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TO: Gene Herndon

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FROM: Al Luchetti
Tyrone Mitchell

BRANCH AUDITED: Denver

REPORT NUMBER: 136-010-6

Our audit of the Denver branch as detailed in the enclosed summary did not disclose any significant findings. Operationally, the Denver branch is in excellent condition.

The Branch Manager and Operations Manager gave full cooperation. All recommendations made during the audit were accepted to or implemented immediately.


Al Luchetti


Tyrone Mitchell

AL:TM:cjb

Attachment

Subj. to Stipulation of Confidentiality &
Order, Smith, et al. v. A.P. Green
Refrigerator, et al., Jackson County, MO.
Case No. 800-CV-007016

HAR 000009(2a)

SUMMARY OF REVIEW

I. FINANCIAL REVIEW

We reviewed the Branch Operating Statement as of June 30, 1976 and compared it to same period a year ago.

Comparative Financial Analysis
Six Months Ended
June 30

	<u>1975</u>	<u>1976</u>
Gross Profit (Regular Sales)	24.4	23.6
Other Costs and Income	2.1	2.2
Selling Expenses	5.7	5.7
Net Warehouse and Delivery	4.6	4.6
Administrative Expenses	2.9	2.9
Total Operating Expenses	14.2	14.2
Operating Profit	10.3	10.8
R.O.A.M.	6.7	11.3

The financial statistics are stated as a percentage of regular sales. Regular sales have been increased by 10 percent and direct sales have been increased by 15 percent over the comparable period in 1975. The Gross Profit percentage on regular sales has been reduced, however, by only 1 percent as compared to a 10 percent reduction experienced by the company.

The accounts reflecting significant differences between 1975 and 1976 were: a) Other Costs and Income which were lower in all accounts plus the standard cost variance changed from a .4 percent unfavorable variance in 1975 to a .7 percent favorable variance in 1976.

b) Total selling expenses were lower primarily due to a reduction of salary expenses from 5.4 percent in 1975 to 4.6 percent in 1976.

II. SALES ORDERS

We reviewed 15 debit and 10 credit sales orders for completeness, accuracy, timeliness of processing, and adherence to company procedure. Our tests did not disclose any significant deviations from procedure.

However, the following situation was noted. The branch sold 100 lb. bags of P & G Pierce on a special promotion to three customers but kept the material in the warehouse and delivered it as needed. The deliveries were made by using a Bill of Lading as a shipping document.

Recommendation: The deliveries were properly controlled and adequately cross-referenced. However, a sales order T-5017 should have been prepared for each delivery. The sales order should be marked "Shipping Papers Only - Customer Material". Shipments made during the audit were handled in this manner.

III. RECEIVING REPORTS

Our review of a sample of receiving reports processed between April 10 and May 30 indicated a problem in the timely processing of documents. Eight of the 15 documents selected required over 14 days to be processed through inventory.

COMMENT: Two of the documents for the receipt of Murfreesboro Potash at Warehouse 10C were delayed due to a lack of warehouse tickets. We could not identify any other unusual circumstances other than the inventory clerk being on vacation during part of the time frame, which could have caused the problem. The Operations Manager requested that the clerks date stamp all receiving reports when they are sent to Kansas City. This would have been our recommendation and should be upon analysis by the Operations Manager, identify whether the problem is at the branch or the home office.

IV. IMPREST CHECKS

Our review of imprest checks written in May - July did not disclose any procedural deficiencies. However, the following problems were identified in our review.

- a. We noted two checks in which the cost of city deliveries was being charged to account 2165, Freight Expense, rather than 2166, Drayage Expense.

Recommendation: We suggested that the Operations Manager request the accounting department to transfer the charges in account 2165 to account 2166. We also suggested that the Operations Manager review the imprest checks written between January and May which were coded to account 2165 to determine if any further changes are required.

- b. Service charges totalling \$155.00 were paid to the freight payment plan between June 8 and July 5.

COMMENT: The Operations Manager stated that the freight payment plan will be terminated on August 30, 1976.

V. CREDIT AND COLLECTION

We performed an in depth review of the July 30, 1976 Aged Trial Balance with the Branch Manager and the Operations Manager. Procedures for the review and approval of all sales on open account were excellent. The Branch Manager is actively pursuing the collection of past due accounts and is working very closely with sales personnel to maintain customers in a current status and within established credit limits.

We noted in our review that some customers had exceeded credit limits because of the inflationary impact on the cost of merchandise. We also noted several instances where approval to exceed or change a credit limit received over the telephone was not documented, except by a notation on the customer card.

Recommendations: a) Credit limits should be reviewed periodically and any changes sent to the Branch Manager for his review and approval.

b) The Operations Manager should consider sending a confirmation to the Branch Manager for any approval received over the telephone.

VI. INVENTORY MANAGEMENT

We reviewed the July 30, 1976 inventory with the Branch Manager and Operations Manager to identify those products which were slow moving. Those items shown on Schedule A valued at \$42,582 were identified as slow moving and the Branch Manager indicated he would make a special effort to sell them.

We also noted that the inventory in warehouse 10C was reflecting a lower turn than actually experienced. This was due to the sales order processing the inter-branch transfer between 10C and 10A being delayed until the receiving report and production order for warehouse 10C were prepared.

Recommendation: The sales order to transfer the product between warehouse 10C and 10A should be prepared at the time the merchandise is physically moved.

VII. SAFETY

We conducted a safety inspection of the branch and reviewed appropriate documentation. The following exceptions were noted:

1. Asbestos fibers were on the floor where the material was stored.
2. Safety pallets were not available to move chlorine cylinders.

COMMENTS: The following action corrected the noted deficiencies.

- a. The asbestos was sold the day after our audit and removed from the warehouse.
- b. Safety pallets were obtained at no cost from the chlorine supplier.

VIII. TRANSPORTATION

We reviewed the driver's log for the one over-the-road driver for the month of July. The following exceptions were noted:

1. The driver was not documenting the pre-trip safety inspection.
2. The summary section of the log was not completed for 3 days.

COMMENT: The exceptions were discussed with the driver during our audit.

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