

Office of the Auditor General
Report on Internal Control, Compliance, and Other Matters

Liquor Purchase Revolving Fund
Michigan Liquor Control Commission
Department of Licensing and Regulatory Affairs

Fiscal Year Ended September 30, 2024

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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Report Summary

*Report on Internal Control, Compliance, and
Other Matters
Liquor Purchase Revolving Fund
Michigan Liquor Control Commission (MLCC)
Department of Licensing and Regulatory
Affairs
Fiscal Year Ended September 30, 2024*

Report Number:
641-0161-25

Released:
October 2026

Generally accepted government auditing standards require an auditor to report on internal control over financial reporting; compliance with provisions of laws, regulations, contracts, or grant agreements that have a material effect on the financial statements; and other matters coming to the attention of the auditor during the completion of a financial audit. We are issuing this report in conjunction with our independent auditor's report on the Liquor Purchase Revolving Fund's financial statements dated September 24, 2026.

Findings Related to Internal Control, Compliance, and Other Matters	Material Weakness	<u>Significant Deficiency</u>	Agency Preliminary Response
MLCC lacked key controls including spirit purchase and sale reconciliations, spirit ordering oversight, inventory oversight, and others (<u>Finding 1</u>).		X	Agrees

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Doug A. Ringler, CPA, CIA
Auditor General

October 16, 2026

Kristin Beltzer, Chair
Michigan Liquor Control Commission
7109 West Saginaw Highway
Lansing, Michigan
and
Dr. Marlon I. Brown, Director
Department of Licensing and Regulatory Affairs
Ottawa Building
Lansing, Michigan

Chair Beltzer and Dr. Brown:

This is our report on internal control, compliance, and other matters of the Liquor Purchase Revolving Fund for the fiscal year ended September 30, 2024.

Your agency provided the preliminary response to the recommendation at the end of our fieldwork. The *Michigan Compiled Laws* require an audited agency to develop a plan to comply with the recommendations and submit it to the State Budget Office (SBO) upon audit completion. State administrative procedures require the audited agency to develop the plan as early as practicable and within 60 days after report issuance and submit the plan to the Office of Internal Audit Services (OIAS), SBO. Within 30 days of receipt, OIAS will 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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INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND
OTHER MATTERS



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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Kristin Beltzer, Chair
Michigan Liquor Control Commission
7109 West Saginaw Highway
Lansing, Michigan
and
Dr. Marlon I. Brown, Director
Department of Licensing and Regulatory Affairs
Ottawa Building
Lansing, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Liquor Purchase Revolving Fund (Fund), a proprietary fund of the State of Michigan, as of and for the fiscal year ended September 30, 2024 and the related notes to the financial statements and have issued our report thereon dated September 24, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness the Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, as described in Finding 1 in the body of our report, that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Agency's Response to Finding

Government Auditing Standards require the auditor to perform limited procedures on the Agency's preliminary response to the finding identified in our audit. The response is included after the finding. The response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Doug Ringler
Auditor General
September 24, 2026

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FISCAL YEAR 2024
FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

FINDING 1

MLCC lacked oversight of ADA processes to receive and distribute State-owned spirit inventory.

The Michigan Liquor Control Commission (MLCC) did not provide adequate oversight of authorized distribution agents* (ADAs) to ensure all State-owned spirits* received and distributed by ADAs were reflected within the State's purchase and sale records. Also, State inventory balances did not 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. Section 436.1201 of the *Michigan Compiled Laws (MCL)* 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 the Michigan Liquor Ordering System* (MILO) retail orders with deliveries to ensure 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.

- b. MLCC did not have a process to track and monitor spirit orders retailers placed directly with ADAs.

From October 1, 2023 through September 30, 2024, \$550 million (29%) in spirit orders were submitted directly to ADAs and not placed in the State's online ordering

* See glossary at end of report for definition.

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.

By following this approach, MLCC cannot ensure all documents, such as daily invoice files, are received from ADAs and all spirits ordered were purchased by MLCC and delivered in a timely manner to the appropriate retailer. 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.

- 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 commingled 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 cases, and MLCC counts 250 cases, MLCC takes the position that the first 50 cases belong to the State. MLCC's process assumes the vendor would agree they own 200 cases, equaling the total 250 cases physically present in the warehouse. If the vendor believes they own 225 cases, it would be up to the ADA to work with the vendor to determine the cause of the 25 case 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. Also, the potential exists for inappropriate sale and distribution to occur outside of MLCC's process.

Neither current legislation nor the agreements between MLCC and ADAs clearly define ADA responsibilities, but statute does define MLCC's duty and authority to exercise complete control over alcoholic beverage traffic within the State. Also, the ADA Information Book (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. 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. Without clearly defined responsibilities and oversight of ADAs, MLCC cannot ensure the accuracy of State-owned spirit inventory.

We commented on the deficiencies with MLCC's lack of ADA oversight in each of our reports, beginning with the fiscal year 2022 audit. MLCC indicated in its July 2025 corrective action plan it was working to implement a new information system, as well as other corrective actions.

RECOMMENDATION

We again 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 provided us with the following response:

MLCC agrees with the recommendation and implemented its new Sales, Inventory and Purchasing System (SIPS+) on November 3, 2025.

PRIOR AUDIT FOLLOW-UP

The following is the status of the reported finding from the fiscal year 2023 report on internal control*, compliance, and other matters for the [Liquor Purchase Revolving Fund](#), Michigan Liquor Control Commission, Department of Licensing and Regulatory Affairs (641-0161-24):

<u>Prior Audit Finding Number</u>	<u>Prior Finding Classification</u>	<u>Topic Area</u>	<u>Current Status</u>	<u>Current Finding Number</u>
1	Significant deficiency*	MLCC lacked oversight of ADA processes to receive and distribute State-owned spirit inventory.	Repeated*	1

* See glossary at end of report for definition.

GLOSSARY OF ABBREVIATIONS AND TERMS

authorized distribution agent (ADA)	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.
Book	ADA Information Book.
deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.
financial audit	An audit designed to provide reasonable assurance about whether the financial statements of an audited entity are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
material misstatement	A misstatement in the financial statements causing the statements to not present fairly the financial position or the changes in financial position, and, where applicable, cash flows thereof, in accordance with the applicable financial reporting framework.
material weakness in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control such that a reasonable possibility exists a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis.
MCL	<i>Michigan Compiled Laws.</i>
Michigan Liquor Ordering System (MILO)	MLCC's computer system used by retailers to order spirit products from ADA-controlled inventory.
MLCC	Michigan Liquor Control Commission.

repeated	The wording of the current recommendation remains essentially the same as the prior audit recommendation.
retailer	A person or business, such as a restaurant, bar, club, or liquor store, who is licensed by MLCC and sells to the consumer.
significant deficiency in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control less severe than a material weakness, yet important enough to merit attention by those charged with governance.
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 who sells spirits to MLCC.

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