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January 2016

Performance Audit  
Recommendations and Corrective  
Actions for Audit: 14-6

LIQUOR CONTROL SYSTEM

Fiscal Impact of Privatization  
Projected as Neutral, but DLC  
Could Take Other Actions that  
May Increase Profits

Dated: 10/21/2014

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# Overview

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The SAO makes recommendations designed to improve the operations of state government. For our work to produce benefits, auditees or the General Assembly must implement these recommendations although, we cannot require them to do so. Nevertheless, a measure of the quality and persuasiveness of our performance audits is the extent to which these recommendations are accepted and acted upon. The greater the number of recommendations that are implemented, the more benefit will be derived from our audit work.

In 2010, the SAO began to follow-up on the recommendations issued in our performance audits. Experience has shown that it takes time for some recommendations to be implemented. For this reason, we perform our follow-up activities one and three years after the calendar year in which the audit report is issued. Our annual performance reports summarize whether we are meeting our recommendation implementation targets.

([http://auditor.vermont.gov/audits/recommendation\\_follow-up](http://auditor.vermont.gov/audits/recommendation_follow-up))

This report addresses the requirements of Act 155 to post the results of our recommendation follow-up work on our website. The report does not include follow-up on recommendations issued as part of the state's financial statement audit and the federally mandated Single Audit, which are performed by a contractor. However, our new contract for this work requires the contractor to provide the results of its recommendation follow-up in the future. Accordingly, we expect that future reports will contain this data.

Audit No., Name & Date	Rec #	Recommendation	Follow-Up Date	Status & Date	Review Comments
<a href="#">14-6 Liquor Control System: Fiscal Impact of Privatization Projected as Neutral, but DLC Could Take Other Actions that May Increase Profits</a>	1	Prepare or contract for an analysis to determine the optimum number and location of agent stores.	2015	Not Implemented	DLC reported having discussions with the Liquor Control Board regarding the number of agency stores but did not provide us with details. Additionally, DLC reported that this recommendation has not been implemented because the Liquor Board has imposed a moratorium on new stores due to current limitations of the department's point of sale (POS) system.
			2017		The three-year recommendation/follow-up for this audit will be conducted in 2017
	2	Obtain a review of liquor pricing to establish a methodology for competitive pricing.	2015	Not Implemented	As we reported in the 2014 audit, DLC changed it's markup structure in 2013 but has not conducted a pricing study to establish a methodology for competitive pricing.
			2017		The three-year recommendation/follow-up for this audit will be conducted in 2017
	3	Perform or contract for an analysis of warehouse capacity.	2015	Implemented	DLC hired a consultant to perform an operational evaluation. The consultant's report, issued on 9/29/15, included an analysis of warehouse capacity based on the current and alternative warehouse layouts.
			The three-year recommendation/follow-up for this audit will not be necessary. Implementation has occurred		
	4	Establish minimum and maximum inventory levels to be maintained in the warehouse and implement a systematic process to monitor manufacturers' compliance with established inventory levels.	2015	Implemented	DLC provided an example of their analysis of inventory levels which showed the current inventory levels (weeks on hand) in relation to the average weekly sales and available inventory. Each item is assigned a velocity codes based on average weekly sales movement with corresponding acceptable minimum and maximum range. As of 7/13/15, DLC has been using these inventory reports to monitor the manufacturer's compliance to established inventory levels.
			The three-year recommendation/follow-up for this audit will not be necessary. Implementation has occurred		

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<a href="#">14-6 Liquor Control System: Fiscal Impact of Privatization Projected as Neutral, but DLC Could Take Other Actions that May Increase Profits</a>	5	Establish and implement a policy to assess manufacturers fees for noncompliance with minimum and maximum inventory levels.	2015	Implemented	DLC has implemented a new policy, effective 7/13/15, for assessing penalties for handling charges which includes overstock and out of stock items.
	The three-year recommendation/follow-up for this audit will not be necessary				
	6	Enhance the product attributes and financial metrics used for delisting decisions.	2015	Partially Implemented	DLC is now including more details, e.g., notes, comparisons to sales in other states, and the reasoning behind their delisting recommendations. However, DLC has not expanded their use of product attributes or financial metrics.
	2017	The three-year recommendation/follow-up for this audit will be conducted in 2017			
	7	Establish clear goals and targets for each performance category used to evaluate agent store performance, including sales targets.	2015	Not Implemented	DLC reported that this recommendation has not been implemented.
	2017	The three-year recommendation/follow-up for this audit will be conducted in 2017			
	8	Work with the AG's Office in an expeditious manner to bring the department into compliance with Bulletin No. 3.5.	2015	Implemented	DLC reported that a waiver of Bulletin 3.5 and approval of a contracting plan for liquor agency contracts was approved by the Secretary of Administration on 1/21/14.
	The three-year recommendation/follow-up for this audit will not be necessary. Implementation has occurred				

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<a href="#">14-6 Liquor Control System: Fiscal Impact of Privatization Projected as Neutral, but DLC Could Take Other Actions that May Increase Profits</a>	9	Develop and implement systematic analysis of results of sales promotions, including comparison of actual results to estimates.	2015	Partially Implemented	In October 2015, DLC received approval from the Secretary of Administration to hire a deputy commissioner to focus on the business side of DLC which should provide the resources for analyzing sales data and recommending policy changes. Additionally, DLC plans on implementing a new POS system which will have the capability to provide more robust data analysis.
			2017		The three-year recommendation/follow-up for this audit will be conducted in 2017
	10	Determine what positions are needed to perform strategic and business analysis and recruit and hire for the positions.	2015	Partially Implemented	DLC reported that it has created a Deputy Commissioner position with the permission of the Secretary of Administration. The Liquor Control Board envisions working with the commissioner or the deputy commissioner to perform strategic and business analysis.
			2017		The three-year recommendation/follow-up for this audit will be conducted in 2017