

BUSINESS AND LABOR INTERIM COMMITTEE NOTES

Eden Package Agency

06/15/2010

I am John Freeman, I am the Deputy Director for the Department of Alcoholic Beverage Control, under the direction of Liquor Commission Chairman Sam Granato who is with me today. I am sitting in for Director Dennis Kellen who is out of the country.

We acknowledge that mistakes were made with the Eden Package Agency and want to bring to your attention those actions we have taken so this never happens again.

Let me start with a little history. There was a package agency at the Wolf Creek Resort in Ogden Valley that closed because of financial problems at the resort. We were contacted by a legislator expressing the need for a package agency in the area to serve the citizens that live in Ogden Valley, the licensees in the valley, two ski resorts and a large and growing tourist contingency. We have always tried to be responsive to the requests of legislators.

It is a 28 mile, and over a one hour round trip drive down a dangerous Ogden Canyon to the next closest Liquor Store.

We advertised for an private contractor even though compensation was going to be minimal for the first few months of operation. Mr. Bill Lyman was selected as the operator. We had every reason to want this package agency to be successful.

As Mr. Lyman began to have financial issues, our Regional Manager, Ron Torres tried to work with him and received assurances that an investor was committed and coming on board to infuse additional capital into the package agency. We take full blame for putting more trust than we should have that this would come to fruition which it never did.

Six months before the legislative audit and as a result of the events that occurred in the Eden Package Agency, we totally restructured the management and control processes in the package agency system.

Previously, our three retail regional managers, who not only oversee all 45 State Liquor Stores and their nearly 500 employees also supervised the 119 package

agencies. That is over 160 retail outlets divided between three staff members. The burden was simply too great for them to be effective.

We have now assigned all package agency operations to the department Audit Manager and his staff. This has increased control substantially. He oversees all timely audits, consignment inventory, contracts, background searches, bond amounts, accounts receivables for inventory and aging. Starting this past May, he also makes a report as a regular agenda item to the State Liquor Commission at their monthly meeting on any issues and updates with respect to the 119 independent package agencies in the State.

Background checks on all package agencies are current and up to date. We have put in place a system to double check that these have been completed and entered into a data base.

All required audits are also up to date.

Package agency rules have been re-written and updated and will be submitted to the Liquor Commission for approval on Thursday, June 23rd.

Even though we thought we were in compliance by reporting the events that transpired at Eden to State Risk Management and their Asst. Attorney General and after a recommendation by the legislative auditor, we have requested a criminal investigation be conducted by the A.G.'s office on the operation of that agency. That investigation is underway now.

All agencies are billed for inventory and payment is expected within 30 working days. If full payment is not made within the 30 days, the issues are presented to the commission for action. An example of this is the Gunnison Package Agency who was in arrears \$13,000 in which the commission voted to close and look for a new operator at last commission meeting. This is a result of our new control procedures.

The legislature appropriated last session \$100,000 to hire a business consultant to review our operations and update our business plan. Bonneville Research won the bid and they are well under way in conducting their study. They are also looking at package agency operations as well as State Stores. Their report will be completed by October 1st. They are in attendance today.

It is important to note that the shortage at the Eden Package Agency was reimbursed 100% at cost by risk management. The \$110,000 department loss was the unreimbursed profit or mark-up of the alcohol. Risk Management also paid a claim for the school lunch contribution of \$28,000. We pay a premium annually for this coverage just as if it were insurance in the private sector.

We are also working very hard to reduce the number of package agencies that have consignment inventory.

We still feel there is a need for package agency in the Ogden Valley.

We sincerely apologize for the events that transpired in Eden and want you to know that the safeguards we have taken will prevent this from happening in the future.

Thank you....