

EXECUTIVE DIGEST

LIQUOR CONTROL COMMISSION

INTRODUCTION This report contains the results of our financial audit of the Liquor Control Commission, Department of Consumer and Industry Services, for the period October 1, 1993 through September 30, 1995.

AUDIT PURPOSE This financial audit of the Liquor Control Commission was conducted as part of the constitutional responsibility of the Office of the Auditor General. Financial audits are conducted at various intervals to permit the Auditor General to express an opinion on the State's financial statements.

BACKGROUND The Liquor Control Commission is governed by Sections 436.1 - 436.58 of the *Michigan Compiled Laws* (Act 8, P.A. 1933, the Michigan Liquor Control Act). The Commission consists of five members appointed by the Governor with the advice and consent of the Senate, each for a term of four years. The responsibilities of the Commission include the control of alcoholic liquor distribution within the State; operation of State liquor stores and warehouses; licensing of the

manufacture, importation, and sale of liquor; levy and collection of excise and specific taxes on spirits, beer, and wine; and enforcement of the Michigan Liquor Control Act. The Commission is organizationally located within the Department of Consumer and Industry Services.

The Commission has primary responsibility for the Liquor Purchase Revolving Fund which accounts for the Commission's purchase, warehousing, distribution, and sale of alcoholic liquor. The net income from alcoholic liquor sales is transferred to the General Fund in accordance with Section 18.1435 of the *Michigan Compiled Laws*. The Commission's licensing and enforcement activities are accounted for in the State's General Fund.

As of September 30, 1995, the Commission had 548 employees, 3 warehouses, 3 salvage stores, and 63 liquor stores. During the 1994-95 fiscal year, the Commission issued 31,867 retail liquor licenses and 1,842 manufacturer/wholesaler licenses. For fiscal year 1994-95, the Liquor Purchase Revolving Fund's total revenues were \$126.7 million and total expenses and operating transfers were \$39.6 million.

**AUDIT
OBJECTIVES
AND
CONCLUSIONS**

Audit Objective: To assess the adequacy of the Commission's internal control structure*.

Conclusion: Our assessment of the Commission's internal control structure did not disclose any material weaknesses*. However, we noted reportable conditions* in the internal

control structure related to deposits and daily sales reports, inventory adjustments, and separation of duties at the State's liquor stores (Findings 1 through 3). We also noted reportable conditions related to documentation for charges to the Liquor Purchase Revolving Fund (Finding 4).

Audit Objective: To assess the Commission's compliance with applicable statutes, the *Michigan Administrative Code*, State procedures, and Department policies and procedures.

Conclusion: Our assessment of the Commission's compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on the Commission's financial statements. However, as noted under the financial accounting and reporting objective, our assessment disclosed that the Commission did not properly value its liquor inventory (Finding 5).

Audit Objective: To audit the financial statements of the Liquor Purchase Revolving Fund (LPRF) and the Commission's schedule of governmental funds revenue and operating transfers as of and for the fiscal years ended September 30, 1995 and September 30, 1994.

Conclusion: We expressed unqualified opinions on the LPRF financial statements and the Commission's schedule of governmental funds revenue and operating transfers. However, we did note deficiencies in the Commission's financial accounting and reporting which are reportable conditions but they did not materially affect the financial statements or schedule. Our audit disclosed that the

Commission did not properly value its liquor inventory (Finding 5). Our assessment also disclosed that the Commission had not requested legislation to require LPRF to be credited with interest on its cash balances (Finding 6).

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Liquor Control Commission for the period October 1, 1993 through September 30, 1995. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

**AGENCY
RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our report contains 6 findings and 7 recommendations. The agency's preliminary response stated that it agreed with all 7 recommendations.

The Commission had not complied with the 8 recommendations in our prior report because of pending privatization of its liquor distribution system. We repeated 4 of the 8 recommendations in this report.