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March 29, 2007

Stephen Pharo, Executive Director  
Oregon Liquor Control Commission  
9079 SE McLoughlin Blvd.  
Portland, OR 97222-7355

Dear Mr. Pharo:

This letter summarizes the results of a broad-based risk assessment we recently completed at the Oregon Liquor Control Commission. Through this process, we have identified and compiled a list of business and program risks that we feel warrant management's attention. This summary is intended to be informational in nature and not an all-inclusive or formal presentation of audit findings or recommendations. We have included background information as well as potential mitigating actions the commission could take to address each risk.

We appreciate the time and effort you and your staff provided as we completed the risk assessment. Should you have any questions regarding this work, please feel free to contact me at (503) 986-2283.

Sincerely,  
OREGON AUDITS DIVISION

A handwritten signature in dark ink, appearing to read "James E. Scott". The signature is written in a cursive style.

James E. Scott, MM  
Audit Manager

JES:ADF:brk

## **General Operations**

- 1. OLCC needs to consider additional steps to mitigate potential risks that may emerge from its current strategic management initiatives. Examples of risks include less than optimal utilization of resources, unnecessary disruption of agency operations, and misalignment of mission, objectives, goals and functions.**

### **Background**

Strategic management involves formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives. Strategic planning builds a shared vision that is value-based and an inclusive, participatory process in which management and staff take on shared ownership.

During our review, we noted that OLCC is in the process of revising strategic management initiatives. OLCC has aligned agency performance measures with the OLCC mission and the Governor's Oregon Principles, and is currently revising the strategic plan. OLCC personnel expressed concerns regarding organizational changes implemented by the former OLCC director and the resulting lack of decision-making transparency and lack of communication across the divisions. Staff also expressed uncertainty regarding the effectiveness of the changes that were implemented.

### **Potential Mitigation Actions**

- Implement change management during agency reorganization and the development of the agency-wide strategic plan. Implement a staff communication plan that takes into account the analysis of OLCC business processes in order to understand the complexities and interrelationships among OLCC divisions and departments.
- Implement sufficient multidirectional communication channels between OLCC divisions. Communication channels should include meetings and trainings, both formal and informal, and a mechanism allowing OLCC staff to submit suggestions or recommendations for improvement.
- Once OLCC strategic management initiatives are implemented, assess the alignment between the OLCC mission, objectives, goals and functions.

### **Distilled Spirits Program**

- 2. By better balancing repack labor costs, store level inventory and out of stock rates, OLCC may be able to reduce operational costs and increase funds available for distribution.**

#### **Background**

Out-of-stock conditions at the retail stores may create the potential for unmet customer demand and decrease funds available for distribution. However, OLCC incurs product costs once agent orders are filled at the OLCC distribution warehouse. Consequently, OLCC bears the cost of the distilled spirits inventory located at the retail stores.

An appropriate re-pack (orders of less than a full case of product) policy can help balance the costs of carrying inventory at the store level with the likelihood of out-of-stock conditions. Repack orders, however, are very labor intensive and, according to OLCC management, represent a major part of OLCC distribution costs.

During our review, we learned that OLCC has a repack policy which states that OLCC will monitor repack ordering by agents, and agents will be assessed a fee if they exceed the allowable eight repack full-case equivalents per month. According to OLCC management, OLCC's repack policy was determined arbitrarily and may not be meaningful for today's market. Management also noted that the fees called for by policy were not being collected. Finally, OLCC does not monitor product level sales or out-of-stock rates at the retail stores.

#### **Potential Mitigating Actions**

- Develop a clear repack criteria and policy based on analysis of repack distribution costs and product level sales data. Criteria and policy should also balance the need to ensure out-of-stock conditions and inventory surplus at stores are minimized.
  - Collect and analyze repack order data and repack trends.
  - Develop a process for collecting and analyzing product level sales and out-of-stock rates at the retail stores.
- 3. Adequate consideration of store level product sales and total product costs in OLCC's product selection strategy may provide greater assurance that funds otherwise available for distribution are not reduced.**

#### **Background**

OLCC has a process in place to identify products for delisting (i.e. remove from the product line based on unmet net profit expectations).<sup>1</sup> However, this process does not take into account product level sales at the retail stores and total product costs, including variable costs associated

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<sup>1</sup> Products removed from the product line may still be ordered through a special order process.

with storing and distributing the products. By considering these additional factors, OLCC may be able to make more cost-effective product decisions while still meeting customer demand.

#### Potential Mitigating Actions

- Develop a process for collecting and analyzing product level sales data at the retail stores.
- Develop a process for determining total product costs, including variable costs associated with storing and distributing products, and use the process to conduct periodic analyses to determine whether to drop or maintain certain products.

#### **Public Safety Program**

#### **4. OLCC management may benefit from improved governance processes over the licensing function.**

##### Background

The OLCC licensing function includes managing license files and the license decision process, issuing licenses, coordinating staff involvement in contested case hearings, providing technical support and training to field staff, renewing licenses, reviewing service permit applicant eligibility, issuing alcohol service permits and administering the Alcohol Server Education Program.

During our review, we noted that OLCC management may not have the necessary information to assess the effectiveness and efficiency of the Licensing process. We also learned that recent reorganization of the OLCC Public Safety division has led to decreased communication among the divisions involved in the Licensing function. OLCC is currently implementing an Information Technology licensing system which, according to OLCC management, will streamline licensing processes and provide necessary performance data. In addition, OLCC management has taken steps to improve communication across divisions involved in the licensing process.

#### Potential Mitigating Actions

- Develop and monitor relevant licensing performance measures. Accurate and complete performance data should be used to improve licensing processes and to allocate resources efficiently.
- Monitor licensing process costs in order to determine if licensing fees reflect the costs of processing and maintaining licensing applications and licensing files.
- Conduct an Information Technology project post-implementation evaluation in order to assess the information systems' effects on the licensing processes. Assure that the intended benefits were realized without unintended consequences.

- Develop adequate communication channels across the agency in order to ensure that complete, timely and sufficient information enable management and staff to discharge their responsibilities effectively.
- 5. By evaluating and monitoring the mission and goals of the Alcohol Education Program, OLCC may be able to obtain greater assurance that alcohol server education providers are consistently meeting Commission expectations reflected in Oregon Statutes and OLCC Administrative Rules.**

### Background

The Alcohol Education Program at OLCC is responsible for administering alcohol server education classes. OLCC provides alcohol server education courses and examinations through independent contractors, private persons, or private or public schools certified by the OLCC.

During the risk assessment, we learned that OLCC has an alcohol server education instructor evaluation system in place. The instructor evaluation system, however, may not effectively ensure that instructors provide training in accordance with OLCC Administrative Rules. For instance, program personnel have raised concerns regarding OLCC's ability to enforce these rules. OLCC management has taken initial steps to develop program performance measures and to review the effectiveness of the current in-class server education training.

### Potential Mitigating Actions

- Determine a clear purpose, objectives and goals for the Alcohol Education Program. Complete the development of Alcohol Education Program performance benchmarks and monitor program performance.
- In order to improve assessment and enforcement of alcohol server education instructor performance, consider revising instructor evaluations and the evaluation process.
- Track alcohol server education provider and instructor evaluations. Assure that recommendations made by OLCC through the evaluation process are implemented by providers and instructors.
- Evaluate the effectiveness of Alcohol Server Education courses and the Alcohol Server Education test. Consider evaluating student satisfaction and student alcohol server education competency.