

Office of the Auditor General  
Performance Audit Report

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**Michigan Liquor Control Commission  
Selected Operational Processes and IT Systems**

Department of Licensing and Regulatory Affairs and  
Department of Technology, Management, and Budget

March 2024

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The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

The auditor general may make investigations pertinent to the conduct of audits.

*Article IV, Section 53 of the Michigan Constitution*

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# OAG

Office of the Auditor General

## Report Summary

### *Performance Audit*

### *Michigan Liquor Control Commission (MLCC) Selected Operational Processes and IT Systems*

### *Department of Licensing and Regulatory Affairs (LARA) and Department of Technology, Management, and Budget (DTMB)*

**Report Number:**  
**641-0162-22**

**Released:**  
**March 2024**

MLCC is the sole wholesaler of all spirit products in the State of Michigan and is responsible for licensing the manufacture, distribution, and sale of all beer, wine, distilled spirits, and mixed spirit drinks in the State. MLCC, in conjunction with DTMB, uses several IT systems to license manufacturers, wholesalers, and retailers and manage online spirit orders and product distribution. MLCC contracts with three authorized distribution agents (ADAs) who warehouse and distribute spirit products in Michigan on behalf of the State. Revenues generated through this process totaled \$1.6 billion in fiscal year 2022.

Audit Objective			Conclusion
Objective 1: To assess the sufficiency of MLCC's efforts to comply with selected State laws, regulations, and policies for the sale and distribution of spirit products.			Not sufficient
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
MLCC lacked key controls including spirit purchase and sale reconciliations, spirit ordering oversight, inventory oversight, and others ( <a href="#">Finding 1</a> ).	X		Agrees
MLCC's inventory practices once resulted in negative inventory of nearly 900,000 bottles, 520 unique products with negative inventory balances, over 7,000 instances of inventory purchases with no sales of the spirit product during that week, sales to retailers prior to MLCC purchasing the items, and other weaknesses ( <a href="#">Finding 2</a> ).	X		Agrees
MLCC did not effectively manage inventory housed in ADA warehouses, resulting in 62,294 missing bottles of State-owned spirit inventory ( <a href="#">Finding 3</a> ).	X		Agrees
MLCC did not consistently return inventory to the vendor when another ADA became responsible for spirit distribution. In one instance, 20,794 bottles of State-owned spirit products could not be sold and distributed ( <a href="#">Finding 4</a> ).		X	Agrees

<b>Findings Related to This Audit Objective (Continued)</b>	<b>Material Condition</b>	<b>Reportable Condition</b>	<b>Agency Preliminary Response</b>
MLCC issued four liquor licenses in a local government unit which prohibits the sale of spirits ( <a href="#">Finding 5</a> ).		X	Agrees
<b>Observations Related to This Audit Objective</b>	<b>Material Condition</b>	<b>Reportable Condition</b>	<b>Agency Preliminary Response</b>
The <i>Michigan Compiled Laws (MCL)</i> limit the availability of certain retail liquor license types based on population; however, exemptions in the <i>MCL</i> allow for over issuance of certain licenses. Further, existing licenses can be transferred between licensees for an unregulated price ( <a href="#">Observation 1</a> ).	Not applicable for observations.		

<b>Audit Objective</b>			<b>Conclusion</b>
Objective 2: To assess the sufficiency of MLCC and DTMB's interface controls over selected liquor systems.			Sufficient, with exceptions
<b>Findings Related to This Audit Objective</b>	<b>Material Condition</b>	<b>Reportable Condition</b>	<b>Agency Preliminary Response</b>
MLCC and DTMB should improve interface controls to ensure audit logs are complete and cover a sufficient time period and reconciliation procedures are consistently performed ( <a href="#">Finding 6</a> ).		X	Agrees

<b>Audit Objective</b>			<b>Conclusion</b>
Objective 3: To assess the sufficiency of MLCC's and DTMB's security and user access controls over selected liquor systems.			Sufficient, with exceptions
<b>Findings Related to This Audit Objective</b>	<b>Material Condition</b>	<b>Reportable Condition</b>	<b>Agency Preliminary Response</b>
All four liquor IT systems reviewed lacked effective processes for ensuring appropriateness of security configuration settings and sufficient documentation of access capabilities ( <a href="#">Finding 7</a> ).		X	Agrees

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Auditor General

March 19, 2024

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Michigan Liquor Control Commission  
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Michelle Lange, Director  
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and  
Laura Clark, Chief Information Officer  
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Chair Beltzer, Director Brown, Director Lange, and Chief Information Officer Clark:

This is our performance audit report on the Michigan Liquor Control Commission Selected Operational Processes and IT Systems, Department of Licensing and Regulatory Affairs and Department of Technology, Management, and Budget.

We organize our findings and observations by audit objective. Your agencies provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Doug Ringler  
Auditor General



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# AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

## COMPLIANCE WITH STATE LAWS, REGULATIONS, AND POLICIES

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### BACKGROUND

The Michigan Liquor Control Commission (MLCC) was created to control alcoholic beverage traffic within the State.

Across the nation, in some instances states regulate the sale of distilled spirits\*, and in some cases wine and beer\*, through government agencies at the wholesale level. In Michigan, MLCC is the wholesaler\* for spirits only. Spirit products are sold by MLCC to retailers through three authorized distribution agents\* (ADAs) using approximately 11 warehouses. ADAs warehouse, assemble, and deliver spirit orders to retailers on behalf of MLCC. Spirit products in ADA warehouses are owned by either the State or the vendor\*, not ADAs.

Section 436.1203 of the *Michigan Compiled Laws (MCL)* states all spirits for sale, use, storage, or distribution in this State must originally be purchased by and imported into the State by MLCC or by prior written authority of MLCC. As such, MLCC is the wholesaler of spirit products which ADAs distribute on behalf of MLCC.

Key tasks in the spirit purchase, sale, and distribution process are (see Exhibit 1):

- Retailers\* submit orders for spirit products through the State's online liquor ordering system, Michigan Liquor Ordering System\* (MILO), or directly to ADAs.
- ADAs process the spirit product orders and create and send MLCC the daily gross order files, showing the quantity of each spirit product on the trucks for delivery each day.
- MLCC uses the daily gross order files and State-owned spirit inventory to calculate the quantity of each spirit product it needs to purchase from the vendor. MLCC creates the daily purchase order file and updates State-owned spirit inventory to reflect MLCC's purchase of the spirit product.
- ADAs deliver the spirit product to the retailers and create and send MLCC the daily invoice files, showing the quantity of each spirit product delivered and accepted by each retailer.
- MLCC uses the daily invoice files from ADAs to calculate and record sales to the retailers and adjust State-owned spirit inventory balances.

\* See glossary at end of report for definition.

ADAs have primary responsibility to warehouse and deliver spirit products, as allowed by the *MCL*.

The Financial Management Division within MLCC oversees spirit registration, pricing, and orders and balances the sales and inventory information submitted by ADAs. The Licensing Division within MLCC processes license\* applications and renewals for suppliers, wholesalers, and retailers.

Approximately 29,500 retail businesses, including bars, grocery stores, restaurants, hotels, and convenience stores, have one or more active licenses to sell alcoholic beverages. In addition to retail licenses, MLCC issued approximately 9,970 licenses to manufacturers\* and other agents to produce alcoholic beverages.

MLCC recorded spirit inventory of \$3.2 million as of September 30, 2022, which included 9,700 spirit products with a selling price ranging from \$0.47 to \$45,000 per bottle.

#### **AUDIT OBJECTIVE**

To assess the sufficiency of MLCC's efforts to comply with selected State laws, regulations, and policies for the sale and distribution of spirit products.

#### **CONCLUSION**

Not sufficient.

#### **FACTORS IMPACTING CONCLUSION**

- Three material conditions\* related to the State's lack of:
  - Control over the spirit inventory purchase, sale, and distribution process (Finding 1).
  - Spirit inventory management controls (Finding 2).
  - Physical inventory controls (Finding 3).
- Two reportable conditions\* related to improved monitoring of unsellable inventory and improved controls over the State's issuance of liquor licenses (Findings 4 and 5).
- MLCC appropriately prevented licensees from obtaining licenses in more than 1 of the 3 distribution system tiers.
- MLCC's public pricing information generally provided the accurate licensee price and minimum shelf price for spirits available for sale in the State.

\* See glossary at end of report for definition.

## FINDING 1

### **MLCC lacks oversight of ADA processes to receive and distribute State-owned spirit inventory.**

MLCC did not adequately reconcile purchases with sales to ensure spirit inventory balances were reasonable.

MLCC did not provide adequate oversight of ADAs to ensure all State-owned spirits received and distributed by ADAs were reflected within the State's purchase and sale records, nor did State inventory balances accurately reflect spirit products on hand at ADA warehouses.

Article IV, Section 40 of the Michigan Constitution states the Legislature may by law establish a liquor control commission which, subject to statutory limitations, shall exercise complete control of the alcoholic beverage traffic within this State, including the retail sales thereof. The Liquor Control Code, Public Act 58 of 1998, as amended, created MLCC. *MCL* Section 436.1201 states MLCC has the sole right, power, and duty to control the alcoholic beverage traffic within the State, including the manufacture, importation, and transportation and sale thereof.

Although MLCC is ultimately responsible for spirit purchase, sale, and distribution, it delegated duties for recording spirit product activity to ADAs without a means to provide the necessary oversight of the activities:

- a. MLCC did not perform adequate reconciliations of purchases with sales to verify the ADAs provided accurate and complete information:
  - (1) MLCC did not perform reconciliations of inventory purchased from vendors to ensure the quantity of spirits MLCC purchased each day was reasonable, based on the quantity of spirits ADAs asserted were ordered and delivered to retailers.
  - (2) MLCC did not reconcile MILO retail orders with deliveries to ensure that MLCC's sales were reasonable based on the quantities delivered to retailers.

Reconciliations would help MLCC verify the accuracy of State-owned spirit inventory; ensure vendors were properly paid and retailers were appropriately invoiced for distributed spirit products; identify inaccuracies in files provided by the ADA; and identify issues with mainframe processes to calculate purchases. MLCC has experienced difficulties accurately tracking inventory, resulting in excessive or negative inventory balances and physical inventory count discrepancies (see Findings 2 and 3).

- b. MLCC did not effectively control the spirit ordering process:
  - (1) MLCC did not have a process to track and monitor spirit orders retailers placed directly with ADAs because ADAs provide final documentation to MLCC after delivery. By following this approach,

MLCC was unaware of 35% of spirit sales until after ADAs distributed spirit product to retailers.

MLCC cannot ensure all documents, such as daily invoice files, are received from ADAs and all spirits ordered were purchased by MLCC and timely delivered to the appropriate retailer (see Finding 2).

From February 2021 until August 2022, \$1.1 billion (35%) in spirit orders were submitted directly to ADAs and not placed in the State's online ordering system, MILO. MLCC informed us MILO does not easily accept large spirit orders, so large retail chains are permitted to submit them directly to ADAs via separate electronic files. Also, retailers are allowed to submit a limited number of emergency orders directly to ADAs according to MCL Section 436.1205.

With orders made directly to ADAs, MLCC should have a mechanism in place, whether through MILO or another method, to be notified of all retailers' orders. MLCC can track orders received in MILO, but MLCC does not receive notification of orders placed directly with ADAs, preventing MLCC from performing effective reconciliations. MLCC receives the gross order file from ADAs daily; however, this file contains the total bottles of each spirit product ordered, with no detail for quantities ordered by specific retailers.

ADAs sometimes delivered spirit products to retailers before MLCC owned the product.

- (2) MLCC did not prohibit ADAs from delivering spirit products to retailers prior to MLCC taking ownership of the products. This could result in MLCC recording a sale before inventory is owned, causing a negative inventory balance (see Finding 2).

The ADA Information Book (Book) published on MLCC's website states MLCC compiles the spirit orders for the day from ADAs, sends confirmation to the vendors to take ownership of the spirits, and then provides ADAs with authorization to deliver the spirits to retailers. MLCC informed us it was unable to identify when this process changed, and ADAs will deliver spirit products only if inventory is physically present in the warehouses, which could be prior to MLCC taking ownership.

- c. MLCC did not have sufficient oversight of inventory housed at ADA warehouses. MLCC performs physical inventory counts at ADA warehouses; however, we noted:

- (1) MLCC cannot conduct an accurate, timely physical inventory because, even though inventory adjustments are made weekly, a 2-to-3-week delay exists in this process. Without a timely record of inventory, MLCC must wait several weeks after an

inventory count to determine if inventory was accurately identified in the warehouse.

- (2) State- and vendor-owned spirit products are comingled in the physical inventory counts.

For example, MLCC's procedure is to count the entire inventory for a specific product in an ADA warehouse. If MLCC's inventory records indicate it owns 50 bottles, and MLCC counts 300 bottles, MLCC takes the position that the first 50 bottles belong to the State. MLCC's process assumes the vendor would agree they own 250 bottles, equaling the total 300 bottles physically present in the warehouse. If the vendor believes they own 275 bottles, it would be up to the ADA to work with the vendor to determine the cause of the 25 bottle discrepancy.

Without accounting for State-owned versus vendor-owned spirit product, discrepancies could exist which would not be identified in the physical inventory count including reasons inventory is missing from the warehouse, as noted in the example above. Also, the potential exists for inappropriate sale and distribution to occur outside of MLCC's process. MLCC did not always perform physical inventory counts, and there are deficiencies in the process (see Finding 3).

Current legislation does not clearly define ADA responsibilities, but it does define MLCC's duty and statutory authority to exercise complete control over alcoholic beverage traffic within the State. The Book published on MLCC's website does not reflect updated processes and does not provide accurate guidance to ADAs. MLCC informed us the Book is a training and informational tool, not the defined source of procedures, requirements, or policy, and ADAs should refer to the MLCC Code, Bulletins, and Orders. However, the Book does not provide a reference to these additional documents. Also, while MLCC Code, Bulletins, and Orders are available on MLCC's website, ADAs would need to review all documents (both past and present) to determine their responsibilities and requirements. In addition, the agreements between MLCC and ADAs do not clearly define ADAs' responsibility. Without clearly defined responsibilities and oversight of ADAs, MLCC cannot ensure the accuracy of State-owned spirit inventory.

We consider this finding to be a material condition because the State does not have a method to independently validate the accuracy of the information provided by ADAs and the significant reliance placed on ADAs to control the spirit product sale and distribution process, which recorded approximately \$1.6 billion in revenue for fiscal year 2022.

**RECOMMENDATION**

We recommend MLCC provide adequate oversight of ADAs to ensure all State-owned spirits received and distributed by ADAs are reflected within the State's purchase and sales records and State inventory balances accurately reflect spirit products on hand at ADA warehouses.

**AGENCY  
PRELIMINARY  
RESPONSE**

The Department of Licensing and Regulatory Affairs (LARA) agrees. Given the length of LARA's preliminary response, the response and our auditor's comments to Finding 1 are presented on page 48.

## FINDING 2

### Improvements needed to spirit inventory controls.

MLCC did not have sufficient controls to monitor and manage spirit inventory, resulting in excessive and negative spirit inventory balances.

The State of Michigan Financial Management Guide (FMG) states each agency is responsible for implementing and maintaining an inventory accounting system which provides adequate internal control\*. Also, MCL Section 436.1203 states all spirits for sale, use, storage, or distribution in this State must originally be purchased by and imported into the State by MLCC or by prior written authority of MLCC.

ADAs compile and deliver spirit products ordered by retailers and send daily files to MLCC to record ordered and delivered spirits. MLCC purchases spirits on an as-needed basis based on daily orders from retailers; therefore, MLCC's inventory on hand should generally be minimal (see Exhibit 1).

MLCC reported owning negative quantities of 520 unique spirit products. Also, MLCC reported owning potentially excessive quantities of 640 spirit products. This included over 500 cases of 2 spirit products. We summarized inventory balances for all spirit products based on the number of cases owned as of July 9, 2022:

	Number of Cases Reported in MLCC Inventory	Unique Spirit Products	Percent of Total Count	Value of Spirit Products	Percent of Total Value
Reference part a. of this finding.	Less than 0	520	N/A	\$ 160,221	N/A
	0 to 1	5,926	69.61%	786,389	17.00%
	2 to 10	1,948	22.88%	1,062,079	22.98%
	Total	7,874	92.49%	\$1,848,468	39.98%
Reference part b. of this finding.	11 to 25	385	4.52%	\$ 774,804	16.76%
	26 to 50	151	1.77%	698,019	15.10%
	51 to 75	42	0.49%	292,868	6.34%
	76 to 100	26	0.31%	274,833	5.95%
	101 to 200	26	0.31%	382,762	8.28%
	201 to 500	8	0.09%	281,776	6.10%
	501 or more	2	0.02%	68,765	1.49%
	Total	640	7.51%	\$2,773,827	60.02%
	Total*	8,514	100.00%	\$4,622,295	100.00%

\* This total does not include less than 0 amounts.

N/A – Not applicable. The table shows the percent of spirit products with a positive inventory balance.

\* See glossary at end of report for definition.



We further analyzed MLCC's spirit inventory balances between October 2020 and July 2022 and noted MLCC did not:

ADAs delivered spirit products to retailers before MLCC owned the products.

- a. Always purchase spirit inventory prior to recording sales to retailers, resulting in negative inventory balances. We determined:

- (1) Total negative spirit inventory ranged from (8,906) bottles to (899,991) bottles, valued at \$114,726 and \$6,559,912, respectively, for all spirit inventory on any given week throughout the period.

- (2) As of July 9, 2022, 520 unique spirit products had negative inventory balances. We determined 161 (31%) of these product balances were negative due to ADA changes which had not been reconciled by MLCC (see Finding 4).

Generally, a negative inventory balance occurs when the ADA delivers the spirit product to a retailer but does not include the product delivered on gross order files submitted to MLCC, or MLCC's mainframe inaccurately calculates purchases; therefore, MLCC does not purchase the spirit. MLCC has a mainframe job which runs quarterly to generate a purchase order to the vendor to purchase any existing negative inventory.

MLCC informed us the Department of Technology, Management, and Budget (DTMB) did not run the negative inventory job between December 2017 and March 2021 because of an employee departure in 2017. MLCC and DTMB had difficulty properly running the job without the departed employee and therefore stopped running the job. This job looks at balances at only the current ADA, so the negative inventory balance at the prior ADA was not considered in any purchase orders.

Failure to correctly run the job each quarter resulted in vendors and ADAs potentially going extended periods of time without receiving payment for spirit products distributed to retailers for which the State already collected revenue.

- b. Effectively monitor inventory balances, resulting in excessive, accumulated inventory balances for various spirit products for an extended period of time. Our review disclosed:

MLCC purchased excess spirits without sales to retailers.

- (1) 7,377 instances in which MLCC purchased inventory but had no sales in the same week for the spirit product:

- (a) 1,790 (24%) of these purchases occurred to either eliminate or partially eliminate a negative inventory balance.

(b) The remaining 5,587 (76%) purchases appeared to be unrelated to correcting negative inventory balances. For example, we identified:

- 1) 780 bottles of a unique spirit product purchased over the course of 77 weeks with no corresponding sales in the week each purchase was made (see Exhibit 2).
- 2) 12,204 bottles of a unique spirit product purchased in one week with only 1,104 bottles sold that same week. MLCC maintained an inventory of more than 11,000 bottles of this spirit for the next 48 weeks, with no purchase or sales during the last 19 of these weeks, before processing a refund from the vendor for the excess inventory valued at approximately \$94,000 in March 2022 (see Exhibit 3).
- 3) 1 spirit product's inventory balance continued to grow throughout the audit period. MLCC made weekly purchases corresponding to the weekly sale quantities; however, the inventory on hand did not seem to be accounted for when the purchases were calculated, and the balance on hand continued to slowly increase over time. The inventory balance as of July 9, 2022 was 1,227 bottles valued at approximately \$21,000 while average weekly sales during this period were approximately 38 bottles valued at \$1,100 (see Exhibit 4).

MLCC informed us excessive spirit inventory balances could occur if:

- ADAs do not submit all daily invoice files to MLCC, and MLCC does not record the sale. As a result, MLCC continues to purchase spirit products for resale but may be unaware the ADA is delivering product. This results in an accumulation of inventory balances in the accounting records. MLCC subsequently processes a refund from the

vendor for these balances, even if the product is no longer physically present in the ADA warehouse (see Finding 3).

ADAs and vendors enter into a contractual agreement to store and distribute spirit products. MLCC pays a per case fee to the ADA, via the vendor, for warehousing and distribution services. Payments are based on the daily purchase order files and are not based on MLCC receiving all daily invoice files (see Exhibit 1).

- The MLCC mainframe job does not accurately account for the inventory on hand when calculating inventory purchases. MLCC created the pending file on the mainframe because the inventory balancing procedures are two-to-three weeks behind. The pending file separates the State's inventory into two categories: available for sale and reserved awaiting invoice for sale.

MLCC's mainframe job considers only the available for sale portion of the pending file inventory when calculating purchases. Inventory reserved, awaiting invoice for sale, will not be liquidated if invoices are not received, resulting in a potentially large inventory balance.

- The files ADAs provide contain errors in the quantities of spirit product ordered or delivered, resulting in MLCC purchasing or reselling an inaccurate amount of inventory. MLCC did not maintain a sufficient history of source data from ADAs for us to determine if errors in the files contribute to the accumulation of inventory.
- ADAs submit the daily gross order file and ship the spirit product to a retailer, and MLCC appropriately purchases the product for resale. Later, ADAs report spirit products broken, returned, or refused during delivery. As a result, MLCC purchased more product than was needed, which adds to the accumulation of inventory through the normal course of business.

Although MLCC asserts it performs a weekly review of total spirit sales for reasonableness, this review does not include a comparison with purchases and does not look for reasonableness on a product-by-product basis.

Also, MLCC informed us it attempted to adjust the mainframe job to reduce large inventory balances over time by making small reductions in the calculated purchased quantities. The goal was to minimize impact on the vendors so they did not experience extended periods

without payment. However, MLCC performed this adjustment twice during the audit period and it had minimal impact on reducing large balances.

We consider this finding to be a material condition because of the significant lack of effective controls to monitor and manage spirit inventory balances, including lack of sufficient reconciliation of spirit purchases and sales and lack of a process to prevent MLCC from distributing a spirit product before it is purchased and purchasing excess spirits not needed for resale.

## RECOMMENDATION

We recommend that MLCC develop and implement sufficient controls to monitor and manage spirit inventory.

## AGENCY PRELIMINARY RESPONSE

LARA provided us with the following response:

*MLCC agrees with the recommendation and is working to implement the corrective actions detailed below.*

*MLCC recognizes the need for better system controls over ADAs and inventory through the modernization of its IT systems. MLCC will be launching SIPS+\* in 2024. The key process enhancements below will be operational following the implementation of the new system. These enhancements will provide improved internal controls around the ADA provided inventory information.*

- *All orders will require an order number.*
- *Every order will require an invoice that includes the matching order number.*
- *All orders will have MILO order records, including salesmen's orders, phone orders taken by the ADA, adjustments to existing orders phoned in to the ADA and Electronic Data Interface (EDI) orders from large chain stores.*
- *Ability to correlate liquor orders to sales, which will allow MLCC to independently verify liquor orders and invoiced amounts to observe variances and excessive inventory balances.*
- *Ability to generate on-demand product purchase orders, preventing negative inventory.*

\* See glossary at end of report for definition.

*In addition to the IT system upgrades, MLCC is seeking to restore a vacant Auditor position. This position will further MLCC's goal of continuous improvement over applicable controls and monitoring activities.*

### FINDING 3

#### Missing spirit inventory at ADAs.

MLCC did not effectively manage State-owned spirit inventory housed at ADA warehouses. As a result, MLCC potentially received refunds from vendors for State-owned spirit inventory which may have already been distributed to retailers.

The FMG states each agency is responsible for implementing and maintaining an inventory accounting system which provides adequate internal control. Also, the FMG requires agencies to perform an annual physical inventory count to ensure the accuracy of inventory systems.

We reviewed MLCC's physical inventory count procedures, analyzed State-owned spirit inventory balances, and conducted a physical inventory count at one ADA's warehouses. Our review disclosed:

- a. MLCC did not conduct annual physical inventory counts of State-owned spirits in any of the three ADAs' warehouses between October 2019 and July 2022. MLCC informed us this was because of the COVID-19\* pandemic restrictions and lack of staff.
- b. MLCC did not have adequate controls to ensure physical inventory counts matched the State's inventory records. Specifically:

ADAs confirmed 62,294 bottles, worth 20% of State-owned inventory as of early 2022, were missing from ADA warehouses.

- (1) MLCC identified a significant portion of State-owned spirit inventory missing from ADA warehouses between January and February 2022. In early 2022, in lieu of doing a physical inventory count, MLCC requested ADAs to review State-owned spirit inventory and confirm any inventory not in their warehouses. The following table provides details of State-owned spirit inventory and the portion of inventory missing as of the date reviewed:

ADA	Date of Review	State-Owned Inventory		Inventory Missing From Warehouse		Percent Missing	
		Bottles	Value	Bottles	Value	Bottles	Value
1	February 5, 2022	78,100	\$1,006,479	24,049	\$366,372	31%	36%
2	January 22, 2022	179,232	1,692,535	9,281	179,534	5%	11%
3	January 22, 2022	263,627	2,213,038	28,964	415,412	11%	19%
Total		520,959	\$4,912,052*	62,294	\$961,317	12%	20%

\* MLCC recorded spirit inventory of \$4.6 million and \$3.2 million as of September 30, 2021 and September 30, 2022, respectively.

\* See glossary at end of report for definition.

MLCC was unable to provide documentation regarding the whereabouts of the missing inventory, whether it was returned to the vendor or distributed to a retailer for which MLCC did not receive an invoice prompting MLCC to record the sale. MLCC informed us the ADA must obtain MLCC's approval to physically return State-owned spirit inventory to the vendor. Also, MLCC requires ADAs to confirm the weekly State-owned spirit inventory reports are accurate; however, no requirement exists for ADAs to verify the inventory is in their possession.

MLCC subsequently processed a refund from the vendors for all 62,294 bottles missing from ADA warehouses.

- (2) We identified 7 (11%) of 65 judgmentally sampled spirit products missing from or with insufficient inventory in ADA warehouses during site visits conducted in August 2022. MLCC informed us it was unable to determine the reason for the missing inventory and that it was a common occurrence in ADA warehouses for various reasons.

MLCC purchases spirit inventory only when daily gross order files are received from the ADA detailing spirits out for delivery. MLCC records the sale when the daily invoice files are received from the ADA, detailing spirits delivered to retailers (see Finding 1). It is possible MLCC does not receive all daily invoice files recording sales to retailers, and MLCC is processing refunds from the vendor for inventory which was distributed to a retailer when inventory is identified as missing from ADA warehouses.

We consider this finding to be a material condition because controls were not implemented for over two years and ADAs identified 20% of the value of the State-owned spirit inventory missing from their warehouses without a method for the State to independently validate the accuracy of and reason for the missing inventory.

## **RECOMMENDATION**

We recommend that MLCC effectively manage State-owned spirit inventory housed at ADA warehouses.

## **AGENCY PRELIMINARY RESPONSE**

LARA provided us with the following response:

*MLCC agrees with this recommendation and is currently performing physical inventory counts for all ADAs on a quarterly basis as required by MLCC procedure. MLCC is also working to implement the corrective actions detailed below.*

*MLCC recognizes the need for better system controls over ADAs and inventory through the modernization of its IT systems. MLCC will be launching SIPS+ in 2024. The key process enhancements below will be operational following the implementation of the new system. These enhancements will provide improved internal controls around the ADA provided inventory information.*

- All orders will require an order number.*
- Every order will require an invoice that includes the matching order number.*
- All orders will have MILO order records, including salesmen's orders, phone orders taken by the ADA, adjustments to existing orders phoned in to the ADA and Electronic Data Interface (EDI) orders from large chain stores.*
- Ability to correlate liquor orders to sales, which will allow MLCC to independently verify liquor orders and invoiced amounts to observe variances and excessive inventory balances.*
- Ability to generate on-demand product purchase orders, preventing negative inventory.*

*In addition to the IT system upgrades, MLCC is seeking to restore a vacant Auditor position. This position will further MLCC's goal of continuous improvement over applicable controls and monitoring activities.*



## FINDING 4

### Unsellable spirit inventory at ADAs.

MLCC did not monitor State-owned spirit inventory balances to ensure unsellable inventory was returned to the vendor at the end of the distribution contract. Unsellable inventory was then held by the State for an excessive period, delaying the State's refund and overstating inventory in the financial statements.

Each unique spirit product in the State can be distributed to retailers by only one ADA; therefore, State-owned spirit inventory located at a prior ADA cannot be sold and distributed. Instead, MLCC's process is to return it to the vendor. Section 140.102 of the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the Governmental Accounting Standards Board\*, defines inventory as items held for sale in the ordinary course of operations. Based on the definition, only inventory available for sale at the current ADA should be reported as inventory in the financial statements.

We reviewed the State-owned spirit inventory reports as of July 9, 2022 and noted 263 different spirit products located at more than one ADA warehouse. We also noted for two spirit products, the prior ADA had 20,794 bottles totaling \$40,262 on hand for the entire 92 weeks between October 10, 2020 and July 9, 2022 with no purchase or sale activity, as follows:

20,794 bottles of spirit inventory at the prior ADA cannot be sold and distributed.

Spirit Product at	Bottles Owned as of	
	October 10, 2020	July 9, 2022
Prior ADA	20,794	20,794
Current ADA	6,727	486

This inventory should have been returned to the vendor before October 10, 2020 and not reported as inventory. Periodic inventory monitoring could have prevented or reduced delays in returning the spirit products remaining at the prior ADA.

MLCC informed us there is no statutory requirement for when old inventory needs to be returned to the vendor. In addition, adjusting inventory maintained at the prior ADA is a manual review performed by MLCC staff each quarter. Because of miscommunication within MLCC, this review was not performed between October 2019 and September 2022.

MLCC performed this review and made necessary adjustments to the accounting records before the September 30, 2022 financial statement issuance.

## RECOMMENDATION

We recommend MLCC monitor State-owned spirit inventory balances to ensure unsellable inventory is returned to the vendor at the end of the distribution contract.

\* See glossary at end of report for definition.

**AGENCY  
PRELIMINARY  
RESPONSE**

LARA provided us with the following response:

*MLCC agrees with this recommendation and has corrected the unsellable inventory balances. MLCC continues to explore improvements to processes in addition to the corrective action taken below.*

*Beginning in FY2023, Data Management staff now send a report of products changing ADAs and products associated with State inventory to accounts payable. Accounts payable staff systematically reduce current/future spirit vendor payments by the value of returned inventory until all money is credited to the State. The process is monitored by the Data Management supervisor who oversees and maintains the processes documentation.*

**AUDITOR'S  
COMMENTS TO  
AGENCY  
PRELIMINARY  
RESPONSE\***

While MLCC did correct unsellable inventory balances as of September 2022, we were not able to validate this new process because it was implemented after the end of fieldwork.

\* See glossary at end of report for definition.

## FINDING 5

### **Lack of internal control over liquor license management.**

MLCC should improve controls over the issuance of State liquor licenses to help ensure compliance with laws and minimize the risk of illegal spirit sales.

*MCL* Section 436.2101 allows voters to decide whether spirits and mixed spirit\* drinks may be sold within a local government unit\* (LGU) for on-premise consumption. LGUs which prohibit the sale of spirits for on-premise consumption are classified by MLCC as dry-for-spirits LGUs\*. Also, *MCL* Sections 436.1531(1) and 436.1533(4) specify the quantity of licenses allowed for on-premise consumption\* and specially designated distributor (SDD) licenses\*, based on the population.

Our review disclosed MLCC:

- a. Issued on-premise consumption licenses to entities in dry-for-spirits LGUs. We reviewed all 9,248 active licenses as of July 20, 2022 and identified:

- (1) Three club licensees selling spirits in a dry-for-spirits LGU. The club license type allows a private, nonprofit organization to sell and serve beer, wine, mixed spirit drinks, and spirits to its members only. A separate license type does not exist for organizations which prohibit the sale of spirits; therefore, club licenses are allowed to be issued in all LGUs, including dry-for-spirits LGUs. However, licensees are responsible for complying with dry-for-spirit regulations in these LGUs and should not sell spirits. These three licensees reported \$272,139 in spirit sales from January 1, 2018 through August 5, 2022. MLCC informed us it will work to ensure these club licensees cease the sale of spirits for on-premise consumption.

- (2) One class C licensee selling spirits in a dry-for-spirits LGU. The licensee had \$4,080 in spirit sales from January 1, 2018 through August 5, 2022.

The class C license type allows a restaurant or bar to sell and serve beer, wine, mixed spirit drinks, and spirits to customers. MLCC informed us it made an error issuing this license and will work with the licensee to transfer the license type and cease the sale of spirits.

- b. Incorrectly entered licensing information into the Alcohol Information Management System\* (AIMS), specifically:

- (1) One LGU had incorrect census data entered into AIMS resulting in an incorrect license quota

\* See glossary at end of report for definition.

allowed for the LGU. This error caused a negative available license quota, preventing new license issuances, when three additional licenses should have been available.

- (2) One license was issued in the incorrect LGU, resulting in an incorrect available quota being calculated in two LGUs. Although this error did not create a negative available license quota or prevent the issuance of new licenses for these LGUs, similar errors could affect other LGUs.
- (3) One redevelopment area license was incorrectly applied against a quota, resulting in an incorrect available quota being calculated in one LGU. This error increased the already negative available license quota.

MLCC informed us census and quota allocation information is manually updated; therefore, it lacks automated data edit checks or other automated controls.

## **RECOMMENDATION**

We recommend MLCC improve controls over the issuance of State liquor licenses to help ensure compliance with laws and minimize the risk of illegal spirit sales.

## **AGENCY PRELIMINARY RESPONSE**

LARA provided us with the following response:

*MLCC agrees with this recommendation and is exploring improvements that can be made in addition to the corrective actions taken below.*

*Management will be running an annual report to verify continued compliance by the Club license holders. Anyone that appears to be noncompliant will be referred to MLCC's Enforcement Division so an investigation may be conducted.*

*The one license that was improperly issued was identified and MLCC notified the licensee. MLCC took immediate action to work with the Commission to have the correct license issued. Annual reports will now be run by management to ensure continued compliance within all 1,776 LGUs, of which 224 are considered dry for spirits in some capacity. In some cases, those LGUs will work with the Commission to lift those restrictions.*

*MLCC identified and immediately corrected the 2 licenses that were identified as being incorrectly allocated.*

## OBSERVATION 1

### Impacts of liquor license quotas.

MLCC uses license quotas to identify the maximum number of certain retail liquor license types which can be issued within an LGU. However, Michigan law allows for other situations to occur in which license availability within an LGU can be negative, thereby preventing businesses from obtaining a new license unless specific circumstances apply. We encourage conversations among key decision-makers to assess whether quota levels are appropriate given today's marketplace and public perceptions.

For example, an existing license may be legally purchased and transferred to a business for a price unregulated by MLCC. We reviewed select licenses within a sample of LGUs and determined the licenses reviewed were issued in accordance with the quota laws at the time of issuance.

*MCL* Sections 436.1531 and 436.1533 define quota limits for the number of certain on-premises and SDD licenses based on each LGU's population. *MCL* Section 436.1533 allows MLCC to issue SDD licenses exceeding the quota if there is no existing SDD licensee within two miles of the applicant. Also, these *MCL* Sections define rules for transferring licenses between LGUs when the license is in escrow status. Once transferred, these licenses will count against the quota of the LGU which originally issued the license, even if the licensee operates in a different LGU.

Various *MCL* sections define other retail liquor license types not subject to quota limits. Resort, redevelopment area, and development district licenses are examples of licenses not subject to population quota restrictions. Each of these licenses has its own specific requirements and fees. Further, specially designated merchant licenses are available and are subject to quota limits; however, this license does not allow for the sale of spirits. Licenses not subject to quota restrictions and specially designated merchant licenses were not included in our review.

When the population in an LGU increases or decreases, the LGU quota is then increased or decreased, respectively. MLCC cannot revoke issued licenses because of a quota decrease which could result in negative licenses available. The following table provides an example of a decrease in on-premises and SDD license quotas within one LGU based on population data:

	2010	2020	Change From 2010 to 2020
Census population	26,016	21,688	(4,328)
On-premises license quota	17	14	( 3)
SDD license quota	9	8	( 1)

We analyzed all LGUs with on-premises or SDD licenses to determine the total number of LGUs with negative license availabilities and the LGUs with the highest number of negative available licenses, as follows:

All LGUs With Negative License Availability by License Type									
As of June 13, 2022									
On-Premises License					SDD License				
Number of LGUs	Number of Licenses			Percent Issued in Excess of Allowed	Number of LGUs	Number of Licenses			Percent Issued in Excess of Allowed
	Allowed	Issued	Available			Allowed	Issued	Available	
318	1,983	2,889 <sup>1</sup>	(906)	46%	281	1,229	1,888 <sup>2</sup>	(659)	54%

Top 10 LGUs With Negative License Availability by License Type									
As of June 13, 2022									
On-Premises License					SDD License				
LGU	Number of Licenses			Percent Issued in Excess of Allowed	LGU	Number of Licenses			Percent Issued in Excess of Allowed
	Allowed	Issued	Available			Allowed	Issued	Available	
Detroit	426	517	(91)	21%	Detroit	214	421	(207)	97%
Flint	54	89	(35)	65%	Flint	28	60	(32)	114%
Bay City	22	55	(33)	150%	Saginaw	15	29	(14)	93%
Jackson	21	45	(24)	114%	Highland Park	3	14	(11)	367%
Hamtramck	19	42	(23)	121%	Pontiac	21	29	(8)	38%
Saginaw	29	52	(23)	79%	Warren	47	55	(8)	17%
Wyandotte	17	38	(21)	124%	St. Clair Shores	20	26	(6)	30%
Escanaba	8	25	(17)	213%	Curtis Township	1	6 <sup>3</sup>	(5)	500%
Mt. Clemens	10	27	(17)	170%	Eastpointe	12	16	(4)	33%
Iron Mountain	5	19	(14)	280%	Ferndale	7	11	(4)	57%

<sup>1</sup> Includes 2 licenses in process of issuance.

<sup>2</sup> Includes 30 licenses in process of issuance.

<sup>3</sup> Includes 2 licenses in process of issuance.

If the number of available licenses is negative, new retail license applicants will not be granted a license unless one of the following occurs:

1. Current licensees relinquish their license to MLCC and the availability becomes positive.
2. The two-mile condition is met (SDD licenses only).
3. An existing licensee sells their license to an applicant approved by MLCC, resulting in a transfer.

When a license is transferred, the applicant may have substantially higher costs than purchasing directly from MLCC. The following table provides a comparison of base fees and costs associated with obtaining a new license from MLCC versus purchasing a license from an existing licensee for transfer:

Base Fees and Costs	Price	Applicants Seeking License	
		Obtained From MLCC	Obtained From Private Sale and Transfer
MLCC inspection fee	\$70	✓	✓
MLCC license fee	\$250 to \$1,000 <sup>1</sup>	✓	✓
Private selling price	\$50,000 to \$345,000 <sup>2</sup>		✓
Total base fees and costs to obtain license		\$320 to \$1,070	\$50,320 to \$346,070 <sup>2</sup>

<sup>1</sup> License fees vary depending on the type of liquor license purchased.

<sup>2</sup> We identified online auction houses and license brokers listing liquor licenses for sale between \$50,000 and \$345,000.

Michigan law allows for situations in which:

- License availability within an LGU can be negative as a result of a population decrease or allowable quota exemptions, such as the two-mile condition.
- Businesses desiring to obtain a license must choose one of the following options:
  - Wait for a license to become available from the State, which could take an excessive period of time.
  - Pay other businesses willing to sell and transfer their existing licenses, resulting in a competitive market for licenses as Michigan courts have ruled a liquor license is property that has value and can be sold. The current process could be viewed as incentivizing licensees to keep or to sell their license, resulting in a transfer, rather than return the unneeded licenses to the State. License transfers must be approved by MLCC; however, the terms of the sale are not regulated.
- Without significant effort, MLCC may not be able to accurately determine the originating LGU of licenses transferred and therefore cannot ensure the accuracy of licenses issued against an LGU quota. MLCC informed us it could not always readily identify the original licensing LGU because licenses are often transferred many times over an extended period of time.

The impacts of liquor license quotas should be further evaluated to determine if current processes for and controls over license management should be reassessed or if amendments to the

current law are appropriate. Questions and observations to consider include:

- Should the population within an LGU be used to define the quota of licenses allowed? LGUs typically consist of smaller geographical areas, such as townships and villages, and population size could drastically change between censuses.
- Should the license quota system be evaluated to assess alternative methods for calculating quotas to better align with legal exceptions to quota limits?
- Whether the current quota levels are appropriate given potential changes in public perception toward alcohol sales, consumer demand, purchasing convenience, economic factors, and others.
- Analyze potential impacts of market competition during the liquor licensure process, such as licensing price and availability.
- Analyze potential impacts of other special license types that can be issued in excess of the quota limits.



## INTERFACE CONTROLS

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### BACKGROUND

Interface controls\* ensure the accurate, complete, and timely processing of data between IT systems. MLCC liquor IT systems have more than 20 inbound and outbound interfaces, such as:

- Financial institutions: Electronic funds transfers (EFTs) are initiated by the State to collect payments from licensees for spirit products purchased.
- National Alcohol Beverage Association: Information is sent to the national association representing those states that directly control the distribution and sale of alcohol.
- Internal Licensing Update: Licensing information stored in AIMS is sent to other MLCC IT systems to routinely update information used in spirit registration and ordering.
- E-Quote\* (Spirit Product Quotation System): Spirit product and pricing information is sent to MILO and ADAs for spirit ordering and invoicing.

Also, MLCC liquor IT systems have 7 real-time web interfaces that interactively query and retrieve license information from AIMS and spirit inventory information from systems managed by ADAs.

Ensuring MLCC liquor IT systems contain complete and accurate data is the responsibility of MLCC, in conjunction with DTMB.

### AUDIT OBJECTIVE

To assess the sufficiency of MLCC and DTMB's interface controls over selected liquor systems.

### CONCLUSION

Sufficient, with exceptions.

### FACTORS IMPACTING CONCLUSION

- MLCC and DTMB established and implemented some interface reconciliation and notification procedures.
- For 100% of dates reviewed for selected real-time web interfaces, web calls were successfully completed and identified in IT system logging.
- For 100% of dates reviewed, spirit pricing information registered in E-Quote was successfully interfaced to MILO.
- One reportable condition related to improving liquor IT system interface controls (Finding 6).

\* See glossary at end of report for definition.

## FINDING 6

### **Improvements needed to liquor IT system interface controls.**

MLCC and DTMB should improve controls over the liquor IT system interfaces to help ensure audit logs are complete and accurate, audit logs cover a sufficient time period, and reconciliation procedures are consistently performed.

The Federal Information System Controls Audit Manual\* (FISCAM) states interface controls should be established and implemented to reasonably ensure data transferred from a source system to a target system is processed accurately, completely, and timely and a mechanism is used to notify users when data is rejected. Also, a monitoring capability should be implemented, including audit trails which detail who initiated the interface, the date and time, the source system, and the result. In addition, effective reconciliation procedures should include the use of control totals, record counts, and other logging techniques and should be included in interface documentation.

Our review of interface controls disclosed:

- a. MLCC and DTMB should improve batch interface logging to ensure all monthly and quarterly jobs are sufficiently captured. The Phoenix\* database maintains only the most recent 1,000 success and failure records, regardless of the interface. We reviewed the 1,000 Phoenix records, which covered approximately seven weeks, and a secondary log file covering the audit period. The Phoenix records did not always contain results for jobs only running once a month or quarter. DTMB informed us Phoenix was programmed to maintain only 1,000 records because issues in interface processing need to be addressed within a day or two, so additional history is not necessary. However, it is possible monthly and quarterly interface records may not be retained for review.

In addition, interfaces processed in Phoenix are captured in a secondary log. Although the secondary logs cover a sufficient time period, based on our review of these logs from October 1, 2020 to August 31, 2022, they did not always contain complete and accurate information. These logs are used by developers to perform troubleshooting and are not intended for daily monitoring of Phoenix interfaces.

- b. MLCC and DTMB should improve interface documentation to include data fields being interfaced; controls to reasonably ensure the data is interfaced completely and accurately, such as a reconciliation; and defining responsibilities for job monitoring and error remediation.
- c. MLCC and DTMB should improve interface controls which update licensing information in other MLCC IT systems.

\* See glossary at end of report for definition.

For example:

- (1) File control totals, such as record counts, were not always available for staff to reconcile between the source and target systems. Reconciling control totals ensures the data transfer between systems is complete and accurate.
- (2) Interface error notifications were not sent to MLCC. SOM Administrative Guide to State Government policy 1305.00 defines MLCC as the data owner responsible for ensuring the protection and use of data transferred within liquor IT systems. Although DTMB received error notifications, MLCC should also be aware of interface results to perform monitoring and follow-up.

The State does not have policies or standards defining the required baseline controls for interface processing and logging to guide agencies as IT systems are developed, resulting in the reportable conditions noted in this finding.

## **RECOMMENDATION**

We recommend MLCC and DTMB improve controls over the liquor IT system interfaces to ensure audit logs are complete and accurate, audit logs cover a sufficient time period, and reconciliation procedures are consistently performed.

## **AGENCY PRELIMINARY RESPONSE**

LARA and DTMB provided us with the following response:

*MLCC and DTMB agree with the need to ensure interfaces are complete, accurate, and cover a sufficient time period to meet the business needs.*

*MLCC and DTMB agree monthly and quarterly Phoenix interface records may not have been retained for review because of the 1,000 record limit in Phoenix. However, MLCC and DTMB have reduced the risk to an acceptable level by ensuring that interfaces occur and are complete. Failed interfaces automatically rerun every 5 minutes until the interface successfully completes. When an interface fails, the system sends an automated email notification to DTMB for all interface failures. If an interface continues to fail, DTMB and MLCC work together to manually rerun the interface based on priority level. During the audit period, MLCC received automated email notifications for select interface failures; MLCC now receives automatic notifications when any interface fails.*

*MLCC and DTMB agree additional interface documentation could be developed, including error handling procedures. Error handling procedures will include processes to detect, report, and correct errors and irregularities. MLCC has also initiated the process for DTMB to create additional interface control reports and align SIPS+ interface documentation with MLCC business*

*requirements. As part of the SIPS+ migration, the necessary interface documentation will be created with MLCC business requirements.*

*For the interfaces which will not be migrated to the new system (SIPS+), MLCC will work with DTMB to ensure documentation, audit logs, total transfers, etc. match the reconciliation in the receiving system. DTMB will include relevant updated interface documentation in a location accessible by MLCC.*

## SELECTED SECURITY AND ACCESS CONTROLS

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### BACKGROUND

Security controls are the management, operational, and technical controls designed to protect the availability, confidentiality\*, and integrity\* of an IT system and its information.

Access controls\* limit or detect inappropriate access to computer resources, thereby protecting the resources from unauthorized modification, loss, and disclosure. For access controls to be effective, they should be properly authorized, implemented, and maintained.

MLCC uses more than 10 IT systems to manage the liquor distribution and licensing process. We conducted an assessment to identify which IT systems in MLCC's environment are used specifically to manage the spirit distribution process, as MLCC is the sole wholesaler for all spirit products in the State. We selected the following IT systems to review:

- AIMS
- E-Quote
- MILO
- Phoenix

According to the FMG, MLCC has primary responsibility for establishing, maintaining, and monitoring internal control over its critical IT applications.

State of Michigan (SOM) technical standards indicate DTMB is responsible for certifying compliance with established IT security policies, standards, and procedures.

### AUDIT OBJECTIVE

To assess the sufficiency of MLCC's and DTMB's security and user access controls over selected liquor systems.

### CONCLUSION

Sufficient, with exceptions.

### FACTORS IMPACTING CONCLUSION

- MLCC established and implemented some procedures related to user account authorization and recertifications in accordance with State policies and standards.
- Some access controls were implemented in accordance with SOM policies and standards.

\* See glossary at end of report for definition.

- For the 4 IT systems reviewed, some security configuration parameters were implemented in accordance with State standards.
- One reportable condition related to implementing effective security configuration user access controls (Finding 7).

## FINDING 7

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### Improvements needed to liquor IT system access and security controls.

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MLCC, in conjunction with DTMB, did not fully establish and implement access controls over selected liquor IT systems, which could lead to unauthorized access, disclosure, or modification of MLCC data.

SOM Technical Standard 1340.00.020.01 defines the security control baselines for access to information systems. The Standard requires State agencies to establish a process to control and document the assignment of access rights based on current job responsibilities and the principle of least privilege\*. The Standard also requires reviewing access rights periodically for appropriateness, automatically disabling user accounts inactive for more than 60 days and system accounts inactive for more than 365 days and disabling or deleting user accounts in a timely manner. Also, SOM Technical Standard 1340.00.020.03 affirms the agency is responsible for maintaining documentation of authorized users from the initial request to the de-registration of users who no longer require access to SOM protected IT resources. In addition, it affirms DTMB is responsible for certifying compliance with established IT security policies, standards, and procedures.

Our review of AIMS, E-Quote, MILO, and Phoenix disclosed MLCC, in conjunction with DTMB, did not:

- a. Ensure security configurations were appropriate for all four IT systems. Because of the confidentiality of these configurations, we summarized our testing results for presentation in this finding and provided the underlying details to MLCC and DTMB management.
- b. Automatically disable inactive user accounts after 60 days and inactive system accounts after 365 days for AIMS, MILO, and Phoenix. Specifically:
  - (1) MLCC and DTMB were unable to obtain last log-on dates for all Phoenix users. We were unable to determine if users were deactivated timely or if users were past 60 days of inactivity.
  - (2) MLCC did not disable 17,690 (95%) of the 18,550 AIMS user accounts for inactivity. Two of these were system accounts which should have been disabled after 365 days of inactivity. Also, we identified 1 active account belonging to an employee who left State employment in 2017.
  - (3) MLCC did not disable 2,130 (18%) of the 12,116 MILO user accounts for inactivity. We identified 1 active account belonging to an employee working for a different State department.

\* See glossary at end of report for definition.

MLCC informed us that AIMS, MILO, and Phoenix are not programmed to automatically deactivate user accounts. Also, MLCC informed us a majority of AIMS users require access annually to renew liquor licenses, and after the license renewal period, the renewal system within AIMS is locked; however, accounts are not inactivated.

- c. Fully establish annual and semiannual recertifications of user access rights for MILO and AIMS. We noted:

- (1) MLCC did not perform recertifications for MILO user accounts during the audit period.

MLCC informed us MILO was implemented in February 2021, and as of July 2022, it had not implemented a process to perform access reviews.

- (2) MLCC did not ensure complete recertifications were performed for all AIMS user accounts. Although MLCC reviewed a user access report monthly, the report included only MLCC users whose access changed during the month, not all access for all State users. Also, the report does not include any additional permissions which may be assigned with the user's standard role.

MLCC informed us it did not include additional users and permissions in the recertification process because there is limited staff turnover and access capabilities rarely change for AIMS users.

- d. Document role and permission capabilities to ensure MLCC IT system users are granted appropriate access rights necessary to perform their jobs while also ensuring effective segregation of duties\* and access based on the principle of least privilege. We reviewed roles assigned in each of the four IT systems tested and noted:

- (1) MLCC did not maintain sufficient documentation of additional permissions and the associated capabilities granted to AIMS users in addition to the user's role. As a result, we were unable to determine if incompatible or excessive permissions were assigned to AIMS users. Identifying the specific permissions required for each user reduces the risk the permissions granted are beyond what is needed for the user's job function.

MLCC informed us the system administrator generally assigns access to new users based on the role and permissions of the user it is replacing; therefore, manager approval is generally not

\* See glossary at end of report for definition.



needed. Also, the fundamental responsibilities of MLCC positions have not changed, and identifying permissions required in AIMS was not needed.

- (2) MILO only allows MLCC to assign one role to SOM internal users which in turn allows the user to create, deactivate, and delete other internal users. This level of authority is typically limited to a privileged or administrator role to ensure users' abilities are commensurate with their responsibilities; however, MILO does not have a privileged or administrator role.
- (3) MLCC granted 5 of the 6 SOM E-Quote users the same staff role. E-Quote only has 1 role for SOM users which allows staff to perform system updates.

MLCC informed us only a small number of SOM staff have access to E-Quote and some serve as backups for other users.

- (4) MLCC did not maintain sufficient documentation to support it completed an assessment of incompatible roles for Phoenix. We were unable to determine whether users were assigned incompatible or excessive roles; however, we identified one user assigned all existing roles within Phoenix. An MLCC manager approved access for a new user after being provided with the list of roles and permissions assigned to the previous user. The manager noted they were not aware of what some of the roles were, but if the previous user had them, the new user would need them too.

MLCC informed us it attempts to tailor roles to the employee's job functions.

Documentation fully describing the capabilities of roles and permissions is key in determining incompatible roles and excessive access rights assigned to users. Identifying incompatible roles is a key control in effective segregation of duties. This documentation can also assist MLCC when approving and recertifying access to ensure the approver understands the access they are authorizing.

- e. Document and maintain access authorization forms when creating and modifying user access in AIMS, MILO, and Phoenix. We noted:

- (1) MLCC did not maintain an authorization form for 17 (55%) of 31 judgmentally and randomly sampled AIMS accounts.

- (2) MLCC did not maintain an authorization form for 6 (100%) of 6 judgmentally and randomly sampled MILO accounts.
- (3) MLCC did not maintain an authorization form for 4 (67%) of 6 judgmentally sampled Phoenix accounts. For one of the approvals MLCC provided, the approver indicated they did not know what some of the roles they approved were, as noted in part d. (4) of this finding.

MLCC informed us authorization forms for users obtaining access at the time of go-live for these IT systems were generally not maintained. Also, AIMS users were generally automatically granted access when hired based on the access of the user they were replacing. In addition, for Phoenix and E-Quote, many of the approvals were performed via e-mail, and e-mails were only available back to 2018.

**RECOMMENDATION**

We recommend MLCC, in conjunction with DTMB, fully establish and implement access controls over selected liquor IT systems.

**AGENCY  
PRELIMINARY  
RESPONSE**

LARA and DTMB agree. Given the length of LARA and DTMB's preliminary response, the response and our auditor's comments to Finding 7 are presented on page 50.

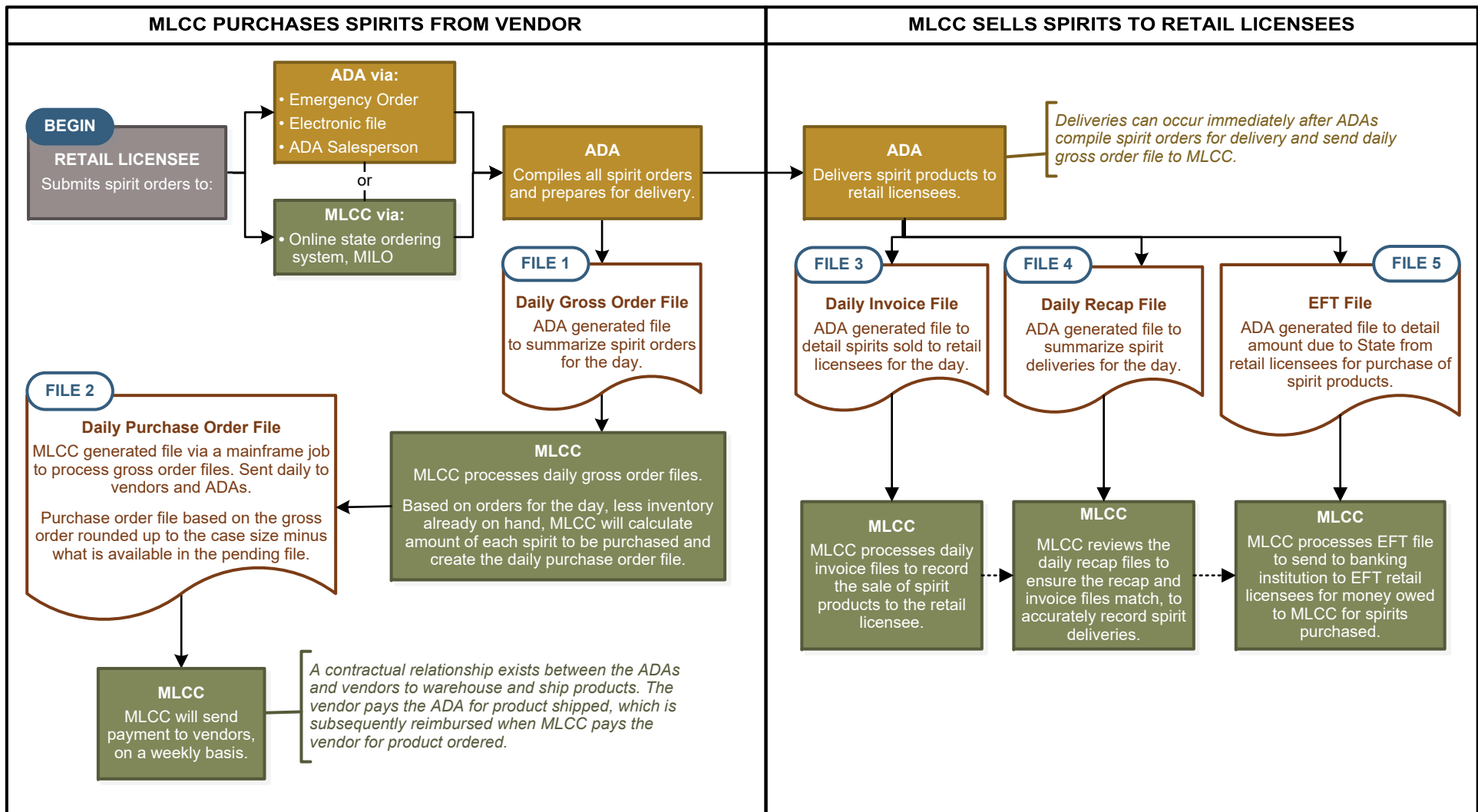
# SUPPLEMENTAL INFORMATION

UNAUDITED  
Exhibit 1

## MICHIGAN LIQUOR CONTROL COMMISSION SELECTED OPERATIONAL PROCESSES AND IT SYSTEMS

Department of Licensing and Regulatory Affairs and  
Department of Technology, Management, and Budget

### Spirits Purchase, Sales, and Inventory Process Flow Chart August 2022



Source: The OAG prepared this flow chart using information obtained from MLCC.  
Michigan Office of the Auditor General  
641-0162-22

MICHIGAN LIQUOR CONTROL COMMISSION SELECTED OPERATIONAL PROCESSES AND IT SYSTEMS

Department of Licensing and Regulatory Affairs and  
Department of Technology, Management, and Budget

Spirit Product A - Excessive Inventory Purchases  
From October 10, 2020 Through July 9, 2022

Week Ended	Bottle Count					Gross Sales	Inventory Cost
	Balance Forward	Purchases	Sales	Inventory Adjustments	State Inventory		
10/10/2020	120	0	0	0	120	\$ 0	\$ 150
10/17/2020	120	60	120	0	60	\$ 247	\$ 75
10/24/2020	60	120	120	0	60	\$ 247	\$ 75
10/31/2020	60	0	0	0	60	\$ 0	\$ 75
11/07/2020	60	120	0	0	180	\$ 0	\$ 225
11/14/2020	180	360	420	0	120	\$ 865	\$ 150
11/21/2020	120	0	0	0	120	\$ 0	\$ 150
11/28/2020	120	0	60	0	60	\$ 124	\$ 75
12/05/2020	60	0	0	0	60	\$ 0	\$ 75
12/12/2020	60	360	360	0	60	\$ 742	\$ 75
12/19/2020	60	120	120	0	60	\$ 247	\$ 75
12/26/2020	60	180	180	0	60	\$ 371	\$ 75
01/02/2021	60	300	300	0	60	\$ 618	\$ 75
01/09/2021	60	120	120	0	60	\$ 247	\$ 75
01/16/2021	60	180	180	0	60	\$ 371	\$ 75
01/23/2021	60	120	120	0	60	\$ 247	\$ 75
01/30/2021	60	0	0	0	60	\$ 0	\$ 75
02/06/2021	60	120	120	0	60	\$ 247	\$ 75
02/13/2021	60	120	60	0	120	\$ 124	\$ 150
02/20/2021	120	180	0	0	300	\$ 0	\$ 375
02/27/2021	300	0	0	0	300	\$ 0	\$ 375
03/06/2021	300	300	480	0	120	\$ 989	\$ 150
03/13/2021	120	180	60	0	240	\$ 124	\$ 300
03/20/2021	240	0	0	0	240	\$ 0	\$ 300
03/27/2021	240	0	180	0	60	\$ 371	\$ 75
04/03/2021	60	60	60	0	60	\$ 124	\$ 75
04/10/2021	60	120	120	0	60	\$ 247	\$ 75
04/17/2021	60	180	180	0	60	\$ 371	\$ 75
04/24/2021	60	120	60	0	120	\$ 124	\$ 150

Week Ended	Bottle Count					Gross Sales	Inventory Cost
	Balance Forward	Purchases	Sales	Inventory Adjustments	State Inventory		
05/01/2021	120	0	0	0	120	\$ 0	\$ 150
05/08/2021	120	240	240	0	120	\$ 494	\$ 150
05/15/2021	120	180	120	0	180	\$ 247	\$ 225
05/22/2021	180	0	0	0	180	\$ 0	\$ 225
05/29/2021	180	240	240	0	180	\$ 494	\$ 225
06/05/2021	180	180	180	0	180	\$ 371	\$ 225
06/12/2021	180	120	120	0	180	\$ 247	\$ 225
06/19/2021	180	360	300	0	240	\$ 618	\$ 300
06/26/2021	240	0	0	0	240	\$ 0	\$ 300
07/03/2021	240	60	0	0	300	\$ 0	\$ 375
07/10/2021	300	60	0	0	360	\$ 0	\$ 450
07/17/2021	360	60	0	0	420	\$ 0	\$ 525
07/24/2021	420	0	0	0	420	\$ 0	\$ 525
07/31/2021	420	0	0	0	420	\$ 0	\$ 525
08/07/2021	420	0	0	0	420	\$ 0	\$ 525
08/14/2021	420	120	0	0	540	\$ 0	\$ 675
08/21/2021 <sup>1</sup>	540	0	0	0	540	\$ 0	\$ 675
03/05/2022 <sup>1</sup>	540	0	0	0	540	\$ 0	\$ 675
3/12/2022 <sup>3</sup>	540	0	0	(540)	0	\$ 0	\$ 0
03/26/2022	0	0	0	0	0	\$ 0	\$ 0
04/02/2022	0	0	0	0	0	\$ 0	\$ 0
04/09/2022	0	120	0	0	120	\$ 0	\$ 150
04/16/2022	120	0	0	0	120	\$ 0	\$ 150
04/23/2022	120	0	0	0	120	\$ 0	\$ 150
04/30/2022	120	60	0	0	180	\$ 0	\$ 225
05/07/2022 <sup>2</sup>	180	0	0	0	180	\$ 0	\$ 234
07/09/2022 <sup>2</sup>	180	0	0	0	180	\$ 0	\$ 234

<sup>1</sup> Same data for weeks ended August 21, 2021 through March 5, 2022.

<sup>2</sup> Same data for weeks ended May 7, 2022 through July 9, 2022.

<sup>3</sup> MLCC adjusted inventory identified to not be physically present in the ADA's warehouse. See Finding 3.

Red font indicates weeks showing purchases when \$0 sales were reported and weeks reporting inventory adjustments.

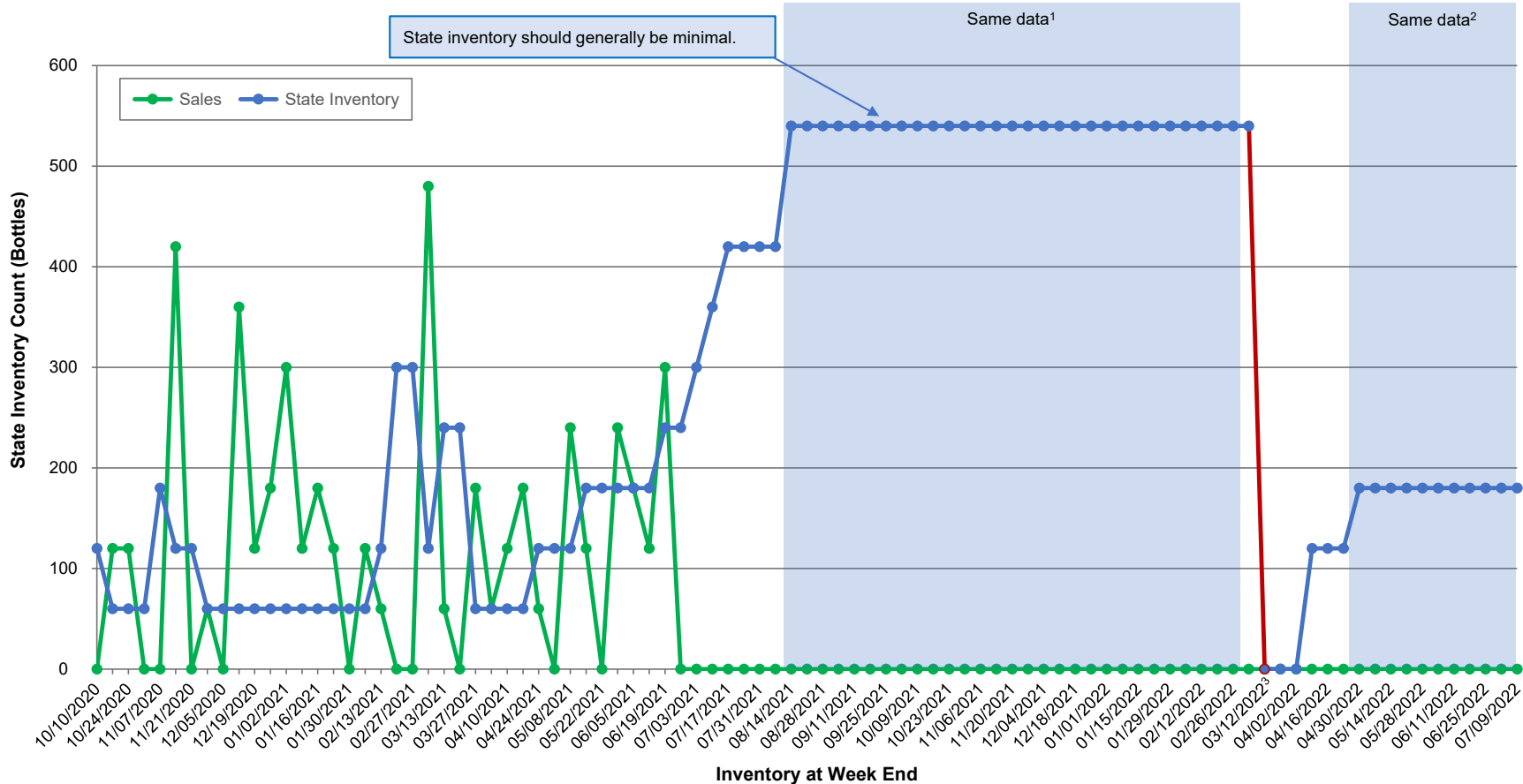
Source: The OAG prepared this exhibit using data from MLCC's inventory system.

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MICHIGAN LIQUOR CONTROL COMMISSION SELECTED OPERATIONAL PROCESSES AND IT SYSTEMS

Department of Licensing and Regulatory Affairs and  
Department of Technology, Management, and Budget

Spirit Product A - Excessive Inventory Purchases  
From October 10, 2020 Through July 9, 2022



<sup>1</sup> Same data for weeks ended August 21, 2021 through March 5, 2022.

<sup>2</sup> Same data for weeks ended May 7, 2022 through July 9, 2022.

<sup>3</sup> MLCC adjusted inventory identified to not be physically present in the ADA's warehouses. See Finding 3.

Source: The OAG prepared this exhibit using data from MLCC's inventory system.

MICHIGAN LIQUOR CONTROL COMMISSION SELECTED OPERATIONAL PROCESSES AND IT SYSTEMS

Department of Licensing and Regulatory Affairs and  
Department of Technology, Management, and Budget

Spirit Product B - Excessive Inventory Purchases  
From October 10, 2020 Through March 12, 2022

Week Ended	Bottle Count					Gross Sales	Inventory Cost
	Balance Forward	Purchases	Sales	Inventory Adjustments	State Inventory		
10/10/2020	137	1,248	1,104	0	281	\$ 1,259	\$ 2,341
10/17/2020	281	576	768	0	89	\$ 876	\$ 741
10/24/2020	89	576	576	0	89	\$ 657	\$ 741
10/31/2020	89	480	432	0	137	\$ 492	\$ 1,141
11/07/2020	137	432	384	0	185	\$ 438	\$ 1,541
11/14/2020	185	912	960	0	137	\$ 1,094	\$ 1,141
11/21/2020	137	432	480	0	89	\$ 547	\$ 741
11/28/2020	89	336	336	0	89	\$ 383	\$ 741
12/05/2020	89	480	480	0	89	\$ 547	\$ 741
12/12/2020	89	720	720	0	89	\$ 821	\$ 741
12/19/2020	89	480	480	0	89	\$ 547	\$ 741
12/26/2020	89	144	144	0	89	\$ 164	\$ 741
01/02/2021	89	384	384	0	89	\$ 438	\$ 741
01/09/2021	89	816	720	0	185	\$ 821	\$ 1,541
01/16/2021	185	672	768	0	89	\$ 876	\$ 741
01/23/2021	89	960	960	0	89	\$ 1,094	\$ 741
01/30/2021	89	816	768	0	137	\$ 876	\$ 1,141
02/06/2021	137	576	624	0	89	\$ 711	\$ 741
02/13/2021	89	624	624	0	89	\$ 711	\$ 741
02/20/2021	89	912	912	0	89	\$ 1,040	\$ 741
02/27/2021	89	1,008	864	0	233	\$ 985	\$ 1,941
03/06/2021	233	816	912	0	137	\$ 1,040	\$ 1,141
03/13/2021	137	720	672	0	185	\$ 766	\$ 1,541
03/20/2021	185	336	432	0	89	\$ 492	\$ 741
03/27/2021	89	816	816	0	89	\$ 930	\$ 741
04/03/2021	89	12,240	1,104	0	11,225	\$ 1,259	\$ 93,504
04/10/2021	11,225	1,056	1,008	0	11,273	\$ 1,149	\$ 93,904
04/17/2021	11,273	2,688	2,784	0	11,177	\$ 3,174	\$ 93,104
04/24/2021	11,177	912	912	0	11,177	\$ 1,040	\$ 93,104
05/01/2021	11,177	720	672	0	11,225	\$ 766	\$ 93,504
05/08/2021	11,225	1,632	1,680	0	11,177	\$ 1,915	\$ 93,104
05/15/2021	11,177	960	912	0	11,225	\$ 1,040	\$ 93,504
05/22/2021	11,225	1,056	1,104	0	11,177	\$ 1,259	\$ 93,104
05/29/2021	11,177	1,296	1,296	0	11,177	\$ 1,477	\$ 93,104
06/05/2021	11,177	480	432	0	11,225	\$ 492	\$ 93,504
06/12/2021	11,225	1,392	1,392	0	11,225	\$ 1,587	\$ 93,504
06/19/2021	11,225	1,392	1,344	0	11,273	\$ 1,532	\$ 93,904
06/26/2021	11,273	1,104	1,152	0	11,225	\$ 1,313	\$ 93,504

Week Ended	Bottle Count					Gross Sales	Inventory Cost
	Balance Forward	Purchases	Sales	Inventory Adjustments	State Inventory		
07/03/2021	11,225	1,152	1,200	0	11,177	\$ 1,368	\$ 93,104
07/10/2021	11,177	720	720	0	11,177	\$ 821	\$ 93,104
07/17/2021	11,177	912	816	0	11,273	\$ 930	\$ 93,904
07/24/2021	11,273	1,440	1,488	0	11,225	\$ 1,696	\$ 93,504
07/31/2021	11,225	480	528	0	11,177	\$ 602	\$ 93,104
08/07/2021	11,177	672	624	0	11,225	\$ 711	\$ 93,504
08/14/2021	11,225	384	384	0	11,225	\$ 438	\$ 93,504
08/21/2021	11,225	432	480	0	11,177	\$ 547	\$ 93,104
08/28/2021	11,177	336	96	0	11,417	\$ 109	\$ 95,104
09/04/2021	11,417	192	432	0	11,177	\$ 492	\$ 93,104
09/11/2021	11,177	288	288	0	11,177	\$ 328	\$ 93,104
09/18/2021	11,177	720	672	0	11,225	\$ 766	\$ 93,504
09/25/2021	11,225	816	864	0	11,177	\$ 985	\$ 93,104
09/30/2021	11,177	192	144	0	11,225	\$ 164	\$ 93,504
10/09/2021	11,225	144	144	0	11,225	\$ 164	\$ 93,504
10/16/2021	11,225	144	0	0	11,369	\$ 0	\$ 94,704
10/23/2021	11,369	0	48	0	11,321	\$ 55	\$ 94,304
10/30/2021	11,321	0	0	0	11,321	\$ 0	\$ 94,304
11/06/2021	11,321	0	0	0	11,321	\$ 0	\$ 94,304
11/13/2021	11,321	0	0	0	11,321	\$ 0	\$ 94,304
11/20/2021	11,321	0	0	0	11,321	\$ 0	\$ 94,304
11/27/2021	11,321	0	0	0	11,321	\$ 0	\$ 94,304
12/04/2021	11,321	0	0	0	11,321	\$ 0	\$ 94,304
12/11/2021	11,321	0	0	0	11,321	\$ 0	\$ 94,304
12/18/2021	11,321	0	0	0	11,321	\$ 0	\$ 94,304
12/25/2021	11,321	0	0	0	11,321	\$ 0	\$ 94,304
01/01/2022	11,321	0	0	0	11,321	\$ 0	\$ 94,304
01/08/2022	11,321	0	0	0	11,321	\$ 0	\$ 94,304
01/15/2022	11,321	0	0	0	11,321	\$ 0	\$ 94,304
01/22/2022	11,321	0	0	0	11,321	\$ 0	\$ 94,304
01/29/2022	11,321	0	0	0	11,321	\$ 0	\$ 94,304
02/05/2022	11,321	0	0	0	11,321	\$ 0	\$ 94,304
02/12/2022	11,321	0	0	0	11,321	\$ 0	\$ 94,304
02/19/2022	11,321	0	0	0	11,321	\$ 0	\$ 94,304
02/26/2022	11,321	0	0	0	11,321	\$ 0	\$ 94,304
03/05/2022	11,321	0	0	0	11,321	\$ 0	\$ 94,304
03/12/2022 <sup>1</sup>	11,321	0	0	(11,321)	0	\$ 0	\$ 0

<sup>1</sup> MLCC adjusted inventory identified to not be physically present in the ADA's warehouse. See Finding 3.

Red font indicates weeks showing purchases greatly exceeding sales and weeks reporting inventory adjustments.

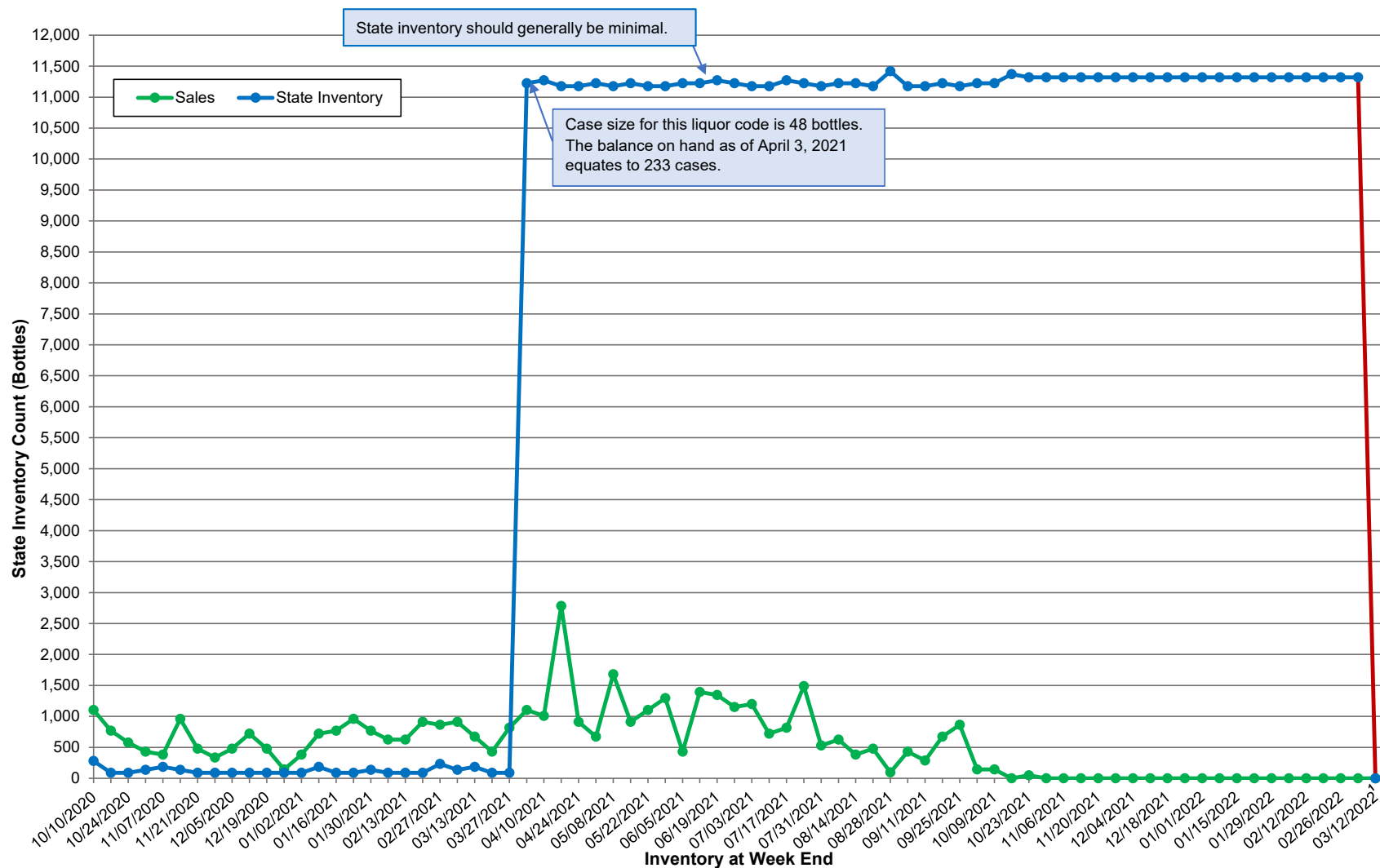
Source: The OAG prepared this exhibit using data from MLCC's inventory system.

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MICHIGAN LIQUOR CONTROL COMMISSION SELECTED OPERATIONAL PROCESSES AND IT SYSTEMS

Department of Licensing and Regulatory Affairs and  
Department of Technology, Management, and Budget

Spirit Product B - Excessive Inventory Purchases  
From October 10, 2020 Through March 12, 2022



<sup>1</sup> MLCC adjusted inventory identified to not be physically present in the ADA's warehouses. See Finding 3.

Source: The OAG prepared this exhibit using data from MLCC's inventory system.

Michigan Office of the Auditor General  
641-0162-22

MICHIGAN LIQUOR CONTROL COMMISSION SELECTED OPERATIONAL PROCESSES AND IT SYSTEMS

Department of Licensing and Regulatory Affairs and  
Department of Technology, Management, and Budget

Spirit Product C - Excessive Inventory Purchases

From October 10, 2020 Through July 9, 2022

Week Ended	Bottle Count					Gross Sales	Inventory Cost
	Balance Forward	Purchases	Sales	Inventory Adjustments	State Inventory		
10/10/2020	315	0	113	0	202	\$ 3,228	\$ 3,497
10/17/2020	202	36	89	0	149	\$ 2,543	\$ 2,579
10/24/2020	149	36	25	0	160	\$ 714	\$ 2,770
10/31/2020	160	36	28	0	168	\$ 800	\$ 2,908
11/07/2020	168	72	47	0	193	\$ 1,343	\$ 3,341
11/14/2020	193	48	42	0	199	\$ 1,200	\$ 3,445
11/21/2020	199	60	44	0	215	\$ 1,257	\$ 3,722
11/28/2020	215	12	12	0	215	\$ 343	\$ 3,722
12/05/2020	215	48	31	0	232	\$ 886	\$ 4,016
12/12/2020	232	24	24	0	232	\$ 686	\$ 4,016
12/19/2020	232	60	56	0	236	\$ 1,600	\$ 4,085
12/26/2020	236	36	37	0	235	\$ 1,057	\$ 4,068
01/02/2021	235	48	48	0	235	\$ 1,371	\$ 4,068
01/09/2021	235	36	26	0	245	\$ 743	\$ 4,241
01/16/2021	245	60	45	0	260	\$ 1,286	\$ 4,501
01/23/2021	260	24	25	0	259	\$ 714	\$ 4,483
01/30/2021	259	48	33	0	274	\$ 943	\$ 4,743
02/06/2021	274	12	4	0	282	\$ 114	\$ 4,881
02/13/2021	282	24	29	0	277	\$ 829	\$ 4,795
02/20/2021	277	24	21	0	280	\$ 600	\$ 4,847
02/27/2021	280	72	50	0	302	\$ 1,429	\$ 5,228
03/06/2021	302	24	18	0	308	\$ 514	\$ 5,331
03/13/2021	308	84	44	0	348	\$ 1,257	\$ 6,024
03/20/2021	348	12	22	0	338	\$ 629	\$ 5,851
03/27/2021	338	12	10	0	340	\$ 286	\$ 5,885
04/03/2021	340	36	31	0	345	\$ 886	\$ 5,972
04/10/2021	345	12	7	0	350	\$ 200	\$ 6,059
04/17/2021	350	60	52	0	358	\$ 1,486	\$ 6,197
04/24/2021	358	84	59	0	383	\$ 1,686	\$ 6,630
05/01/2021	383	12	12	0	383	\$ 343	\$ 6,630
05/08/2021	383	48	42	0	389	\$ 1,200	\$ 6,734
05/15/2021	389	60	57	0	392	\$ 1,628	\$ 6,786
05/22/2021	392	84	51	0	425	\$ 1,457	\$ 7,357
05/29/2021	425	48	35	0	438	\$ 1,000	\$ 7,582
06/05/2021	438	96	64	0	470	\$ 1,828	\$ 8,136
06/12/2021	470	48	49	0	469	\$ 1,400	\$ 8,118
06/19/2021	469	120	59	0	530	\$ 1,686	\$ 9,174
06/26/2021	530	36	24	0	542	\$ 686	\$ 9,382
07/03/2021	542	156	108	0	590	\$ 3,086	\$ 10,213
07/10/2021	590	108	66	0	632	\$ 1,886	\$ 10,940
07/17/2021	632	72	88	0	616	\$ 2,514	\$ 10,663
07/24/2021	616	72	60	0	628	\$ 1,714	\$ 10,871
07/31/2021	628	72	43	0	657	\$ 1,229	\$ 11,373
08/07/2021	657	60	44	0	673	\$ 1,257	\$ 11,650
08/14/2021	673	120	64	0	729	\$ 1,828	\$ 12,619
08/21/2021	729	24	23	0	730	\$ 657	\$ 12,636
08/28/2021	730	204	106	0	828	\$ 3,028	\$ 14,333

Week Ended	Bottle Count					Gross Sales	Inventory Cost
	Balance Forward	Purchases	Sales	Inventory Adjustments	State Inventory		
09/04/2021	828	36	34	0	830	\$ 971	\$ 14,367
09/11/2021	830	48	51	0	827	\$ 1,457	\$ 14,315
09/18/2021	827	36	36	0	827	\$ 1,029	\$ 14,315
09/25/2021	827	60	28	0	859	\$ 800	\$ 14,869
09/30/2021	859	12	10	0	861	\$ 286	\$ 14,904
10/09/2021	861	48	37	0	872	\$ 1,057	\$ 15,094
10/16/2021	872	12	16	0	868	\$ 457	\$ 15,025
10/23/2021	868	84	45	0	907	\$ 1,286	\$ 15,700
10/30/2021	907	36	27	0	916	\$ 771	\$ 15,856
11/06/2021	916	48	31	0	933	\$ 886	\$ 16,150
11/13/2021	933	24	18	0	939	\$ 514	\$ 16,254
11/20/2021	939	24	21	0	942	\$ 600	\$ 16,306
11/27/2021	942	24	20	0	946	\$ 571	\$ 16,375
12/04/2021	946	0	11	0	935	\$ 314	\$ 16,185
12/11/2021	935	12	5	0	942	\$ 143	\$ 16,306
12/18/2021	942	72	55	0	959	\$ 1,571	\$ 16,600
12/25/2021	959	24	29	0	954	\$ 829	\$ 16,514
01/01/2022	954	36	26	0	964	\$ 743	\$ 16,687
01/08/2022	964	36	36	0	964	\$ 1,029	\$ 16,687
01/15/2022	964	24	16	0	972	\$ 457	\$ 16,825
01/22/2022	972	24	27	0	969	\$ 771	\$ 16,773
01/29/2022	969	96	41	0	1,024	\$ 1,171	\$ 17,725
02/05/2022	1,024	12	33	0	1,003	\$ 943	\$ 17,362
02/12/2022	1,003	36	38	0	1,001	\$ 1,086	\$ 17,327
02/19/2022	1,001	24	20	0	1,005	\$ 571	\$ 17,397
02/26/2022	1,005	24	26	0	1,003	\$ 743	\$ 17,362
03/05/2022	1,003	36	32	0	1,007	\$ 914	\$ 17,431
03/12/2022	1,007	84	43	0	1,048	\$ 1,229	\$ 18,141
03/19/2022	1,048	12	20	0	1,040	\$ 571	\$ 18,002
03/26/2022	1,040	12	22	0	1,030	\$ 629	\$ 17,829
04/02/2022	1,030	12	7	0	1,035	\$ 200	\$ 17,916
04/09/2022	1,035	12	15	0	1,032	\$ 429	\$ 17,864
04/16/2022	1,032	24	17	0	1,039	\$ 486	\$ 17,985
04/23/2022	1,039	84	56	0	1,067	\$ 1,600	\$ 18,470
04/30/2022	1,067	24	15	0	1,076	\$ 429	\$ 18,626
05/07/2022	1,076	36	37	0	1,075	\$ 1,057	\$ 18,608
05/14/2022	1,075	84	45	0	1,114	\$ 1,286	\$ 19,283
05/21/2022	1,114	48	39	0	1,123	\$ 1,114	\$ 19,439
05/28/2022	1,123	96	90	0	1,129	\$ 2,571	\$ 19,543
06/04/2022	1,129	48	27	0	1,150	\$ 771	\$ 19,907
06/11/2022	1,150	48	39	0	1,159	\$ 1,114	\$ 20,062
06/18/2022	1,159	48	31	0	1,176	\$ 886	\$ 20,357
06/25/2022	1,176	84	66	0	1,194	\$ 1,886	\$ 20,668
07/02/2022	1,194	60	60	0	1,194	\$ 1,714	\$ 20,668
07/09/2022	1,194	96	63	0	1,227	\$ 1,800	\$ 21,239

Source: The OAG prepared this exhibit using data from MLCC's inventory system.

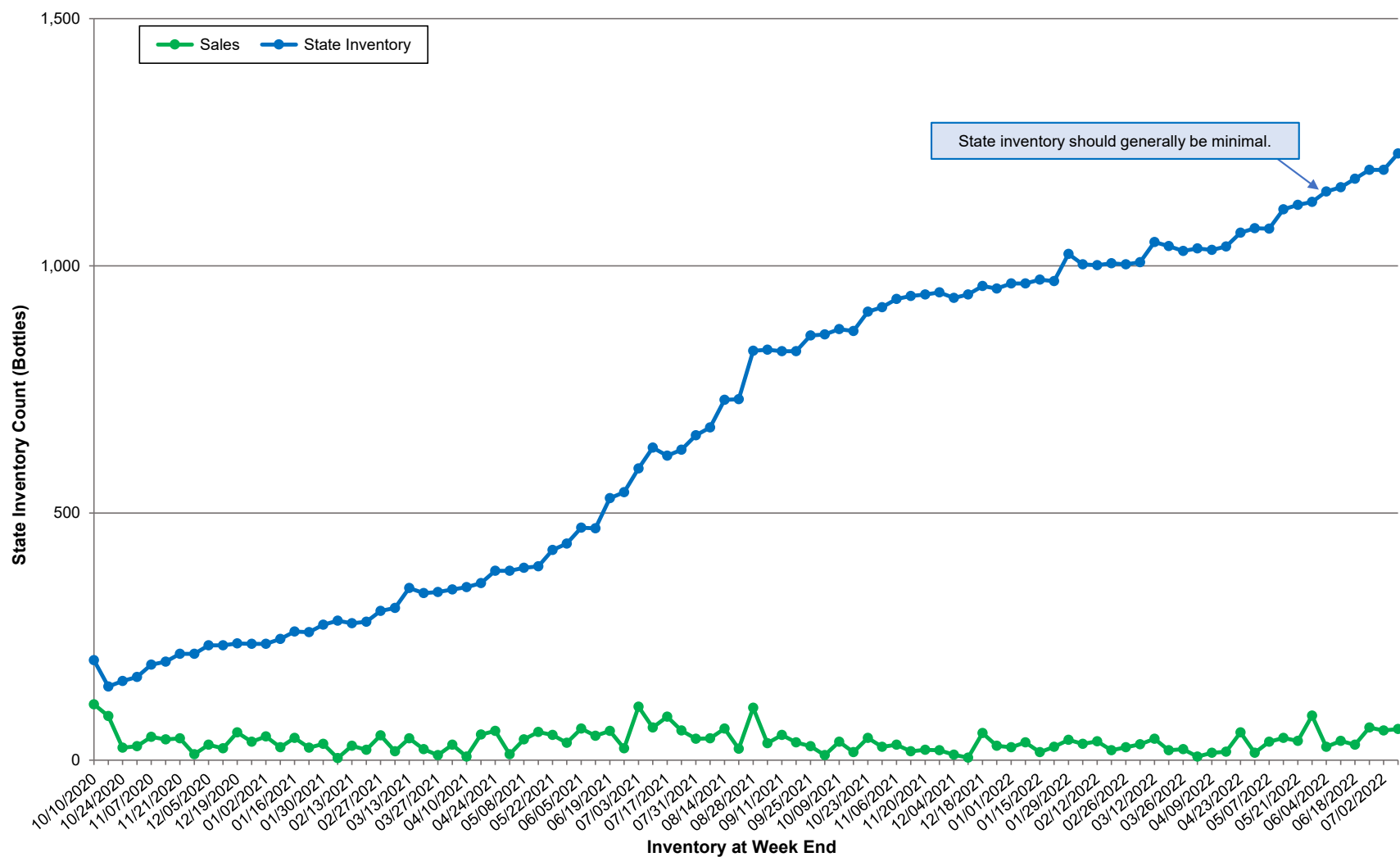
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MICHIGAN LIQUOR CONTROL COMMISSION SELECTED OPERATIONAL PROCESSES AND IT SYSTEMS

Department of Licensing and Regulatory Affairs and  
Department of Technology, Management, and Budget

Spirit Product C - Excessive Inventory Purchases  
From October 10, 2020 Through July 9, 2022



Source: The OAG prepared this exhibit using data from MLCC's inventory system.  
Michigan Office of the Auditor General  
641-0162-22

MICHIGAN LIQUOR CONTROL COMMISSION  
SELECTED OPERATIONAL PROCESSES AND IT SYSTEMS  
Department of Licensing and Regulatory Affairs and  
Department of Technology, Management, and Budget

Finding 1 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

This section contains LARA's preliminary response to Finding 1 and our auditor's comments providing further clarification and context where necessary.

**Overall Auditor's Comment**

MLCC did not have sufficient oversight of the sale and distribution of spirit products in the State.

**Finding 1: MLCC lacks oversight of ADA processes to receive and distribute State-owned spirit inventory.**

LARA provided us with the following response:

**AGENCY PRELIMINARY RESPONSE**

*MLCC agrees with this recommendation and is working to implement the corrective actions detailed below.*

*MLCC will be launching SIPS+ in 2024. The key process enhancements below will be operational following the implementation of the new system. These enhancements will provide improved internal controls around the ADA provided inventory information.*

- *All orders will require an order number.*
- *Every order will require an invoice that includes the matching order number.*
- *All orders will have MILO order records, including salesmen's orders, phone orders taken by the ADA, adjustments to existing orders phoned in to the ADA and Electronic Data Interface (EDI) orders from large chain stores.*
- *Ability to correlate liquor orders to sales, which will allow MLCC to independently verify liquor orders and invoiced amounts to observe variances and excessive inventory balances.*
- *Ability to generate on-demand product purchase orders, preventing negative inventory.*

*In addition to the IT system upgrades, MLCC is seeking to restore a vacant Auditor position. This position will further MLCC's goal of continuous improvement over applicable controls and monitoring activities.*

*MLCC acknowledges the ADA Information Book requires updates and is in the process of reviewing, consolidating, and improving upon the information included in the Book. MLCC plans to coordinate the release of the revised ADA Handbook with the launch of SIPS+. Additionally, during the MLCC*

**AUDITOR'S COMMENTS TO  
AGENCY PRELIMINARY RESPONSE**

MLCC's response is the same as the response it provided in January 2023 to the Office of Internal Audit Services audit report finding addressing Book issues. MLCC asserts in its response it was in the process of reviewing the Book in 2021; however, this information was not shared with the OAG during the audit.

*Financial Management Division's last lean process improvement completed in 2021, it was determined that all administrative orders and bulletins should be reviewed and rewritten based upon the new system and its requirements. This will be done toward the end of the SIPS+ implementation project as we finalize development and revise business operating procedures. At that time, a new manual that includes all current administrative orders and bulletins will be assembled and organized by subject. MLCC is currently organizing and consolidating existing orders, bulletins, and memorandums. This will allow MLCC to determine those that are currently in place and those processes that need to be documented.*

*MLCC leadership holds regular touchpoint meetings to discuss the issues identified in this finding and the status of any complaints received regarding the ADAs. Moving forward, MLCC will be working with LARA's IT Services Division and DTMB to identify potential enhancements to existing systems or other software programs that may be available to better manage and escalate valid ADA complaints. When there is a suspected violation, MLCC's Enforcement Division performs an investigation. MLCC's goal is to ensure ADAs remain in compliance with all applicable requirements.*

MICHIGAN LIQUOR CONTROL COMMISSION  
SELECTED OPERATIONAL PROCESSES AND IT SYSTEMS  
Department of Licensing and Regulatory Affairs and  
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Finding 7 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

This section contains LARA and DTMB's preliminary response to Finding 7 and our auditor's comments providing further clarification and context where necessary.

**Finding 7: Improvements needed to liquor IT system access and security controls.**

LARA and DTMB provided us with the following response:

**AGENCY PRELIMINARY RESPONSE**

*MLCC and DTMB agree with the recommendation.*

*MLCC acknowledges the need to strengthen controls and security configurations over the selected liquor systems and to maintain appropriate documentation.*

*MLCC agrees it does not adhere to the SOM Technical Standards for user account management when it comes to automatically disabling inactive user accounts after 60 days in AIMS. MLCC Community Users, or licensees, only log into their AIMS accounts during the March-June renewal season. During the renewal season, licensees can renew their annual license, pay fees, and update their information. MLCC includes a PIN for portal account access with each renewal letter mailing. Once the renewal season ends, MLCC closes the part of AIMS the licensees have access to. MLCC staff run a Non-Renewal Report at the end of each renewal season to identify any accounts that need to be terminated because the license has lapsed. MLCC plans to apply for an SOM Executive Technical Review Board (ETRB) Exception while researching additional solutions to comply with SOM Technical Standards.*

This information was not mentioned or provided to the OAG during the course of our fieldwork. In addition, this closes only a portion of a user's access to the system.

*The active AIMS account belonging to the employee who left State employment was a testing account for AIMS functionality. MLCC acknowledges its oversight in not removing this account following go-live programming and modifications. The account was removed on July 18, 2023. MLCC does review monthly staffing reports for AC-02 compliance and modifications to internal MLCC accounts and will look for opportunities for improvement in making these reports more comprehensive to reflect all State users. Additionally, on a quarterly basis, the IT specialist will review the user access report in AIMS to monitor for any inactive internal accounts that may have been missed. The list will then be shared with DTMB management so they can validate their users.*

*Phoenix is designed as a supplemental utility program that supports MILO and AIMS with transactional interfaces for record/data transfers and management of those interfaces.*

*The users within Phoenix are the MLCC and DTMB administrators, and MLCC finance staff with specific responsibilities for a particular function within Phoenix, including their backups. The functions are required weekly, monthly, or quarterly. MLCC and DTMB will evaluate the feasibility of modifying Phoenix to capture the last logon dates. Moving forward, MLCC will create one user access authorization form covering the four systems that will be used to grant, modify, or remove access. The form will include the various roles and permissions and will be retained for the life of the active account.*

*Employee turnover and lack of sales requiring another order, as observed with smaller liquor stores, are just a few examples of how an account in MILO can be considered inactive if liquor is not ordered on a regular basis. MLCC has a subset of licensees that do not operate the full 12 months of the year. MLCC acknowledges its oversight in not disabling the MILO account of an employee that transferred to another State department. To help strengthen oversight in this area, MILO was added to the monthly AC-02 report controls and MLCC's Procedure for Software Access and Role Assignment in October 2022. MLCC will look for opportunities for improvement in making these reports more comprehensive to reflect all State users. MLCC is also working with DTMB to modify existing roles and permissions to improve existing account access controls.*

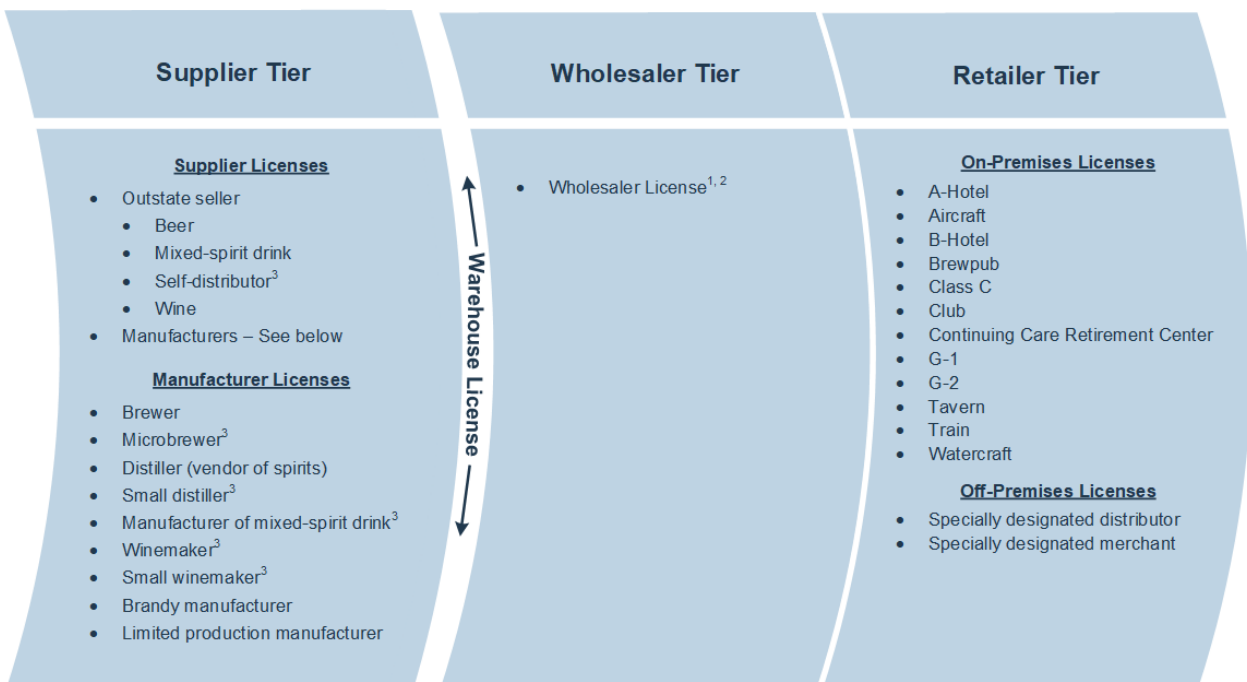
*E-Quote is another older DTMB program written for very specific functions. E-Quote, and a large portion of Phoenix's functionality, will be replaced by SIPS+. SIPS+ includes Microsoft Dynamics 365 software with enhanced security features and access controls to help streamline MLCC processes and appropriately manage all liquor system accounts.*

## AGENCY AND SYSTEM DESCRIPTION

The Liquor Control Code, Public Act 58 of 1998, as amended, created MLCC to control alcoholic beverage traffic within the State. The responsibilities of MLCC include:

- Oversight of alcoholic liquor\* distribution within the State.
- Licensing of the manufacture, importation, and sale of liquor.
- Enforcement of the Liquor Control Code.

Also, the Liquor Control Code created a three-tier distribution system to maintain strong, stable, and effective regulation and to promote public health and safety. The tiers consist of suppliers, wholesalers, and retailers. Michigan is one of 17 control states\* that controls the wholesaling of spirits within their borders.



<sup>1</sup> Spirit products are distributed by the MLCC through authorized distribution agents (ADAs).

<sup>2</sup> Beer, wine, and mixed spirit drink products are distributed by wholesaler licensees.

<sup>3</sup> Licensees may self-distribute to retailers under certain circumstances.

Source: Liquor Purchase Revolving Fund Annual Financial Report for the Fiscal Year Ended September 30, 2021.

\* See glossary at end of report for definition.

MLCC utilizes more than 10 IT systems to manage the liquor distribution and licensing process. MLCC utilizes 4 of those systems (AIMS, E-Quote, MILO, and Phoenix) and MLCC's mainframe to manage the spirit distribution:

- MLCC uses AIMS to manage the issuance, renewal, and monitoring of liquor licenses. AIMS shares information with other internal MLCC systems to ensure the appropriate liquor licenses are active and valid, allowing licensees to register spirits for sale or purchase spirits for resale. As of August 2, 2022, AIMS had 18,550 active user accounts.
- Vendors use E-Quote to register spirit products for sale in the State. MLCC documents its approval of spirit products in E-Quote, allowing spirit products to be available for order. As of September 9, 2022, E-Quote had 152 active user accounts.
- Retailers use MILO to order spirit products for delivery. MILO accesses ADA inventory information to ensure inventory is in stock and available for delivery when a licensee orders spirit products through MILO. As of August 9, 2022, MILO had 14,628 active user accounts.
- MLCC uses Phoenix to manage the exchange of licensee and spirit information between MLCC IT systems. As of July 26, 2022, Phoenix had 20 active user accounts.
- MLCC uses a mainframe to manage the sales, inventory, and purchasing of spirit products. MLCC receives sales and purchasing reports from ADAs which are imported and processed in the mainframe. The mainframe calculates the quantity of spirits to be purchased from vendors each day and generates the daily purchase order.

## AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

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### AUDIT SCOPE

To examine the records and processes of MLCC related to the compliance with State laws, regulations, and policies; interface controls; and security and access controls. 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit did not include a review of compliance with selected State laws, regulations, and policies for the sale and distribution of beer, wine, or mixed spirit products because MLCC is the sole wholesaler of spirit products in the State. Beer, wine, and mixed spirit products are sold through a privately operated distribution system.

As part of the audit, we considered the five components of internal control (control environment, risk assessment, control activities, information and communication, and monitoring activities) relative to the audit objectives and determined all components were significant.

### PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered October 1, 2020 through August 31, 2022.

### METHODOLOGY

We conducted a preliminary survey to gain an understanding of MLCC's and DTMB's processes and internal control to establish our audit objectives, scope, and methodology. During our preliminary survey, we:

- Interviewed MLCC and DTMB management and staff to obtain an understanding of the systems used to manage the alcoholic liquor sale and distribution process.
- Reviewed MLCC and DTMB policies and procedures related to liquor system security.
- Reviewed system documentation, including system configurations, data confidentiality, and recovery point objectives.
- Interviewed MLCC and DTMB personnel responsible for liquor system processes, including establishing user

\* See glossary at end of report for definition.



access, administering change controls, and implementing interface controls.

- Obtained an understanding of MLCC's processes to issue liquor licenses and manage State-owned liquor inventory.
- Interviewed ADAs to understand their role in the liquor distribution and inventory monitoring process.
- Obtained an understanding of MLCC's and DTMB's key processes, systems, and related key internal control significant to the audit objectives.

## **OBJECTIVE 1**

To assess the sufficiency of MLCC's efforts to comply with selected State laws, regulations, and policies for the sale and distribution of spirit products.

To accomplish this objective, we:

- Reviewed various sections of the *MCL* to identify requirements for MLCC.
- Compared spirit sales processed through MILO with total spirit sales recorded for all licensees.
- Reviewed MLCC's procedures to monitor physical spirit inventory in ADA warehouses.
- Performed a physical inventory count of 65 of 4,999 randomly and judgmentally selected spirit products at one ADA's warehouses in August 2022.
- Reviewed spirit inventory data from October 10, 2020 through July 9, 2022, using analytical procedures, to identify irregularities and trends, such as:
  - Spirit inventory purchases with no corresponding sales.
  - Spirit inventory recorded as a negative amount.
  - Spirit inventory recorded at multiple ADA warehouses.
- Performed data analysis using AIMS licensing data to determine whether MLCC:
  - Appropriately prohibited liquor licensees from holding a license in more than 1 of the 3 distribution system tiers.
  - Issued appropriate licenses in dry-for-spirits LGUs.

- Accurately calculated the quota of on-premises and SDD licenses allowed based on the most recent census.
- Randomly and judgmentally sampled 43 of 644 LGUs with quota licenses as of June 13, 2022 to determine whether MLCC issued licenses in accordance with quota restrictions.
- Reviewed the spirit price books published quarterly between November 1, 2020 and July 31, 2022 by MLCC to determine whether liquor systems:
  - Accurately calculated spirit pricing, including base price, licensee price, and minimum retailer shelf price.
  - Appropriately included spirit products for sale based on MLCC approval. We randomly sampled 4 of 23 MLCC meetings held between October 2020 and August 2022 and randomly reviewed 10 spirit products approved and 10 spirit products denied by MLCC in each meeting.

Our random samples were selected to eliminate bias and enable us to project the results to the respective populations. Our judgmental samples were selected based on risk; therefore, we could not project the results to the respective populations.

## **OBJECTIVE 2**

To assess the sufficiency of MLCC and DTMB's interface controls over selected liquor systems.

To accomplish this objective, we:

- Obtained an understanding of the population of interfaces with selected liquor systems.
- Reviewed interface definition documents for compliance with industry best practices.
- Judgmentally and randomly sampled 6 of 22 batch interfaces and 3 of 7 real-time interfaces and validated batch jobs processed and web calls performed successfully on randomly selected dates between October 1, 2020 and August 31, 2022.

Our random samples were selected to eliminate bias and enable us to project the results to the respective populations. Our judgmental samples were selected based on risk; therefore, we could not project the results to the respective populations.

### **OBJECTIVE 3**

To assess the sufficiency of MLCC's and DTMB's security and user access controls over selected liquor systems.

To accomplish this objective, we:

- Identified liquor systems involved in the spirit sales and distribution process.
- Selected users with active accounts for each system to better understand, evaluate, and form conclusions on the design and implementation of MLCC's internal control procedures against SOM policy and industry best practices for granting, removing, and recertifying access. Specifically, we:
  - Judgmentally and randomly selected 36 of 18,550 AIMS user accounts active as of August 2, 2022 which included SOM and non-SOM user accounts.
  - Selected all 6 E-Quote SOM user accounts active as of September 9, 2022.
  - Judgmentally and randomly selected 6 of 22 MILO SOM user accounts active as of August 9, 2022.
  - Judgmentally selected 6 of 20 Phoenix user accounts active as of July 26, 2022.
- Reviewed last log-in dates for all accounts in AIMS, E-QUOTE, and MILO to verify that user accounts were being disabled after 60 days of inactivity and system accounts were being disabled after 365 days of inactivity.
- Interviewed MLCC management to obtain an understanding of segregation of duties.
- Reviewed enabled audit logs and compared captured information with industry best practices.
- Judgmentally selected and tested security configurations against SOM policy and industry best practices.

Our random samples were selected to eliminate bias and enable us to project the results to the respective populations. Our judgmental samples were selected based on risk; therefore, we could not project the results to the respective populations.

### **CONCLUSIONS**

We base our conclusions on our audit efforts and any resulting material conditions or reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

**CONFIDENTIAL  
AND SENSITIVE  
INFORMATION**

Because of the confidentiality of MLCC security configurations, we summarized our testing results for presentation in the report and provided the underlying details to MLCC and DTMB management.

**AGENCY  
RESPONSES**

Our audit report contains 7 findings and 7 corresponding recommendations. LARA and DTMB's preliminary responses indicate they agree with all of the recommendations.

The agency preliminary response following each recommendation in our report was taken from the agencies' written comments and oral discussion at the end of our fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

**SUPPLEMENTAL  
INFORMATION**

Our audit report includes supplemental information presented as Exhibits 1 through 4. Our audit was not directed toward expressing a conclusion on the information in Exhibits 1 through 4.

## GLOSSARY OF ABBREVIATIONS AND TERMS

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<b>access controls</b>	Controls that protect data from unauthorized modification, loss, or disclosure by restricting access and detecting inappropriate access attempts.
<b>Alcohol Information Management System (AIMS)</b>	MLCC's computer system used for managing the issuance of licenses, permits, special licenses, transfers of ownership, escrows, and license renewals and managing enforcement and hearing and appeals of licensees when violations occur.
<b>alcoholic liquor</b>	Any spirituous, vinous, malt, or fermented liquor, powder, liquids, and compounds, whether medicated, proprietary, patented, and by whatever name called, containing half of 1% or more of alcohol by volume fit for use for food purpose or beverage purposes.
<b>auditor's comments to agency preliminary response</b>	Comments the OAG includes in an audit report to comply with <i>Government Auditing Standards</i> . Auditors are required to evaluate the validity of the audited entity's response when it is inconsistent or in conflict with the findings, conclusions, or recommendations. If the auditors disagree with the response, they should explain in the report their reasons for disagreement.
<b>authorized distribution agent (ADA)</b>	A person approved by MLCC to do one or more of the following: (1) store spirits owned by a vendor or MLCC, (2) deliver spirits sold by MLCC to retailers, (3) perform any function needed to store spirits owned by a vendor or by MLCC or to deliver spirits sold by MLCC to retailers.
<b>beer</b>	A beverage obtained by alcoholic fermentation of an infusion or decoction of barley, malt, hops, sugar, or other cereal in potable water.
<b>Book</b>	ADA Information Book.
<b>confidentiality</b>	Protection of data from unauthorized disclosure.
<b>control state</b>	A state controlling the sale of distilled spirits and, in some cases, wine and beer, through government agencies at the wholesale level.
<b>COVID-19</b>	The disease caused by a new coronavirus called SARS-CoV-2. It is a potentially severe illness often characterized by fever,

coughing, and shortness of breath. The World Health Organization first learned of the new virus in December 2019.

<b>dry-for-spirits LGU</b>	An LGU prohibiting the sale of spirits for on-premise consumption but allowing on-premise consumption of beer and wine.
<b>DTMB</b>	Department of Technology, Management, and Budget.
<b>EFT</b>	electronic funds transfer.
<b>E-Quote (Spirit Product Quotation System)</b>	MLCC's computer system used by vendors to register spirit products and pricing for sale in the State of Michigan. Products and pricing must be approved by MLCC.
<b>Federal Information System Controls Audit Manual (FISCAM)</b>	A methodology published by the U.S. Government Accountability Office (GAO) for performing information system control audits of federal and other governmental entities in accordance with <i>Government Auditing Standards</i> .
<b>FMG</b>	State of Michigan Financial Management Guide.
<b>Governmental Accounting Standards Board</b>	An arm of the Financial Accounting Foundation established to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities.
<b>integrity</b>	Accuracy, completeness, and timeliness of data in an information system.
<b>interface controls</b>	Controls that ensure the accurate, complete, and timely processing of data exchanged between information systems.
<b>internal control</b>	The plan, policies, methods, and procedures adopted by management to meet its mission, strategic plan, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.
<b>IT</b>	information technology.

<b>LARA</b>	Department of Licensing and Regulatory Affairs.
<b>license</b>	A contract between MLCC and the licensee granting authority to that licensee to manufacture and sell, sell, or warehouse alcoholic liquor.
<b>local government unit (LGU)</b>	A county, city, township, village, or charter authority.
<b>manufacturer</b>	A person or company that manufactures alcoholic liquor whether located in or out of the state, including, but not limited to, a distiller, a small distiller, a mixed spirit drink manufacturer, a mixed wine drink manufacturer, a wine maker, a small wine maker, a brewer, and a microbrewer.
<b>material condition</b>	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program. Our assessment of materiality is in relation to the respective audit objective.
<b>MCL</b>	<i>Michigan Compiled Laws.</i>
<b>Michigan Liquor Ordering System (MILO)</b>	MLCC's computer system used by retailers to order spirit products from ADA controlled inventory.
<b>mixed spirit</b>	A drink manufactured and packaged or sold by a mixed spirit drink manufacturer that contains 10% or less alcohol by volume.
<b>MLCC</b>	Michigan Liquor Control Commission.
<b>observation</b>	A commentary highlighting certain details or events that may be of interest to users of the report. An observation may not include all of the attributes (condition, effect, criteria, cause, and recommendation) presented in an audit finding.
<b>on-premise consumption license</b>	A liquor license issued to retailers which allows for the sale of alcohol to customers for consumption on the premises.
<b>performance audit</b>	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight

in using the information to improve program performance and operations, reduce costs, facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

**Phoenix**

MLCC's computer system that manages the exchange of licensee and spirit information between MLCC IT systems.

**principle of least privilege**

The practice of limiting access to the minimal level that will allow normal functioning. Applied to employees, the principle of least privilege translates to giving people the lowest level of user access rights they can have and still do their jobs. The principle is also applied to things other than people, including programs and processes.

**reportable condition**

A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: a deficiency in internal control; noncompliance with provisions of laws, regulations, contracts, or grant agreements; opportunities to improve programs and operations; or fraud.

**retailer**

A person or business, such as a restaurant, bar, club, or liquor store, who is licensed by MLCC and sells to the consumer.

**Sales Inventory Purchasing System (SIPS+)**

A system MLCC is implementing to replace functionality within E-Quote, the mainframe, and other MLCC systems. SIPS+ will allow MLCC real-time purchasing, payment, and inventory management of State-owned spirit products.

**segregation of duties**

Assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of his or her duties. Proper segregation of duties requires separating the duties of reporting, review and approval of reconciliations, and approval and control of documents.

**SOM**

State of Michigan.

**pecially designated distributor (SDD) license**

Liquor license issued to retailers to sell spirits to customers for consumption off the premises.

**spirit**

A beverage that contains alcohol obtained by distillation, mixed with potable water or other substances or both, in solution, and includes wine containing an alcoholic content of more than 21% by volume, except sacramental wine and mixed spirit drink.



**vendor**

A person or company that sells spirits to MLCC.

**wholesaler**

A person or business that is licensed by MLCC and sells beer, wine, or mixed spirit drink only to retailers or other licensees.





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