

**BOARD OF LICENSE COMMISSIONERS
PRINCE GEORGE'S COUNTY, MARYLAND**

**PERFORMANCE AUDIT
OCTOBER 2001**

**OFFICE OF AUDITS AND INVESTIGATIONS
Prince George's County
Upper Marlboro, Maryland**

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BOARD OF LICENSE COMMISSIONERS

SUMMARY OF PERFORMANCE AUDIT

OCTOBER 2001

The Office of Audits and Investigations performed an audit of the Board of License Commissioners (BOLC) in accordance with the County Charter. In the performance of our audit we: (i) assessed the adequacy of the system of management controls over licenses granted, license fees collected, and the inspection process, (ii) assessed whether licenses were issued and renewed in accordance with State laws and the BOLCs rules and regulations, (iii) assessed how effectively the inspection process is carried out and how violations are handled, (iv) identified factors inhibiting satisfactory performance in these areas, and the effects or potential effects of continued unsatisfactory performance, and (v) recommended corrective action where needed.

The Board of License Commissioners effectively records and monitors agency receipts, complies with State laws and BOLCs rules and regulations in granting liquor licenses, and processes violations in accordance with established regulations. However, we identified several opportunities for improvement in various areas within the BOLCs operations. The areas addressed in our report are:

- Written procedures were lacking in important areas such as conducting the liquor inspection and reporting inspection results and visits.
- Independent reconciliations related to collections, deposits, licenses issued, and County financial records, are not being performed.
- There is inadequate segregation of duties between the collection of license fees and license recordkeeping.
- License fees collected are not adequately safeguarded internally.
- Deposits of receipts are not being made timely and in accordance with the agency's Revenue Collection Procedure.
- Inspection records and records of complaints received from citizens are not maintained for an adequate length of time.

We wish to thank the Board of License Commissioners for its assistance and cooperation. We are available to provide assistance in implementing the recommendations contained in this report, or in any other area where the agency may have concerns or questions.

BOARD OF LICENSE COMMISSIONERS

PERFORMANCE AUDIT

BACKGROUND

The Prince George's County Board of License Commissioners consists of five members appointed by the Governor under the provisions of Section 15-101 of Article 2B of the Annotated Code of Maryland. The Board serves a quasi-judicial function in administering and enforcing the Alcoholic Beverage Laws of the State of Maryland and the Rules and Regulations of the Board of License Commissioners for Prince George's County, Maryland.

The stated mission of the Board of License Commissioners is to serve the citizens and the licensees of Prince George's County, Maryland, in all areas regarding the regulating, controlling, distribution, retailing, and the awareness and consequences of alcoholic beverages.

The Board's responsibilities include the approval or denial of applications for new alcoholic beverage licenses and transfers of location and/or assignments of licenses. The Board is responsible for the issuance of Special One-Day licenses and Sunday On Sale Permits. In addition, the Board reviews the annual renewal of all alcoholic beverage licenses. The Board also takes disciplinary action for violations of the laws and regulations, through the imposition of fines, suspensions, or revocation of licenses. The Board directs the inspections of all licensed premises, including inspections conducted on a routine basis, and special inspections.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to (i) assess the adequacy of the system of management controls over licenses granted, license fees collected, and the inspection process, (ii) assess whether licenses issued/renewed were done in accordance with State laws and the BOLCs rules and regulations, (iii) assess how effectively the inspection process is carried out and how violations are handled, (iv) identify factors inhibiting satisfactory performance in these areas, and the effect or potential effect of continued unsatisfactory performance, and (v) recommend corrective action where needed.

The criteria used to evaluate the audit evidence gathered include:

- ◆ The Board of License Commissioners' Revenue Collection Procedure, Effective August 6, 1990;
- ◆ Governmental Accounting, Auditing, and Financial Reporting, published by the Government Finance Officers Association (ISBN 0-89125-219-3);
- ◆ The United States General Accounting Office standards for internal control publication (GAO/AIMD-00-21.3.1).

Our audit included interviews with BOLCs key personnel; observation of staff performing their duties; and detailed tests including:

- ◆ Comparing license receipts to amount deposited;
- ◆ Comparing timing of receipts to deposits;
- ◆ Verifying if reconciliation is being done between receipts, deposits, amounts recorded, and value of licenses issued;
- ◆ Comparing if procedures taken before granting licenses are consistent with the required rules and regulations;
- ◆ Determining how frequently liquor inspectors visit licensed establishments;
- ◆ Determining the type and frequency of training received by liquor inspectors.

FINDINGS AND RECOMMENDATIONS

Lack of Written Procedures

During our discussions with various agency staff, and a review of information provided by the agency, we found that the agency's inspection activity did not have written procedures in place to direct the critical functions of that activity. Written procedures were lacking in important areas such as conducting the liquor inspection and reporting inspection results and visits.

The Government Finance Officers Association publishes "Governmental Accounting, Auditing, and Financial Reporting (GAAFR)," often referred to as the "Blue Book." In the latest edition of this publication – copyrighted in 2001 – the Blue Book addresses the need for good written procedures. It states that:

"A well-designed ... policies and procedures manual clearly outlines the specific authority and responsibility of individual employees, thus providing the foundation essential for establishing employee accountability." "In addition, [a] ... policies and procedures manual lessens the threat to continuity posed by employee turnover."

The General Accounting Office (GAO) periodically issues publications pertaining to professional standards and generally accepted practices within the government environment. In its publication on standards for internal controls (GAO/AIMD-00-21.3.1) it states that:

"Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained."

Written procedures serve as a reference tool for employees seeking guidance on the proper handling of less frequently encountered transactions and situations. The failure to establish written procedures to guide inspectors during their inspection beat, may result in inspectors carrying out procedures that do not adequately address the agency's objectives for that activity, and may also result in procedures being applied inconsistently by the different inspectors. Inspectors may not visit licensees as frequently as they should and may not be adequately reporting their inspection activity. In addition, without written guidance, the inspectors may not be responding consistently to a discovered violation on the part of a licensee.

Although the department had a detailed position description for their staff inspectors that describes their responsibility, written procedures on how staff should accomplish these responsibilities are necessary to ensure that the inspection activity effectively achieves its objectives. We noted that management is not aware of the need to provide adequate written procedures to guide their employees in carrying out their duties. As a result, there is less assurance that staff is adhering to management's intent when carrying out this activity.

Recommendation

- 1. We recommend that the Chairman of the Board of License Commissioners develop and implement written procedures that set forth the agency's desired approach for conducting its' liquor inspection activity. These procedures should clearly describe what is expected from each liquor inspector when conducting their liquor inspection duties, including the minimum amount of visits that each licensee should have during a given period (i.e., monthly). The procedures should also clearly describe or reference guidelines to be followed if violations of the County's liquor laws and regulations are discovered.**

Inadequate Reconciliation of Collections

During our examination, we noted that the Board of License Commissioners' staff was not performing independent reconciliations between collections recorded in the logbook to the amount deposited with the bank; total collections to the number and type of licenses issued; and agency transmittals to the amount recorded in the County's financial system, for the period of our review.

The Revenue Collection Procedure for the Board of License Commissioners, effective August 6, 1990, states that:

“Additionally, the collection and documentation of revenues is reconciled by the Deputy Chief Liquor Inspector on a monthly basis. The Board of License Commissioners Monthly Reconciliation of Revenues is presented by the Inspection Staff to the Board of License Commissioners in Executive Session for their review. The Chairman signs off on this report monthly.”

The BOLC was unable to provide us with evidence of the performance of periodic reconciliations and of its presentation to the Board. We discussed the lack of reconciliation procedures with staff and were informed that the reconciliations were not being performed because of a lack of adequate staffing. All staff in the administrative function is involved in the collection process and the license issuance process. Therefore, they cannot conduct an

independent reconciliation of the activities in the above processes. However, we noted that their procedures call for the Inspection staff to perform reconciliations.

A failure to conduct periodic reconciliations in the above areas may cause errors or irregularities within the collection, recording, and license issuance process to go undetected. This effort has been overlooked due to the Commissions concentration on other immediate needs.

Recommendation

- 2. We recommend that the Chairman of the Board of License Commissioners direct staff to comply with their Revenue Collection Procedure and ensure that monthly reconciliations are performed and presented to the Board. The Commissioners should determine if there is a need for additional staffing and/or reassign duties among existing staff in order to comply with agency procedures and good internal control practices.**

Segregation of Duties

The Board of License Commissioners does not maintain adequate segregation of duties between the collection of license fees and the recordkeeping of the licenses associated with those fees. At certain times, the same person who collects the payments for a license renewal is the same person who issues the license and updates the license records, indicating that the licensee is paid-up and current.

Further, there is no proper segregation of duties between the staff involved in the collection of receipts and the staff that prepares transmittal records for data entry.

In its publication on standards for internal controls (GAO/AIMD-00.21.3.1) the GAO states that:

“Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.”

Additionally, the BOLCs Revenue Collection Procedure, item 13, indicates that an Administrative Aide, separate and apart from the one(s) who collects monies, issues receipts, and records entries in the logbook, should be responsible for preparing and issuing all alcoholic beverage licenses.

In order for the BOLC to lessen the possibility for intentional and unintentional misstatements, a careful adherence to the segregation of staff responsibilities should be observed.

Because of staffing shortages, in particular the lack of an Administrator at the time of our testwork, some of these issues are being overlooked.

Recommendation

- 3. We recommend that the Board of License Commissioners adhere to their existing written procedures and ensure that conflicting duties are properly segregated. We further recommend that the Commissioners fill the Administrator position as quickly as possible.**

Inadequate Safeguarding of Assets

During our audit, we determined that the BOLC is not adequately safeguarding fees collected from license applicants.

In its publication on standards for internal controls (GAO/AIMD-00-21.3.1) the GAO states that:

“An agency must establish physical control to secure and safeguard vulnerable assets. Examples include security for and limited access such as cash, securities, inventories, and equipment that might be vulnerable to risk of loss or unauthorized use. Such assets should be periodically counted and compared to control records.”

Through our discussions with agency staff, and reinforced by our own observation, we learned that the receipts collected by the BOLC were secured in a filing cabinet. The staff informed us that the filing cabinet was locked, and the key for that cabinet was stored in another filing cabinet, which was also locked. It is our belief, however, that a filing cabinet can be easily compromised, and does not provide adequate protection to monetary assets. Further, during the agency’s license renewal season, large amounts of receipts are handled daily by the agency. A filing cabinet, though locked, does not provide adequate security to these receipts; they become susceptible to theft, as well as other environmental hazards. This condition is exacerbated by the untimely bank deposits condition discussed below.

Recommendation

- 4. We recommend that the Board of License Commissioners purchase a safe that can protect the County’s monetary assets from theft, fire, and other foreseeable hazards. Access to this safe should be limited to as few people as necessary.**

Untimely Bank Deposits

During our examination, we determined that deposits of receipts in excess of \$100 were not being made with the frequency required by the agency's Revenue Collection Procedure.

The agency's Revenue Collection Procedure, approved by the Office of Finance on February 22, 1991, sets forth the following requirements pertaining to frequency of BOLC deposits:

“A deposit will be made to the local bank on Monday, Wednesday, and Friday of each week if funds are more than \$100. Additionally, monies will be remitted to the bank on the last business day of the month. It further states that if funds are less than \$100, they will be transmitted to the bank once a week.”

During our discussions with staff, they informed us that deposits are usually made once a week during their renewal period. They further informed us that the frequency of deposits is not really altered for large sums. This proved to be true during our testwork as we discovered many instances where receipt totals in excess of \$100 were not deposited as prescribed by the agency's written procedure.

If receipts are not deposited on a timely basis, it results in interest income being lost to the County, and also makes receipts more susceptible to theft, due in part to the inadequate safeguarding of assets condition discussed above.

Recommendation

- 5. We recommend that the Board of License Commissioners comply with their existing written procedure and deposit receipts with the required frequency set forth in the procedure.**

Professional Development Recordkeeping

The BOLC does not maintain adequate individual records of the annual training received by their liquor inspectors.

Prudent organization practice involves the maintaining of adequate records to document essential activities of an organization. The records of significant activity should be properly maintained and available for examination in order to ensure an adequate level of accountability.

During our audit, we attempted to verify if liquor inspectors were receiving a sufficient level of training that would strengthen and maintain their ability to effectively carry-out their inspection responsibility, thereby ensuring that the agency accomplished that aspect of its mission. However, we were not able to review any such documentation, because it was not maintained on file by the agency. The Board's staff informed us that the inspectors are afforded the opportunity of basic internal training and two to four annual training programs sponsored by the Maryland State Police and the Maryland Alcohol Licensing Beverage Association.

Without proper documentation of training, it is difficult to ascertain the annual hours of training received by liquor inspectors, and it hinders accountability in this important area. If inspectors are not receiving an adequate amount of training, it reduces their effectiveness thereby jeopardizing the agency's ability to effectively accomplish its mission.

Recommendation

- 6. We recommend that the Board of License Commissioners set up a formal procedure pertaining to required training for their liquor inspectors, and a requirement that evidence of training be maintained for at least two years. This evidence may take the form of training registration forms and certificates of completion.**

Maintenance of Inspection & Complaints Data

The BOLC does not maintain its inspection records for an adequate length of time; nor does it maintain adequate records of complaints received from citizens.

As discussed in the preceding recommendation, the records of significant activity should be properly maintained and available for examination in order to ensure an adequate level of accountability.

We were unable to verify the number of inspection visits performed by the liquor inspectors for calendar year 1999. The Liquor Board staff informed us that those records were disposed of. We were also unable to determine how quickly the agency's inspectors responded to citizens' complaints. Although the agency logged citizens' complaints, they did not record the date of resolution.

Recommendation

- 7. We recommend that the Board of License Commissioners develop a policy for the retention of important records that are pertinent to the agency's mission and objectives. These records should be comprehensive enough to provide information on the timing and resolution of these activities, be maintained for a minimum of two years, and archived afterwards, as necessary.**