



**Department of Legislative Services
Office of Legislative Audits**

Performance Audit

Board of Liquor License Commissioners for Baltimore City (BLLC)

Report Dated July 13, 2016

Presentation to the Joint Audit Committee

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Department of Legislative Services Office of Legislative Audits

Audit Objectives

1. Licensing - to evaluate BLLC's procedures over alcoholic beverage licensing and to determine if the licensing process complied with State law and Board requirements.
2. Inspections - to evaluate the BLLC procedures for performing inspections of alcoholic beverage licensees and determine whether inspections were performed in accordance with these procedures and any other requirements.
3. Disciplinary Procedures - to evaluate the disciplinary process and determine whether BLLC complied with applicable State law, as well as Board rules and regulations.
4. Management Oversight - to determine whether proper oversight exists over BLLC operations.



Report Overview

- 18 Findings – 8 of the 24 findings from prior audit were satisfactorily addressed, and the remaining 16 findings were repeated in this report as 15 findings.

 - Overarching Issues:
 - Comprehensive written policies and procedures to guide staff were lacking in each area of BLLC’s operations.

 - BLLC lacked processes for management to effectively oversee and determine the efficiency and effectiveness of operations.

 - BLLC did not have an effective system to track investigations performed of approximately 1,300 licensed establishments and the outcomes of inspections.
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Licensing

Finding 1 - Licensing Policies

BLLC lacked formal written policies to direct staff in processing alcoholic beverage license applications, renewals, and transfers.

- Controls were not in place, such as a documented supervisory review process, to ensure licensees provided adequate documentation and paid proper fees.

Finding 2 - Licensing Fees

BLLC renewed some licenses without receiving all required fees, including late fees, from licensees.

- Licensees for 8 of the 41 renewals tested for the 2015-16 license year paid a total of \$2,420 less than the \$68,405 that should have been paid.
 - Three of the 41 renewals appeared to be submitted late, but late fees of \$650 were not assessed. Renewal applications were not date stamped.
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Licensing (continued)

Finding 3 - Casino Fees:

BLLC did not assess the proper license fee for the casino operating in Baltimore City nor did it ensure the concessionaires operating within the casino were licensed and assessed licensing fees.

- The casino had been assessed an annual license fee of \$12,000 rather than \$15,000 prescribed by law for such facilities. BLLC management attributed the improper fee assessment to licensing system limitations.
 - BLLC did not license seven concessionaires that served alcohol and did not require each to pay the \$5,000 annual license fee.
 - The casino and its concessionaires were under assessed fees totaling \$76,000 for the 2014 and 2015 license years, although BLLC now claims 3 of the 7 concessionaires do not require separate licenses.
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Licensing (continued)

Finding 4 - Licensing Transfers

License transfers were not always completed within 180 days of Board approval as required.

- OLA's test of 10 judgmentally selected transfers found 2 were completed one year after the Board approved the transfers.

Finding 5 - Updates to Criminal Records

BLLC did not receive updates to criminal background information, as provided for by State law, after the initial background checks it received on new licensees and license transfers.

- State law specifies that a license may not be renewed if a criminal conviction renders the licensee unfit.



Licensing (continued)

Finding 6 - Controls Over Collections

Procedures and recordkeeping practices for cash receipts and accounts receivable did not provide adequate control.

- Checks were not restrictively endorsed upon receipt nor properly secured.
- There was a lack of adequate separation of duties over the cash receipts and accounts receivable functions.
- Monthly reconciliations were not completed to verify cash receipts recorded on its records were deposited, as documented on the City's accounting records. BLLC was unaware that during FYs 2013 to 2015 a total of \$1,066,550 had been posted to the BLLC holding account rather than being recorded in the appropriate City revenue account.



Inspections

Finding 7 - Inspection Policies and Procedures

BLLC lacked comprehensive written policies and procedures to guide the inspection process. At the time of our audit, minimal guidance existed.

- Existing guidance did not detail the process to be used to conduct inspections and the specific aspects of each inspection area and topic to be covered during an inspection.
- BLLC staff applied their own criteria to assess licensee compliance during an inspection.
- No guidance was provided on how to perform and document the review of invoices related to alcohol deliveries to determine if licensee alcohol was purchased from a wholesaler licensed by the Comptroller of Maryland, as required.



Inspections (continued)

Findings 8 & 9 - Monitoring of Inspections

BLLC lacked an effective tracking system to monitor inspections performed, including determining if the goal of inspecting each licensee, on average, four times per year was met.

- Based on OLA's statistical analysis, no more than 3,600 inspections were conducted for the year ended April 30, 2015, 25% fewer than the goal of completing 5,200 inspections annually.
- On average, 19 licensees with high sales volume were inspected 2.63 times including 2 licensees who were never inspected during that year.
- Documentation of supervisory review of inspection reports was lacking.



Inspections (continued)

Finding 10 - 311 System Complaints

BLLC lacked comprehensive written policies for processing and timely resolving 311 complaints about licensed establishments.

- There was inadequate documentation of complaint resolution by BLLC, which resulted in many complaints being closed without evidence of investigation.

BLLC closed 927 complaints between 1/29/15 and 8/11/15 when only 495 complaints had been received.

- OLA's test found that 12 of the 14 complaints received during that period were either not closed timely or lacked adequate documentation to support the closure.



Disciplinary Procedures

Fines and Board Hearings

- The Board's assessment of fines and granting of fine waivers appeared to be reasonably consistent within violation types.
- BLLC staff had discontinued conducting informal hearings with violators and violations were addressed through the Board hearing process.

Finding 12 - Policies and Procedures

BLLC lacked written policies and procedures for deciding which violations should be adjudicated by the Board or for specifying the time frame within which violations would go before the Board.

- OLA's test of 15 cases with 34 violations that were heard by the Board found that 17 violations were heard from 181 to 783 days after the violation occurred.



Management Oversight

Finding 14 - Management Practices

BLLC had not implemented management practices to effectively oversee and manage the agency's functions.

- Many recommendations in OLA's preceding audit report had not been implemented.
- BLLC did not routinely generate system reports to monitor licensing activity and 311 complaint resolution.
- Advertisements of proposed Board action on license applications during a six-month period were not posted in newspapers as required by law.



Management Oversight (continued)

Finding 15 - Financial Disclosure Forms

Board Commissioners and BLLC staff did not file annual financial disclosure forms as required by Baltimore City Code. Management did not review disclosure forms for conflicts of interest.

- As of July 13, 2015, 8 of 16 individuals required to file had not submitted the CY 2014 forms, which were due on April 30, 2015.
- Four newly hired inspectors and two new commissioners had not filed the forms within 30 days as required by City Code.



Management Oversight (continued)

Finding 16 - Employee Performance Evaluations

BLLC did not routinely perform formal evaluations of employee performance as required by City policy.

- As of June 2015, 11 of the 16 BLLC employees employed by BLLC had not received a performance evaluation during their tenure, which ranged from one year to more than 10 years.

Finding 17 - Payroll Processing

Internal controls over payroll, totaling \$1.6 million during FY 2015, were inadequate.

- Three upper management employees did not record their time worked and for other employees electronic timesheets did not always agree to daily employee sign-in and sign-out sheets.
 - Approval for overtime paid was not documented.
 - Certain employees had inappropriate access to the automated system used to process payroll.
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Conclusions

BLLC needs to

- develop and implement written guidance, including formal Board policy and internal regulations, procedures, and controls, to govern all facets of its operations;
- work to develop and implement technologies to better allow it to perform its routine duties, manage operations, and measure performance; and
- ensure that adequate and appropriate documentation is established and retained of its staffs' actions and performance to support the results of BLLC's operations and compliance with State and City laws and Board policy.