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David A. Vaudt, CPA
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NEWS RELEASE

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FOR RELEASE _____ December 30, 2010 _____

Auditor of State David A. Vaudt today released a report on the Department of Commerce, Alcoholic Beverages Division for the month ended May 31, 2010. The procedures were performed at the request of the new Administrator who was appointed May 1, 2010.

The report includes recommendations to ensure warehouse breakage reports are reviewed periodically and to improve controls to strengthen employee time reporting.

A copy of the audit report is available for review in the Department of Commerce, Alcoholic Beverages Division Office, in the Office of Auditor of State and on the Auditor of State's web site at: <http://auditor.iowa.gov/specials/1060-2110-BOP1.pdf>.

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**REPORT ON THE DEPARTMENT OF COMMERCE,
ALCOHOLIC BEVERAGES DIVISION**

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED UPON PROCEDURES**

FOR THE MONTH ENDED MAY 31, 2010

Table of Contents

	<u>Page</u>
Independent Accountant's Report on Applying Agreed Upon Procedures	3
Detailed Recommendations	4-6
Staff	7



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Independent Accountant's Report on Applying Agreed-Upon Procedures

To Stephen Larson, Administrator of the
Iowa Department of Commerce, Alcoholic Beverages Division:

As requested, we have performed the following procedures, which were agreed to by the Iowa Department of Commerce, Alcoholic Beverages Division (Division) for the month ended May 31, 2010 and other months depending upon the procedure performed. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the Division. Consequently, we make no representations regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are as follows:

- (1) Examined supporting documentation for identifying and recording inventory breakage.
- (2) Reviewed and examined time reported by truck drivers to determine if time is properly logged and supported.
- (3) Reviewed and examined overtime hours paid to warehouse workers and truck drivers to determine if the hours were properly supported and approved.

Based on the performance of the procedures described above, we identified recommendations for the Division. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, no items were noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the effectiveness of internal control over monitoring. 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.

This report is intended solely for the information and use of the Iowa Department of Commerce, Alcoholic Beverages Division and is not intended to be and should not be used by anyone other than the specified party.

We would like to acknowledge the assistance extended to us by personnel of the Iowa Department of Commerce, Alcoholic Beverages Division. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at our convenience.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 18, 2010

Department of Commerce, Alcoholic Beverages Division

Detailed Recommendations

For the Month Ended May 31, 2010

- (A) Inventory Breakage – Inventory breakage by warehouse workers is reported to a lead worker as soon as breakage occurs. The lead worker records the type and amount of inventory broken on a “Warehouse Breakage” report which is not prenumbered. The lead worker gives the Warehouse Breakage report to an order entry employee who records the loss on the computer system. The order entry employee initials the Warehouse Breakage report and gives it to an employee in accounting who verifies the warehouse breakage report was correctly entered in the computer system. The accounting employee initials the Warehouse Breakage report and files it.

For the two months selected for testing, three bottles with values totaling \$41.24 could not be traced to a Warehouse Breakage report. Also, 43 bottles with values totaling \$342.69 were not verified as correctly entered in the computer system by an employee in accounting.

Recommendation – The warehouse worker who identifies the breakage should sign off on the “Warehouse Breakage” report in addition to the lead worker preparing the report. This would require two individuals to verify the breakage. Also, the Warehouse Breakage Reports should be reviewed for accuracy on a random basis by a member of Management. The Warehouse Breakage reports should be prenumbered.

In addition, an electronic report of breakage which can be reviewed and analyzed, as necessary, should be implemented.

Response – The Division requested this function to be specifically audited with recommendations for greater accuracy. The Division acknowledges the discrepancies, however at this time an electronic reporting tool is not available. The Division documents warehouse breakage in a hard-copy report with written management acknowledgement. The Division is entering into a contract to provide a new warehouse and inventory management system to address this reporting issue accurately and extensively document warehouse breakage.

Conclusion – Response accepted.

- (B) Driver Time Reporting – The Division currently has 16 truck drivers. Truck drivers are required to complete a driver’s daily log documenting the time worked. According to a Division representative, truck drivers submit the driver’s daily logs to the Warehouse Supervisor after each shift or each week. The Warehouse Supervisor completes a timesheet at the end of the two week period for each driver based on the driver’s daily logs completed by the truck drivers. The personnel assistant receives these timesheets and verifies the information.

Timesheets selected for testing did not include a supervisor’s signature to approve the timesheets. Also, log sheets could not be located prior to November 2009.

Recommendation – Truck driver timesheets should be approved by a supervisor. Also, the log books should be retained for a minimum of three years as required by the Iowa State Records Commission.

Department of Commerce, Alcoholic Beverages Division

Detailed Recommendations

For the Month Ended May 31, 2010

Response – The practice of supervisor approval for driver logs and timesheets was instituted prior to the receipt of the initial audit findings. The Division is currently researching more efficient electronic means to document the driver logs and time worked. The Division's record retention policies have all been revisited since the beginning of the newly appointed administrator's term. Within this review, payroll related items have been addressed. This audit finding reflects items outside of the current administrator's control, however proper internal controls are in place to ensure accurate document retention. An all-encompassing records retention policy is being written and staff has been informed of the content.

Conclusion – Response accepted.

- (C) Global Positioning Software – During the period from April 2008 to May 2010, the Division paid application costs of \$39.99/month per driver for 14 truck drivers for "Field Force Manager" cell phone based global positioning software, a total of approximately \$14,000. The software is not being used or being used effectively.

Recommendation – The Division should utilize the software effectively or discontinue paying for the software as soon as possible.

Response – The current administrator discontinued the phone based GPS system for the transport drivers in May 2010. The system was ineffective, problematic, and could not be formatted to meet the Division's needs. Additionally, this system was put into place by the prior administration for individual driver tracking purposes in lieu of vehicle tracking. The Division is currently reviewing options for GPS systems to complement the new warehouse and inventory management system which will allow the Division to enhance customer response in a more efficient manner.

Conclusion – Response accepted.

- (D) Overtime – The Division currently has 18 warehouse workers, which includes 14 pickers and 4 forklift drivers. Every warehouse worker is required to work until all orders are fulfilled each day. Pickers generally work 10 hour days but could end up working more. The Division does not deliver on Fridays, but it does accept will call orders (orders picked up at the warehouse by the store ordering the products). Fridays are worked on a voluntary basis by seniority.

Overtime hours for warehouse employees were 2,107, 3,739, 2,739 and 3,107 for fiscal years 2007, 2008, 2009 and 2010 respectively. The large increase in hours for fiscal year 2008 was due to warehouse remodeling and the Division employed fewer workers, leading to an increase in overtime. The total amount spent on overtime for warehouse employees was \$43,346, \$81,493, \$62,706 and \$72,365 for fiscal years 2007, 2008, 2009 and 2010, respectively.

The Division has 16 truck drivers who bid on routes based on seniority. Routes may include more than 40 hours a week. Overtime hours for drivers were 4,347, 4,477, 4,504 and 4,992 for fiscal years 2007, 2008, 2009 and 2010, respectively. The total amount spent on truck driver's overtime was \$99,659, \$110,700, \$115,919 and \$128,222 for fiscal years 2007, 2008, 2009 and 2010, respectively.

Recommendation – The Division should review and evaluate the use of overtime and investigate alternative options.

Department of Commerce, Alcoholic Beverages Division

Detailed Recommendations

For the Month Ended May 31, 2010

Response – The Division acknowledges the excessive use of overtime in prior fiscal years, however the use of overtime is required due to the nature of the Division’s operations. The current administration has identified understaffing of the warehouse and transportation subdivision as the main issue contributing to overtime. The Division has modified delivery routes to minimize driver overtime, and the warehouse is now closed on most Fridays. Due to operational requirements, some Fridays require staffing to ensure holiday sales are processed and delivered.

Conclusion – Response accepted.

- (E) Overtime Pay – Employees were required to take 40 hours of furlough during the fiscal year ended June 30, 2010. The timing of furlough hours taken was left to the discretion of the employee with the stipulation all hours were to be taken before June 24, 2010. Employees started taking furloughs hours in the pay period ended December 10, 2009. According to the Department of Administrative Services, all furlough hours taken during a 40 hour work week are counted as time worked for the purpose of computing overtime.

Employee timesheets, payroll and personnel information are processed and recorded by the Division on the Human Resource Information System (HRIS). Each hour worked, whether regular time, overtime, vacation, etc., has a specific account code used to identify the hours on HRIS. The account code originally used for furlough hours did not count furlough hours towards time worked for the purpose of computing overtime. The original account code was used for the four pay periods ended December 10, 2009, December 24, 2009, January 7, 2010 and January 21, 2010. Therefore, 11 employees are owed an additional \$1,392.25 of compensation for overtime hours worked. A new account code was added to HRIS which correctly calculates overtime using furlough hours and the Division began using this account code after the pay period ended January 21, 2010.

Recommendation – The Division should consult with management and legal counsel to determine the appropriate action to be taken for the underpayment of employees incurring overtime hours during the four pay periods ended December 10, 2009, December 24, 2009, January 7, 2010 and January 21, 2010 in which furlough hours were taken.

Response – The Division concurs with the audit finding. Due to the programming issue associated with DAS-HRE, the Division was unaware of the additional overtime owed. The Division has identified the employees subject to overtime pay. The Division is currently preparing a State Appeal Board claim for the affected employees on their behalf to address the issue of due compensation.

Conclusion – Response accepted.

Report on the Department of Commerce,
Alcoholic Beverages Division

Staff

This engagement was performed by:

K. David Voy, CPA, Manager
Melissa J. Knoll-Speer, Senior Auditor
Brian P. Schenkelberg, CPA, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State