

## EXECUTIVE DIGEST

# MICHIGAN LIQUOR CONTROL COMMISSION

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### INTRODUCTION

This report contains the results of our financial audit\* of the Michigan Liquor Control Commission (MLCC), Department of Consumer and Industry Services, for the period October 1, 1997 through September 30, 1999.

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### AUDIT PURPOSE

This financial audit 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.

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### BACKGROUND

MLCC is governed by Sections 436.1101 - 436.2303 of the *Michigan Compiled Laws* (Act 58, P.A. 1998, the Michigan Liquor Control Code of 1998). MLCC consists of five members, each appointed for a term of four years by the Governor with the advice and consent of the Senate. The responsibilities of MLCC include the oversight of alcoholic liquor distribution within the State; licensing of the manufacture, importation, and sale of liquor; levy and collection of excise and specific taxes on liquor, beer, and wine; and enforcement of the Michigan Liquor Control Code. MLCC is organizationally located within the Department of Consumer and Industry Services.

During fiscal year 1996-97, MLCC privatized the liquor inventory warehousing and distribution function, which required extensive revision to the process by which liquor products were ordered, purchased, stored, and delivered to the retailers.

As of September 30, 1999, MLCC had 167 employees. During fiscal year 1998-1999, MLCC issued 28,789 retail liquor licenses and 5,194 manufacturer/wholesaler licenses. The Liquor Purchase Revolving Fund's total revenue for the fiscal year was approximately \$147.6 million and total expenses and operating transfers were approximately \$44.8 million.

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AUDIT OBJECTIVES,  
CONCLUSIONS, AND  
NOTEWORTHY  
ACCOMPLISHMENTS

**Audit Objective:** To assess and report on MLCC's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial statements, and on its internal control\* over financial reporting, based on our audit of the financial statements.

**Conclusion:** Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial statements. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses\*. However, we noted a reportable condition\* regarding mail opening and cash receipts (Finding 1).

**Noteworthy Accomplishments:** MLCC reported that during December 1999 it implemented a voluntary electronic funds transfer (EFT) program for licensees to pay for liquor purchases. This removes the collection responsibility from the authorized distribution agent (ADA).

As of April 4, 2000, 214 licensees had enrolled in the EFT program. We subsequently were informed by MLCC that EFT program participation had increased to 359 licensees as of May 22, 2000.

MLCC also reported that it designed and implemented a new inventory control process in the fall of 1999. This process ensures that State-owned inventory reserved for pending sales is adjusted weekly to a calculated amount necessary to meet sale orders for a two-day level. This process allows the State to minimize its investment in inventory waiting for delivery to licensees.

MLCC further reported that it made significant improvements in its system of accounting for liquor wholesale operations. MLCC staff completely rewrote the system to be compatible with the entry of information into the State's Michigan Administrative Information Network (MAIN) before the end of each month. Effective October 1999, MLCC's information technology system processes sales data from source transactions submitted within two days of delivery of the liquor to the licensee by the ADAs. Sales data is reconciled to the information reported by the ADAs to ensure its accuracy and is then entered into MAIN.

**Audit Objective:** To audit the Liquor Purchase Revolving Fund financial statements as of and for the fiscal years ended September 30, 1999 and September 30, 1998.

**Conclusion:** We expressed an unqualified opinion\* on the Liquor Purchase Revolving Fund financial statements.

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**AUDIT SCOPE**

Our audit scope was to examine the financial and other records of the Michigan Liquor Control Commission for the period October 1, 1997 through September 30, 1999. 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.

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

Our audit report includes 1 finding and 3 corresponding recommendations. The agency preliminary response indicated that MLCC agreed with all 3 recommendations.

MLCC had complied with all 11 of the prior audit recommendations.