

# Chapter 5

## New Brunswick Liquor Corporation Agency Stores

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# New Brunswick Liquor Corporation Agency Stores

## Background

5.1 The New Brunswick Liquor Corporation (ANBL) is a provincial Crown corporation responsible for the purchase, importation, distribution, and retail activity for all beverage alcohol in the Province. The Corporation is directed by a Board of Directors. Decisions and direction from the board are guided by section 6(3) of the *New Brunswick Liquor Corporation Act*: “The board shall administer the affairs of the Corporation on a commercial basis and all decisions and actions of the board are to be based on sound business practices.” ANBL reports to the Legislative Assembly through the Minister of Finance.

5.2 The table below shows ANBL’s financial contribution to the Province of New Brunswick over the ten years up to 2008 and calculates the contribution as a percentage of sales.

| Year | Contribution to PNB (\$) | Sales (\$)  | Contribution to PNB as % of sales |
|------|--------------------------|-------------|-----------------------------------|
| 2008 | 140,500,439              | 379,617,692 | 37.01                             |
| 2007 | 126,986,073              | 359,906,043 | 35.28                             |
| 2006 | 123,159,923              | 344,109,050 | 35.79                             |
| 2005 | 122,702,556              | 331,049,835 | 37.06                             |
| 2004 | 120,456,739              | 321,913,395 | 37.42                             |
| 2003 | 111,324,335              | 305,003,366 | 36.50                             |
| 2002 | 104,190,689              | 295,877,374 | 35.21                             |
| 2001 | 102,596,126              | 280,417,299 | 36.59                             |
| 2000 | 100,002,858              | 273,821,052 | 36.52                             |
| 1999 | 92,809,431               | 254,626,601 | 36.45                             |

**5.3** In each of the past 10 years ANBL has contributed in excess of 35% of its sales to the provincial government.

**5.4** For the fiscal year ended 31 March 2008 the corporation contributed \$140.5 million directly to the Consolidated Fund of the provincial government.

**5.5** The table shows that ANBL's contribution to the Province of New Brunswick has been increasing each year. The contribution as a percentage of sales has fluctuated from a low of 35.21% in 2002 to a high of 37.42% in 2004.

**5.6** As at 31 March 2008 ANBL serviced the public and licensees through a network of 47 corporate retail outlets and 70 private agency store outlets.

**5.7** The chart below shows ANBL's revenue growth by source over the 10 years up to 2008. The number of corporate stores has declined over that period of time while the number of agency stores has increased. The average sale per agency store and per corporate store has increased.

**5.8** Licensee is defined in the *Liquor Control Act*. The term basically means the person named on the liquor license to operate a licensed premise to sell liquor.

| Sales by source (\$ millions)                       |        |        |        |        |        |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 31 March Year-End                                   |        |        |        |        |        |        |        |        |        |        |
|   | 2008   | 2007   | 2006   | 2005   | 2004   | 2003   | 2002   | 2001   | 2000   | 1999   |
| <b>Corporate stores</b>                             | 260.05 | 245.59 | 233.55 | 219.65 | 209.36 | 195.79 | 188.57 | 178.71 | 174.86 | 161.45 |
| <b>Licensees</b>                                    | 50.33  | 48.25  | 47.93  | 48.72  | 49.69  | 49.39  | 48.10  | 46.80  | 41.93  | 39.83  |
| <b>Agents</b>                                       | 67.64  | 64.64  | 61.42  | 61.48  | 61.68  | 58.48  | 58.18  | 53.93  | 56.29  | 52.53  |
| <b>Others</b>                                       | 1.60   | 1.42   | 1.20   | 1.19   | 1.18   | 1.33   | 1.03   | 0.98   | 0.74   | 0.82   |
| <b>Total</b>  | 379.62 | 359.91 | 344.11 | 331.05 | 321.91 | 305.00 | 295.88 | 280.42 | 273.82 | 254.63 |
| <b>Corporate stores (#)</b>                         | 47     | 51     | 51     | 50     | 49     | 49     | 49     | 49     | 50     | 50     |
| <b>Agency stores (#)</b>                            | 70     | 69     | 71     | 72     | 72     | 73     | 72     | 69     | 67     | 68     |
| <b>Average sales per corporate store (millions)</b> | 5.53   | 4.82   | 4.58   | 4.39   | 4.27   | 4.00   | 3.85   | 3.57   | 3.50   | 3.23   |
| <b>Average sales per agency store (millions)</b>    | 0.97   | 0.94   | 0.87   | 0.85   | 0.86   | 0.80   | 0.81   | 0.78   | 0.84   | 0.78   |

**5.9** The average compounded rate of increase for the corporate stores is 5.44% while the agency stores compounded sales increase was 2.85% for the years 1999 to 2008.

### ***Agency Store Program***

**5.10** ANBL established the Agency Store Program in 1990 to provide improved service to the public in remote communities that could not support a traditional retail outlet. Agents can sell products normally available at ANBL retail stores, at corporation prices.

**5.11** There are a number of factors used by ANBL to determine if communities should be considered for an agency store, primarily population and the distance the community is from the nearest corporate store. Once a community has been identified as a potential site for an agency store, ANBL goes through a Request for Proposal (RFP) process in order to select an agent.

**5.12** ANBL has a standard selection process for agents, which it uses “to select the proposal that offers the best combination of business experience, financial stability, location within the community and proposed service to the public.”

**5.13** The successful candidate enters into a standard agency store ten-year agreement with ANBL, which allows for earlier termination by ANBL.

**5.14** ANBL monitors agency compliance with the agreement on an ongoing basis.

### **Scope**

**5.15** Our audit objective was:

*To determine whether the New Brunswick Liquor Corporation has appropriate control procedures for its agency store program.*

**5.16** To further focus our audit efforts and to assess the activities carried out by ANBL, we developed the following four audit criteria:

1. ANBL should have strategic direction for the agency store program.
2. ANBL should have appropriate management and operating procedures in place for the agency store program.
3. ANBL’s contractual agreement with an agency store should document the agency store performance requirements,

corrective action procedures and consequences of inadequate performance.

4. ANBL should monitor agency store compliance with agreements.

**5.17** In completing our work, we met with staff of ANBL. We reviewed ANBL strategic plans, policies and operating procedures. We selected and performed tests on the application and evaluation process for agency store selection. We also reviewed a sample of ANBL's agency store compliance reviews.

**5.18** Our audit was performed in accordance with standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

## Results in brief

**5.19 ANBL has strategic direction for the agency store program.**

**5.20 ANBL has management and operating procedures in place for its agency store program, but is missing a significant control by not fully assessing the sale potential of the assets involved.**

**5.21 ANBL's contract with agency stores adequately reflects ANBL's expectations as outlined in the agency store policy.**

**5.22 ANBL has appropriate control procedures to monitor agency stores' compliance with contract agreements.**

## Strategic direction

**5.23** Our first criterion was:

*ANBL should have strategic direction for the agency store program.*

## Strategic plan and retail review report

**5.24** During the fiscal year 2006-2007 ANBL completed a strategic planning exercise. One of the objectives identified was to "rationalize retail network." The action plan for this objective was to "review the retail network and recommend options for optimizations." A retail review report was completed in 2007 as a result of this initiative. The retail review report states: "The retail review 2007 was commissioned to document the existing network of retail beverage alcohol channels in New Brunswick as of July 2007

and to establish the strategic direction for the network during the successive five-year period.”

**5.25** The Board of Directors asked a project team to develop recommendations in specific areas including:

- establishing guidelines to be used to restructure the retail network of agency and corporate stores; and
- recommending the ideal mix of corporation stores and agency stores.

**5.26** The guidelines were to include the establishment of:

1. Minimal annual sales volume per corporate store. A store with annual sales below a financial threshold would be subject to a store review to determine if closing is appropriate.
2. Maximum annual sales volume per agency store. An agency with annual sales over a certain financial threshold would be subject to a review to determine if a corporate store should be opened to replace the agency store.
3. Minimum annual sales volume per agency store. An agency with annual sales below a financial threshold would be subject to an agency review to determine if closing is appropriate.

**5.27** The report also states: “The term guideline is utilized as there are a number of factors, in addition to financial, which will determine the actions taken with respect to retail stores. Current financial performance, while certainly important, should not necessarily determine the fate of a corporate store or agency store. That is why financially under-performing corporate stores and agencies will be subjected to a complete review.”

**5.28** The retail review report also identifies that the guidelines in place at the time of the review had been implemented in 1992, stating; “When the retail model was first introduced in 1992, financial guidelines were employed to determine where corporate stores would be maintained and where an agency store would be established to replace a closed corporate store.”

**5.29** The final report made a number of recommendations for the purpose of establishing guidelines for the retail store network which

were to be implemented during the 2007-2011 period. The report states: “the recommendations provide a framework for a profitable, visible and customer focused retail network of the future.”

**5.30** The report made the following recommendations for corporate stores:

- alter existing network to ensure existing stores meet minimum sales revenue of \$2.4 million with net income as percentage of sales greater than 36%;
- maintain minimum distance between outlets of two kilometers; and
- no outlet within community serviced by agency store.

**5.31** The report made the following recommendations for agency stores:

- alter existing network to ensure existing stores achieve minimum sales level of \$0.3 million and not to exceed sales level of \$2.6 million;
- maintain minimum distance of 15 kilometers from nearest network store;
- only establish agency store in community without existing outlet; and
- in a community serviced by an agency store, close agency store with sales over \$2.6 million and open a corporate store nearby to the current Trans Canada Highway.

**5.32** While the report did recommend a framework for the retail network, it did not sufficiently explain why this framework would result in an ideal mix of corporate and agency stores.

**5.33** The report identified seven agency stores with sales volume of less than \$0.3 million for the 2007 fiscal year end. It also identified six corporate stores which were to be subject to “a full store review to determine whether replacement by an agency is appropriate based on 2006-2007 sales less than \$2.3 million or net income less than 35%.”

**5.34** The Board of Directors approved the final retail review report on 12 December 2007.

**5.35** The retail review only examined the corporate store and agency store models for the retail network. We expected it would have assessed other alternatives to the delivery of services besides the current retail network structure of corporate and agency stores, especially since the current retail network concept was introduced in the early 1990's. ANBL staff did inform us there were two earlier studies which supported the current delivery system, one in 1994 and the other 5-7 years ago. They were, however, unable to provide us with a copy of either study. Staff has told us the Board of Directors is committed to the current service delivery model.

***Recommendation***

**5.36 We recommended future reviews of ANBL's retail network include an assessment of all service delivery methods, and not be limited to the current retail network structure.**

***ANBL response***

**5.37** *Future reviews of the retail network will include whichever options are relevant to the scope as determined by the Board, in accordance with its mandate as provided by the Act.*

**5.38** The retail review report states there are a number of factors, in addition to financial, which will determine the actions taken regarding the retail network stores. The report produced a number of observations based on the financial analysis carried out. The retail review made recommendations based on the result of the financial analysis carried out.

**5.39** Three of the six corporate stores identified in the retail review as needing a full store review have since been converted to agency stores. According to ANBL, Minto, Cocagne and Saint Louis-de-Kent were converted to agencies, based in large part on the retail review even though the retail review only included a financial analysis. While the retail review also indicated that the other three stores should be subject of a full store review, such reviews have not been carried out. Staff of ANBL has informed us there is no plan to conduct full store reviews for the other three stores due to current circumstances. The financial guidelines established as part of the retail review appear to have been used as a final decision tool as opposed to being used as an indicator for action.

**5.40** The retail review report identified seven agency stores with sales volume less than \$0.3 million, but in five of these cases the



nearest retail store was greater than fifteen kilometers away, and so the agency store was retained. In the other two cases, there were other retail outlets within fifteen kilometers of the agency store and so both were closed.

**5.41** The retail review contains very little rationale for the minimum sales volume of \$0.3 million other than a quote from the observation section of the report stating: “One could argue \$300,000 sales level for a healthy agency.”

*Recommendation*

**5.42** We recommended ANBL document any full store reviews it conducts. This process should contain the necessary information to support any retail network decisions.

*ANBL response*

**5.43** We agree with this recommendation, and it will be incorporated into future full store reviews.

**5.44** As at the date of our review there was one variance between the recommendations contained in the report and actual changes made to the retail network. ANBL made a decision to open a corporate store in a location serviced by an agency store and allowed the agency store to remain open. The corporate store was opened in the summer of 2009.

*Conclusion*

**5.45** This criterion has been met. ANBL has strategic direction for the agency store program.

**Management and operating procedures**

**5.46** Our second criterion was:

*ANBL should have appropriate management and operating procedures in place for the agency store program.*

**Agency store policy**

**5.47** The ANBL agency store policy is contained in the document entitled Agency Store Program. The current program dated May 1, 2008 states “The agency store program was established to provide improved services to the public in remote communities, which cannot support a traditional Alcohol NB Liquor retail outlet.” Approval from the Board of Directors is required for any changes to the Agency Store Program.

**5.48** The policy itself contains the information potential agency store applicants need to apply for an agency store location. It contains agency store specifications and instructions for completing a

Request for Proposal (RFP) as well as the RFP itself. The policy also contains the selection criteria “to provide a fair and open method of determining agency store appointments.” In addition to the policy, ANBL also has a template prepared which outlines the process for appointment and renewal of agents. Once an agency initial contract has expired the agents are required to go through a renewal process, which is the same as the initial RFP process. Some of the steps in the appointment process include:

- Approximately 3 months prior to the expiration of the current contract a letter is sent to the agent announcing ANBL’s intention to advertise using an RFP.
- The Tender Committee uses an ANBL standard tender opening form at the tender opening.
- At time of opening a Submission Assessment Form is completed by ANBL staff for each applicant, accepting or rejecting the tender.
- As part of the evaluation process, a team of at least two ANBL staff members visits each accepted application. Each team member completes an Applicant Visit Checklist. The form is used to record the existing condition of the applicant’s premises. ANBL has developed Agency Store Program Grading Standards, which aids staff in assigning numeric scores for each of the categories to be evaluated. Both members evaluate the location using the grading standards to assign a numeric score. At the time of the visit a video of each applicant’s premises is also prepared.
- The two staff members meet and agree on overall scoring. They do not disqualify or reject any RFPs. Rejections occur at two places, initial opening of the tender or by the Agency Stores Committee.
- With the scoring agreed upon the Agency Store Program Recommendation Report is prepared. The report summarizes the scores for all RFPs submitted along with a detailed description to support each individual score. Included in the report is a summary of the scoring of all applicants along with the overall conclusion. The overall conclusion provides a recommendation as to which applicant should be the agent.

- The report is provided to the Agency Stores Committee which reviews the report along with the video and makes a decision. The decision is communicated to the secretary of the Board of Directors
- The Agency Stores Committee consist of the following members:
  - president and CEO;
  - senior vice president;
  - chief financial officer; and
  - district manager agency stores.
- The Board of Directors of ANBL has final approval. The approval is usually conditional on acceptable financing and contract negotiations.

**5.49** There are no written terms of reference for the Agency Stores Committee outlining its purpose, membership, powers, operating procedures and reporting function.

**5.50** Our audit findings reveal that the committee did take some actions such as denying requests for an agency store from various communities, not awarding agent credit for transactions, and making recommendations to the Board of Directors, for example the Agency Store Program Recommendation Report as a result of an evaluation of RFPs.

***Recommendation***

**5.51 We recommended ANBL establish terms of reference for the Agency Stores Committee.**

***ANBL response***

**5.52** *We agree with this recommendation, and anticipate having it in place early in the new year.*

**Agency store openings**

**5.53** During the period 2002 to 2008 ANBL opened 11 new agency stores. We sampled one agency store opening in 2008 and conducted audit tests to ensure ANBL properly evaluated the responses to its RFP based on information submitted by applicants. We reviewed the score ratings for appropriateness and for numeric accuracy. Some of the criteria we used to select the particular agency store location opened in 2008 were:

- Initial interest in the location by prospective applicants; in this particular case there were 18 applications distributed.

- There were five applications received.
- One application was rejected.
- Two of the applications received included the potential purchase of an existing ANBL corporate store.
- One of the applications came from people who were employees of ANBL, which is allowed under the policy.
- One unsuccessful applicant requested a review.

**5.54** In the course of our review of this agency store, we noted that section 9 of the agency application asks if the applicant or any principles associated with the applicant have ever been convicted of a criminal offense or any offense involving alcohol, drugs or gambling. ANBL does not require criminal record checks be performed, even if the response to this section is positive.

***Recommendation***

**5.55 ANBL should ensure that a criminal record check is performed before awarding an agency store.**

***ANBL response***

**5.56** *We agree. Appropriate criminal reference checks will be performed on each applicant being recommended to the Board for agency appointment.*

**5.57** We also noted that the scores on file were different than the scores recorded on the Agency Store Program Recommendation Report. ANBL explained that scores are updated in the recommendation report based on the review by the agency store committee. In the case we looked at, the changes were not documented in the committee minutes.

***Recommendation***

**5.58 We recommended any changes made to the recommendation report by the Agency Stores Committee be approved and recorded in the minutes of the committee.**

***ANBL response***

**5.59** *We agree that all significant changes to the report will be minuted.*

**5.60** ANBL staff uses the Applicant Visit Checklist during visits to the applicant to record an explanation and description of various components used to evaluate the submitted application. This checklist along with the video provides support for the numeric

scoring used in the recommendation report. It also provides evidence of the condition of the applicant’s premises. Our review of the applications revealed there were various sections of the checklist left blank. ANBL staff explained the checklist form is used to provide information that is additional to what appears on the application (RFP).

**Recommendation**

**5.61 We recommended the Applicant Visit Checklist be completed, in every case. If a section of the checklist is not applicable for an applicant, it should be so noted with an explanation of the reason.**

**ANBL response**

*5.62 This entire process is currently under review, and this recommendation will be taken into account as new procedures are developed.*

**5.63** For the agency store opening which we tested, the scores contained in the recommendation report which was sent to the ANBL Board of Directors were:

|                     | Applicant |      |      |        |
|---------------------|-----------|------|------|--------|
|                     | 1         | 2    | 3    | 4      |
| Score               | 86.0      | 88.5 | 87.5 | 82.0   |
| Purchase offer (\$) | 100,000   | 0    | 0    | 50,000 |

**5.64** The recommendation report stated:

*Based on information provided in Section 2 of this document and supported by the Rating Summary in Section 3.2, be it resolved that ... (applicant #1) be appointed as Agent due to relative strength of their proposal..., the immediate sale of the property and assets to..., and conditional on completion of all terms contained within their proposal, and successful contract negotiations.*

**5.65** The scoring results were relatively close but the successful applicant scored below two of the other applicants.

**5.66** Section 3.2 of the agency store program allows ANBL to give preference to an applicant committed to purchasing the existing liquor store property. The section states:

*Preference may be given to an agency store applicant whose application contains a commitment to purchase the*

*existing liquor store property from the Corporation. In the case where such an offer is received from two (2) or more applicants, preference may be given to the applicant making the highest offer.*

**5.67** ANBL has a Disposal of Assets Policy. The policy outlines procedures “to ensure that all excess or devalued assets of the Corporation are disposed of in a consistent manner in the best interests of the Corporation, the Crown and the public sector.”

**5.68** The policy requires:

- Any real property and personal property over \$500 be disposed of by public tender.
- ANBL to assess the value of property to be sold by public tender or public sale.
- ANBL to maintain documentation of all property being disposed. The list is to include the property description, the location (Head Office/Store), the assessed value, the method of disposal, the name and address of the purchaser and the date.
- ANBL to ensure documentation is implemented, utilized and maintained.

**5.69** Upon our request ANBL provided the following details of the book value of the assets sold.

| <b>Asset</b>                   | <b>Original cost (\$)</b> |
|--------------------------------|---------------------------|
| Land                           | 8,300                     |
| Building                       | 366,000                   |
| Furniture                      | 54,600                    |
| Refrigeration                  | 103,800                   |
| Paving                         | 15,900                    |
| Equipment                      | 109,300                   |
| <b>Total</b>                   | <b>657,900</b>            |
| Less: accumulated depreciation | 385,000                   |
| <b>Net book value</b>          | <b>272,900</b>            |

**5.70** The following are our observations regarding the sale of the liquor store property:

- ANBL disposed of the existing liquor store property using their Request for Proposal process as described in their Agency Store Policy.
- ANBL did take steps to determine the value of the property by having an appraisal performed. The appraisal report estimated the market value at \$100,000. The market value of the assets included land, building and paving.
- ANBL did not document and as a result did not maintain a detailed list of the assets comprising the following asset categories: furniture, refrigeration and equipment.
- ANBL did not assess the value of furniture, refrigeration or equipment which in the above table has an original cost of \$267,700. ANBL is of the opinion the assets sold had very little value.

**5.71** We reviewed the recommendation report and noted the following wording of the two applicants who made a purchase offer: "...proposes to purchase the current liquor store building and equipment for \$100,000" and "...proposes to purchase the current building for \$50,000." It is not clear by the proposals received which assets were involved in the purchase offers.

**5.72** We noted although ANBL's Disposal of Assets Policy requires ANBL to assess, document and maintain a list of the assets to be disposed, the Agency Store Program does not require ANBL to provide a list of these assets to applicants submitting an offer to purchase an existing liquor store property.

***Recommendation***

**5.73 We recommended ANBL comply with their Disposal of Assets Policy. In particular ANBL should determine and document the value of all assets involved in the potential purchase of an existing store property.**

***ANBL response***

**5.74** *We agree with this recommendation, and we will apply this policy should ANBL decide to dispose of its remaining 6 owned properties.*

***Recommendation***

**5.75 ANBL should make changes to the Agency Store Program to requiring ANBL to provide a detailed list of assets to be disposed in circumstances involving the purchase of an existing liquor store property.**

|                                      |  |
|--------------------------------------|--|
| <i>ANBL response</i>                 | 5.76 <i>We agree with this recommendation.</i>   |
| <i>Recommendation</i>                | 5.77 <b>ANBL should revise the Agency Store Program to require potential applicants to specifically list the assets their offer covers when the offer contains a commitment to purchase the existing liquor store property.</b>  |
| <i>ANBL response</i>                 | 5.78 <i>We agree with this recommendation.</i>   |
| <i>Conclusion</i>                    | 5.79 The criterion was partially met. ANBL has management and operating procedures in place for its agency store program, but is missing a significant control by not fully assessing the sale potential of the assets involved.   |
| <b>Agreements with agency stores</b> | 5.80 Our third criterion was:<br><br><i>ANBL's contractual agreement with an agency store should document the agency store performance requirements, corrective action procedures and consequences of inadequate performance.</i>  |
|                                      | 5.81 A representative of ANBL told us that ANBL is primarily interested in compliance with the agency contract, customer service, and the proper management of the agent's account with ANBL. Corrective action depends on the problem identified, and ranges from a conversation with the agent to cancellation of the agency appointment. Decisions about corrective action are made by the Agency Stores Committee. |
|                                      | 5.82 ANBL has a standard agency store agreement contract common to all agency stores. The ANBL policy document on the Agency Store Program also provides the expectations of ANBL to the agency store applicants regarding the operations of an agency store.  |
|                                      | 5.83 To determine the adequacy of the contract we reviewed the contract along with the agency store policy to ensure all the policy requirements are included in the contract. We also examined the contract to establish the conditions for termination of contracts.   |
|                                      | 5.84 Our work revealed that the agency store contract adequately documents the agency store performance requirements.  |
| <i>Conclusion</i>                    | 5.85 ANBL's contract with agency stores adequately reflects ANBL's expectations as outlined in the agency store policy.  |



## Compliance with agreements

**5.86** Our fourth criterion was:

*ANBL should monitor agency store compliance with agreements.*

**5.87** Three significant methods ANBL uses to monitor the agency stores are:

- inspections by the local ANBL corporate (parent) store manager;
- inspections by the ANBL District Manager; and
- audits by ANBL internal audit staff.

**5.88** The following chart summarizes the main components of each of the monitoring methodologies:

| Monitoring method                                 | Inspections by parent store manager  | Inspections by ANBL agency store district manager  | Audits by ANBL internal audit staff  |
|---|--|--|--|
| Frequency (policy)                                | Quarterly  | Semi Annually  | Yearly   |
| Coverage  | Standard checklist   | Standard checklist   | Standard audit program   |
| Areas addressed as per checklist or audit program | Main areas   | Main areas   | Main areas   |
|   | 1. Facilities  | 1. Encourage agents to take advantage of free direct delivery  | 1. Follow up from previous audits  |
|   | 2. Products and pricing  | 2. Technology – cash register, electronic price verification, charge cards                               | 2. Managers' store visits follow up  |
|   | 3. Customer service – adequacy of inventory  | 3. Items discussed and comment section for agents re any proposed changes                                | 3. Discussion with agency store district manager   |
|   | 4. Administration – exchange rates, display certificate of appointment, breakage                                     |  | 4. Review of agency's correspondence file  |
|   | 5. Contract – adherence to <i>Liquor Control Act</i> , hours of operation, restricted access during times of closure |  | 5. Store facilities – products, signage and parking  |
|   |  |  | 6. Customer service – hours of operation, receipts contain agency identification, acceptance of credit cards               |
|   |  |  | 7. Licensee sales – reasonableness test of sales   |
|   |  |  | 8. Inventory – adequacy of products, pricing check, orders, expiry dates, proper labeling, frequency of defective products |
|   |  |  | 9. Product delivery – ordering on designated days, payments for product, non-direct purchases                              |
|   |  | 10. Other – discount rate should equal rate per contract, appropriate exchange rate, contract is current |  |

**5.89** We addressed the following three areas for each of the three monitoring methods used by ANBL:

- comparison of checklist or audit program with actual work performed;
- common findings; and
- audit frequency.

## Internal audit

**5.90** ANBL has a staff of internal auditors responsible to review, among other things, the operation of the agency stores. They use a standardized audit program to conduct their work and they prepare audit reports for each store. Depending on the audit results a copy of the report goes to the parent store manager for the agency store and/or the agency store district manager. The agent does not receive a copy of the internal audit report. Significant audit areas identified are the responsibility of the district manager to action directly with the agent. The district manager communicates to the auditor how the agent will address the issue.

**5.91** ANBL provided us with the schedule of internal audits for the current year and past three fiscal years (31 March year-end). The actual visits to agency stores by ANBL internal audit staff were less than their policy of one visit per year.

| Year-end   | Visits | Agency stores | % visited during year        |
|------------|--------|---------------|------------------------------|
| 2009 (Feb) | 52     |               | partial year, not calculated |
| 2008       | 54     | 70            | 77                           |
| 2007       | 29     | 69            | 42                           |
| 2006       | 62     | 71            | 87                           |

**5.92** We reviewed the internal audit reports from the calendar year 2004 to early 2009.

**5.93** The chart below identifies some common audit findings, and their frequency, which we noted from reviewing ANBL's internal audit reports. A description of each of the audit findings follows the chart. The descriptions were taken from the internal audit program.

|  | Internal audit - common findings |      |      |      |      |      |
|--|----------------------------------|------|------|------|------|------|
|  | 2004                             | 2005 | 2006 | 2007 | 2008 | 2009 |
| <b>Audits – calendar year</b>  | 51                               | 60   | 41   | 35   | 54   | 12   |
|  |                                  |      |      |      |      |      |
| <b>Placing weekly store stock orders, which is not compliant with Full Payment Cycle program for direct liquor delivery orders</b> | 6                                | 6    | 4    | 8    | 14   | 3    |
| <b>Frequency %</b>   | 11.8                             | 10.0 | 9.8  | 22.9 | 26.0 | 25.0 |
|  |                                  |      |      |      |      |      |
| <b>Unauthorized items in designated retail area</b>  | 9                                | 9    | 3    | 5    | 5    | 1    |
| <b>Frequency %</b>   | 17.7                             | 15.0 | 7.3  | 14.3 | 9.3  | 8.3  |
|  |                                  |      |      |      |      |      |
| <b>PLU verification had errors</b>   | 16                               | 24   | 16   | 10   | 25   | 4    |
| <b>Frequency %</b>   | 31.4                             | 40.0 | 39.0 | 28.6 | 46.3 | 33.3 |
|  |                                  |      |      |      |      |      |
| <b>Stock outs</b>  | 8                                | 5    | 3    | 3    | 6    | 0    |
| <b>Frequency %</b>   | 15.7                             | 8.3  | 7.3  | 8.6  | 11.1 | 0    |

**5.94** *Placing weekly store stock orders, which is not compliant with Full Payment Cycle program for direct liquor delivery orders* - “For agents on Direct Liquor delivery, ensure that a minimum of 80% of their purchases come from central warehouse.”

**5.95** *Unauthorized items in designated retail area* – ANBL desires “the designated retail area of the store is maintained as a separate unit and contains only liquor products and is being maintained appropriately. Ensure liquor products are not being stored elsewhere or offsite. Ensure the designated storage area is being maintained appropriately.”

**5.96** *PLU verification had errors* – “Conduct a complete comparison of prices being charged to the Corporation price list. Verify with Administration Officer if the verification of the PLU (price look up) is performed electronically. Also, spot check a few UPCs (universal product code) at the Agent’s cash register.”

**5.97** *Stock outs* – “Conduct a physical survey of stock outs at the Agent premises and determine if reasonable.”

**5.98** We concluded that the ANBL internal audit work on agency stores was carried out in accordance with the audit program. However ANBL is not achieving its goal of auditing each agency store each year.

## Parent store manager

**5.99** Each agency store is assigned a manager from a corporate store (parent store manager). A representative of ANBL told us that the parent store managers play a significant role in aiding the operations and management of the agency stores. ANBL has developed a checklist to be completed by the parent store manager when inspecting an agency store. A copy of the completed checklist goes to the district manager for the agency stores. The agency stores do not get copy of the parent store manager's findings. Significant findings identified are the responsibility of the district manager to address directly with the agent. The district manager communicates to the parent store manager how the agent will address the issue.

**5.100** We reviewed work performed by the parent store managers for the calendar years 2007, 2008 and work filed to date of our audit for 2009.

**5.101** In many cases the checklist is not used. Rather the parent store manager sends a memo to the district manager for the agency stores outlining the work conducted on the visit to the agency store. There is no requirement that the parent store manager use the checklist.

**5.102** We concluded the work carried out by the parent store managers was in accordance with the checklist.

**5.103** We noticed that parent store managers commonly found problems when price checking agency stores. That is, the price that agents were charging was not the ANBL price. When this occurred the manager would fax the information to the agent to correct.

**5.104** ANBL's policy is to have the parent store manager visit the agency store quarterly. The table below summarizes these visits. For each year it reports the number of agency stores that were visited from zero to four times by the parent store manager during the 2007 and 2008 calendar years.

| Number of times Agency store visited by Parent Store Manager | 2007 | 2008 |
|--|------|------|
| 0  | 20   | 17   |
| 1  | 45   | 54   |
| 2  | 32   | 40   |
| 3  | 19   | 25   |
| 4  | 5    | 14   |

**5.105** The table above indicates that it is rare for an agency store to be visited quarterly by a parent store manager. We did not find any agency store that was visited eight times during this two year period.

### **District manager**

**5.106** The ANBL agency store district manager is suppose to visit each agency store twice each year. ANBL has developed a checklist to document the work to be completed by the agency store district manager. The visits are basically a review of the agent's use of technology as well as a follow up on internal audits and parent manager visits. The agency store district manager completes a checklist on the visits. The agency store does not get a copy of the findings. We reviewed documentation of the 2009 visits that were on file and found that the actual work carried out was in accordance with the checklist.

**5.107** Judging from the findings of the different monitoring activities ANBL has a problem ensuring that correct prices are charged at the agency stores. In particular, the internal audit reports indicate pricing problems over the past 5 years in from 31.4 % to 46.3% of the audits. The other two methods of monitoring by ANBL also noted pricing problems. We also noted examples contained in the files where the parent manager was checking agency prices monthly and asking the agent to correct errors. ANBL was aware of the pricing errors, but they felt the size of the errors have not been significant. They told us that any price errors directly affect the profit of the agency store, and not ANBL. Secondly they felt that their numerous checks of the prices helped to detect and correct pricing errors by the agents.

### **Recommendation**

**5.108** We recommended ANBL review their approach to monitoring agency store compliance to ensure the methods and procedures used are cost effective and efficient taking into consideration the risk areas of concern to ANBL.

### **ANBL response**

**5.109** *This process is also currently under review and a risk management approach is being used to design the most efficient monitoring program.*

**5.110** We did notice one clause in the agency contracts that was not part of any of ANBL's monitoring activities for its agency stores. The contract requires each agent to have a minimum of \$2 million general liability insurance coverage with ANBL being named as an additional named insured with respect to the insured's business

related to the agency agreement. We found that none of the three monitoring methods used by ANBL were addressing this area of adequate insurance coverage. This was brought to the attention of ANBL and they notified us that corrective action has been taken.

**Conclusion**

**5.111** ANBL has appropriate control procedures to monitor agency stores' compliance with contract agreements.