



Department of Commerce

Liquor Control – Permit Issuance and Commission Payment Audit

Audit Period: July 1, 2009 to May 14, 2010



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Executive Summary

Background

The Ohio Department of Commerce (COM) Division of Liquor Control (Division) is responsible for overseeing the manufacture, distribution, and sale of all alcoholic beverages in Ohio. The Division is the state's sole purchaser and distributor of spirituous liquor (intoxicating liquor containing more than 21 percent alcohol by volume). Spirituous liquor is sold through 452 private businesses, known as contract liquor agencies, which contract with the Division to serve as its sales agents. The Division processes bi-weekly commission payments equal to 6% of retail sales and 4% of wholesale sales for each liquor agency. Regulatory functions of the Division include the issuance of permits to the state's approximately 24,000 privately owned and operated manufacturers, distributors and retailers of alcoholic beverages. The Division also regulates industry compliance with the laws pertaining to the manufacture, importation, and distribution of beer, wine, and mixed beverages containing 21 percent or less alcohol by volume.

This audit focused on the liquor permit issuance and commission payment processes of the Division. During state fiscal year 2009, the Division recorded sales of \$729.9 million and a net profit of \$224.2 million.

During the audit, OIA identified opportunities for COM to strengthen internal controls and improve business operations. OIA would like to thank COM staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.



Scope and Objectives

OIA staff was engaged to perform assurance work related to the liquor permit issuance and commission payment processes. This work was completed between November 13, 2009 and May 14, 2010. The scope of this audit included the following areas:

- Liquor permit application and issuance process
 - Application processing and permit issuance
 - Communication of liquor laws to permit holders
 - Monitoring of liquor permit holders
- Liquor sales commission payment process

The following summarizes the objectives of the review along with a conclusion on the effectiveness of management’s internal controls.

Objective	Conclusion ¹
Evaluate the design and effectiveness of controls over the liquor permit application and issuance process.	Well-Controlled with Improvements Needed
Evaluate the design and adequacy of communications, related to liquor law compliance, to liquor permit holders.	Well-Controlled
Evaluate the design and effectiveness of controls over the monitoring of liquor permit holders.	Well-Controlled with Improvements Needed
Evaluate the design and effectiveness of controls over the liquor sales commission payment process.	Well-Controlled with Improvements Needed

¹ Refer to [Appendix A](#) for classification of audit objective conclusions.



Summary of Observations and Recommendations

The Summary of Observations and Recommendations includes only those risks which were deemed high or moderate. There were no high or moderate observations and recommendations identified as a result of this audit.

Low risk observations and recommendations were discussed with individual agency management and are not part of this report. However, the low risk observations and recommendations were considered as part of the audit objective conclusions above.



Appendix A – Classification of Audit Objective Conclusions

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Major Improvements Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.
Improvements Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Well-controlled with Improvements Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.