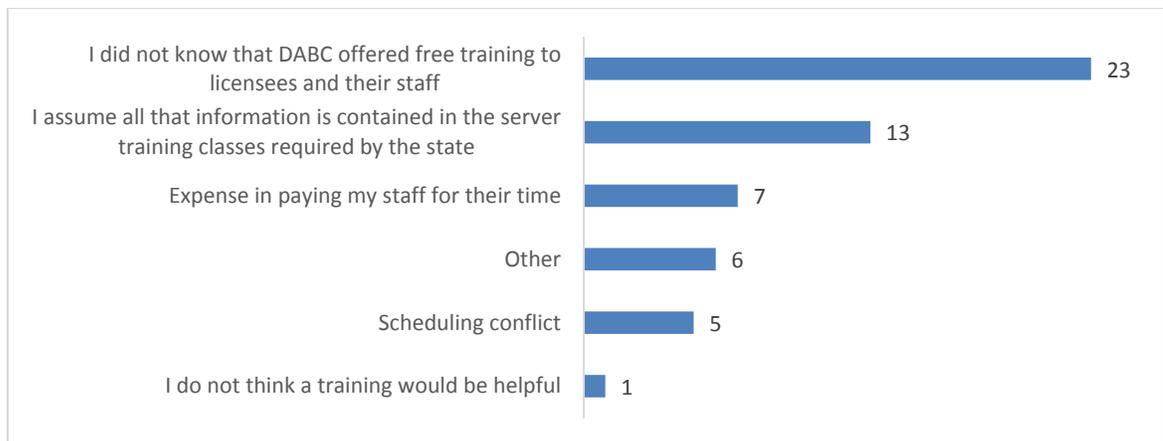
We surveyed a group of DABC licensees to ascertain customer service satisfaction pertaining to the licensing process, compliance, education, and procurement. We sent surveys to 249 licensees and received 75 responses. Key take-aways are shown in the graphs and discussions below.

Training:

Licensee satisfaction with on-site training:



Barriers to having DABC perform training for the licensee and their staff:

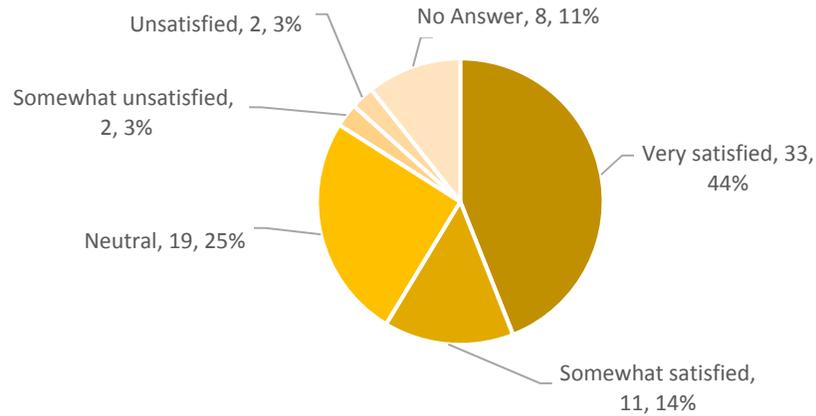


Licensees also offered suggestions that DABC remain focused on the rules during training and require training of all licensees instead of specific ones.

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL
FOR THE PERIOD JULY 2013 THROUGH FEBRUARY 2015

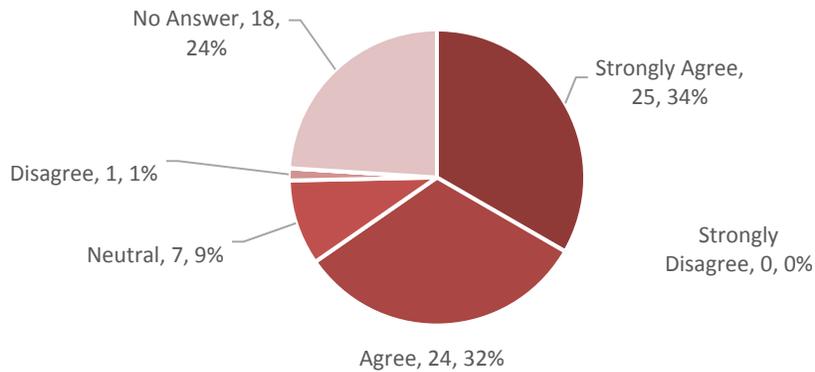
Licensing Process:

Satisfaction with the licensing process:



Audits:

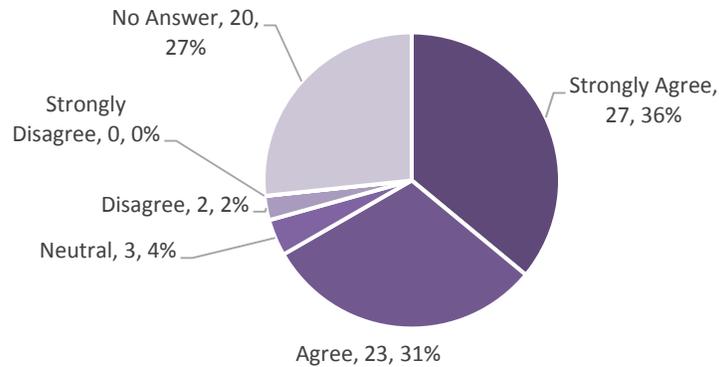
Adequate preparation time given for an audit:



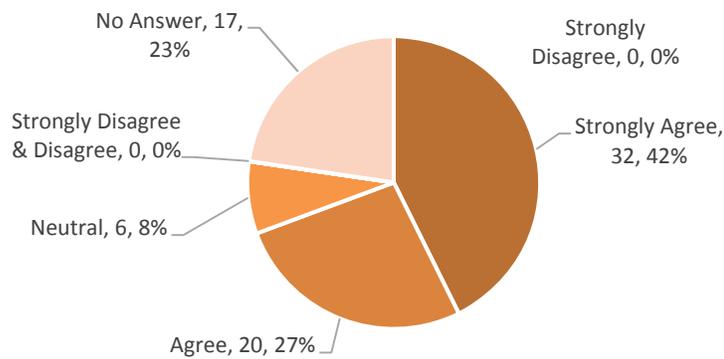
DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

FOR THE PERIOD JULY 2013 THROUGH FEBRUARY 2015

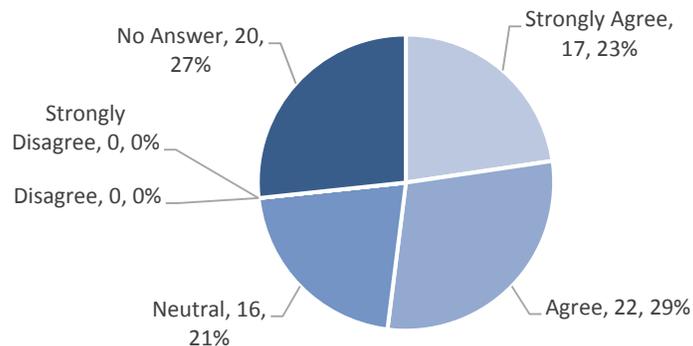
Licensee understood what documents were being requested of them for their audit:



The compliance officer was knowledgeable and professional:



The licensee found the audit helpful:

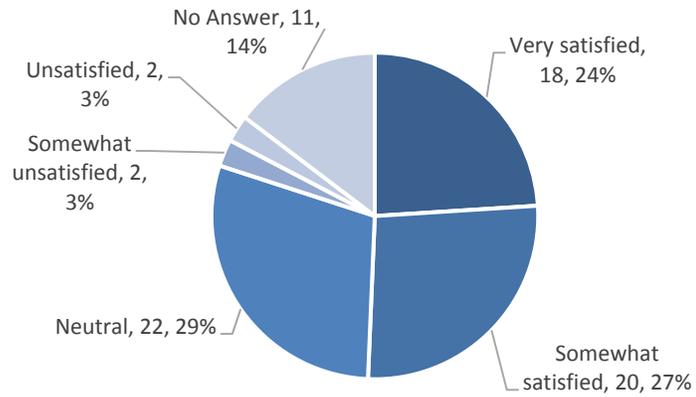


Licensees suggested that DABC provide more information and examples of what is necessary for the audit, and schedule the audits with hours of operation and busy seasons in mind. Licensees also asked that DABC employees be more respectful so that DABC and the entities can work together to be more successful and ensure there is a consistent set of rules.

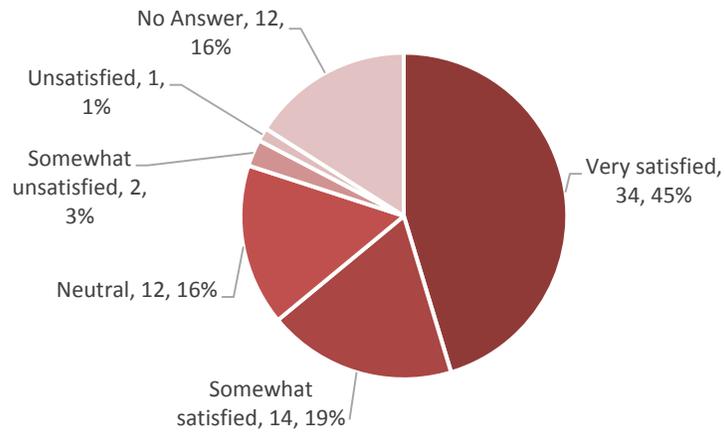
DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL
FOR THE PERIOD JULY 2013 THROUGH FEBRUARY 2015

Procurement:

Satisfaction with the licensee order system:



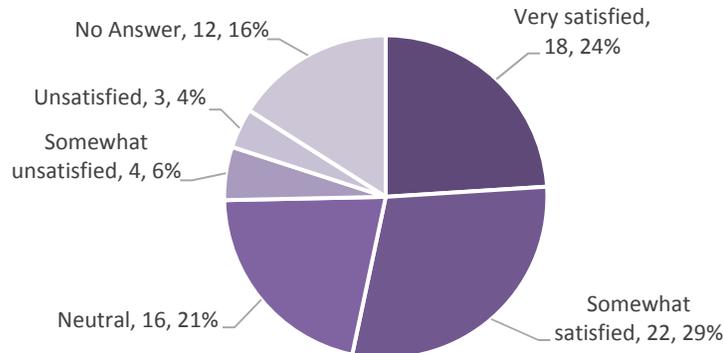
Level of customer service provided by liquor stores for licensee sales:



DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

FOR THE PERIOD JULY 2013 THROUGH FEBRUARY 2015

Licensee ability to obtain desired product:



Respondents suggested that DABC 1) have more product available and have special orders take less time, and 2) improve cooperation from stores with ordering and picking up product. Simplifying the ordering process may increase efficiency and accuracy in DABC's order fulfillment.

Recommendations

We recommend that DABC improve its licensee training by better communicating the available training opportunities, potentially requiring all licensees to participate, and making other resources available to help licensees understand compliance with Utah's liquor laws.

DABC's Response:

Currently the DABC licensing and compliance staff offer licensee training when there is a violation or during a regular audit. The Division will enhance communication with licensees through the following means:

- The Division provides each new licensee with a new licensee packet. The packet includes a handbook specific to their license type. The Division will update the new licensee packet to include information about licensee training opportunities.*
- The Division will update the renewal notice to include a reminder about licensee training opportunities.*
- The Division will explore the possibility of mandatory training for licensees and managers.*
- The Division will work with DTS to create a list serve making it easier to get information out to licensees electronically.*