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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

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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 (Finding 1).	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 (Finding 2).	X		Agrees
MLCC did not effectively manage inventory housed in ADA warehouses, resulting in 62,294 missing bottles of State-owned spirit inventory (Finding 3).	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 (Finding 4).		X	Agrees

Findings Related to This Audit Objective (Continued)	Material Condition	Reportable Condition	Agency Preliminary Response
MLCC issued four liquor licenses in a local government unit which prohibits the sale of spirits (<u>Finding 5</u>).		X	Agrees
Observations Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
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 (<u>Observation 1</u>).			Not applicable for observations.

Audit Objective			Conclusion
Objective 2: To assess the sufficiency of MLCC and DTMB's interface controls over selected liquor systems.			Sufficient, with exceptions
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
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 (<u>Finding 6</u>).		X	Agrees

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

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