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PUBLIC RELEASE OF INVESTIGATIVE REPORT CITY OF COOK MUNICIPAL LIQUOR STORE LAST CHANCE LIQUOR STORE September 11, 2001

I. INTRODUCTION

The Special Investigations Division of the Office of the State Auditor (hereinafter "OSA") received a letter dated August 22, 2000, regarding the City of Cook's (hereinafter "City") Municipal Liquor Store, the Last Chance Liquor Store (hereinafter "Liquor Store"). The OSA was notified that there appeared to be evidence of a theft of public funds by the Liquor Store Manager on June 26, 2000, of approximately \$400.00. The OSA was also informed that the Liquor Store Manager may have sold liquor to another retail liquor establishment. The City contacted the St. Louis County Sheriff's Department to investigate the matter. The OSA provided assistance in the investigation.

The mission of the Special Investigations Division is to review allegations regarding malfeasance, misfeasance, and nonfeasance by local government employees or officers. Since the Division is a fact-finding entity and has no prosecutorial powers, its role is to evaluate allegations brought to the OSA's attention, and when appropriate, provide specialized auditing techniques, initiate an independent investigation, or refer the matter to appropriate oversight authorities.

During the course of its investigation, the OSA also identified concerns regarding the Liquor Store's operations. Those matters are discussed in a September 11, 2001 letter to the Cook City Council.

II. BACKGROUND

On August 14, 2000, Liquor Store Manager John Gustafson (hereinafter "Mr. Gustafson") was placed on administrative leave with pay. The following day, Mr. Gustafson tendered his resignation. The OSA requested various financial records for January 1, 2000 through August 22, 2000 from the City and Liquor Store including, but not limited to: cash register tapes, bank statements, purchase and sales invoices, inventory reports, monthly revenue reports, and total purchase and expenditure

reports.¹ The City and Liquor Store provided much of the requested information, but were unable to provide the OSA with daily or monthly inventory records.²

From information provided by the City, the OSA was able to determine that the Liquor Store sells product on account to at least four vendors. After the vendors pick up the product at the Liquor Store, the Liquor Store Manager prepares a computer-generated sales invoice detailing the product obtained and the price. A copy of the sales invoice is sent to the vendor. The sales invoice states that payment is due in thirty days. When payment is received by the Liquor Store, the sale is rung into the cash register.

III. QUESTIONED SALES

The City identified three Liquor Store computer-generated sales invoices showing higher sales than corresponding sales reflected on the daily cash register tapes. The three sales invoices totaled \$3,925.32, but the cash register tapes indicated that the sales were only \$2,233.96, a difference of \$1,691.36. The sales invoices were dated April 17, May 24, and June 26, 2000. These specific transactions are detailed below:

A. April 17 and 19, 2000 Transactions

The OSA obtained a copy of the sales invoice dated April 17, 2000 from the City, which indicated a sale of \$976.43 to "Cash" as itemized below:

¹ The OSA was informed that the City believed there were concerns regarding Liquor Store sales in May 2000.

² Inventory received in the Liquor Store is entered into the cash register. The cash register can display the total number of bottles in the store on the current day. The cash register does not have the ability to produce inventory numbers prior to the current day. The ability to identify the amount of product through the cash register system is considered a perpetual inventory system, which allows comparisons of the inventory on the cash register to a physical count of inventory to determine any differences. The OSA was informed that the inventory on the cash register had not been properly maintained for years, and was not compared to the physical inventory counts. As of the end of July 2001, the OSA was informed that the cash register inventory system is now utilized and compared to physical counts on a regular basis.

<u>Quantity</u>	<u>Description</u>	<u>Unit Price</u>	<u>Total</u>
24	Windsor	\$ 8.49	\$203.76
60	Phillips Vodka	\$ 6.99	419.40
12	E&J Brandy	\$ 8.39	100.68
12	Jose Cuervo	\$13.99	<u>167.88</u>
	Subtotal		\$891.72
	Sales tax		<u>84.71</u>
	Total		\$976.43

No corresponding sale was found on the cash register tape for April 17, 2000. However, on April 19, 2000, the cash register tape reflected a sale of only a portion of the product listed on the invoice at what appeared to be reduced prices, as itemized below:³

<u>Quantity</u>	<u>Description</u>	<u>Unit Price</u>	<u>Total</u>
60	Phillips Vodka	\$ 5.99 ⁴	\$359.40
12	Cuervo	\$10.99 ⁵	<u>131.88</u>
	Subtotal		\$491.28
	Sales tax		<u>44.22</u>
	Total		\$535.50

³ The cash register tape indicated that \$544.00 in cash was received for the sale and \$8.50 in change was returned. From the OSA's review of various cash register tapes, it appears that the cash register tapes can identify the type of payment as being cash, check, and/or credit card. However, the Liquor Store does not consistently utilize this function.

⁴ Prior to the sale, the cash register tape indicated that a price reduction was made for Phillips Vodka to \$5.99. The OSA has been informed that only the Liquor Store Manager and Assistant Liquor Store Manager adjusted prices on the cash register.

⁵ Prior to the sale, the cash register tape indicated that a price reduction was made for Cuervo to \$10.99.

The difference between the invoice and the sale on the cash register tape is \$440.93 (\$976.43 - \$535.50). The April 19, 2000 cash register tape indicated that subsequent to the sale, prices for some of the products listed on the invoice were raised as indicated below:

<u>Description</u>	<u>Unit Price</u>
Phillips Vodka	\$ 8.39
Cuervo	\$17.49

The next transaction on the April 19, 2000 cash register tape reflected an inventory reduction for the remaining products on the April 17, 2000 invoice, as set forth below:

<u>Quantity</u>	<u>Description</u>
24	Windsor
12	E&J Brandy

The cash register tape indicated that the above transactions occurred between 8:52 a.m. and 9:10 a.m. on April 19, 2000.⁶ The time records for that day indicated that only Mr. Gustafson was working at that time. No other employee punched in for work until 9:55 a.m.

B. May 24 and 25, 2000 Transactions

The OSA obtained a copy of the sales invoice dated May 24, 2000 from the City, which indicated a sale of \$1,737.68 to "Cash" as itemized below:

<u>Quantity</u>	<u>Description</u>	<u>Unit Price</u>	<u>Total</u>
60	Captain Morgan	\$11.09	\$ 665.40
60	Phillips Vodka	\$ 6.99	419.40
60	Windsor	\$ 8.49	<u>509.40</u>
	Subtotal		\$1,594.20
	Sales tax		<u>143.48</u>
	Total		\$1,737.68

⁶ The Liquor Store is open Monday through Saturday 8:00 a.m. to 10:00 p.m., and is closed on Sundays.

No corresponding sale was found on the cash register tape for May 24, 2000. However, on May 25, 2000, the cash register tape reflected a sale of only a portion of the product listed on the invoice, as stated below:⁷

<u>Quantity</u>	<u>Description</u>	<u>Unit Price</u>	<u>Total</u>
30	Captain Morgan	\$11.09	\$332.70
30	Phillips Vodka	\$ 6.99	209.70
30	Windsor	\$ 8.49	<u>254.70</u>
	Subtotal		\$797.10 ⁸
	Sales tax		<u>71.74</u>
	Total		\$868.84

The difference between the invoice and the cash register sale was \$868.84 (\$1,737.68 - \$868.84). The May 25, 2000 cash register tape indicated that subsequent to the sale, the prices for the products listed on the invoice were raised as indicated below:

<u>Description</u>	<u>Unit Price</u>
Captain Morgan	\$13.99
Phillips Vodka	\$ 8.39
Windsor	\$10.69

The next transaction on the May 25, 2000 cash register tape, following the price increases, was an inventory reduction for the remaining quantity of products reflected on the May 24, 2000 invoice as set forth below:

<u>Quantity</u>	<u>Description</u>
30	Captain Morgan
30	Vodka
30	Windsor

⁷ The cash register tape indicated that \$870.00 in cash was received for the sale and \$1.16 in change was returned.

⁸ The May 25, 2000 cash register tape indicated that immediately prior to the recorded sale the product prices were set as follows: Captain Morgan was set at \$11.09, Phillips Vodka was set at \$6.99, and Windsor was set at \$8.49.

The cash register tape indicated that the above transactions occurred between 8:06 a.m. and 8:10 a.m. on May 25, 2000. The time sheets for that day indicated that only Mr. Gustafson and the Liquor Store Assistant Manager were punched in at the time of the transactions.

C. June 26 and 27, 2000 Transactions

The OSA obtained a copy of the sales invoice dated June 26, 2000 from the City, which indicated a sale of \$1,211.21 to "Cash" as itemized below:

<u>Quantity</u>	<u>Description</u>	<u>Unit Price</u>	<u>Total</u>
60	Windsor	\$ 8.49	\$ 509.40
24	Bacardi	\$ 9.49	227.76
12	Jim Beam	\$ 9.59	115.08
12	Phillips Wt. Rum	\$ 6.99	83.88
12	Tanqueray	\$14.59	<u>175.08</u>
	Subtotal		\$1,111.20
	Sales tax		<u>100.01</u>
	Total		\$1,211.21

No corresponding sale was found on the cash register tape for June 26, 2000. However, on June 27, 2000, the cash register tape indicated a sale of a portion of the products listed on the June 26, 2000 sales invoice, as specified below:⁹

⁹ The cash register tape indicated that \$830.00 in cash was received for the sale and \$8.68 in change was returned.

<u>Quantity</u>	<u>Description</u>	<u>Unit Price</u>	<u>Total</u>
50	Windsor	\$8.49	\$424.50
18	Bacardi Light	\$9.49	170.82
10	Jim Beam	\$9.59	95.90
10	Ph. Rum	\$6.99	<u>69.90</u>
	Subtotal		\$761.12 ¹⁰
	Sales tax		<u>68.50</u>
	Total		\$829.62

The difference between the invoice and the cash register sale was \$381.59 (\$1,211.21 - \$829.62). The following transaction on the cash register tape was an inventory reduction for the remaining quantity of products reflected on the June 26, 2000 invoice, as indicated below:

<u>Quantity</u>	<u>Description</u>
10	Windsor
6	Bacardi
2	Jim Beam
2	Phillips Rum
12	Tanqueray

Immediately after the inventory reduction, the prices for the products listed on the invoice were raised in the cash register as indicated below:

<u>Description</u>	<u>Unit Price</u>
Windsor	\$10.69
Bacardi Light	\$11.89
Jim Beam	\$11.99
Ph. Rum	\$ 8.49
Tanqueray	\$18.29

¹⁰ The June 27, 2000 cash register tape indicated that immediately prior to the recorded sale the product prices were set as follows: Windsor at \$8.49, Bacardi Light at \$9.49, Jim Beam at \$9.59, Phillips Rum at \$6.99, and Tanqueray at \$14.59.

The cash register tape indicated that the above transactions occurred between 4:23 p.m. and 4:29 p.m. on June 27, 2000. There was only one other Liquor Store employee besides Mr. Gustafson who was punched in during the time of the transactions.

In a memorandum, the Assistant Liquor Store Manger stated that on June 27, 2000, Mr. Jack Luecken (owner of the old Town Muni Bar) came in and gave her \$1,211.21 in cash to pay for liquor received on June 26, 2000. She stated that she and another City employee counted the money and she gave the money to Mr. Gustafson. On June 28, 2000, she found the cash register tape in the garbage. She discovered that only \$829.62 of the total order had been rung into the cash register.

After Mr. Gustafson was placed on administrative leave on August 14, 2000, he returned to the Liquor Store and gave the City Administrator \$492.00. The City Administrator expressed to the OSA that she determined the money was not from the current day's sales.

D. Additional Sales

During its review, the OSA found seven additional sales invoices which did not have corresponding transactions on the cash register tapes, on the date of the sales invoice or two days following, for the amounts and types of liquor shown on the invoices.¹¹ The information from the seven sales invoices is included in the chart below:

	Customer As Noted on <u>Invoice</u>	<u>Invoice Date</u>	Amount of <u>Invoice</u>
1.	Cash	January 10, 2000	\$ 986.49
2.	Cash	February 25, 2000	690.62
3.	Cash	May 3, 2000	57.18
4.	Cash	May 25, 2000	66.01
5.	Cash	July 5, 2000	492.66
6.	Jack	June 25, 1999	1,962.43
7.	Jack Luecken	August 16, 1999	<u>1,029.40</u>
		Total	\$5,284.79

¹¹ The information included in the chart and corresponding documents were provided to the St. Louis County Sheriff's Department.

The Assistant Liquor Store Manager told the OSA that she believed sales invoices written to “Cash” would have been sales made to Mr. Luecken. The Assistant Liquor Store Manager also noted that Mr. Luecken was not always given an invoice for all product purchased. However, she believed that Mr. Luecken paid cash for the product he purchased. The OSA reviewed cash register tapes for the dates identified on the invoices as well as the following two days, and was unable to confirm that the sales reflected on the invoices had been rung into the cash register.¹² The OSA also checked bank deposit slips for thirty days after the date of each invoice.¹³ The OSA did not discover any checks in the deposit records which corresponded to the dollar amounts on any of the seven invoices for the time period reviewed.

E. Resale of Product

Based upon the OSA’s review of Liquor Store records, the OSA determined that sales to Mr. Luecken had occurred. As stated previously, Mr. Luecken is the owner of the Old Town Muni Bar. The OSA also found three sales invoices made to the Country Supper Club, which sold on-sale liquor. The sales invoices were dated June 6, June 12, and August 14, 2000, and were for \$60.84, \$122.49, and \$27.58, respectively.¹⁴

Minnesota law provides that “[a] retail licensee may not sell alcoholic beverages to any person for the purpose of resale or to any person whom the licensee has reason to believe intends to resell the alcoholic beverage without written approval of the commissioner [of public safety].”¹⁵ The OSA was informed that the Alcohol and Gambling Enforcement Division of the Department of Public Safety has been contacted regarding this issue.

¹² The OSA requested all Liquor Store cash register tapes from January 1 through August 22, 2000. The OSA did not receive the February 27, May 27, August 18, 2000 and the second half of the day’s sales from July 6, 2000.

¹³ The OSA checked bank deposit records for thirty days after the sale because Liquor Store invoices stated “Payment due within 30 days of this invoice.”

¹⁴ The \$60.84 and \$122.49 payments were made by check and were found on the City’s deposit records. The OSA was unable to locate the \$27.58 payment; however, the OSA only had the bank deposit records through August 31, 2000. On the City’s August 2, 2000 deposit ticket, the OSA located a payment for \$149.95 from the “C. Supper Club.” The OSA was not provided with any corresponding sales invoice to support such payment.

¹⁵ Minn. Stat. § 340A.505 (2000).

IV. QUESTIONABLE TIME SHEET ACTIVITY

The OSA also reviewed a number of inconsistencies between the time records submitted by Mr. Gustafson and the actual time he was present at the Liquor Store. The OSA determined that there were a number of occasions where it appears that Mr. Gustafson was not in fact working the hours designated on his time records.¹⁶ The OSA offered to provide, upon request, St. Louis County officials with specifics regarding these findings.

V. CONCLUSION

On September 11, 2001, the OSA referred this matter to the St. Louis County Sheriff's Department and the St. Louis County Attorney, to proceed as the law and public interest require.

The OSA remained available to assist St. Louis County officials as necessary. Any questions regarding this Report may be directed to the Director of Special Investigations, Ms. Lea De Souza at 651-297-7107, or Ms. Kathleen Docter at 651-282-2388.

/s/ Judith H. Dutcher

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State Auditor

¹⁶ The City did not require that time records be signed and attested to by Liquor Store employees.