

Performance Audit Report

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**Board of Liquor License Commissioners  
for Baltimore City**

May 2020

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**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES  
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MARYLAND GENERAL ASSEMBLY

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May 11, 2020

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee  
Delegate Carol L. Krimm, House Chair, Joint Audit and Evaluation Committee  
Members of Joint Audit and Evaluation Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a performance audit to evaluate the effectiveness and efficiency of the management practices of the Board of Liquor License Commissioners for Baltimore City (BLLC) as required by the State Government Article, Section 2-1220 of the Annotated Code of Maryland. The law requires our audit to focus on BLLC operations relating to licensing, inspections, disciplinary procedures, and management oversight, which broadly represent the four audit objectives established. BLLC issued 1,216 alcoholic beverage and adult entertainment licenses during license year 2018, and fiscal year 2018 revenues totaled \$2.5 million, primarily derived from license fees.

This is our third audit of the BLLC and we have noticed continual improvement in BLLC audit results, with the number of report findings decreasing from 24 in our first report, to 18 in the second, and now 8 in this report. In addition, our current audit disclosed that BLLC made significant improvements in addressing the conditions noted in our preceding audit of BLLC, with only one of the prior findings repeated in this audit report. For example, BLLC established the *Board of Liquor License Commissioners for Baltimore City: 2018 Policy and Procedure Manual* (SOPs) providing structure to the licensing, inspections, disciplinary procedures, and management oversight processes and allowing for consistency and accountability. Additionally, BLLC implemented an inspection database which monitors inspection activity and outcomes, and stores critical inspection information and inspection documentation. Nevertheless, our audit disclosed that

BLLC could improve portions of the SOPs to be more comprehensive and it still had deficiencies in each of the four areas reviewed.

#### Licensing

BLLC did not always follow established procedures for securing and processing cash receipts and certain procedures need improvement to ensure collections are properly deposited.

#### Inspections

BLLC's SOPs were not comprehensive since they did not require that inspection reports be retained after being recorded into the inspection database, did not require that recorded inspection information be independently verified, did not formally establish the frequency and type of inspections to be conducted for each licensee, and did not specify if and when follow-up inspections should be conducted after violations are noted.

Additionally, we noted that BLLC did not always follow its SOPs when investigating complaints received through Baltimore City's "311" Customer Service Request System and there were instances in which inspectors did not issue violations to establishments that had a previous history of abated noise complaints nor document the reason why a violation was not issued. Finally, BLLC's methodology to monitor that establishments were inspected at frequencies consistent with its goal of four inspections of each establishment annually, including one routine inspection, needs improvement.

#### Disciplinary Procedures

BLLC did not properly track and monitor certain instances of licensee noncompliance (such as building violations) and did not always maintain sufficient documentation of internal reviews performed to support determinations of whether to present instances of noncompliance to the Board for adjudication.

#### Management Oversight

Although BLLC monitored Board and employee compliance with State ethics filing requirements, procedures were not established to monitor employee compliance with statutory independence restrictions in State law regarding secondary employment and business investments.

Our overall audit scope, objectives, and methodology are explained on page 7.

BLLC's response to this audit is included as an appendix to this report. In accordance with State law, we have reviewed the response and, while BLLC generally agrees with the recommendations in this report, we identified certain

instances in which statements in the response conflict with or disagree with the report findings. In each instance, we reviewed and reassessed our audit documentation, and reaffirmed the validity of our finding. In accordance with generally accepted government auditing standards, we have included “auditor comments” within the response to explain our position. Finally, there are other aspects of the response which will require further clarification, but we do not anticipate that these will require the Committee’s attention to resolve.

We wish to acknowledge the cooperation extended to us during the audit by the Board and the staff of the BLLC. We also wish to acknowledge the Board’s willingness to address the audit issues and to implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive, flowing style.

Gregory A. Hook, CPA  
Legislative Auditor



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# **Audit Scope, Objectives, and Methodology**

## **Audit Scope**

The State Government Article, Section 2-1220(f) of the Annotated Code of Maryland, requires the Office of Legislative Audits, at least once every four years, to conduct a performance audit of the Board of Liquor License Commissioners for Baltimore City (BLLC) to evaluate the effectiveness and efficiency of the management practices of BLLC and the economy with which BLLC uses resources. The law also states the audit shall focus on operations relating to licensing, inspections, disciplinary procedures, and management oversight.

Our audit was performed in accordance with generally accepted government auditing standards. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Objectives and Methodology**

Our audit included the following objectives:

1. Evaluate the adequacy of procedures over alcoholic beverage licensing and the maintenance of related records, and determine if the licensing process complied with State law and Board requirements.
2. Evaluate the adequacy of BLLC policies and procedures for conducting inspections of alcoholic beverage licensees and maintaining related records, and to determine whether inspections were performed in accordance with policies and procedures.
3. Evaluate the disciplinary process and determine if BLLC complied with applicable State law, enforced applicable Board rules and regulations governing licensees, and maintained accurate disciplinary records.
4. Evaluate management processes to determine whether proper oversight exists over BLLC operations.

To accomplish our objectives, we reviewed applicable State laws, and the policies and procedures established by the Board and BLLC administrative personnel governing the licensing process and related records. We also reviewed pertinent sections of BLLC's *Board of Liquor License Commissioners for Baltimore City: 2018 Policy and Procedure Manual* that governs BLLC administrative functions

and the *Alcoholic Beverages Rules and Regulations for the Board of Liquor License Commissioners for Baltimore City*, which governs the conduct of licensee business operations.

Additionally, we interviewed BLLC staff to determine the processes used to issue licenses, conduct inspections, administer disciplinary proceedings, and maintain related records. We also observed the licensing and disciplinary hearing processes.

We obtained data files of current BLLC licensees as of December 2018 and a report of the licenses transferred and renewed during license year 2018 (May 1, 2017 through April 30, 2018) from the BLLC licensing database; this database is stored on the servers maintained by the Baltimore City Mayor's Office of Information Technology. We also obtained a data file of inspections performed during license year 2018 from a separate inspection database maintained by the Baltimore City Office of Information and Technology. We used these data files to perform various tests of the licensing, inspection, and disciplinary processes, and performed various tests of the relevant data and determined these data files were sufficiently reliable for the purposes used during the audit.

We also reviewed the licensee paper files and the minutes of Board hearings that evidenced the decisions and actions taken by the Board. Finally, we obtained records of complaints registered through Baltimore City's "311" Customer Service Request System (311 System) to evaluate BLLC's process for following up on complaints.

Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected. The reliability of data used in this report for background or informational purposes was not assessed. In addition to the conditions included in this report, other findings were communicated to BLLC that were not deemed significant and, consequently, did not warrant inclusion in this report.

## **Fieldwork and Agency Response**

We conducted our fieldwork from December 2018 to April 2019. BLLC's response to our findings and recommendations is included as an appendix to this audit report. As prescribed in the State Government Article, Section 2-1224 of

the Annotated Code of Maryland, we will advise BLLC regarding the results of our review of its response.

## **Background Information**

### **Agency Responsibilities**

The operations of the Board of Liquor License Commissioners for Baltimore City (BLLC) are governed by Title 12 of the Alcoholic Beverages Article of the Annotated Code of Maryland for the alcoholic beverage licensing, and by Subtitle 1 of Article 15 of the Baltimore City Code for the licensing and regulation of adult entertainment businesses. BLLC is responsible for processing applications for and renewals of licenses to sell beer, wine, and liquor; conducting periodic inspections of businesses licensed to sell alcoholic beverages; collecting all license fees and fines; fining, suspending, or revoking the licenses of violators of alcoholic beverage laws; and licensing and regulating adult entertainment businesses in Baltimore City. BLLC also issues licenses for special events (such as one-day licenses for beer and wine festivals) and for special venues (such as a casino, zoo, or stadium). According to BLLC records, which we verified through testing, there were 1,216 alcoholic beverage and adult entertainment licenses (excluding special event licenses) issued during the 2018 license year (May 1, 2017 through April 30, 2018).

All BLLC revenues from licenses issued, fines, and late fees are paid to Baltimore City's Director of Finance, and all BLLC expenditures, including employee salaries, are paid by the City. Furthermore, BLLC is included in the City's annual budget and its financial activity is included in the City's Comprehensive Annual Financial Report. BLLC's budgeted expenditures for fiscal year 2019 were \$2.1 million and provided for 22 employees. According to Baltimore City records, BLLC's fiscal year 2018 revenues totaled approximately \$2.5 million and expenditures totaled approximately \$1.9 million. In accordance with State law, BLLC revenues in excess of its expenditures and salaries are to be used by the Mayor and City Council for the general purposes of the City.

BLLC is governed by a three-person board, plus one alternate member. The Mayor of Baltimore appoints two members and the President of the City Council of Baltimore City appoints one member and the alternate member. The appointments are subject to the advice and consent of the Maryland Senate. As of December 2018, BLLC had 16 full-time staff—which included 3 executive staff, 1 supervising inspector, 7 full-time inspectors, and 5 support staff—as well as a part-time appeals counsel and a community liaison contractual employee. Except for the executive secretary and deputy secretary, all employees of the Board are in the classified civil service of the City.

## **Status of Findings From Preceding Audit Report**

Based on our current assessment of significance and risk relative to our audit objectives, our audit included a review to determine the status of 17 of the 18 findings contained in our preceding audit report dated July 13, 2016. As disclosed in the following table, we determined BLLC satisfactorily addressed 16 of these findings. The remaining finding is repeated in this report.

### Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	BLLC lacked formal written policies to guide and control the licensing process.	Not repeated
Finding 2	BLLC renewed certain licenses without ensuring licensees paid the proper amounts.	Not repeated
Finding 3	BLLC did not assess the proper license fee for the casino nor ensure casino concessionaires were licensed.	Not repeated
Finding 4	BLLC did not always ensure license transfer were completed within 180 days of receiving Board approval.	Not repeated
Finding 5	BLLC did not establish a process to receive updates to licensee criminal records as required by law.	Not repeated
Finding 6	Procedures and recordkeeping practices over cash receipts and accounts receivable did not provide sufficient control.	<b>Repeated</b> (Current Finding 1)
Finding 7	BLLC lacked comprehensive written policies and procedures over the inspection process.	Not repeated
Finding 8	BLLC lacked an effective tracking system to monitor inspection activities.	Not repeated
Finding 9	The Chief Inspector did not document duties performed.	Not repeated
Finding 10	BLLC lacked comprehensive written procedures over 311 complaints and many complaints were closed without adequate documentation of investigation results.	Not repeated
Finding 11	BLLC did not use sound meters to investigate noise-related complaints.	Not repeated (Not followed up on)
Finding 12	BLLC lacked written policies and procedures for certain aspects of the disciplinary process.	Not repeated
Finding 13	BLLC did not monitor closed establishments to ensure the alcoholic beverages licenses expired in accordance with State law.	Not repeated
Finding 14	BLLC had not implemented management practices to effectively oversee and manage the Agency's function.	Not repeated
Finding 15	Financial disclosure forms were not filed as required.	Not repeated
Finding 16	BLLC did not formally evaluate employee performance on a routine basis as required.	Not repeated
Finding 17	Proper internal controls were not established over payroll processing and payroll testing disclosed various problems.	Not repeated
Finding 18	BLLC did not digitize its records by July 1, 2015 as required by State law.	Not repeated

## **Findings and Recommendations**

### **Objective 1 - Licensing**

#### **Objective and Methodology**

Our objective for the licensing process was to evaluate the adequacy of Board of Liquor License Commissioners for Baltimore City (BLLC) procedures for alcoholic beverage licensing and the maintenance of related records, and to determine, based on this evaluation and transaction testing, if the licensing process complied with the State law and Board requirements. To accomplish our objective, we reviewed applicable State laws and the policies and procedures established by the Board and BLLC administrative personnel governing the licensing process and related records. We also reviewed pertinent sections of BLLC's *Board of Liquor License Commissioners for Baltimore City: 2018 Policy and Procedure Manual* (SOPs) and the *Alcoholic Beverages Rules and Regulations for the Board of Liquor License Commissioners for Baltimore City*.

Additionally, we interviewed BLLC staff to determine the processes used to collect fees; issue, renew, and transfer licenses; and maintain related records. We obtained data files of the current licenses as of December 2018 and a report of the licenses transferred and renewed during license year 2018 (May 1, 2017 through April 30, 2018) from the BLLC automated licensing system maintained by the Baltimore City Mayor's Office of Information Technology. We used the license files to perform various tests of the licensing process including license renewals, license transfers, and collection of related cash receipts. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit.

#### **Background**

BLLC processes applications for new licenses, license renewals, and transfers of existing licenses to sell beer, wine, and liquor in Baltimore City and licenses adult entertainment businesses in the City. There are different classes of alcoholic beverage licenses and each are valid for a one-year period ending April 30; the general classes of licenses are A, B, C, and D. Class A licenses are issued to liquor stores, Class C licenses are issued to non-profit private clubs, and Class D licenses are issued to taverns. Class B licenses are issued to restaurants, and other special venues as described in law, including arenas, hotels/motels, casinos, zoos, and stadiums. BLLC also issues licenses for special events (such as beer and wine festivals). Finally, BLLC issues adult entertainment licenses for a one-year period ending June 30.

According to BLLC records, there were 1,189 alcoholic beverage and 27 adult entertainment licenses, excluding special event licenses, issued during license year 2018 (May 1, 2017 through April 30, 2018). Annual fees for alcoholic beverage licenses are established in State law and vary depending on the type of establishment and the beverages sold. The Baltimore City Code establishes the \$1,000 annual fee for an adult entertainment business license, which is in addition to the alcoholic beverage license fee, if applicable. Table 1 includes the types of licenses issued by BLLC and the related license fees. Additional permits and other privileges with fees can be found in Table 2.

**Table 1**  
**Annual License Fees and Licenses Issued for License Year 2018**

License Type	Annual License Fee	Licenses Issued
Class A Beer and Wine <sup>1</sup>	\$110	29
Class A Beer, Wine, and Liquor <sup>1</sup>	\$858	205
Class A - 2 Beer, Wine, and Liquor <sup>2</sup>	\$858	10
Class B Beer and Wine <sup>3</sup>	\$165	12
Class B Beer, Wine, and Liquor (seating capacity of 200 or fewer) <sup>3</sup>	\$1,320	318
Class B Beer, Wine, and Liquor (seating capacity greater than 200) <sup>3</sup>	\$1,800	
Class B Beer, Wine, and Liquor (Hotel/Motel) <sup>3</sup>	\$6,500	29
Class B-D-7 Beer, Wine, and Liquor <sup>3</sup>	\$1,320	415
Class B Beer, Wine, and Liquor (Video Lottery Facility) <sup>4</sup>	\$15,000	1
Class B Beer, Wine, and Liquor (Video Lottery Concessionaire) <sup>4</sup>	\$5,000	0
Class C Beer and Wine	\$83	13
Class C Beer, Wine and Liquor	\$550	46
Class D Beer and Wine <sup>3</sup>	\$165	41
Class D Beer, Wine, and Liquor <sup>3</sup>	\$825	50
All Other Alcoholic Beverage Licenses	Varies	20
Adult Entertainment	\$1,000	27
<b>Total Licenses</b>		<b>1,216</b>

**Source:** Annotated Code of Maryland and the Baltimore City Code and BLLC's licensing records.

**License Type Class:** A-Package Goods; B-Restaurant; C-Private Membership Club; D-Tavern

**Notes:**

<sup>1</sup> Class A beer, wine, and liquor licenses are valid for six days a week from 6 a.m. to 12 a.m. the following day.

<sup>2</sup> Class A-2 beer, wine, and liquor licenses are valid for six days a week from 9 a.m. to 12 a.m. the following day.

<sup>3</sup> Class B and Class D beer, wine, and liquor licenses are valid for seven days a week operations.

<sup>4</sup> There were two Video Lottery Concessionaire licensees in license year 2018, however BLLC issues a single license to the Video Lottery Facility, therefore, the table states '0' Video Lottery Concessionaire licenses were issued.



**Table 2**  
**Additional Permits and Privileges and Related Fees**

Permits and Other Privileges	Annual Fee
Live Entertainment (for Class B)	\$500
Off Premises Catering (for Class B)	\$500
Outdoor Table Service (for Class B)	\$200
Beer and Wine Tasting (for Class A)	\$25/per day
One Day Beer and Wine	\$25/ per day
One Day Beer, Wine, and Liquor	\$50/ per day
Special Amusement License (for Class D)	\$750
Refillable Container Permit (On Sale Licenses)	\$500
Refillable Container Permit (Off Sale Licenses)	\$50
Growler Fee	\$50
Special Sunday (for Class A)	\$75
Special Supplemental License (for class D)	\$75

Source: Annotated Code of Maryland

### **New and Transfer Licenses**

Applicants for new licenses and license transfers complete an application form, submit a fee of \$600 to BLLC that consists of a \$500 application fee and \$100 hearing fee, and submit information for a criminal background check (for any new license holders). A license transfer occurs when there is a change in ownership or location, or when a licensee wants to provide additional services (such as live entertainment) not covered by the existing license.

Applications are processed by BLLC staff who are to ensure applicants include all required information and pay the appropriate fees. The Board schedules public hearings to review the new and transfer applications, and to vote on approval of the licenses. If approved, applicants must submit additional documents to BLLC (such as a valid trader's license and proof of personal property tax payment). Once all documentation is submitted, BLLC staff will notify the applicant when the license is ready for pick up and the applicant will pay the appropriate license fee at that time and the license will be issued.

According to the Board, there has been a moratorium on the issuance of new licenses since 1968, except for restaurant, arena, and hotel licenses, or as authorized by law. In license year 2018 there were approximately 92 transfers finalized according to BLLC's system.

**License Renewals**

BLLC mails all current licensees a renewal application prior to March 1 of each year. By law, licensees must file a renewal application between March 1 and March 31. Renewal applications with the renewal processing fee (\$50) are submitted to BLLC either by mail or in person. BLLC may assess a late fee of \$50 per day, up to a maximum of \$1,500, for renewal applications submitted after March 31 of each year. BLLC staff will notify the applicant when the license is ready for pick up and the applicant will pay the appropriate license fee at that time. To retain their licenses, licensees must provide certain documents, including a copy of valid trader's license and proof of payment of personal property taxes, by June 30<sup>th</sup> of each year.

**Conclusion**

Our preceding audit report included six findings in the Licensing Objective (Findings 1-6 in the preceding audit report). We determined that BLLC satisfactorily addressed five of these findings. The remaining finding regarding cash receipts is repeated in this report.

Specifically, BLLC established SOPs providing structure to the licensing process and allowing for consistency and accountability. We also found improvements in processes used for license renewals, including collecting the appropriate fees and obtaining updated criminal background information on licensees, as well as in the timeliness of license transfers. Finally, BLLC had improved its accounts receivable records to prevent licensees with outstanding balances from renewing or transferring their licenses.

However, BLLC did not always follow established procedures for securing and processing cash receipts, and certain procedures need improvement to ensure all collections were deposited. According to Baltimore City records, BLLC's revenues totaled approximately \$2.5 million in fiscal year 2018.

## Findings

### **Finding 1**

**BLLC did not always follow its SOPs for securing and processing cash receipts, and certain procedures need improvement to ensure all collections are properly deposited.**

### **Analysis**

BLLC did not always follow its SOPs for securing and processing cash receipts, and certain procedures need improvement to ensure all collections are properly deposited. According to Baltimore City records, BLLC's fiscal year 2018 revenues totaled approximately \$2.5 million.

### **Processing Collections**

Collections were not properly secured. Specifically, BLLC staff did not always restrictively endorse checks immediately upon receipt as required by BLLC's SOPs. Specifically, we observed two employees responsible for processing checks who did not restrictively endorse the checks immediately upon receipt as required by the SOPs. In addition, BLLC did not always properly secure undeposited checks in a locked cash box as required by its SOPs. In March 2019, we found a cash box that had been left unlocked overnight and contained an unendorsed check.

### **Separation of Duties**

There was a lack of adequate separation of duties over cash receipts. Specifically, one employee prepared checks for deposit and delivered the checks to the Baltimore City Department of Finance (DoF) for bank deposit and recordation into the City's accounting records. This employee also periodically reconciled the deposit documentation to these accounting records to ensure all receipts were properly accounted for. Finally, this employee was assigned capabilities in the cash receipts and licensing systems which allowed the employee to record a collection and later void the collection and delete the license.

Although a supervisor reviewed the deposit reconciliations, the supervisor relied on documents, including support for voided transactions, that were prepared by the aforementioned employee. Consequently, this employee could misappropriate collections without detection. During our testing, we did not note any irregularities. We also noted that the transfer of checks to DoF were not documented. After our inquiries, BLLC was told by DoF personnel that receipts are not provided to entities for their collections received for deposit. The lack of a policy at DoF to provide receipts makes the adequate segregation of duties over the reconciliations all the more critical.

Similar conditions relating to processing of collections and the reconciliation process were commented upon in our preceding audit report.

**Recommendation 1**

**We recommend that BLLC**

- a. comply with its SOPs and ensure there are proper internal controls over cash receipts, including restrictively endorsing all checks immediately upon receipt and properly securing checks (repeat); and**
- b. ensure the deposit reconciliations are performed and voided transactions are reviewed by an employee without access to collections (repeat) using original source documentation.**

**We advised BLLC on accomplishing the necessary separation of duties using existing personnel.**

## **Objective 2 - Inspections**

### **Objective and Methodology**

Our objective for the inspection process was to evaluate the adequacy of BLLC policies and procedures for conducting inspections of alcoholic beverage licensees and maintaining related records, and to determine whether inspections selected for review and testing were conducted in accordance with policies and procedures.

To accomplish our objective, we reviewed applicable State laws, and the policies and procedures established by the Board and BLLC administrative personnel governing the inspection process and related records. We also obtained and reviewed the *Alcoholic Beverages Rules and Regulations for the Board of Liquor License Commissioners for Baltimore City* and BLLC's *Standard Operating Procedures* (SOPs) for license years 2018 and 2019. We interviewed BLLC staff to determine the processes used to conduct, record, and monitor inspections.

We obtained a data file, which we deemed reliable for our purposes, from the inspection database maintained for BLLC by the Baltimore City Office of Information and Technology. The database included 6,159 inspection-related activities conducted during license year 2018. We judgmentally selected a sample of 60 licensees to determine if inspections were properly documented and supported with an inspection report. Furthermore, we performed a detailed review of information recorded in the database for one inspection for 20 of the aforementioned licensees, to ensure inspections were properly conducted in accordance with BLLC policies and recorded in the inspection database.

Finally, we tested 15 complaints registered through Baltimore City's "311" Customer Service Request System (311 System) to evaluate whether BLLC properly handled complaint-initiated inspections.

### **Background**

BLLC conducts periodic inspections of businesses licensed to sell alcoholic beverages as well as licensed adult entertainment businesses in Baltimore City. State law does not specify the frequency of or establish a schedule for required inspections, but BLLC management advised us that its informal goal is to conduct four inspections of each licensee annually. BLLC conducts three primary types of inspections – routine, compliance, and investigation to be considered in achieving the aforementioned goal. For each routine and compliance inspection, BLLC inspectors prepare an inspection report, which is a paper form used to document the compliance areas reviewed as well as any violations and corrective actions needed.

According to the BLLC records, during license year 2018, BLLC inspectors conducted 6,159 inspection-related activities, which consisted of 2,586 routine inspections, 2,613 compliance inspections, 435 inspections in response to 311 System complaints, 220 investigations, 147 transfer/new application activities, 151 sign-posting activities, and 7 one-day event inspections.

- Routine inspections are inspections of licensed liquor establishments to determine if they are open and operating in full compliance with the *Alcoholic Beverages Rules and Regulations for the Board of Liquor License Commissioners for Baltimore City* (such as validity of licenses and bathroom operation and cleanliness).
- Compliance inspections are to determine whether an establishment is open and operating and there are no significant peripheral violations.
- Investigation inspections of licensees are usually conducted based on complaints or tips received from the public (such as for allegations of underaged drinking or illegal gambling) or concerns noted by inspectors during a routine inspection. These investigations may be conducted with other government agencies such as the Baltimore Police Department.
- Inspections of licensees in response to complaints received from the Baltimore City's 311 Customer Service Request System are referred to as 311 complaint inspections. The 311 System allows City residents to file complaints by telephone or online. The 311 System's employees refer complaints to the appropriate agency for follow up. Agencies receiving the referrals may update the complaint system with the current status and ultimate complaint resolution. This information is available to the public via the 311 System website.
- New/transfer application activities are completed by inspectors at the site of a proposed new license or the transfer of an existing license to another location to post a sign and gather information. This information includes if the location is the required distance away from schools and how many liquor establishments are within a defined area.
- Sign-posting activities are completed by inspectors at a licensed establishment or an establishment for which the license is pending Board approval. The inspector places the sign and takes photos indicating it was placed and the photos are then uploaded into the inspection database.

- One-day inspections occur for special events such as beer and wine festivals to ensure the event is operating according to the *Alcoholic Beverages Rules and Regulations for the Board of Liquor License Commissioners for Baltimore City*.

BLLC has written guidance over the Inspection Division operations. Specifically, the *Alcoholic Beverages Rules and Regulations for the Board of Liquor License Commissioners for Baltimore City*, revised December 17, 2015, provides specific guidance to licensees and is used as criteria for determining violations. State law requires BLLC to review these *Rules and Regulations* every five years thereafter. As a result of our preceding audits, BLLC prepared SOPs that were approved by the Board. The SOPs were first adopted in 2016 and have been updated each year in 2017, 2018, and 2019.

### **Conclusion**

Our preceding audit report included five findings in the Inspection Objective (Findings 7-11 in the preceding audit report). We determined that BLLC satisfactorily addressed four of these findings. The remaining finding was not reviewed during this audit based on our current assessment of significance and risk to our audit objectives.

Specifically, BLLC established SOPs for the inspection process which included guidance on conducting and documenting inspections and the processing and resolutions of 311 System complaints. Additionally, BLLC implemented an inspection database which monitors inspection activity and outcomes, and stores critical inspection information and inspection documentation. BLLC also maintained documentation that duties, including supervision of inspection staff and review of inspection results, were performed by the Chief Inspector.

However, the SOPs were not comprehensive since they did not require that inspection reports be retained after being recorded, did not require that recorded inspection information be independently verified to source documentation (the inspection reports), did not formally establish the frequency and type of inspections to be conducted for each licensee, and did not specify if and when follow-up inspections should be conducted after violations are noted.

Additionally, we noted that BLLC did not always follow its SOPs when investigating 311 System complaints and there were instances in which inspectors did not issue violations for repeated substantiated complaints nor document the reason why a violation was not issued. Finally, BLLC needs to improve its methodology to monitor the frequency of inspections conducted of each establishment annually.

## Findings

### **Finding 2**

**BLLC's SOPs did not include certain critical aspects of the inspection process.**

### **Analysis**

BLLC's SOPs, established after our preceding audit, were not as comprehensive as necessary, as they did not specifically address certain critical aspects of the inspection process.

- The SOPs did not require inspection reports to be retained after entry into the inspection database, and did not require inspection information recorded to be independently reviewed for accuracy. Consequently, our tests of inspections disclosed that BLLC did not always retain the inspection reports and inspection information was not always accurately recorded (Finding 3).
- The SOPs did not specify the frequency of or establish a formal schedule for required inspections for each licensed establishment. BLLC management advised us that its informal goal is to inspect each establishment at least four times each year, including at least one routine inspection (Finding 6).
- The SOPs did not specify if and when follow-up inspections should be conducted after issues or violations are noted (Finding 5). Follow-up inspections are necessary to ensure that establishments have taken corrective action to address the noted issues or violations.

BLLC generally has discretion over follow-up inspections except for instances of investigating establishments selling alcohol to underage individuals through undercover underage buy attempts. BLLC management advised that these inspections are performed in conjunction with the Baltimore Police Department and BLLC does not have complete control over the establishments selected for follow-up inspections. Nonetheless, the SOPs should specify the timeframes for attempting to perform follow-up inspections, including for underage buy attempts, and should provide guidance on documenting instances in which BLLC is unable to perform follow-up inspections that involve assistance from the Baltimore Police Department.

### **Recommendation 2**

**We recommend BLLC enhance its SOPs to address the aforementioned critical aspects of the inspection process.**



**Finding 3**

**BLLC did not always retain inspection reports to support the information recorded in the inspection database. Additionally, the recorded information was not independently reviewed for accuracy.**

**Analysis**

BLLC did not always retain inspection reports to support the information recorded in the inspection database by BLLC personnel. Additionally, the recorded information was not independently reviewed for accuracy. As noted in Finding 2, the SOPs did not contain these requirements.

For 60 judgmentally selected establishments, we reviewed the routine, compliance, and investigation inspections recorded in the inspection database during license year 2018 to determine if the inspections were supported by an inspection report. These 60 establishments had 263 inspections recorded in the inspection database; however, BLLC could only provide the inspection reports supporting 52 inspections (20 percent). For example, BLLC could not provide any inspection reports to support all 43 inspections recorded for 25 establishments.

Our limited testing of available inspection reports noted that data were generally reflected accurately in the inspection database. However, we noted that inspection information was not always recorded in a manner consistent with requirements established in the SOPs. We performed a detailed review of information recorded in the database for one inspection for 20 of the aforementioned establishments, none of which had supporting inspection reports. We determined that 15 inspections were not documented accurately as required by the SOPs.

For example, proper photos of the establishments were not documented for 11 inspections, including 2 inspections that did not include any photos, 1 inspection that included a photo of the wrong establishment, and 2 inspections that reused photos from a previous inspection. A current photo is required by the SOP and provides assurance that the establishment is open and operating (an inspection attribute). In addition, required information (such as trader's license expiration date and fire capacity) was not recorded into the database for 7 inspections and the business name or address was incorrectly recorded for 2 inspections. Since the inspection report was not retained for any of these inspections, we were unable to determine if these were recordation errors or deficiencies in the conducted inspections.

### Recommendation 3

We recommend that BLLC

- a. retain inspection reports to support the information recorded in the inspection database, and
- b. establish a process to independently review inspection information recorded for accuracy and consistency.

### Finding 4

**BLLC did not always follow its SOPs when investigating and documenting complaints received through Baltimore City's 311 complaint system.**

### Analysis

BLLC did not always follow its SOPs in response to complaints received through Baltimore City's 311 System. BLLC received 1,586 complaints through the 311 System during the period from May 1, 2017 through January 9, 2019. Our test of BLLC's response to 15 complaints (recorded in the 311 System database) disclosed that 12 complaints were not adequately investigated or documentation of the investigations was deficient. For 7 of the 12 complaints, multiple deficiencies were noted. Table 3 reflects our test results of the 15 complaint investigations.

**Table 3**  
**Results of 311 Complaint Testing**

Test Item	Inadequate Actions Taken to Investigate Complaints	Inadequate Inspection Documentation	Lack of Documented Reasons for not Issuing Violation Notices	Complainant Not Contacted
1	•	•		
2				
3				
4			•	
5		•		
6	•			•
7	•	•		
8	•	•		
9				
10		•		•
11		•	•	
12				•
13		•	•	•
14				•
15		•		
<b>TOTAL</b>	<b>4</b>	<b>8</b>	<b>3</b>	<b>5</b>

### **Inadequate Actions Taken to Investigate Complaints**

We determined that four complaints tested were not adequately investigated. For two of the complaints related to loud noise, the inspectors investigated them on the following day at a time when similar conditions would not have been observed (such as when the establishment was closed). For the third complaint, also related to loud noise, the inspector did not visit the establishment or speak with an employee of the establishment prior to clearing the complaint, as required by the SOPs. For the final complaint tested, which related to operating after hours, BLLC did not have documentation to indicate if the inspector visited the establishment or spoke with an employee of the establishment, and there was no documentation as to whether the complaint was substantiated.

### **Inadequate Inspection Documentation**

We determined that eight investigations tested were not adequately documented. Seven investigations were not recorded in the inspection database, as required by the SOPs. Inspectors are required to enter a report of the observed activity into the BLLC inspection database, without regard to whether the complaint was substantiated, and to inform the bartender or manager of the licensed establishment of the complaint. For the final investigation tested, the photos used were from a previously recorded inspection. The failure to record the complaints in the inspection database results in an incomplete complaint history for the licensed establishment. For the eight investigations tested, we did note, however, that the responses to the complaints were recorded in the separate Baltimore City 311 System as required by the SOPs .

### **Lack of Documented Reasons for Not Issuing Violation Notices**

We determined that, for three investigations tested—all of which were noise complaints—the inspector did not document the reason(s) for not issuing a violation notice, despite witnessing the loud music (two establishments) and the fact that the establishments (three establishments) had a history of previously abated noise complaints as reflected in the 311 System.

### **Complainant Not Contacted**

Complainants for five investigations tested provided phone numbers; however, there was no documentation that BLLC made contact with the complainant either before or after the related investigation. For one of these five, the complainant specifically requested to be contacted by BLLC before the investigation. Contacting the complainant prior to the investigation provides the inspector with the opportunity to gather additional, relevant information. BLLC's SOPs require the inspector to contact the complainant, if a phone number is provided, both during the preliminary investigation and after the results of the investigation are determined.

#### **Recommendation 4**

**We recommend that BLLC conduct adequate and documented investigations of complaints received through the City's 311 System in accordance with its SOPs.**

#### **Finding 5**

**BLLC inspectors did not always follow up on inspection violations and did not always document conclusions when conducting inspections.**

#### **Analysis**

BLLC did not always conduct follow-up inspections or take other action to ensure licensees resolved violations noted during inspections. Additionally, BLLC inspectors did not always document their conclusions when conducting inspections. As noted in Finding 2, the SOPs did not specify if and when follow-up inspections should be performed for violations noted during inspections.

For the 20 inspections described in Finding 3 that we reviewed in detail, there were 10 inspections which identified violations or other issues. For 6 of the 10 inspections, however, there was no documentation that a BLLC inspector had followed up to determine if the violations and other issues had been resolved. For 2 of the 6 inspections, licensees were operating in a manner inconsistent with the type of license issued, and for 2 of the 6 inspections establishments were serving underage customers.

Additionally, BLLC inspectors did not always document conclusions when conducting 3 of the 20 inspections tested. For example, inspection information recorded in the database for one establishment indicated that the establishment did not have a trader's license, which is required by State law; however, there was no indication that the inspector issued a warning or took other action to ensure compliance.

#### **Recommendation 5**

**We recommend that BLLC**

- a. conduct follow-up inspections or take other appropriate actions to ensure violations noted during inspections are resolved, and**
- b. ensure inspectors are documenting conclusions when conducting inspections.**

**Finding 6**

**BLLC's process to monitor the inspections of licensed establishments did not provide assurance that all licensees were subject to an annual inspection or inspected at appropriate frequencies.**

**Analysis**

BLLC's methodology to monitor that its licensed establishments were inspected at appropriate frequencies needs improvement. While State law does not specify the frequency of required inspections, BLLC management advised us that its informal goal is for each of its over 1,200 licensees is to annually conduct four inspections, including one routine inspection to determine if the establishment is open and operating in full compliance with the *Alcoholic Beverages Rules and Regulations for the Board of Liquor License Commissioners for Baltimore City*.<sup>1</sup> However, the report BLLC used to monitor the frequency of establishment inspections for its more than 1,200 licensees contained certain activities that, although counted as an inspection activities, did not include actual physical inspections of the establishments as anticipated by the goal.

Consequently, the report used by BLLC during bi-monthly meetings with inspectors to monitor the frequency of inspections needed to achieve the annual goal of four inspections, included activities such as sign-posting activities and transfer application activities. While these are important activities to monitor, they are not actual inspections to be considered under the annual inspection goal. As such, the inclusion of these activities overstates the true inspection activity and should not be considered in determining if establishments are being adequately monitored for compliance with the *Alcoholic Beverages Rules and Regulations for the Board of Liquor License Commissioners for Baltimore City*. We determined that these non-inspection activities are separately reported elsewhere and could be excluded during the bi-monthly meetings when the frequency of establishment inspections is being reviewed.

Based on our analysis of activities recorded in the database for license year 2018, approximately 20 percent of the activity included in the inspection goal and monitoring reports did not represent activity related to the goal. In our opinion, to ensure effective monitoring, the reports should only include routine, compliance and investigation inspections which BLLC uses to determine the achievement of its four inspection goal for each establishment.

Based on our analysis of the inspection database, we determined that 58 establishments did not have any inspections during license year 2018 and 581

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<sup>1</sup> As noted in Finding 2, we have taken issue with the SOPs not formalizing the frequency of or schedule for required inspections.

establishments had fewer than four inspections conducted, including 90 that received only one inspection. We also noted that 127 establishments did not have a routine inspection during license year 2018. Routine inspections are more comprehensive than all other inspections and would include, for example, a review to ensure the establishment is properly purchasing its alcohol from a distributor, the bar is clean and meets Baltimore City Health Department Standards, and the bathroom and kitchen are clean and working. Subsequently, BLLC management advised us that almost half of the 58 establishments with no inspections were closed or had a pending request for an extension based on a qualifying hardship event, which if correct still leaves occurrences of licensed operating establishments without any inspection during the year.

#### **Recommendation 6**

**We recommend that BLLC**

- a. modify the methodology used to monitor the frequency of inspections conducted of each licensed establishment, and**
- b. ensure that all licensed establishments are periodically inspected.**

## **Objective 3 – Disciplinary Procedures**

### **Objective and Methodology**

Our objective for BLLC’s disciplinary procedures was to evaluate the disciplinary process, BLLC’s compliance with applicable State laws, its enforcement of applicable *Alcoholic Beverages Rules and Regulations for the Board of Liquor License Commissioners for Baltimore City* governing licensees, and its maintenance of disciplinary records.

To accomplish this objective, we interviewed BLLC employees to determine the process that occurs when it is determined that a violation may have occurred. We also observed six public Board hearings in which cases resulting from licensee violations were adjudicated. Additionally, we performed testing to evaluate whether the disciplinary process was properly administered and documented. We also reviewed the monitoring of licensees inactive for more than 180 days which would expire, by law, to determine if the Board and BLLC took appropriate action.

### **Background**

Disciplinary proceedings occur to adjudicate instances of licensee noncompliance with State laws and the *Alcoholic Beverages Rules and Regulation for the Board of Liquor License Commissioners for Baltimore City*. Disciplinary proceedings result from violations noted during licensee inspections (including complaint investigations), “311” complaint inspections, and referrals received from the Baltimore Police Department and other regulatory entities. Instances of licensee noncompliance are subject to internal reviews prior to being sent to the Board for adjudication.

State law provides that the Board is charged with the duty of enforcing provisions of the Alcoholic Beverages Article of the Annotated Code of Maryland. The Board is responsible for adjudicating cases to determine if violations have actually occurred and for setting the related penalties. The Board generally holds hearings three times a month in public sessions to adjudicate these cases, as well as to grant new licenses and license transfers. The hearings are considered quasi-judicial and include testimony from inspectors, police, and licensee representatives, including counsel. The Board will obtain other information, as needed (such as the licensee’s violations history), prior to making a decision and determining whether a penalty is appropriate. The “preponderance of the evidence” standard is used to determine if the licensee has been found in violation of the *Alcoholic Beverages Rules and Regulation for the Board of Liquor License Commissioners for Baltimore City*. Licensees may appeal the decisions of the Board to the Circuit Court.

Licensees are provided the Board's rulings verbally at the hearing and in writing in a Penalty Assessment Notice if the ruling results in a penalty (fine, suspension, or revocation). The Notice includes the amount of the penalty, and the amount of time the licensee has to pay the fine (usually 30 days). If the licensee fails to pay the fine within 30 days, the license will be physically removed by a BLLC inspector.

The Alcoholic Beverages Article of the Annotated Code of Maryland includes penalty provisions for licensees found guilty of violating State law and/or the *Alcoholic Beverages Rules and Regulation for the Board of Liquor License Commissioners for Baltimore City*.

- For any violation which is cause for suspension, the Board may, for a first offense, impose a fine of not more than \$500 or suspend the license or both.
- For any subsequent offense, the Board may impose a fine of not more than \$3,000 or suspend the license or both.
- For underage sales of alcohol, the Board may impose a fine not exceeding \$1,000 or suspend the license or both.
- The Board may revoke or suspend any license for any cause which, in the judgment of the Board, is necessary to promote the peace or safety of the community in which the place of business is situated.
- A license must be revoked or suspended under certain specific circumstances (such as when a licensee makes a material false statement in any application for a license or permit).

According to BLLC's records, in fiscal year 2018 there were 166 fines assessed by the Board totaling approximately \$148,350. Table 4 below reflects a summary of Board hearings for fiscal year 2018.



**Table 4**  
**Board of Liquor License Commissioners for Baltimore City Hearings**  
**Fiscal Year 2018**

Referral Source	Number of Hearings	Number of Violations	Percentage of Hearings	Percentage of Violations
Baltimore Police Department	2	5	1%	2%
BLLC Inspectors	13	28	7%	10%
Comptroller of Maryland	1	1	0%	0%
Baltimore Police Department and BLLC Inspectors	134	168	67%	61%
Sheriff's Office and BLLC Inspectors	35	38	18%	14%
Other - <i>combination of multiple referral sources</i>	15	37	7%	13%
<b>TOTALS</b>	<b>200</b>	<b>277</b>	<b>100%</b>	<b>100%</b>

Source: Board of Liquor License Commissioner for Baltimore City's meeting minutes

### Conclusion

Our preceding audit report included two findings in the Disciplinary Procedures Objective (Findings 12-13 in the preceding audit report). We determined that BLLC satisfactorily addressed both of these findings. Specifically, BLLC established comprehensive SOPs for the disciplinary process which included guidance on when violations should be brought to the Board and which set an appropriate standard of timeliness for conducting hearings. Additionally, the SOPs included guidance for monitoring establishments that were closed to determine if the alcoholic beverage licenses had expired in accordance with State law.

However, during the current audit we determined that BLLC did not properly track and monitor certain instances of licensee noncompliance (such as building violations) and did not always maintain sufficient documentation of internal reviews performed to support determinations of whether to present instances of noncompliance to the Board for adjudication. Specifically, BLLC only tracked and maintained documentation of the reviews performed related to instances of noncompliance involving the Baltimore Police Department or the Baltimore City Sheriff's Office, but not for instances of noncompliance noted by BLLC inspectors or other regulatory agencies.

## Findings

### **Finding 7**

**BLLC did not track and monitor instances of licensee noncompliance that did not involve the Baltimore Police Department or the Baltimore City Sheriff's Office to ensure that each was properly addressed.**

### **Analysis**

BLLC did not track and monitor instances of licensee noncompliance (such as, building violations) that did not involve the Police Department or Sheriff's Office to ensure that each was properly addressed. BLLC also did not maintain documentation of internal reviews performed to support determinations of whether to present instances of noncompliance to the Board for adjudication. While BLLC maintained a status log and supporting documentation for instances of noncompliance referred by the Police Department and the Sheriff's Office similar documents were not maintained for other instances of noncompliance. As a result, BLLC lacked assurance that all instances of licensee noncompliance were reviewed, properly addressed, or reported as potential violations to the Board.

We tested two instances of noncompliance that did not involve the Police Department or Sheriff's Office. We noted that there was no documentation that one instance of noncompliance had been addressed. This instance of noncompliance from November 2017 involved electrical problems in which a "cease and desist" order to stop all operations was issued by the Baltimore City Fire Department. As of February of 2019 there was no documentation that this instance of noncompliance had been internally reviewed or presented to the Board for action (such as assessment of a fine or suspension of license). We were advised by BLLC management that this instance of noncompliance should likely have been presented to the Board.

### **Recommendation 7**

**We recommend that BLLC**

- a. track and monitor all instances of licensee noncompliance; and**
- b. maintain documentation of the reviews performed to support determinations, including referral of instances of noncompliance to the Board (as potential violations).**

## **Objective 4 – Management Oversight**

### **Objective and Methodology**

Our objective was to review management processes to determine whether proper oversight exists over BLLC operations. To accomplish this objective, we reviewed Board approved SOPs, interviewed BLLC employees, and reviewed BLLC's procedures with respect to employee payroll, employee performance evaluations, financial disclosures and potential conflicts of interest, and the digitization of BLLC records. We also tested payroll processing, employee independence, and employee evaluations.

### **Conclusion**

Our preceding audit report included five findings in the Management Oversight Objective (Findings 14-18). We determined that BLLC satisfactorily addressed these five findings.

Specifically, BLLC implemented management practices to oversee its operations and to help ensure efficient and effective practices which included the establishment of SOPs which aided in BLLC resolving a significant number of findings identified in the preceding audit report. Additionally, BLLC established a process to formally evaluate employee performance on a routine basis, required employees and commissioners to file annual disclosures with the State Ethics Commission, and established recommended controls over payroll. Furthermore, license records were also digitized by BLLC as required by State law, and regulations regarding ensuring the safety of personally identifiable information were adopted.

Our current audit found that while BLLC did monitor Board and employee compliance with State ethics filing requirements, procedures were not established to monitor employee and commissioner compliance with statutory independence restrictions regarding secondary employment and business investments.

## Findings

### **Finding 8**

**BLLC did not have an ongoing internal process to identify potential conflicts regarding interests in the alcohol beverage industry consistent with State law specific to BLLC.**

### **Analysis**

BLLC did not have an ongoing internal process to identify potential conflicts in the alcohol beverage industry consistent with the Alcoholic Beverages Article of the Annotated Code of Maryland specific to BLLC. Although subsequent to the preceding audit report, BLLC did obtain written attestations from existing employees in 2016 and established a process to obtain written attestations when new employees are hired as to the potential conflicts, BLLC did not require employees and commissioners to periodically attest to their knowledge of and compliance with independence requirements concerning business investments and secondary employment specific to the alcohol beverage industry.

BLLC management advised us that it believed that its employees' and commissioners' annual disclosures with the State Ethics Commission (SEC), effective October 2017, were sufficient to address any conflict of interest concerns of fact or appearance. While the SEC annual disclosures address securities held, ownership in business entities, and secondary employment, the disclosures were not tailored to address the independence requirements of the aforementioned State law. This law requires that BLLC employees and commissioners not have a direct or indirect occupation, business, or investment interest in a premise where alcoholic beverages are manufactured, distributed, or sold. Additionally, employees and commissioners are forbidden from soliciting or accepting a commission, remuneration, gift, or political contribution from a person engaged in the manufacture or sale of alcoholic beverages or a license holder. Therefore, only obvious conflicts of interest (such as a business with "liquor" in the name) may draw the attention of the SEC if it happened to review the disclosures in detail. In these situations, the SEC would notify BLLC of the potential conflict of interest.

We reached out to the SEC staff regarding the sole reliance on annual SEC reporting. Although the SEC staff would not formally commit to the desirability of enhanced reporting, as we are recommending, we were advised that it was understood that some agencies impose ethical standards on their employees that exceed the requirements of Public Ethics Law. In the case of the BLLC employees and commissioners, we believe that significant potential conflicts and

additional ethical standards exist beyond those to be identified by SEC reporting, justifying periodic additional unique reporting.

**Recommendation 8**

**We recommend that BLLC supplement the required annual SEC disclosures with a separate internal periodic process (such as, annually) for employees and commissioners to identify potential conflicts in the alcohol beverage industry specific to BLLC's law, as is already required from employees at the time of their initial hire.**



## **APPENDIX**

HON. ALBERT J. MATRICCIANI, JR. (RET.)  
CHAIRMAN

COMMISSIONERS  
AARON J. GREENFIELD, ESQ.

ALTERNATE COMMISSIONER  
HARVEY E. JONES



DOUGLAS K. PAIGE  
EXECUTIVE SECRETARY

THOMAS R. AKRAS, ESQ.  
DEPUTY EXECUTIVE SECRETARY

STACI L. RUSSELL  
ASSISTANT EXECUTIVE  
SECRETARY

STATE OF MARYLAND  
**BOARD OF LIQUOR LICENSE COMMISSIONERS**  
FOR BALTIMORE CITY  
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April 23, 2020

Gregory Hook, CPA  
Legislative Auditor  
Department of Legislative Services  
Office of Legislative Audits  
Maryland General Assembly  
301 West Preston Street  
Room 1202  
Baltimore, Maryland 21201

Mr. Hook,

The Board of Liquor License Commissioners for Baltimore City (BLLC or Board) would like to thank the Office of Legislative Audits (OLA) for conducting a performance audit of the BLLC as required by State Government Article, Section 2-1220 of the Annotated Code of Maryland for the operations conducted by the agency for the 2018-2019 license years.

Unlike the OLA's Audits of 2013 and 2016, the OLA Audit of 2020 (Audit) shows that the agency "made significant improvements in addressing" prior findings by the auditors.<sup>1</sup> To this end, the OLA noted that the agency "implement[ed] appropriate corrective actions" to improve the effectiveness and efficiency of the management practices of the Board and of the economy with which the Board uses its resources as required by State law.<sup>2</sup> The success of such "corrective actions" is reflected in the fact that the BLLC cleared 17 of 18 prior findings as identified in the OLA Audit of 2016.

In order to clear the aforementioned findings, the BLLC reconstituted its operating policies and procedures, restructured personnel within its inspection and administrative divisions, and instituted management practices to increase transparency and compliance with the law. As a result of the BLLC's efforts over the last 4 years, the agency:

- Drafted and reissued annually, Standard Operating Procedures for CY2016-2020 that guided agency operations concerning the licensing process, inspection methods, identification and charging requirements for violations.

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<sup>1</sup> Letter to the Joint Audit Committee written by Legislative Auditor Mr. Gregory Hook. Page 1.

<sup>2</sup> Letter to the Joint Audit Committee written by Legislative Auditor Mr. Gregory Hook. Page 2.



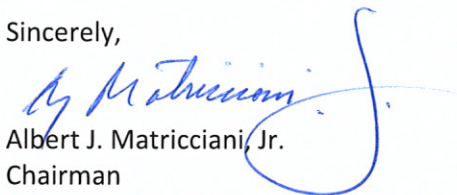
- Produced an average annual surplus of \$508,000 between FY16-19 and returned those funds to the General Fund of the City of Baltimore. The BLLC accomplished this feat after operating at an approximate \$100,000 annual deficit as reflected in FY14.
- Increased inspections performed within the inspection division between LY2018-2019 by 32% over LY2014 (3591 inspections vs. 4766 inspections) with fewer inspectors, responded to and closed out 95% of all 311 calls for service (849 total calls for service/804 responded to and closed within 24 hours) received within 24 hours in FY19, and led the State of Maryland with 244 violation cases charged and brought before the Board in FY18.<sup>3</sup>
- Increased the number of violation hearings held before the Board between FY16 and FY19 by almost 200% (67 vs. 194), increased the number of non-violation hearings (new/transfer/hardship cases) heard and decided by the Board by 48% (137 vs. 203), and worked with staff to monitor the closure of establishments to ensure that the Board heard cases that were not in conflict with the "180-day" closure rule.<sup>4</sup>
- Created a Community Engagement Program and hired a Community Liaison to conduct outreach to the various stakeholders within City of Baltimore. In FY19 the Community Liaison attended 101 Community or Business Association Meetings, reached 3144 individuals, answered 417 individual community questions, provided 929 BLLC information folders, and provided 3005 presentation folders.<sup>5</sup>

While the BLLC strongly agrees with the overall sentiment of this Audit, the BLLC disagrees with two of the OLA's findings from this report. Within this report, we ask that you review the supplemental information provided by the agency concerning its concerns as they relate to the auditors' findings. Included, please find letters from Baltimore City Finance Director Mr. Henry Raymond, Executive Director of the Baltimore City Board of Ethics Mr. Avery Aisenstark, and Executive Director of the State Ethics Commission Mr. Michael Lord in support of the responses submitted by the agency.

Lastly, I would like to thank my fellow Commissioners, the Executive Secretary, Deputy Executive Secretary, and all other members of the BLLC staff for their hard work in helping to accomplish the significant structural and operation changes necessary to address the findings from the prior OLA Audits.

If you have any questions or concerns regarding our submission, please do not hesitate to contact me.

Sincerely,



Albert J. Matricciani, Jr.  
Chairman  
Board of Liquor License Commissioners  
For Baltimore City

<sup>3</sup> Annual Report FY2018 published by the State Comptroller of Maryland shows the Baltimore City led the state in violations charged with 244. Montgomery County was second with 226. Baltimore County was third with 93.

<sup>4</sup> Alc. Bev. Art. 12-2202 prohibits the Board from extending the life of a license for an additional 180 days after the date of closure, if no hardship extension was properly filed. The BLLC was faulted in 2013 and 2016 for not properly monitoring these cases and allowing them to be brought before the Board for a hearing.

<sup>5</sup> BLLC's FY2019 Community Engagement Initiative Report - <https://llb.baltimorecity.gov>

## **OLA Presentation of Documentation Included with BLLC's Response**

The Board's formal response to the audit report included a number of additional documents that in our opinion are not directly related to BLLC's positions on the factual accuracy of each report finding and its agreement or disagreement with each audit recommendation. Consequently, we have declined to include those documents as an appendix to this report. However, as a courtesy to the Board, we have included the following documents on our website to accompany the audit report, as *Supplements to the Board's Response*:

- BLLC's 2020 Standard Operating Procedures
- Department of Finance Audit Letter
- Letters from the State Ethics Commission
- Letter from the Baltimore City Ethics Board

The following Board submitted documents were excluded in their entirety from publication by us, as they included business names and addresses, which is contrary to our policy of not publicizing such personal information in our audit reports:

- 2019 and 2020 Police Tracker
- BLLC Item Listing



**Board of Liquor License Commissioners  
for Baltimore City**

**Agency Response Form**

**Finding 1**

**BLLC did not always follow its SOPs for securing and processing cash receipts, and certain procedures need improvement to ensure all collections are properly deposited.**

**We recommend that BLLC**

- a. comply with its SOPs and ensure there are proper internal controls over cash receipts, including restrictively endorsing all checks immediately upon receipt and properly securing checks (repeat); and**
- b. ensure the deposit reconciliations are performed and voided transactions are reviewed by an employee without access to collections (repeat) using original source documentation.**

**We advised BLLC on accomplishing the necessary separation of duties using existing personnel.**

<b>Agency Response</b>			
<b>Analysis</b>			
<b>Please provide additional comments as deemed necessary.</b>	Although the auditors state that employees may not have immediately endorsed checks upon receipt at the front counter as directed by our SOPs, it is a common practice for staff to take such invoices back to their desks and endorse the checks there. The BLLC also has a backup policy in place to prevent any misappropriation of checks or money orders. In addition, the BLLC believes that its SOPs address how checks and money orders are deposited with the City and its deposit reconciliation process is sufficient to protect its financial operations.		
<b>Recommendation 1a</b>	Disagree	<b>Estimated Completion Date:</b>	Completed
<b>Please provide details of corrective action or explain disagreement.</b>	The BLLC disagrees with the implication of the Auditor's "repeat" finding that the agency does not ensure that its employees "comply with its SOPs" concerning its financial operations. As per the SOPs, the accountant reviews invoices created by front office staff to ensure that each invoice matches with an "endorsed" check received by the BLLC. If the accountant discovers an invoice not associated with a check or vice versa, the accountant will bring this to the attention of the Assistant Executive Secretary or front office staff member to rectify the issue. The BLLC admits that the Auditors found one instance where an employee did not secure his or her lockbox after placing the check inside of it. However, the Auditors only performed one spot check during their 4 months on site and upon conducting their inspection did not show interest in viewing the Assistant Executive Secretary or Accountant's lockboxes – these individuals secure almost all of the checks after hours – during their one spot check. Nevertheless, the BLLC did reprimand the employee and provided		

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	additional training to ensure checks/money orders were secure. The BLLC will continue to train and monitor its employees for compliance within its internal controls over cash receipts.		
<b>Recommendation 1b</b>	Disagree	<b>Estimated Completion Date:</b>	Completed
<b>Please provide details of corrective action or explain disagreement.</b>	<p>The BLLC strongly disagrees with the Auditor's "repeat" finding. In the 2016 Audit, the OLA stated that "there was a lack of adequate separation of duties over the cash receipts and accounts receivable function." The OLA further added that since the BLLC did not have adequate staffing, as BLLC had an Accounting Assistant at the time, the agency should "implement independent supervisory reviews to ensure the propriety and completeness of cash receipt deposits and the appropriateness of voided receipts and accounts receivable." Subsequent to the OLA 2016 Audit, the BLLC worked with the Department of Finance (DOF) to create SOPs, which would provide for an "independent supervisory review" of cash receipt deposits and the appropriateness of voided receipts and accounts receivable. In addition, the BLLC created an Accountant position – the BLLC never had an accountant to oversee its deposits and invoices – and hired for that position in early 2017. With the SOPs and personnel in place, the BLLC initiated monthly meetings (AccountingStat) wherein the Deputy Executive Secretary (DES) reviewed all of the work product of the Accountant, which included invoices, deposits, voids, deposit reconciliations, and distribution of monies into DOF accounts that the agency issued. Before implementing these SOPs, the DOF reviewed and approved the processes as sufficient to meet the "independent supervisory review" requested by the OLA in 2016. Using this model, the agency ensures compliance with financial protocols established by the DOF in its SOPs – which include deposit reconciliations and allocation of revenues. Lastly, the BLLC lacks control over the manner in which it receives in-person paper verification for deposits it makes with the DOF. DOF's system is not structured to provide such documentation. What the City's system does provide – and does so with similarly situated agencies – is an electronic report detailing all deposits made by submitted batch. See attached letter from Baltimore City Finance Director Mr. Henry Raymond. Our Accountant, who has direct access to these reports, reviews them to ensure each check deposited was recorded and placed in the correct revenue account. Any inconsistencies are relayed to DOF, which in turn reviews, responds, and addresses any concerns. DOF has approved and sanctioned the aforementioned processes as sufficient to meet the "independent supervisory review" requested by the OLA in 2016.</p>		

**Auditor's Comment:** BLLC disagrees with elements of Finding 1 and with both Recommendations 1a) and 1b). The primary basis for the disagreement is BLLC's contention that its processes are in accordance with Baltimore City government cash

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handling policies and procedures. OLA was not charged with auditing the Baltimore City government in general, but observes that the condition reported on in Finding 1 represents inadequate internal control and is contrary to basic internal control requirements, including those established by the Comptroller of Maryland in its Accounting Procedures Manual which requires in part, the “**immediate** (OLA emphasis) recording of cash receipts for accounting control purposes”, the “restrictive endorsement of checks ‘for deposit only’ **immediately upon receipt** (OLA emphasis)”, and the “segregation of the cash receipts handling duties from the cash receipts and` accounts receivable record keeping, billing and **reconciliation** (OLA emphasis) functions.” These controls were not found to be practiced by the BLLC. For that reason, the findings were appropriately considered to be repeated from the preceding audit report. Finally, the last element of BLLC’s response to Recommendation 1b re: a deposit receipt from the City Finance Office is irrelevant, and should be ignored as the issue does not appear in the audit report.

The letter from the Baltimore City Finance Director referenced in BLLC’s response is not included as part of the report, but is included on the OLA website as *Supplements to the Board’s Response*.

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**Finding 2**

**BLLC's SOPs did not include certain critical aspects of the inspection process.**

**We recommend BLLC enhance its SOPs to address the aforementioned critical aspects of the inspection process.**

<b>Agency Response</b>			
<b>Analysis</b>			
<b>Please provide additional comments as deemed necessary.</b>	The BLLC appreciates the input from the OLA as it relates to this finding and has included such additional guidance in its 2020 SOPs to address aspects of the inspection process highlighted in 2020 OLA Audit.		
<b>Recommendation 2</b>	Agree	<b>Estimated Completion Date:</b>	4/1/2020
<b>Please provide details of corrective action or explain disagreement.</b>	Within its 2020 SOPs the BLLC established policies that require inspection reports to be retained and processes to independently review inspection reports, provide additional guidance on 311 investigations, and direct inspectors on the issuance of violations.		

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**Finding 3**

**BLLC did not always retain inspection reports to support the information recorded in the inspection database. Additionally, the recorded information was not independently reviewed for accuracy.**

**We recommend that BLLC**

- a. retain inspection reports to support the information recorded in the inspection database, and**
- b. establish a process to independently review inspection information recorded for accuracy and consistency.**

<b>Agency Response</b>			
<b>Analysis</b>			
<b>Please provide additional comments as deemed necessary.</b>	In 2016, the BLLC worked with the Baltimore City Information Technology Department (BCIT) to create a software program that allows inspectors to input inspection report information and generate a digital report that was maintained on our database. Intent on having a “paperless” inspections process, the BLLC heeded the advice of BCIT and began to destroy all of its original reports starting in 2018 once the information was recorded into the Sharepoint system and automatically uploaded to the BLLC’s on-line library each week. In August of 2018, the BLLC received advice from the Attorney General’s Office indicating that the BLLC should cease and desist from destroying such records in order to maintain the original documents. The BLLC immediately complied with the Attorney General’s advice and now maintains the original inspection reports within each case file.		
<b>Recommendation 3a</b>	Agree	<b>Estimated Completion Date:</b>	4/1/2020
<b>Please provide details of corrective action or explain disagreement.</b>	To address this finding, in its 2020 SOPs, the BLLC drafted SOP 3.05 “Approval Pathway Process for Routine and Compliance Inspections,” which requires each inspector to maintain and submit each original copy of their inspection report to the Chief Inspector. After review and approval of the report, the Chief Inspector delivers the report to the administrative division for filing.		
<b>Recommendation 3b</b>	Agree	<b>Estimated Completion Date:</b>	4/1/2020
<b>Please provide details of corrective action or explain disagreement.</b>	To address this finding, in its 2020 SOPs, the BLLC drafted SOP 3.05 “Approval Pathway Process for Routine and Compliance Inspections,” which establishes a process wherein the Chief Inspector or his or her designee to independently review each inspector’s report for accuracy and consistence. The BLLC had informally used such a process in 2018, but finally formalized it with its 2020 SOPs and has trained its inspection staff accordingly in its use.		

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**Finding 4**

**BLLC did not always follow its SOPs when investigating and documenting complaints received through Baltimore City's 311 complaint system.**

**We recommend that BLLC conduct adequate and documented investigations of complaints received through the City's 311 System in accordance with its SOPs.**

Agency Response			
<b>Analysis</b>			
<b>Please provide additional comments as deemed necessary.</b>	<p>The BLLC follows a two-step process that involves two separate systems for recording and reporting all 311 calls. The first, called Salesforce, sends an email to an inspector immediately after the call for service is entered on-line or via phone. As per the BLLC's SOPs, the assigned inspector is to respond, investigate, and report on his or her findings. He or she does so by sending an electronic report to the Salesforce system which provides a description of the inspector's observations, the actions taken by the inspector to address the allegation, if applicable, and a final resolution to the issue. Second, inspector is then required – on the next working day – to return to the office and complete a second report concerning the 311 call and enter that report into the BLLC's Sharepoint Inspection system. In each case cited by the auditors, the BLLC received, responded to when practical, and closed out the 311 call in a timely manner. Most of the issues cited by the auditors in this finding had nothing to do with whether or not the BLLC received, responded, or reported in the Salesforce system on a 311 call, but had to do with lack of proof that an inspector called a complainant or inspectors' reports submitted to the BLLC's Sharepoint system. Lastly, as to the Auditors' concerns regarding how the BLLC may not follow-up on 311 calls, the BLLC would like to make clear that the agency reviews all 311 calls every two weeks, identifies establishments that receive 2 or more calls, and allocates investigative resources to those establishments to determine the validity of the complaint, if the inspector is unable to do so at the time of the call.</p>		
<b>Recommendation 4</b>	Agree	<b>Estimated Completion Date:</b>	4/1/2020
<b>Please provide details of corrective action or explain disagreement.</b>	<p>Addressing the Auditor's concerns, the BLLC drafted enhanced policies and procedures regarding how inspectors shall respond, report, and close out all 311 calls. As per 2020 SOP 3.06 "311 Response Policy," the BLLC requires inspectors to contact complainants, instructs inspectors on referrals to applicable agencies for violations outside of the BLLC's scope, and provides general guidance and increased flexibility on how to respond and report on: noise complaints, sanitation and safety issues, operating after hour complaints, and repeat calls for service.</p>		

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### Finding 5

**BLLC inspectors did not always follow up on inspection violations and did not always document conclusions when conducting inspections.**

**We recommend that BLLC**

- a. conduct follow-up inspections or take other appropriate actions to ensure violations noted during inspections are resolved, and**
- b. ensure inspectors are documenting conclusions when conducting inspections.**

<b>Agency Response</b>			
<b>Analysis</b>			
<b>Please provide additional comments as deemed necessary.</b>	The BLLC disagrees with the conclusion that the OLA found in their analysis. Furthermore, the OLA's analysis is misleading and would leave one to interpret that the BLLC neither issues nor charges violations for underage drinking or BD7 tavern checks.		
<b>Recommendation 5a</b>	<b>Disagree</b>	<b>Estimated Completion Date:</b>	<b>Completed</b>
<b>Please provide details of corrective action or explain disagreement.</b>	For each of the 20 cases the audit team identified, the BLLC either issued a violation or a violation was not warranted. Of the 10 violations identified by the Audit team, all 10 were charged by the BLLC and brought before the Board for a public hearing, found guilty, and were issued a fine and/or suspension. The OLA's concern in these cases is that the BLLC did not return to the same locations and test the same licensees to determine whether or not they would commit the same infractions. That is what the Auditors are defining as not "following-up." The BLLC disagrees with such a finding as the agency lacks the capacity to perform the necessary "follow-up" the auditors deem appropriate. For example, the 10 cases that the auditors cite involve sales to minors or BD7 checks. Such cases can only be investigated only in conjunction with Baltimore City Police Department resources – i.e. the BLLC uses Baltimore City Police Cadets to attempt underage purchases. While the BLLC suggests locations for the BCPD to visit to conduct enforcement, it is the BCPD that ultimately chooses where to conduct such enforcement and, for the most part, their decision on where to conduct covert operations is based on calls for service regarding violent crime, not whether or not a licensed establishment sells to a minor. While there are times that such trends correspond, there are many times that they do not. In addition, the usefulness of an underage cadet is limited in time and location when conducting such operations. Once a cadet's identity is discovered, his or her likeness is either remembered or communicated to other license holders, thereby limiting the effectiveness of using such a cadet. Thus, it makes no sense to use the same cadet or another cadet whose likeness is known among licensees to conduct the same enforcement action		

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	at the same locations. Lastly, the BLLC wants to avoid “targeting” certain locations or groups of license holders for enforcement efforts. Such targeting could lead to charges of discrimination and/or litigation which the BLLC seeks to avoid.		
<b>Recommendation 5b</b>	Disagree	<b>Estimated Completion Date:</b>	Completed
<b>Please provide details of corrective action or explain disagreement.</b>	The three examples that the OLA uses to draw their conclusion do not reflect a lack of required follow-up, as per State law, BLLC rules and regulations, and its SOPs. The first instance involves an inspector report that indicates a lack of a trader’s license for a location that was pending transfer soon after the inspection in question occurred. This location was closed while the transfer application was pending and thus it was not necessary for the location to have an active traders license. The second instance involved an inspector who gave a warning to a licensee that her Alcohol Awareness certification was to set expire in the next few days. This happened on 3/9/2018, while her certification was still valid. By 3/31/2018, the agency had a copy of the licensee’s renewed and valid Alcohol Awareness Certification. No follow-up was deemed necessary. In the third instance, an inspector performed an inspection (mistakenly) at a formerly licensed location no longer under the jurisdiction of the BLLC. The OLA believed that the inspector should have issued a violation (he could not because it was not a licensed location) or should have emailed the health or housing department and requested an inspection be performed to ensure the establishment was in compliance with City BYOB laws. While the BLLC understands the importance of the latter, issuing a finding for something that the BLLC is technically not responsible for under the law is unjustified.		

**Auditor’s Comment:** BLLC disagrees with Recommendation 5a, to conduct follow-up inspections or take other appropriate actions to ensure violations noted during inspections are resolved, by stating that it is not always practical to follow-up on certain violations, especially when they involve the cooperation of the Police Department. We continue to believe that based on the nature of the violations, it is both reasonable and appropriate to conduct follow-up inspections to determine if noted violations or issues have been resolved, or document the BLLC’s reasons why follow up inspections cannot be performed, such as unavailability of necessary Baltimore Police Department resources. In addition, for the condition related to Recommendation 5b, BLLC continues to incorrectly interpret our analysis, after it having been explained in detail during our audit exit conference. The condition did not relate to follow-up not performed, as BLLC states, but that the conclusions resulting from inspections conducted were not recorded in the inspection database, as required.



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**Finding 6**

**BLLC's process to monitor the inspections of licensed establishments did not provide assurance that all licensees were subject to an annual inspection or inspected at appropriate frequencies.**

**We recommend that BLLC**

- a. modify the methodology used to monitor the frequency of inspections conducted of each licensed establishment, and**
- b. ensure that all licensed establishments are periodically inspected.**

<b>Agency Response</b>			
<b>Analysis</b>			
<b>Please provide additional comments as deemed necessary.</b>	Alc. Bev. Art. 12-2203 states that locations that do not operate at least once every 90 days shall come before the Board to request to reopen. To achieve this end, the BLLC sets as its aspirational goal that each location be inspected four times per year. While the BLLC would not characterize its inspection goal as "informal," in its 2020 SOPs the BLLC states explicitly that it is the "aspirational goal" that each licensed location be inspected four times per year. In addition, the agency closely adhered to 2019 BLLC SOP 3.07, entitled "Non-Operating Locations," which directed inspection and administrative staff to meet bi-weekly to review all locations which have not received an inspection. Pursuant to this SOP, the BLLC identified most if not all of the locations that did not receive inspections and had an explanation for why each location was not inspected (pending transfer, hardship extension, transfer hardship extension, contract purchaser, secured creditor, etc.).		
<b>Recommendation 6a</b>	Agree	<b>Estimated Completion Date:</b>	4/1/2020
<b>Please provide details of corrective action or explain disagreement.</b>	BLLC SOP 3.02 "Inspection Expectations, Tracking, Back Check Inspections" of the 2020 SOPs, clearly states that "the agency sets forth the aspirational goal of inspecting each location four (4) times per license year." Next, the agency removed "sign posting" and "transfer-application" activities from the inspection report analysis. As such, future reports now calculate inspections based on the following inspection types: Routine Inspections, Compliance Inspections, and Special Investigations.		
<b>Recommendation 6b</b>	Agree	<b>Estimated Completion Date:</b>	4/1/2020
<b>Please provide details of corrective action or explain disagreement.</b>	In 2020 the BLLC drafted SOPs 3.02 "Inspection Expectations, Tracking, Back Check Inspections" and 3.10 "Non-Operating Locations," which address the auditors' concerns. While the BLLC believes it was monitoring all establishments periodically in 2018-2019 in accordance with the Alcoholic Beverages Article, the agency agrees with the auditors that its SOPs needed to be enhanced to provide increased clarity and guidance.		

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**Finding 7**

**BLLC did not track and monitor instances of licensee noncompliance that did not involve the Baltimore Police Department or the Baltimore City Sheriff's Office to ensure that each was properly addressed.**

**We recommend that BLLC**

- a. track and monitor all instances of licensee noncompliance; and**
- b. maintain documentation of the reviews performed to support determinations, including referral of instances of noncompliance to the Board (as potential violations).**

<b>Agency Response</b>			
<b>Analysis</b>			
<b>Please provide additional comments as deemed necessary.</b>	The BLLC disputes the OLA's statement that "the BLLC did not maintain documentation of internal reviews performed to support determinations of whether to present instances of non-compliance to the Board for adjudication." 2019 BLLC SOP 3.05(4)(d) "Violation Review and Charging Process" requires the DES to log in all reports received, lists the charge and corresponding charging date, and if not charged list his or her determination as to why not into the Report Tracking database. The BLLC provided the Report Tracking log for 2019 to the OLA. While the BLLC agrees with the OLA that it did not track ALL non-Police and Sheriff Office reports, the BLLC disputes the aforementioned quote as it explicitly maintained such documentation as to its internal reviews.		
<b>Recommendation 7a</b>	Agree	<b>Estimated Completion Date:</b>	8/1/2019
<b>Please provide details of corrective action or explain disagreement.</b>	The BLLC agrees that it should track all reports that it receives. Starting in August of 2019, the BLLC expanded upon its Report Tracking log to include the tracking of State Comptroller Reports, Inspector Reports not associated with a law enforcement agency, and reports that it receives from other City and State agencies.		
<b>Recommendation 7b</b>	Agree	<b>Estimated Completion Date:</b>	8/1/2019
<b>Please provide details of corrective action or explain disagreement.</b>	The BLLC agrees that it should maintain documentation of all reviews that it performs for all reports that it receives and believes by expanding the tracking of the types of reports received, all information from all applicable agencies will be reviewed to determine if there is a prima facie case that a licensed establishment should be charged with a violation. However, the OLA's finding lacks context. As per the OLA, the BLLC charged 277 violations from 200 reports for FY18. Out of the random selection of three (3) reports from that total, the OLA found that two out of three were properly charged and brought before the Board. The sole report – one out of the 200 that the BLLC received – that was not charged could have been brought before the Board. In that case, the licensee was issued a cease and		

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	<p>desist order for electrical cords that were not properly installed in November of 2017. The licensee abated the issue in a timely fashion and was not operating while the issue was outstanding. While the matter may have been brought before the Board for a hearing, the BLLC notes a review and charging compliance rate of 99.5% (199 out of 200) is a significant achievement. Furthermore, this finding should be viewed in light of the fact that in FY18 the BLLC led all other local licensing Boards in the State of Maryland in the number of violation cases reviewed, charges filed, and convictions obtained. See Comptroller's Report of FY18: <a href="https://www.marylandtaxes.gov/reports/static-files/revenue/alcoholtobacco/annual/AnnualReportFY2018.pdf">https://www.marylandtaxes.gov/reports/static-files/revenue/alcoholtobacco/annual/AnnualReportFY2018.pdf</a></p>
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<b>Finding 8</b>
<b>BLLC did not have an ongoing internal process to identify potential conflicts regarding interests in the alcohol beverage industry consistent with State law specific to BLLC.</b>

We recommend that BLLC supplement the required annual SEC disclosures with a separate internal periodic process (such as, annually) for employees and commissioners to identify potential conflicts in the alcohol beverage industry specific to BLLC's law, as is already required from employees at the time of their initial hire.

<b>Agency Response</b>			
<b>Analysis</b>			
<b>Please provide additional comments as deemed necessary.</b>	The BLLC does not disagree with OLA's recommendation that the agency could enhance its oversight of conflicts of interest by Commissioners and employees by taking a proactive approach. However, the BLLC disagrees with OLA's "finding" that the agency was required to have an "ongoing internal process" to identify any conflicts of interest among its Commissioners and employees. Starting in 2016 all Commissioners and employees of the BLLC came into compliance by receiving training and filing timely financial disclosure forms with the City's Board of Ethics. See attached letter from Executive Director of the Baltimore City Board of Ethics from Mr. Avery Aisenstark. In October of 2017, the law changed requiring the Commissioners and employees of the Board to receive training and file their financial disclosure forms with the Maryland State Ethics Commission (SEC). In October of 2018, the law was further amended to ensure that Commissioners received enhanced training and certification by the SEC. Since October of 2017 the BLLC's Commissioners and employees have been – and continue to be in full compliance with the law: all have received training, received their certification, and filed their financial disclosure forms in a timely manner up and until CY2019 filings. See the attached letter(s) from Executive Director of the State Ethics Commission from Mr. Michael Lord.		
<b>Recommendation 8</b>	Agree	<b>Estimated Completion Date:</b>	5/1/2020
<b>Please provide details of corrective action or explain disagreement.</b>	To address the OLA's concerns, the BLLC redrafted SOP 1.06 to include an annual "conflicts of interest" inquiry into to whether or not any Commissioner or employee of the BLLC has a financial or proprietary interest in a wholesaler, distributor, or retail vendor of alcoholic beverages. Any response by any person that presents a conflict of interest will be forwarded to the SEC for investigation and review.		

**OLA Note:** The letters from the City and State Boards of Ethics referred to in BLLC's response are not included as part of the report, but are included on the OLA website as *Supplements to the Board's Response*.

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