



## **CITY OF KILLEEN**

### **KCCC MIXED BEVERAGE OPERATION AUDIT**

Audit Report #25-01

#### **A Report to the City of Killeen Audit Committee**

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January 2025

# EXECUTIVE SUMMARY

## KCCC Mixed Beverage Operation Audit

Mayor and Council,

I am pleased to present this audit of the Killeen Civic and Conference Center's (KCCC) Mixed Beverage Operation.

### Audit Objectives

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The objectives of the audit were to: (1) determine the status of corrective actions on prior recommendations; (2) determine the Mixed Beverage Operation's financial performance during review period; and (3) assess the contractor's inventory management performance.

### Audit Results

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We noted several improvements in KCCC's Mixed Beverage Operation since the last audit, most notably its rebound in revenue to pre-pandemic levels, with \$264,000 in revenue in FY 2023 and \$227,000 in FY 2024. In addition, the contractor's introduction of well drinks to the operation effectively doubled sales in spirits, which likely contributed to the rebound in revenue. However, inventory management, as in prior audits, continued to be problematic. We noted pervasive errors in the monthly inventory sheets for FY 2023 and FY 2024, largely related to problems with the use of Excel formulas. Management was aware of the problems with the inventory spreadsheets and had implemented a revised Excel spreadsheet in November to address those problems. Finally, we noted significant overstocking of spirits and beer at levels far greater than customer demand and industry best practices. With regard to bottled beer, the excess inventory on hand likely contributed to losses incurred in July and August 2024 when the walk-in cooler malfunctioned. We recommended adopting an inventory maintenance methodology based on industry best practices.



## AUDIT REPORT HIGHLIGHTS

### Why Was This Audit Conducted?

The City Auditor conducted this audit, in accordance with the requirements of the City's management services agreement for mixed beverage services.

The City Auditor appreciates the cooperation of the KCCC and Finance Department management and staff on the completion of this audit.

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## INTRODUCTION

The City Auditor conducted this performance audit of the Killeen Civic and Conference Center (KCCC) Mixed Beverage Operation pursuant to Article III, Chapter 40 of the City Charter, as Amended May 11, 2013, and in accordance with the City Auditor's Bi-Annual Audit Plan, approved by the Audit Committee, September 5, 2024.

We included this audit in the Annual Audit Plan to comply with the City's Management Services Agreement for mixed beverage services, which requires that the City Auditor regularly conduct audits of the KCCC's mixed beverage operation.

The objectives of the audit were to: (1) review the status of corrective actions on prior recommendations; (2) determine the Mixed Beverage Operation's financial performance during review period; and (3) assess the contractor's inventory management performance. The scope of the review focused on KCCC Mixed Beverage Operations for FY 2023 and FY 2024.

### Background

Revenue from KCCC operations is largely event-driven and consists primarily of three revenue streams:

- 1) **Event Revenue**, which comes from event fees and rental fees charged for the use of the Center's facilities and equipment.
- 2) **Mixed Beverage Revenue**, which comes from the sale of spirits, wine, and beer. And
- 3) **Catering Revenue**, which comes from fees charged to caterers.

These revenue streams combined generate from \$600,000 to \$800,000 annually. The Mixed Beverage Operation, alone ranges from about \$150,000 to \$250,000, annually.

### Texas Alcoholic Beverage Commission Permits

The City of Killeen holds a mixed beverage license from the Texas Alcoholic Beverage Commission (TABC), which authorizes the sale and distribution of alcohol at the Civic and Conference Center complex, which includes the Killeen Civic Center, Rodeo Arena and grounds, and the Special Events Center. The City also has the ability to extend its mixed beverage operation to other authorized City facilities, primarily the Killeen Arts and Activities Center by requesting a TABC Temporary Event permit.

## **Management Services Agreement**

The City has outsourced the staffing and management of the KCCC's Mixed Beverage Operation since the conference center's opening in 2002. In December 2018, the City issued its most recent Request for Proposal (RFP) for management services, resulting in the selection of Let Us Do the Cooking, LLC (Contractor). The Management Services Agreement (Agreement) provided for a two-year contract with an option for two, two-year extensions, for a total of six years. The Agreement is currently in its final option year.

Under the terms of the Agreement, the contractor *"will provide management, supervision, and direction of the Operation in a manner that is in accordance with **standards comparable to those prevailing in other first-class mixed beverage operations in Texas.** Such management services will include, without limitation, serving beverages, both alcoholic and non-alcoholic..., maintaining all records and financial information required of the Texas Alcoholic Beverage Commission.*

As compensation for services provided, the Agreement states the City shall pay a management fee to the contractor equivalent to *"Forty Percent (40%) of Gross Receipts realized... for alcoholic beverage service charges at the Complex."*

## **Inventory Management**

A critical factor in effective bar management involves controlling inventory costs by minimizing the loss of alcohol to spillage and theft. Toward that end, the Agreement states that Contractor *shall conduct a monthly inventory and provide ending inventory balances to Permittee within five (5) days of completion of the inventory... Each monthly inventory shall fully report spills and/or breakage of alcoholic beverages, and sufficient documentation of spills and/or breakage shall be appended to each monthly inventory."*

### Variance (Shrinkage)

Variance in inventory refers to the difference between the estimated number of items sold per the physical inventory and actual number of items sold per the sales receipts. The bar and restaurant industry refers to these variances as inventory "shrinkage," which is generally attributed to spillage and/or theft. Spillage can include broken bottles, partially used bottles of wine, accidental or intentional over pouring, or

mistakes. Theft can take several forms, including intentional over pouring, giving away ("comping") drinks, undercharging for drinks, or outright theft of inventory.

Shrinkage is expressed as a percentage of the number of items sold. For example, assume a beginning inventory for the month of 200 bottles of beer, no inventory purchases, and an ending inventory of 95 bottles. This would indicate that 105 bottles of beer were sold. However, sales receipts show only 100 bottles of beer sold, indicating 5 bottles were lost to shrinkage. The shrinkage rate would be 5/100 or 5 percent.

While there is no industry standard per se for shrinkage, most bar and restaurant industry consultants identify shrinkage of 20 to 25 percent as the average for poured drinks, i.e., spirits, wine, and draft beer. Anything above 25 percent is generally considered a cause for concern. Average variances for bottled beer are much lower, in the 1-to-2-percent range since spillage is less of a factor than with poured drinks.

#### *Inventory - Maintenance of Stock*

Effective inventory management also includes maintaining enough stock on hand at any given time to meet customer demand. Understocking runs the risk that you will run out of a product, which could in turn affect sales, as well as negatively impact customer satisfaction. Overstocking, conversely, ties up working capital in unused inventory that could be spent elsewhere. In addition, it increases the risk of loss through spillage, theft, or spoilage if it remains in inventory beyond its shelf-life. Finally, overstocking increases the time and effort to conduct an inventory count. Inventory turnover is a key performance measure used in evaluating inventory maintenance.

#### *Inventory - Turnover*

Inventory turnover refers to how many times an item needs to be replenished over a period of time. While the appropriate level of inventory will vary somewhat from product to product, the bar industry generally recommends a turnover rate of 1-time per month for wine and spirits, and a turnover rate of 2-to-3 times per month for bottled beer. That is, the operation should strive to maintain no more than a month's worth of wine and spirits and 10-to-15 days' worth of bottled beer at any given time.

## **Prior Audit Findings**

The City Auditor in his prior audit of KCCC's Mixed Beverage Operation identified several areas of concern. Chronic late arrival by security guard companies was affecting bar service operations. City policy requires the presence of security guards or Killeen Police Department officers when alcohol is served. Late arrivals delayed bar services for patrons in some instances up to 30 minutes, impacting not only revenues generated, but quality of service. The problem stemmed, in part from the KCCC's lack of clear written criteria for removal of security guard agencies for performance related issues. In addition, while the contractor showed improvement in inventory management, wine losses due to shrinkage continued to be problematic. Finally, wholesale cost data for alcohol purchases had not been updated since 2016. Failure to update increases in product costs caused operational costs in the monthly financial reports to be understated.

## **Statement of Compliance with Audit Standards**

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Those standards also require that we, as internal auditors, meet the criteria for independence. We believe that we met those independence standards, and that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## FINDINGS AND RECOMMENDATIONS

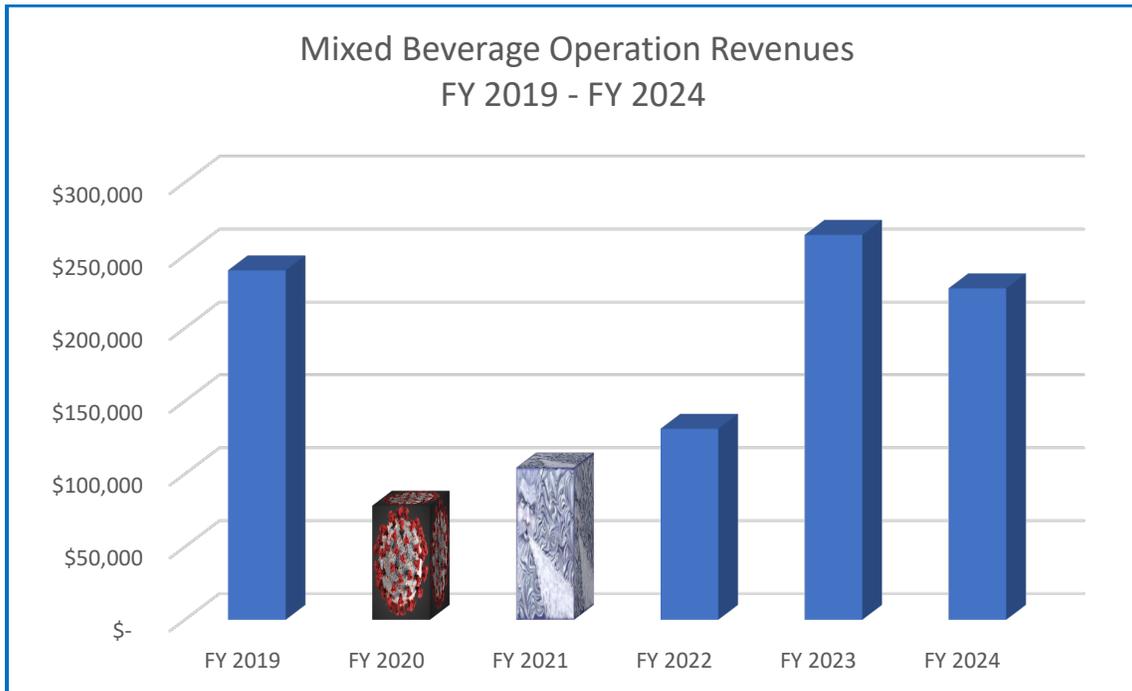
### **KCCC's Mixed Beverage Operation audit showed mixed results, with several improvements since the last audit, coupled with ongoing challenges in inventory management.**

KCCC's Mixed Beverage Operation saw a return to its pre-pandemic levels with revenue of \$264,000 and \$227,000 for FY 2023 and FY 2024, respectively. This followed steep declines experienced during the Covid-19 and Winter Storm Uri affected years of FY 2020 and FY 2021, where revenue fell to \$78,000 and \$104,000, respectively. Other operational improvements included the strengthening security guard agreements to address performance issues noted in the prior audit. In addition, the contractor enhanced the operation with the introduction of well drinks, offering a streamlined bar service and lower-cost products for customers. However, inventory management, as in prior audits continued to be problematic. We noted pervasive errors in the monthly inventory sheets for FY 2023 and FY 2024, largely related to misapplied Excel formulas, which resulted in misstated beginning inventories. The misstatements sometimes caused large unexplained losses on the inventory sheets. While the apparent losses were due to mathematical errors and not actual losses, they should be followed up on and resolved. Management was aware of problems with the inventory spreadsheets and had implemented a redesigned Excel spreadsheet in November, which appeared to address the design flaws in the old spreadsheet. In addition, we noted that inventory levels maintained for certain spirits and beer were far in excess of customer demand, resulting in overstocking of inventory. Industry best practices generally recommend a maintaining a month's worth of spirits and 10-to-15 days-worth of beer in stock; however, we found months-worth of inventory on-hand for certain spirits, and more than a year's worth of inventory for some beers. With regard to beer, the excess inventory on-hand likely contributed to losses incurred in July and August 2024 when the walk-in cooler malfunctioned. We recommend adopting an inventory ordering methodology based on industry best practices.

## Operational Improvements

We noted several improvements since the last audit. These included the rebound of revenues to their pre-Covid/Winter Storm Uri levels, implementation of strengthened security guard contracts to address performance issues cited in the last audit, and the introduction of well drinks to streamline bar service and provide lower cost options for Conference Center guests.

### *Return to pre-Covid Revenue*



Source: AS400

Sales revenue for the Mixed Beverage Operation saw a rebound in FY 2023, rising to \$264,000 from its Covid-year low of \$78,000 in FY 2020. The increase coincided with the introduction of well drinks, which is discussed below. The trend also mirrored that of the private sector bar industry overall for 2023, which some analysts saw as a post-pandemic return to normal.

### *Security Guard Agreements*

The prior audit had cited chronic late arrivals by contract security guards as a performance issue that was impacting operations because the City requires the presence of either Killeen Police Department officers or private security guards when alcohol is served. As a result

mixed beverage service was often delayed due to these late arrivals. The KCCC lacked clear criteria for addressing the performance issues, so the City Auditor recommended that management develop and implement a process for removal of underperforming guard companies from the eligibility list for KCCC events.

In FY 2023, KCCC updated its security guard agreements to include clearly worded, three-strike provisions for performance-related issues, whereby underperforming guard companies would be removed from the eligibility list for KCCC events for a period of one year. At the time of this audit, both management and the contractor indicated that late arrivals were no longer an issue, indicating that the strengthened agreements had achieved their intended goal.

### *Introduction of Well Drinks*

In FY 2023, the contractor expanded the Mixed Beverage Operation to include well drinks. Well drinks, sometimes referred to as rail drinks are mixed drinks made with lower-tier liquor. The term “well” refers to the bartender’s station, where the well drinks are stored within easy reach of the bartender.



Well drinks can enhance an operation in several respects. They use non-premium, lower cost products, and can therefore be sold at a discount. KCCC charges \$6.00 for its well drinks, as opposed to \$9.00 for its premium liquors. In addition, well drinks are typically located within arm’s length of the bartender, which allows for greater speed and efficiency, which, in turn, allows for better customer service and greater sales volume.

Our analysis of spirits sold both before and after the introduction of well drinks indicates that well-drink sales, rather than cannibalize pre-

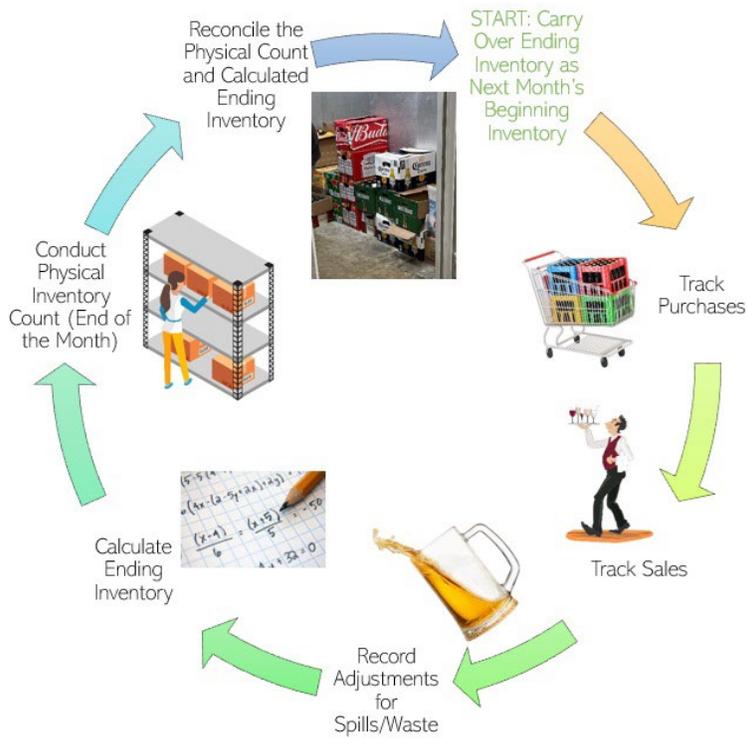
existing spirits revenue, generated new revenue. In fact, the volume of spirits sold effectively doubled with the introduction of well drinks, which likely was a contributing factor in the rapid recovery in revenue, post-pandemic.

### **Inventory Management – Monthly Inventories**

Per the Management Agreement, the contractor is required to conduct monthly inventories of all alcohol products. The monthly inventories serve several purposes. They help to: (1) ensure the accuracy of inventory records; (2) identify shrinkage due to breakage, spoilage, or theft; and (3) ensure management maintains sufficient inventory to meet customer demand without over or under stocking.

#### *The Inventory Process*

The monthly inventory process incorporates input from several sources: (1) vendor invoices, which document the purchase of spirits, wine, and beer; (2) the point-of-sale (POS) system, which documents the sale of units, i.e., bottles of beer, shots of liquor, and glasses of wine; (3) physical inventories, which document the ending inventory on hand; and (4) bar staff observations, which document the loss of inventory through spills.



*Pervasive Errors*

Our review of the monthly inventories for fiscal years 2023 and 2024 found pervasive errors in the Excel spreadsheets used to track inventory flow. Taken as whole the errors diminished the overall usefulness of the reports. The errors appeared in part due to misapplied Excel formulas that often resulted in misstatements of beginning inventories. This, in turn, had a cascading effect on the spreadsheet formula and sometimes resulted in large unexplained losses.<sup>1</sup> The following are several examples of errors/discrepancies noted in the monthly inventories.

Month/Year	Product(s)	Issue
Dec/2022	Spirits	Unexplained losses for all spirits totaled the equivalent of 55 bottles. The unexplained losses appeared to result from the failure to include alcohol sold in well drinks in the main inventory tracking sheet.
Sep/2023	Beer	Unexplained losses for beer totaled 351 bottles or 14 cases. The discrepancy was attributed to a misapplied Excel formula, which resulted in inaccurate beginning inventories.
Mar/2024	Crown Royal	A misapplied Excel formula showed beginning inventory for Crown Royal whiskey at just over one bottle. The actual beginning inventory was 20 bottles. An additional 15 bottles were purchased in March, bringing total inventory on hand to 35 bottles. Sales of Crown Royal for the month totaled 3.7 bottles.
May/2024	Yuengling Lager	Ending inventory for Yuengling Lager was zero, with unexplained losses at 90 bottles or nearly 4 cases. The discrepancy is likely the result of mathematical errors and not actual loss. The July/2024 inventory showed 12 bottles of Yuengling sold despite no inventory on hand for June or July.

Source: Monthly Inventory Reports

The inventory-related problems persisted throughout much of the review period, in part, due to lack effective oversight. However, both

<sup>1</sup> The inventory spreadsheets contained a column titled "Unexplained Losses," which was used to account for differences between the calculated ending inventory per the records and the physical count that could not be explained by known spills.

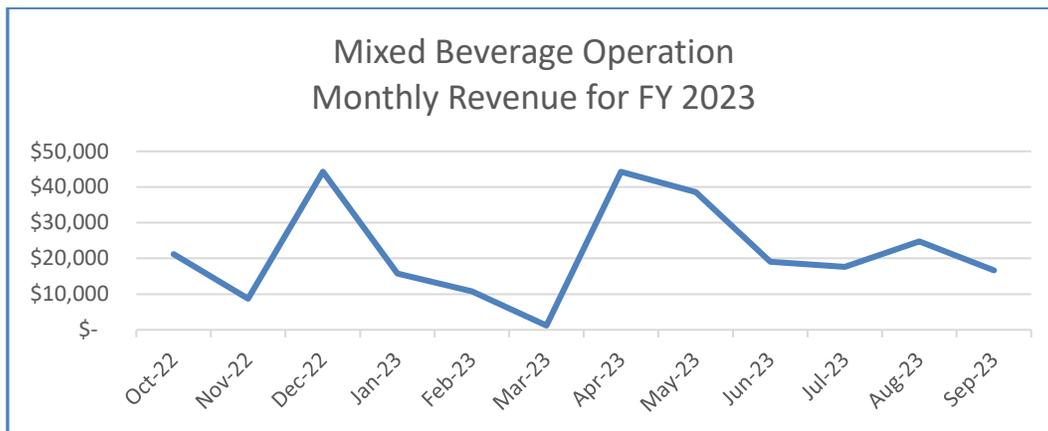
the KCCC and Finance Department were aware of problems with the monthly inventories at the time of the audit and had already begun taking corrective action mid-year to address them.

In November 2024, KCCC, with the Finance Department’s approval, implemented a revised inventory spreadsheet, which was used for the October 2024 monthly inventory. While there were minor issues with some of the formulas, the spreadsheet appeared to address most of the design-related issues associated with the prior spreadsheets.

### **Inventory Management – Overstocking**

Our review of the monthly inventories for FY 2023 and FY 2024 found that inventory levels maintained were far in excess of actual demand for certain spirits and beer products. Bar industry standards recommend maintaining approximately one month’s worth of inventory for spirits, and 10-to-15 days’ worth of inventory in beer. By contrast, monthly inventory on hand for FY 2024 ranged from 3 to 13 times the amount of inventory sold. On average monthly inventory on hand was 6 times greater than inventory sold.

It should be noted that demand can fluctuate significantly throughout the year, as shown in the graph below of monthly revenue for FY 2023.



Source: AS 400

While this can be a challenge for managing inventory, the peak periods and slow periods when viewed historically are fairly consistent. As indicated in the graph, Civic Center activity typically peaks in the early winter and spring months of December-January and April-May, respectively, and then slows down in the late summer, early autumn, and late winter months. In terms of inventory management, this would

mean stocking up for peak periods and letting inventory dwindle during the slow periods.

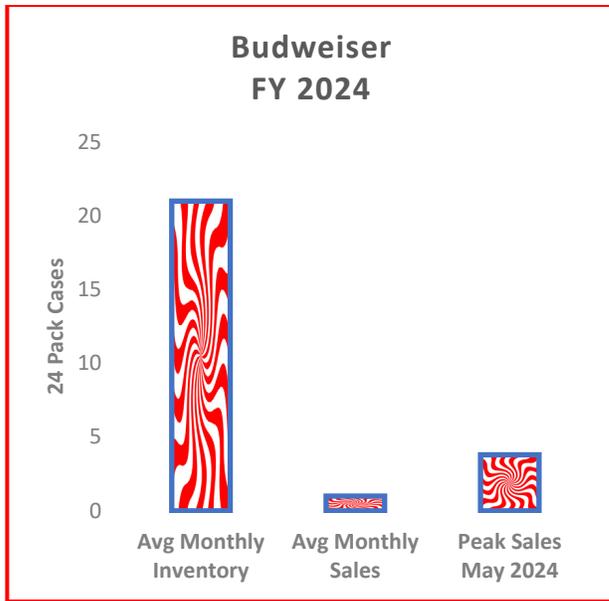
The timing and quantity of purchases for some items were in accordance with industry best practices. However, for other items, the timing and quantity of purchases resulted in significant overstocking. Maintaining excess inventory ties up working capital in unused inventory, increases the time and effort of conducting physical counts, and raises the risk of additional loss through spillage, which occurred when KCCC’s walk-in cooler malfunctioned in July and August 2024. A brief discussion of several overstocked items follows.



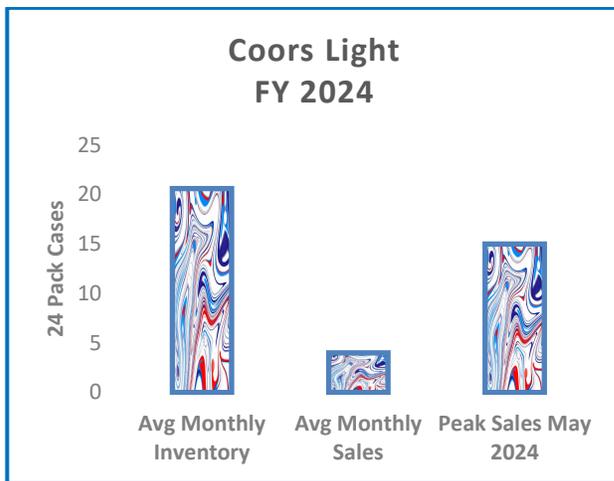
The operation began FY 2024 with 45 bottles, a six-and-a-half-month supply based on reported sales for FY 2024. The operation maintained an average monthly inventory of 43.4 bottles for monthly sales averaging 5.5 bottles. Sales peaked in February at 9.8 bottles. Recommend reducing inventory to 12-15 bottles to allow for shrinkage and fluctuations.



The operation began FY 2024 with 20 bottles, a five-and-a-half-month supply based on reported sales for FY 2024. The operation maintained an average monthly inventory of 32.1 bottles for monthly sales averaging 3.6 bottles. Sales peaked in December at 8.1 bottles. Recommend reducing inventory to 10-12 bottles to allow for shrinkage and fluctuations.



The operation began FY 2024 with 27 cases, a 22-month supply based on reported sales for FY 2024. The operation maintained an average monthly inventory of 21 cases for monthly sales averaging 1 case. Sales peaked in May 2024 at 3.8 cases. Recommend reducing inventory to 2-5 cases to allow for shrinkage and fluctuations. Note: Inventory on hand was purchased in May 2023 and will exceed 2 years in May 2025, and therefore has likely experienced some oxidation.<sup>2</sup>



The operation began FY 2024 with 21 cases, a 3-and-a-half-month supply based on reported sales for FY 2024. The operation maintained an average monthly inventory of 21 cases for monthly sales averaging 4 cases. Sales peaked in May 2024 at 15 cases. Recommend reducing inventory to 10-16 cases to allow for shrinkage and fluctuations.

Source: Monthly Inventory Reports

Contract management commented that for reasons of operational efficiency, they preferred to have one-to-two bottles of certain spirits on hand at each serving station, which can number from several to seven or eight if there are concurrent events at the Killeen Arts and Activities Center. The City Auditor noted that this was an acceptable “happy medium” and would still allow for a reduction in inventory.

<sup>2</sup> The 3-30-300 rule is a guideline for beer storage, which is attributed to studies conducted by the macro brew industry. The rule stipulates that beer will experience levels of oxidation after 3 days at 90 degrees Fahrenheit, 30 days at 72 degrees Fahrenheit, or 300 days at 38 degrees Fahrenheit. Oxidation is a process that occurs when beer is exposed to oxygen and can cause it to taste stale.

### *Proliferation of Spirits*

We noted a dramatic increase in the range of spirits maintained in inventory, which may have contributed to the excess inventory on hand. In 2015, the inventory for spirits consisted of 14 products. Total value of year-end inventory was \$7,000.

As of September 30, 2024, inventory had expanded to 41 products, and the total value of year-end inventory had grown to \$17,000. While the addition of well drinks would explain part of the expansion, we found multiple varieties of like spirits that could be downsized. This included 5 different types of rum, 3 of them coconut rum, 5 different varieties of tequila, 12 different types of liqueurs and 10 different varieties of whiskey. The contractor was in the process of phasing out at least two of the products at the time of the audit.

Source: Monthly Inventory Reports



### DRINK MENU

#### 2015 SPIRITS

ABSOLUTE VODKA  
BACARDI LITE  
BAILEYS  
BOULAIN AMARETTO  
CROWN ROYAL  
DON PEDRO  
HENNESSY  
JACK DANIELS  
JOHNNY WALKER BLACK  
KAHULA  
MALIBU  
SEAGRAMS 7  
TANQUERAY  
JOSE CUERVO

#### 2025 SPIRITS

NIKOLA VODKA  
MR. BOSTON GIN  
TAAGA GIN  
RON CORINA WHITE  
CALYPSO COCONUT RUM  
RON CORINA COCONUT  
TORADA TEQUILLA GOLD  
TORADA TEQUILLA SILVER  
KENTUCKY DELUXE WHISKEY  
AMARETTO BOULAIN  
BACARDI SUPERIOR LIGHT  
AMARETTO ROYALE CLUB  
BAILEY'S IRISH CREAM  
BLUE CURACAO ROYALE CLUB  
BULLEIT BOURBON  
CAPTAIN MORGAN SPICED  
CROWN ROYAL  
DISARANNO AMARETTO  
FIREBALL CINNAMON WHISKEY  
HENNESSY COGNAC \*VS  
ROYAL CLUB AMARETTO  
JACK DANIELS  
JOHNNY WALKER BLACK  
JOSE CUERVO GOLD  
JOSE CUERVO SILVER  
KAHLUA  
MALIBU COCONUT  
MELON ROYAL CLUB  
PEACH SCHNAPPS ROYAL CLUB  
PEACH SCHNAPPS BOULAIN  
SEAGRAMS 7  
TANQUERAY  
TITOS HANDMADE VODKA  
SOUR APPLE SCHNAPPS  
CROWN ROYAL APPLE  
BUFFALO TRACE BOURBON  
ISLAND PUNCH DEKUYPER  
TORADA TRIPLE SEC



### **Inventory Management – Beer Shrinkage**

We noted overall improvement in the shrinkage levels for spirits, wine and beer, with the exception of beer losses in the months of July and August 2024. The losses were related to ongoing malfunctions in the walk-in cooler over the two-month period, which caused temperatures to fluctuate from sweltering to freezing.

Initially misdiagnosed by the repair vendor, the problem continued off and on through July and was ultimately resolved in mid-August, but not before the loss of 421 bottles or nearly 18 cases of beer. While some losses



were unavoidable, the overall losses could have been mitigated if inventory levels were maintained in accordance with best practices.

As previously mentioned, the summer and autumn months typically represent slow periods of the operation during which minimal inventory should be maintained. For example, the operation sold 2 bottles of Blue Moon White Ale in July, and 11 bottles in August for a total of 13 bottles over the two-month period, or about half-a-case. Beginning inventory for July stood at 123 bottles or more than 5 cases. Of the excess inventory on hand, 5 bottles were lost in July and 35 in August for a total of 40.

Similarly, the operation sold 9 bottles of Heineken in July, and 8 in August for a total 17 bottles over the two-month period, or less than one case. Beginning inventory for July stood at 343 bottles or more than 24 cases. Of the excess inventory on hand, 3 bottles were lost in July and 61 in August for a total of 64, or about 2-and-a-half cases.

It should be noted that the lead time on orders is relatively short, from same-day to one-or-two-day delivery, which negates the need to maintain large amounts of inventory over prolonged periods. Maintaining inventory levels in accordance with best practices will reduce the time and effort of physical inventories, free up working capital for other uses, and mitigate the risk of loss through spills or spoilage.

**Recommendations:**

The City Auditor recommends that the KCCC Director:

1. Ensure contractor implements inventory maintenance practices, in accordance with best practices.
2. Establish a policy for following up and resolving unexplained losses above an agreed upon threshold.
3. Consider further reducing spirits in inventory by eliminating multiples of like items.

## OTHER MATTERS

KCCC's walk-in cooler is original equipment dating back more than two decades to the construction of the Conference Center in 2002. Most manufacturers estimate the average lifespan of a walk-in cooler at about 15 years.

The sustained malfunctioning of KCCC's walk-in cooler in July and August of 2024 was the most recent breakdown to occur. However, staff indicated that the unit has required repairs on prior occasions. For that reason, management should consider conducting a cost-benefit analysis to determine whether to maintain or replace the existing unit. Costs to be considered should include not only repair costs, but also loss of inventory, as well as any incremental energy costs linked to the aging unit.

## **VIEWS OF RESPONSIBLE OFFICIALS**

Copies of the draft report were provided to the Executive Director of Community Development, KCCC Director, and contract management for review and comment. The Executive Director and KCCC Director agreed with the findings and recommendation, as did the contractor, with the caveat noted on page 13, regarding their preference to maintain certain spirits at each serving station for operational efficiency.

## **OBJECTIVES, SCOPE AND METHODOLOGY**

### **Objectives**

The objectives of the audit were to: (1) review the status of corrective actions on prior report recommendations; (2) determine the Mixed Beverage Operation's financial performance during review period; and (3) assess the contractor's inventory management performance. The scope of the review focused on KCCC Mixed Beverage Operations for FY 2023 and FY 2024.

### **Scope and Methodology**

The audit scope focused on but was not limited to analysis of operations from October 2022 through September 2024.

To address the audit objectives, the City Auditor:

- ▶ Reviewed prior audit findings, and corrective actions taken.
- ▶ Obtained monthly financial reports submitted to Finance by Contractor for October 2022 through September 2024.
- ▶ Obtained and analyzed budget data on revenues and expenses for FY 2023 through FY 2024.
- ▶ Conducted research on best practices for inventory maintenance.
- ▶ Discussed mixed beverage operations with the KCCC Director, Director of Finance, and Finance Account Manager over the Mixed Beverage Operation.
- ▶ Observed monthly inventory performed by Contractor's staff.
- ▶ Analyzed monthly inventories for accuracy, for shrinkage rates, and compared monthly turnover of inventory to industry standards to determine if over or under stocking had occurred.

## **Statement of Compliance with Audit Standards**

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Those standards also require that we, as internal auditors, meet the criteria for independence. We believe that we met those independence standards, and that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.