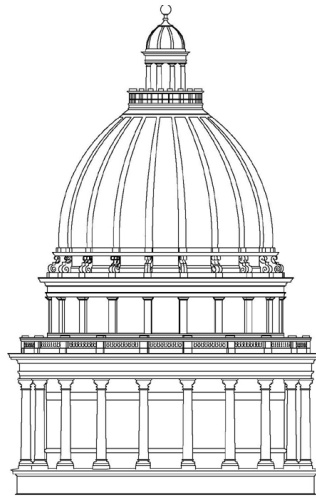


REPORT TO THE
UTAH LEGISLATURE
Report Number ILR 2014-B



**A Limited Review of Questions Regarding
DABC Warehouse and Retail Operations**

March 2014

Office of the
LEGISLATIVE AUDITOR GENERAL
State of Utah



STATE OF UTAH

Office of the Legislative Auditor General

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JOHN M. SCHAFF, CIA
AUDITOR GENERAL

Audit Subcommittee of the Legislative Management Committee
President Wayne L. Niederhauser, Co-Chair • Speaker Rebecca D. Lockhart, Co-Chair
Senator Gene Davis • Representative Jennifer M. Seelig

March 2014

TO: THE UTAH STATE LEGISLATURE

Transmitted herewith is our report, A Limited Review of Questions Regarding DABC Warehouse and Retail Operations (Report #ILR 2014-B). We will be happy to meet with appropriate legislative committees, individual legislators, and other state officials to discuss any item contained in the report in order to facilitate the implementation of the recommendations.

Sincerely,

John M. Schaff, CIA
Auditor General

JMS/lm

REPORT TO THE UTAH LEGISLATURE

Report No. ILR 2014-B

A Limited Review of Questions Regarding DABC Warehouse and Retail Operations

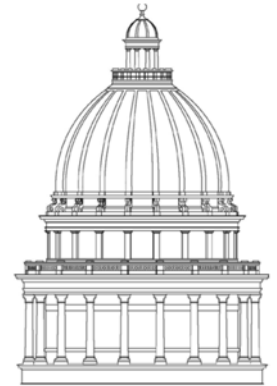
March 2014

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Office of the
LEGISLATIVE AUDITOR GENERAL
State of Utah

**REPORT NUMBER ILR 2014-B
March 2014**



A Limited Review of Questions Regarding DABC Warehouse and Retail Operations

In response to some questions about the Department of Alcoholic Beverage Control's (DABC) operations, our office completed a limited review of some DABC warehouse and retail operations. Specifically, questions centered on:

- The efficiency of the warehouse receiving process, including the timely receiving of product, communications between purchasing and receiving areas, and warehouse staffing
- The efficiency and effectiveness of the newly implemented centralized ordering system
- The listing and delisting process of products for sale
- The practice of allowing non-DABC employees (product representatives) to perform services in retail stores

Our limited audit work started with gathering responses from DABC officials regarding operations; once those responses were received, we reviewed pertinent operations in the warehouse and six retail stores to validate administrators' responses. We also worked with the regional managers, store managers, and purchasing and receiving employees to understand and document operations. Further, we contacted the chief executive officer of one trucking company that is

This limited review addressed questions centered on DABC's receiving process, centralized ordering, the listing and delisting process, and vendors working in retail stores.

responsible for delivering a significant amount of DABC product and interviewed five truck drivers, all from different companies, who have made deliveries to the DABC warehouse to receive input on DABC receiving procedures. Finally, we reviewed pertinent practices in other control states and contacted two other control states to compare operations.

The DABC could benefit from the development of improved policies and procedures.

Our limited review found no major concerns. However, the DABC could benefit from developing policies and procedures in core operating areas such as the establishment of thresholds for scheduling receiving days out and steps to be taken when thresholds are not met, operating protocols for documenting and addressing missed or late deliveries, and centralized ordering. The DABC could also benefit by revisiting product delisting processes to improve communications regarding delisted products.

Additional Policies and Procedures Could Improve Warehouse Receiving

While no major concerns were identified with the DABC's receiving of product in the warehouse, we did find that the DABC could benefit from the development of policies and procedures regarding thresholds for scheduling receiving days out and steps to be taken when thresholds are not met. Further, the DABC could benefit from the development of policies and procedures addressing steps to be taken when deliveries are late and the documentation that should be required to track late deliveries.

DABC receiving practices appear to be in line with industry standards and practices of other control states.

Another concern was that some purchase orders (P.O.) lacked ship dates and P.O. delivery dates have been crossed out and marked ASAP. Product receiving appears to be following industry standards, which is all deliveries must have a scheduled appointment in order to deliver their loads; such standards are well understood by those involved (DABC, product vendors, and trucking companies). We did not find concerns with either communications between the DABC's purchasing and receiving departments or with current full-time staffing levels of the DABC warehouse.

Product Receiving Appears to Follow Industry Standards

Some concerns were raised regarding DABC receiving of product in a timely manner when delivery trucks are arriving at the warehouse. We found that DABC's product receiving process follows industry standards and is similar to processes in other control states. While no major concerns were identified with DABC's receiving practices, we did find that the DABC lacks:

- Policies and procedures to address thresholds for scheduling receiving days out and steps to be taken when thresholds are not met, and
- Policies and procedures for documenting and addressing missed or late deliveries.

The development of these policies and procedures could help the DABC continue to improve their warehouse operations.

We found that it is a common industry practice to have a scheduled delivery date; the trucking company and all the truck drivers we contacted reported that the DABC is accommodating with deliveries. According to industry publications, all 15 control states that reported, require a scheduled appointment for delivery of product to the warehouse. Concerning DABC receiving product in a timely manner when delivery trucks have arrived at the warehouse, we did not find any instance of truck drivers with a scheduled delivery time having to wait for extended periods of time. We observed trucks arriving within thirty minutes or less of their scheduled delivery times; DABC warehouse personnel received and unloaded the deliveries in a timely manner. All interviewed trucker drivers stated that DABC warehouse personnel are professional and good about fitting deliveries in whether they arrive early or late for a scheduled delivery.

Requiring scheduled delivery times allows the DABC to make an efficient use of their staff to receive and process shipments. DABC administrators' response regarding product receiving is shown in Figure 1.

DABC lacks written policies and procedures to address thresholds for scheduling receiving days out and missed delivery times/dates.

DABC's receiving process appears to follow industry standards and is well understood by involved parties.

Figure 1 DABC's Response. DABC administrators were asked to respond to concerns about the warehouse not receiving orders in a timely manner.

The warehouse seeks to be able to schedule receiving of inbound trucks no more than seven days out. In the fall of 2013, and again in January 2014, there was a period of time when receiving was backed up beyond the seven days. This issue was reported to the DABC Commission and efforts were made to get receiving back to the seven-day mark.

DABC has had several internal discussions about ways to ensure receiving does not get backed up again and has discussed a second shift among other alternatives. Due to business fluctuations, a second shift would only be utilized during a few busy periods and would not make economic sense year-round. Currently, scheduled receiving is within the seven-day period.

We continue to monitor both our shipping and receiving workload to determine when additional part-time help or increased space is needed to accommodate an increased level of business.

Scheduling trailers is not unique to the DABC; many control state warehouses schedule deliveries with wait times. For example:

- Idaho, 2-3 days
- Mississippi, 2-3 weeks
- Montana, 1½-2 days
- North Carolina, must leave a fax and wait for a delivery date and time
- Virginia, 2 weeks
- West Virginia, varies depending upon season
- Wyoming, 1 week

The DABC warehouse receives product into the warehouse daily; the products are processed and put in designated storage areas to await order fulfillment. Typically product is stored and put into the Automated Storage Retrieval System (ASRS). Once the product is in the ASRS, it is stored until the product is needed to replenish the home location in the picking aisles for store order fulfillment.

The warehouse receiving and shipping crews are able to work together simultaneously in both shipping and receiving. The main advantage of both crews working together is our entire staff can take advantage of a shared work load. If one crew has a heavy workload, the other crew can help accommodate the increased workload. We have warehouse employees who are cross-trained to work in both the shipping and receiving areas to help minimize extreme fluctuations in both areas of shipping and receiving.

DABC's goal is to schedule the receiving of inbound trucks no more than seven days out, but this goal is not established in policy. During select busy times of the year, DABC has hired part-time warehouse employees to meet demand, but has still exceeded the seven-day goal. To ensure that the seven-day or less mark in scheduling of inbound trucks is met, we recommend that DABC

develop a policy establishing thresholds for scheduling receiving days out (current goal is seven-days or less) and steps to be taken when thresholds are not met (examples would include bringing on more part-time help or extending receiving hours).

We also found that the DABC lacks written policies and procedures to address missed delivery times/dates and DABC does not document or track when truck drivers miss their dates/times. While DABC administrators report that drivers miss their times about 10 percent of the time, and miss their day about 5 percent of the time, they were unable to show us any documentation supporting this. We therefore recommend that the DABC develop policies and procedures for the tracking and handling of deliveries that are late.

Concerns were also raised that some purchase orders lacked ship/delivery dates and some purchase order delivery dates have been crossed out and marked ASAP. Figure 2 shows DABC administrators' response to these concerns.

Figure 2 DABC's Response. DABC administrators were asked to respond to concerns about scheduling delivery dates and use of the term ASAP on purchase orders.

Every purchase order has either a delivery date or ASAP listed on it. Vendors schedule an actual delivery time with the warehouse. This time should be scheduled prior to the actual shipment arriving at the warehouse. Ideally shipments should be scheduled at least the week prior to delivery.

ASAP is sometimes listed on a P.O. because the supplier might want to take advantage of lower shipping rates by sending full trailer loads instead of a series of small loads. We try to accommodate the smaller suppliers by allowing them to ship within a reasonable timeframe; "ASAP" gives them the flexibility sometimes needed.

Additionally, all Control States with warehouse operations require scheduled receiving. Due to receiving space limitations, we are unable to accommodate every truck showing up to the warehouse without prior notification.

Our limited review and discussions with DABC receiving personnel, one trucking company, and five truck drivers from different companies supported DABC administrators' responses found in Figures 1 and 2. In addition, all P.O.s we reviewed included a delivery date or ASAP written on the purchase order. A date on the P.O. represents the latest date that the trucking company should schedule

Our limited review and discussions with pertinent parties supported DABC administrator responses with regards to receiving.

product delivery to the DABC warehouse. We also found that the use of ASAP appears to be well understood in the industry to mean that product is requested As Soon As Possible, but allows some flexibility to all parties involved.

Communications Between the Warehouse And Purchasing Appear Sufficient

Some concern was raised regarding an apparent lack of communication between the warehouse and the purchasing department. When scheduling the delivery of purchased product to the warehouse, the important communication is between the trucking company and the warehouse. When the purchasing department makes a purchase, they send a P.O. to the vendor and the trucking company. It is the trucking company's responsibility to schedule delivery at the warehouse. Delivery dates are scheduled on a first-come-first-served basis by the trucking companies contacting the warehouse. Receiving personnel prints all P.O.s and compare them to the shipments bill-of-lading.

Our discussions with one trucking company and five drivers from different trucking companies found scheduling to be a common, well-understood industry practice with all deliveries needing an appointment made by the trucking company. Figure 3 shows DABC administrators' response to this concern.

Figure 3 DABC's Response. DABC administrators were asked to respond to concerns regarding a possible breakdown in communications between the warehouse and the purchasing department.

Every PO has a delivery date or ASAP printed on it. The company should be scheduling the delivery in advance once they know when it will arrive at DABC. The warehouse prints every purchase order in advance of receiving the indicated stock. The suggested delivery date is printed on each one. Delivery dates are given out on a first-come-first-served basis. This more closely accommodates the Suppliers' shipping schedule.

Our limited review did not find the communications between the purchasing and receiving departments to be a concern.

Our limited review did not find the communications between the purchasing and receiving departments to be concerning.

Warehouse Investments in Technology Have Allowed Staffing To Remain Constant

Some concern was raised that DABC staffing levels have not increased in relation to the increase in workload. DABC administrators did not see this as a concern because of the significant state investments in enhanced technology that have made warehouse operations more efficient. Figure 4 shows DABC administrators' response to this question.

Figure 4 DABC Response. DABC administrators were asked to respond to concerns about a potential need for increased staffing in the warehouse.

The warehouse has not increased staffing levels in many years. The department shifted truck drivers to the warehouse in 2005. The warehouse's ability to maintain levels of staffing despite increases in demand have been assisted by the following:

- 1) the efficiencies brought about by the warehouse remodel and expansion, which include a fully automated storage and retrieval system,
- 2) the beer drop-ship program, which involved most beer being delivered directly to the stores rather than the warehouse,
- 3) general process improvements that include monitored picking comparison rates by the hour (ex. targeted goals and accuracy requirements),
- 4) "Pick to Voice" technology that allows hands-free picking,
- 5) Storage Transfer Vehicles (STVs) that position product at the end of each respective aisle for general warehousing.

Based on the continued growth of DABC sales, there will come a time when additional warehouse and store employees are needed to meet demand.

Currently, because of state investments in technology, DABC does not need increased funding for more full-time warehouse staff.

As DABC administrators acknowledge, continued growth will at some point necessitate an increase in warehouse and store employees, but they do not see this as a current need. In summary, questions addressed to this point in this limited review have focused primarily on warehouse operations, while the remainder of the report will focus on answering questions about retail operations.

Centralized Ordering System Is Improving Operations, But Lacks Policies and Procedures

The DABC has recently implemented a centralized ordering system that has had some implementation problems, but overall is improving the efficiency and effectiveness of retail operations. Since the centralized ordering system is critical to the core operations of the retail stores, the DABC should develop and approve policies and procedures directing its operations in areas such as justification for changes to generated orders. In addition, some concern has been raised that the centralized ordering system is a failure, but our limited review of DABC documentation of retail operations found that stock-outs have decreased, the accuracy of shipments has improved, and excess inventory at state stores has decreased.

Our review found that since centralized ordering, stock-outs have decreased, the accuracy of shipments has improved, and excess inventory at state stores has decreased.

All orders are generated on a daily basis by the central ordering system. Depending on the ordering day assigned to each store, the store manager is alerted about new orders; it is the manager's responsibility to make any needed changes to orders and submit the changes by fax, email, or telephone. Most store managers print their orders, make changes, and fax them back to the purchasing employee assigned to their store. The purchasing employee will then make changes and submit the order. The process from ordering the product to delivery takes only three days. Figure 5 shows DABC administrators' responses to questions about centralized ordering.

Figure 5 DABC's Response. DABC administrators were asked to respond to concerns about the success or failure of centralized ordering and whether store managers can successfully make changes to orders.

Centralized ordering relies on actual sales data to replenish store stock. Centralized ordering serves many functions, including:

- 1) Controlling store warehouse inventories,
- 2) Eliminating "hoarding" of inventory,
- 3) Disbursement of SPA (special price allowance) items based on actual case turns rather than "guessed" allocation,
- 4) Balanced daily shipping levels from the warehouse,
- 5) Eliminates many out of stocks.

Since Centralized ordering was instituted in the summer of 2013, there has been a drastic decrease in out-of-stocks at the store level. A comparison of the average number of items out-of-stock at stores showed a decrease from 26.3 per week cumulative to 12.6 per week cumulative (50% reduction).

Additionally, the warehouse cut the time table between an order being placed and delivery of the order to 48 hours. The prior time table averaged six days. Now store managers are given one day to review their suggested orders and they are allowed to make any adjustments they feel are necessary. A new program which projects demand on sale items was just instituted in January, 2014 and should further improve the program.

There have been bumps in the implementation of the centralized ordering program. During the early stages of the program, individual store inventory levels were being tested to see what worked best for control of inventory while eliminating as many out of stocks as possible. Some stores were receiving excess inventory while others were not receiving enough. That was remedied shortly after implementation by assigning a specific number of safety stock levels to each store.

There were initially stock problems brought about by the lack of proper scheduling of deliveries to stores during a holiday week. That problem has since been remedied by adjusting shipping schedules that suit the individual store needs. The biggest problem stemmed from case sales movement numbers that were based on total department sales for SPA (special price allowance) items. Recently, actual case sales during a SPA period that are store specific were introduced into the SPA order program. The introduction of the actual sales numbers allows for the most accurate inventory control available.

Currently, three DABC purchasing employees (who all have other responsibilities beyond centralized ordering) help operate the system. The 44 stores are divided among the three employees who have the responsibility to make sure the orders are placed each day for their assigned stores. DABC administrators explained that it was always envisioned to have multiple employees operate the system until all the problems were worked out. DABC does appear to be aware of some problems that centralized ordering has created but is working to address them. Most store managers we visited agree with the

DABC administrators should develop operating policies and procedures for centralized ordering.

improvements that centralized ordering has brought. While centralized ordering is improving the efficiency and effectiveness of DABC operations, we recommend that DABC administrators develop operating policies and procedures for the centralized ordering process.

Listing and Delisting Processes Can Improve

For alcoholic products to be sold in Utah, the products must first be listed by the DABC. Conversely, delisting is the process of removing a product from sale in the state. In order for a product to be listed, a number of criteria have to be met. Product tasting is a step taken prior to the official listing of a general distribution item for sale. Some concerns were presented regarding the tasting, listing, and delisting processes. Figure 6 shows DABC administrators' response to concerns regarding the tasting process.

Figure 6 DABC's Response. DABC administrators were asked to respond to concerns regarding the qualifications of the tasting committee.

The procedure for tasting products has not changed over the past 20+ years. The tasting staff has well over 100 years of accumulated experience between the members and their input can be useful. Limited distribution product is listed according to ratings. Typically, limited product is not tasted.

The Tasting Committee is made up of personnel from the purchasing department. When the committee meets it has a minimum of 4 and a maximum of seven people attending, it includes the following employees from the DABC Purchasing Department:

- Limited Distribution Purchasing Manager
- General Distribution Purchasing Manager
- Special Order/SPA Coordinator
- Special Order Coordinator
- Limited Distribution Purchasing Agent
- Purchasing Agent
- Purchasing Agent

DABC has an approved policy and procedure for tasting (Policy 08-09, see Appendix A).

The DABC has an approved policy and procedure for tasting (Policy 08-09, see Appendix A). The tasting committee is made up of purchasing department employees. We contacted two other control

states and found similar practices. Figure 7 shows DABC administrators' response to concerns about the listing process.

Figure 7 DABC's Response. DABC administrators were asked to respond to concerns regarding the listing process and who sits on the listing committee.

The DABC has had a long-standing listing policy that receives revision when necessary. The listing committee is made up of seven DABC employees:

- the department director,
- director of operations,
- two members of the purchasing division,
- the warehouse manager,
- a member of the compliance division, and
- the alcohol education director.

The listing committee may list any item it chooses for general distribution at any time based on:

- a. Profit
- b. Sales performance
- c. Category trends
- d. Category need
- e. Supply issues
- f. Promotional consideration
- g. Product recognition (awards)
- h. Uniqueness of the product

The DABC has an approved policy and procedure for product listing (Policy 08-05, see Appendix B). The DABC's listing policy lays out criteria and procedures for listing a product for sale. In addition to product tasting and listing, some concerns were presented concerning the delisting of products. Figure 8 shows DABC administrators' response to concerns about the delisting process.

DABC has an approved policy and procedure for listing (Policy 08-05, see Appendix B).

Figure 8 DABC's Response. DABC administrators were asked to respond to concerns about products that might be automatically delisted.

Products are not automatically delisted if a company is unable to fulfill an order. Per DABC Policy 08-06, delisting can be done based on:

- a. Low profit performance within a category
- b. Low case turns within a category
- c. Category trends
- d. Category need
- e. Supply issues
- f. Labeling/package issues

A product would not be delisted due to supply issues without prolonged out-of-stocks or any other relevant factor. Delisted items will not be allowed a listing request for a minimum of six months after the existing product has been totally removed from the state store system.

DABC has an approved policy and procedure for delisting (Policy 08-06, see Appendix C).

Like tasting and listing, the delisting process is laid out in DABC policy and procedure (Policy 08-06, see Appendix C). This policy specifies the process and factors used when determining whether or not a product should be delisted.

One concern we heard during our visits with store managers was that they often were not informed about the reasons for a product delisting. This was problematic for the managers when customers asked why a product was delisted. We contacted two other control states and found that both states send an email to all retail outlets when a product is delisted, citing the product and the reason for delisting it. We recommend that the DABC develop a procedure to inform store managers when and why products are being delisted to help their store managers better serve the public.

DABC administrators should develop a procedure to inform store managers when and why a product is delisted to help their store managers better serve the public.

Non-DABC Employees Working in Stores Is Addressed by Administrative Rule

Vendors are allowed in DABC stores to stock their own products and to discuss issues with DABC employees when approved by the store manager. DABC administrators report that if a workplace accident involving a vendor occurs on DABC premises, the vendor's employer's insurance covers any associated costs and not the state. Figure 9 shows DABC administrators' response to these questions.

Figure 9 DABC's Response. DABC administrators were asked to respond to concerns about vendors moving product in state stores and whose insurance would be responsible to cover workplace accidents.

The DABC does allow liquor reps to access their product and ensure that it is stocked and rotated correctly. R81-2-11 states: An industry member, as defined in 32B-4-702, shall be limited to the customer areas of a state store except as follows:

- (1) An industry member may be allowed in the storage area of a state store with the approval of the store manager for the limited purpose of stocking the industry member's own products; and
- (2) An industry member may be allowed in the office or other suitable area of a state store with the approval of the store manager for the purpose of discussing the industry member's products.

According to the Division of Risk Management, in the scope of representatives working on DABC premises, they would be covered under their own employers' insurance.

No additional audit work was conducted regarding vendors on DABC premises as DABC administrators responded fully to these concerns.

Recommendations

1. We recommend that DABC develop policies and procedures, to be approved by the commission, establishing thresholds for scheduling receiving days out and steps to be taken when thresholds are not met.
2. We recommend that DABC develop policies and procedures, to be approved by the commission, for the tracking and handling of missed delivery times/dates.
3. We recommend that DABC develop operating policies and procedures, to be approved by the commission, for the centralized ordering system.
4. We recommend that DABC develop a procedure to inform store managers when and why a product is being delisted to help store managers better serve the public.

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Appendices

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Appendix A

Policy Number: 08-09
Subject: Inventory Product Sample Testing
Effective: August 1991 (*Revised August 2012*)

INVENTORY PRODUCT SAMPLE TESTING

Introduction:

This policy provides guidelines for testing, tasting and analyzing heavy beer, wine, and spirits products currently carried in the department's inventory.

Policy:

The department receives samples from suppliers of heavy beer, wine, and spirits products to assist in making decisions whether to list their products under Section 32B-4-705. The analysis of these samples may require comparisons with products currently carried in the department's inventory. Purchasing department personnel should also be familiar with the heavy beer, wine, and spirits products carried by the department, and periodically check these products for continued quality. Inventory samples may also be part of regularly scheduled product training seminars conducted at the department. Such testing, tasting and analyzing of heavy beer, wine, and spirits currently in inventory shall be done under the department's inventory testing program under the following conditions:

- Suppliers or their representatives must notify the department in writing if they choose not to have their product(s) included in the program.
- The program shall be administered by the department's purchasing division. Participants in the testing sessions are restricted to members of the purchasing division and store personnel selected by the purchasing division. Standard sensory evaluation procedures recognized by the wine industry shall be followed. Breathalyzer tests shall be administered to participants.
- Sample bottles of heavy beer, wine, and spirits from current store and warehouse inventory shall be transferred to the administrative office for the sessions. The list of heavy beer, wine, and spirits shall be photocopied and entered in the sample log. The accounting division shall then issue debit memos to each vendor of record for each individual bottle tested. Debit memos shall be issued at the end of each month, and the samples shall be billed to vendors at the wholesale bottle cost. The accounting division shall treat these debit memos as accounts receivable and monitor them accordingly.

- Excess Samples. Samples that are not being retained for any reason are to be dumped down the sample room sink after being logged out of the sample room inventory log. Samples may be retained for vendor/representative evaluation, purchasing department evaluation, or a uniqueness that would substantiate the acceptance or denial for listing of the product by the department.
- Once reviewed, an item may not be resubmitted for a period of at least 6 months, unless requested by the department.

Appendix B

Policy Number: 08-05
Subject: Listing Policy
Effective: August 1988 (*Revised December 2013*)

LISTING POLICY

Introduction:

This policy outlines the procedures used to determine those items to be listed by the department as provided in sections 32B-2-204, Utah Code Annotated.

Policy:

A listing committee shall review and act on all listing requests. The committee shall include the department director, director of operations, two members of the purchasing division, the warehouse manager, a member of the compliance division and the Alcohol Education Director. Four members of the committee shall constitute a quorum to conduct the committee's business.

Any request for listing shall include a Utah price quotation form, Utah fact sheet, copy of the federal label approval, and a copy of the bottle label if a sample bottle is not available. All submitted paperwork must be accurate and complete. Incomplete paperwork or inaccurate information provided in the paperwork will render the entire application for listing as "Denied". Paperwork should be submitted during the request for listing.

Samples may accompany a request for listing. Only two samples of a particular type, vintage, and production lot of a particular branded product may be sent, prepaid, to the purchasing division.

Samples may not be sent via U.S. mail. A cover letter referring to the listing request must accompany the samples. The purchasing division staff will evaluate samples and forward any pertinent information to the listing committee for review. Evaluation of products submitted for listing will normally take place on the third Thursday of each month.

All listing requests shall include the new item form, the assigned Control States Code (CSC) and Universal Product Code (UPC), or have an assigned CSC and UPC within 30 days after a successful listing.

Suppliers may file an application for listing a product with the department at any time. These applications will be reviewed by the listing committee and will be accepted or rejected by the listing committee based on such factors as market demand, category need, promotional and/or advertising activity, performance in other markets, special order requests, quality of product, pricing, past supplier performance, availability of product to supply stores and package agencies,

whether the pallet configuration of the product conforms to a 40" X 48" X 62" high pallet size and any other factor that might be available for consideration.

Products submitted for general listing must be available in the quantities ordered by the department throughout the year.

Items submitted for listing must be delivered to the DABC offices along with completed paperwork one week prior to the evaluation day.

Supplier representatives may make listing presentations to the listing committee only after the listing request has been informally reviewed by the purchasing division. Appointments for the presentation to the full listing committee shall be made with the commission secretary.

All new items that have been selected for potential general distribution listing will initially be placed in "Test" status.

1. Test status products will be placed in as many stores as space for merchandising will allow.
2. Test status products will be required to perform in test status for a maximum of twelve months.
3. Test status products will not qualify for SPA.
4. Test status products will be required to perform at agreed upon projected performance numbers.
5. Test status product will not qualify for trade.
6. Test status product may be moved to general listing status at any time during the performance period.
7. Test status product may be delisted before the twelve month period ends if it becomes obvious that agreed upon performance projection numbers will not be met.
8. Test status product will be merchandised in its respective category.

In the case of holiday season special listings, all companies shall submit price information, fact sheets, photos or dummy packages from June 1 to November 15. Any holiday season product received into the department's warehouse after December 15 will be returned freight collect. No oral presentations shall be allowed.

With the approval of the listing committee, a supplier may trade one item for another if it includes:

1. One product size for another
2. A product formula change
3. A packaging change
4. A labeling change

Any of the above changes would not require the product to go through the test status process.

The listing committee may list any item it chooses for general distribution at any time based on:

1. Profit
2. Sales performance
3. Category trends
4. Category need
5. Supply issues
6. Promotional consideration
7. Product recognition(awards)
8. Uniqueness of the product

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Appendix C

Policy Number: 08-06
Subject: Delisting Policy
Effective: January 1988 (*Revised April 2013*)

DELISTING POLICY

Introduction:

This policy sets forth the method and criteria for delisting products.

Policy:

Listed products can be delisted by the listing committee at any time based on:

1. Low profit performance within a category
2. Low case turns within a category
3. Category trends
4. Category need
5. Supply issues
6. Labeling/packaging issues

Additionally, general distribution items that are stocked-out by the vendor at any time during the year can be delisted by the listing committee.

High profitability to the state and “uniqueness” of a product may exclude an item from delisting. National sales trends, marketing plans, advertising, and inventory problems can also be considered prior to delisting an item.

Delisted items will not be allowed a listing request for a minimum of six months after the existing product has been totally removed from the state store system.

The UDABC reserves the right to move items within the listing categories based on:

1. Availability of product
2. Sales
3. Category need
4. Category trends
5. Any other factor that would require a change in listing category

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Agency Response

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GARY R. HERBERT
Governor

SPENCER J. COX
Lieutenant Governor

State of Utah

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

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March 7, 2014

Mr. John M. Schaff, CIA
Legislative Auditor General
Office of the Legislative Auditor General
W315 Utah State Capitol Complex
Salt Lake City, UT 84114

Dear Mr. Schaff,

Thank you for the opportunity to respond to "A Limited Review of Questions Regarding DABC Warehouse and Retail Operations." We appreciate both the professionalism and effort shown by your office in the conduct of this review.

The DABC agrees with all the audit recommendations. The DABC is currently in the process of drafting the policies and procedures recommended in the report. It is the department's goal to have all the recommended policies and procedures ready for Commission approval by the March 25, 2014 Commission Meeting.

Sincerely,

Salvador D. Petilos, Director
Department of Alcoholic Beverage Control