

Performance Audit Report

**Board of License Commissioners
for Prince George's County**

March 2019



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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MARYLAND GENERAL ASSEMBLY

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March 29, 2019

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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 License Commissioners for Prince George's County (BOLC). Although BOLC is a county government agency, this is the first of what will be required triennial audits as stipulated by the State Government Article, Section 2-1220 of the Annotated Code of Maryland. The law requires our audit to focus on BOLC operations relating to licensing, inspections, disciplinary procedures, and management oversight, which broadly represent the four audit objectives established. BOLC issued 744 alcoholic beverage licenses and permits during fiscal year 2017 and related revenues totaled \$2.3 million, primarily derived from license fees.

Our audit disclosed that generally the BOLC lacked adequate or comprehensive policies and procedures over significant aspects of its operations in each of the four areas reviewed.

Licensing

Specifically, BOLC licensing procedures and controls were inadequate, as there was a lack of separation of application processing, approval and recording functions, and an independent supervisory review of these functions was not performed. Additionally, BOLC did not ensure that applications were properly completed and evidence was lacking that all required documents were obtained and conditions met prior to the issuance of licenses and permits as required, including completed criminal background checks and verifications of no unpaid State and County taxes. For example, after an employee reviewed an applicant's criminal background information results they would immediately delete the record without any other individual's review. Also, our review of 58 license applications submitted from February

2016 to April 2017 disclosed that for the 26 non-renewal applications tested, no verifications of unpaid County taxes were performed by BOLC prior to the issuance of the related licenses as required by law. Finally, BOLC had not established adequate record keeping procedures and internal controls over license fees and other office collections, which totaled \$2.3 million in fiscal year 2017. For example, the BOLC employees responsible for collecting licensing payments, also recorded receipts in the accounting and licensing records, sometimes made deposits, and also printed and issued the licenses.

Inspections

Our review of the BOLC inspection process disclosed that BOLC policies and procedures for conducting inspections of alcoholic beverage licensees and maintaining related records were inadequate. In addition, our review of inspections selected for testing disclosed they were not performed on a sufficiently frequent and comprehensive basis in accordance with governing laws, policies, and procedures or BOLC's goals, and that there were inadequacies in the related records. For example, our review of the fiscal year 2017 inspection schedules disclosed that routine quarterly inspections for the third quarter of 2017 were not assigned, nor performed, for 102 of the existing 618 licensed businesses.

In addition, inspection reports were not comprehensive, properly completed, or subject to an independent documented supervisory review. Our review of the results of 50 inspections performed disclosed that evidence was lacking that 25 of the inspections were properly completed. For example, certain of the inspection reports had missing or erroneous information or were not signed by the owner or manager of the licensed business.

Also, no procedure had been established to ensure all completed inspection reports were properly recorded in the BOLC inspection database, as a process was not in place to account for all reports and the inspection data entered into the database was not compared to the related inspection report for accuracy or completeness by supervisory personnel. Finally, complaints regarding licensees received both directly by BOLC and through the County's 311 System were not always investigated or resolved timely and no documented independent supervisory reviews were performed of the complaints received for timely and adequate follow-up. For example, as of July 2018 according to BOLC records, we found 17 complaints remained unresolved from approximately 12 to 45 months after receipt.

Disciplinary Procedures

BOLC had not established adequate procedures and internal controls over its disciplinary process and the maintenance of related records. Specifically,

certain critical enforcement actions and decisions were delegated to and made by administrative staff without the benefit of Board oversight and in contradiction with State law. This included administrative staff's offering a violator an administrative offer of compromise, often at a reduced fine amount, instead of requiring the licensee to attend a public Board hearing. These staff decisions were not subject to Board review or approval. There were 89 offers of compromise by the BOLC administrative staff accepted by licensees, with fines totaling \$156,500 in fiscal year 2017. In addition, formal accounts receivable records were not established or maintained for fines assessed, and late fees due were sometimes not collected.

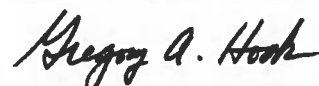
Management Oversight

BOLC's established management practices were not comprehensive and did not necessarily ensure efficient and effective operations. Specifically, the Board had not formally approved a policy and procedures manual drafted by the BOLC staff to govern its employee and management policies and related operations. Further, certain of those draft policies were not sufficiently comprehensive, as requirements for independent supervisory reviews of inspector performance, maintenance of time records, or document retention were not established. In addition, inspector performance measures had not been established to assist in the determination of annual workload requirements; user access capabilities to critical data files were not monitored for necessity; and no process had been established to monitor employee compliance with statutory independence restrictions concerning secondary employment, business investment, and political activities.

Our audit scope, objectives, and methodology are explained on page 7. BOLC's response to this audit is included as an appendix to this report. We reviewed the response and noted general agreement to our findings and related recommendations, and we will advise the Committee of any outstanding issues that we cannot resolve with the BOLC. In accordance with our policy, we have redacted any vendor names or products mentioned by BOLC in this document.

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

Respectfully submitted,



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 that beginning on July 1, 2017, and at least once every three years thereafter, the Office of Legislative Audits shall conduct a performance audit of the Board of License Commissioners for Prince George's County (BOLC). The law states that the audit is to evaluate the effectiveness and efficiency of the management practices of BOLC and the economy with which BOLC uses resources. The law also states the audit shall focus on operations relating to liquor inspections, licensing, 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 for our findings and conclusions met those standards.

Objectives and Methodology

Our audit included the following objectives:

1. Evaluate the adequacy of procedures for 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 BOLC policies and procedures for conducting inspections of alcoholic beverage licensees and maintaining related records, and determine whether inspections were properly performed in accordance with governing laws, policies, and procedures.
3. Evaluate the disciplinary process and determine if BOLC 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 BOLC operations.

To accomplish our objectives, we reviewed applicable State laws, and the policies and procedures established by the Board and BOLC administrative personnel governing the licensing process and related records. We also reviewed pertinent sections of the BOLC Policy and Procedures Manual that governs BOLC administrative functions and what the Board refers to as the

Rules and Regulations for the Board of License Commissioners for Prince George's County; an internal document that governs the conduct of licensee business operations. Furthermore, as part of our review of State law, we sought clarification from counsel to the Maryland General Assembly about the Board's responsibility for retention of documents obtained and reviewed during the licensing process.

Additionally, we interviewed BOLC staff to determine the processes used to issue licenses, conduct inspections, administer disciplinary proceedings, and maintain related records. We also observed the licensing, inspection, and disciplinary hearing processes. We obtained data files of active BOLC licensees for the 2016-2017 license year, and liquor inspections performed and licensee violations for fiscal years 2015 to 2017. These files were obtained from the BOLC licensing database, stored on the shared drive maintained by the Prince George's County Office of Information Technology. We used the data files to perform various tests of the licensing, inspection, and disciplinary process, and performed various tests of the relevant data and determined it was sufficiently reliable for the purposes it was used for during the audit. We also reviewed the licensee paper files and the minutes for Board hearings that evidenced the decisions and actions taken by the Board. Furthermore, we obtained records of complaints received by BOLC, as well as complaints registered through the Prince George's County 311 Community Relations Service Request System (311 System), to evaluate the BOLC process for complaint-initiated inspections.

Finally, we reviewed available information on internet sites for the National Alcohol Beverage Control Association, the National Liquor Law Enforcement Association, National Conference of State Liquor Administrators, and the Maryland State Licensed Beverage Association. We also reviewed available reports of audits performed of other state and county liquor boards.

Fieldwork and Agency Response

We conducted our fieldwork from July 2017 to June 2018. BOLC'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 BOLC regarding the results of our review of its response.

Background Information

Agency Responsibilities

The Board of License Commissioners for Prince George's County (BOLC) is an agency of the County. BOLC operations are governed by Title 26 of the Alcoholic Beverages Article of the Annotated Code of Maryland. BOLC 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; and fining licensees, or suspending, or revoking their licenses, for violations of alcoholic beverage laws. BOLC also issues licenses for special venues (a casino, convention center or stadium), as well as permits for alcoholic beverage sales during special events (such as beer and wine festivals) and when providing entertainment (such as music, dancing, or adult). According to BOLC records, which we verified through testing, there were 618 active alcoholic beverage licenses as of July 24, 2017 (for the 2016-2017 license year)¹.

All revenues from licenses issued, fines, and late fees collected are paid to the BOLC and deposited in a County bank account, and all BOLC expenditures are paid by the County. Furthermore, BOLC is included in the County's annual budget and its financial activity is included in the County's Comprehensive Annual Financial Report. BOLC's budget for fiscal year 2017 was \$1,403,800 with provision for 8 full-time and 32 part-time employees. According to County records, BOLC fiscal year 2017 revenues and expenditures totaled \$2.3 million and \$1.2 million, respectively.

Prior to May 2017, BOLC was governed by a five-person board, who were appointed by the Governor with the advice and consent of the Senate. However, Chapter 812, Laws of Maryland, 2017, amended the appointment process whereby the County Executive of Prince George's County is now responsible for those appointments, subject to confirmation by the Maryland Senate. As of August 2017, BOLC had five full-time staff, which included one executive staff position, one supervising inspector, and three support staff; BOLC also had 23 part-time inspectors.

Consultant Study

The 2017 State law that amended the appointment process also required that the Prince George's County Executive hire an outside professional

¹ Licenses are valid for one year and renew in April, May, or June of each year depending on the type of license.

consultant on or before September 1, 2017 to review the standard operating procedures of the Board and BOLC administrative personnel. It further provided that in conducting the review, the consultant shall compare the Board's standard operating procedures to best practices in the area as well as to the standard operating practices of other boards of license commissioners throughout the State; and recommend changes to improve the operations and efficiencies of the Board. Finally, it required the consultant to submit a report detailing its findings and recommendations to the County Executive, the Prince George's County Council, and Prince George's County House and Senate delegations to the General Assembly of Maryland.

A consultant was hired by the County Executive, as required, who conducted its review of Board and BOLC administrative operations between October and November of 2017 and issued the related report in January 2018. In accordance with the law, the consultant reviewed Board operations and compared them with best practices in place at four other Maryland liquor boards, as well as those of two bordering states. The consultant's report on the Board's operations and efficiency was organized into five topic areas: administration, administrative policies, license restrictions and regulations, inspections and violations, and board of license commissioners. The report contained 22 detailed recommendations, which according to the consultant, if implemented, would likely result in a more efficient regulation of alcoholic beverages licensing and enforcement. We noted that certain of the consultant's findings were similar to those independently developed by the Office of Legislative Audits and included in this report. The consultant also made a number of other recommendations, such as modernizing the Board's web site and implementing automated application and inspection processes, which we excluded from our audit scope.

Criminal Matters Related to Certain Board Officials and Others

The United States Attorney's Office disclosed that two business owners licensed by BOLC had been indicted and pleaded guilty in April and May 2017, respectively, to bribery of State and local officials of Prince George's County in return for favorable actions concerning their liquor licenses. In addition, a former Chief Liquor Inspector and BOLC Commissioner were also indicted and pleaded guilty in October 2017 and December 2017, respectively for soliciting and facilitating bribes from lobbyists and business owners for elected state officials. The former Chief Liquor Inspector was also indicted for and pleaded guilty to obstruction of justice.

Furthermore, a former Maryland legislator was indicted and pleaded guilty in January 2017 to bribery, while a federal grand jury convicted another

Maryland legislator in March 2018 of bribery and conspiracy in connection with schemes in which they accepted bribes in exchange for influencing the performance of their duties, as related to matters associated with Prince George's County liquor licensing and sales. For example, according to evidence presented at trial, from January 2015 through April 2016, a legislator conspired with a former BOLC Chief Liquor Inspector and liquor store owners to advance and vote for favorable legislation in exchange for cash payments. All six individuals mentioned above were sentenced to federal prison terms ranging from one to five years.

As part of the investigation of the aforementioned conspiracy, bribery, and obstruction of justice charges, the Federal Bureau of Investigation removed certain records from the BOLC premises in January 2017. These records related to Sunday sales licenses, which accounted for approximately 10 percent of BOLC fiscal year 2017 revenue, were unavailable for our review. However, we reviewed other transactions involving the parties in question during the audit (see Finding 13).

Findings and Recommendations

Objective 1 - Licensing

Objective and Methodology

Our objective for BOLC licensing was to evaluate the adequacy of procedures for alcoholic beverage licensing and the maintenance of related records, and to determine, based on the evaluation and transaction testing, if the licensing process complied with State law and Board requirements. To accomplish our objective, we reviewed applicable State laws, and the policies and procedures established by the Board and BOLC administrative personnel governing the licensing process and related records. We also reviewed pertinent sections of the BOLC Policy and Procedures Manual and the Board's Rules and Regulations Book for the Board of License Commissioners for Prince George's County.

Additionally, we interviewed BOLC staff to determine the processes used to screen applicants; collect fees; issue, renew, or transfer licenses; and maintain related records. We obtained a data file of all active BOLC licensees for the 2016-2017 license year as of July 24, 2017 from the BOLC licensing database, stored on the shared drive maintained by the Prince George's County Office of Information Technology. We used the licensee data file to perform various tests of the licensing process including issuance of new licenses, 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 for during the audit.

Finally, as part of our review of State law, we sought clarification from counsel to the Maryland General Assembly about the Board's responsibility for retention of documents obtained and reviewed during the licensing process. Specifically, we asked if the law requires the retention of Board documents, including criminal history record information (CHRI), until audited. We were advised by counsel that the law requires the retention of certain licensing records for at least three years or until they have been audited, and further requires that they be disposed of in compliance with the record management and disposition of records provisions of the law. Further, in counsel's view, the license application and related documents were public records subject to compliance with those provisions. Additionally, although the law limits the dissemination of CHRI solely for the purpose requested and it would not have to be offered to the State Archives prior to disposal, it would still have to be retained until audited.

Background

BOLC processes applications for new licenses, license renewals and modifications, and transfers of existing licenses to sell beer, wine, and liquor to businesses in Prince George's County. There are four different classes of licenses and each are valid for one year. Class A licenses are issued to liquor stores and expire on April 30. Class B licenses are issued to restaurants and expire on May 31. Class C and D licenses are issued to private membership clubs (such as veterans' organizations) and to taverns and convenience stores, respectively, and both expire on June 30. BOLC also issues licenses for special venues (casino, convention center, or stadium), as well as permits for alcoholic beverage sales during special events (such as beer and wine festivals) and when providing entertainment (such as music, dancing, or adult).

According to BOLC records, there were 732 alcoholic beverage licenses and 12 entertainment permits issued during fiscal year 2017.² Annual fees for alcoholic beverage licenses issued are established in State law and vary depending on the type of establishment and what beverages are sold. The annual fee for an entertainment permit is \$1,500, which is in addition to the business' alcoholic beverage license fee. See Table 1 for the types of Class A, B, C, and D licenses issued by BOLC along with the related license fees. Also, additional permits and other privileges with fees can be found in Table 2 and a summary of fiscal year 2017 revenues is located in Table 3.

Applicants (new licenses, license renewals, or license transfers) submit a completed application form along with certain required documents (such as a driver's license for identification) and an application fee. The applications are processed and added to the next scheduled public Board hearing agenda to be discussed and voted on. If approved by the Board, applicants must submit certain additional documents (such as a certificate of liability insurance and proof of personal property tax payment) and pay the applicable license fee before BOLC prints and issues the license. License renewals account for over 83 percent of the annual licensing activity and BOLC e-mails all current licensees a renewal notice in January each year, but the expiration dates vary by class of license. License transfers occur when there is a change in ownership, location, or more than 50 percent of the stock or membership interest in the business. However, a new license must also be processed whenever there is a change in a licensee's corporate officers. The licensing records are maintained by BOLC on a database on the Prince George's County

² During FY 2017, BOLC processed applications that resulted in the issuance of 744 licenses (617 renewals, 40 transfers, 32 Substitute of Corporate Officers, 25 conversions, 18 new, and 12 permits).

government's network.

Table 1
Annual License Fees for Fiscal Year 2017

License Type	Annual License Fee
Class A Beer	\$500
Class A Beer and Wine	\$500
Class A Beer, Wine, and Liquor	\$910
Class B Beer	\$365
Class B Beer and Wine	\$365
Class B Beer and Wine (Baseball Stadium)	\$2,420
Class B Beer, Wine, and Liquor	\$2,305
Class B Beer, Wine, and Liquor (Arts & Entertainment)	\$3,600
Class B Beer, Wine, and Liquor (Caterer)	\$4,480
Class B Beer, Wine, and Liquor (Convention Center)	\$22,000
Class B Beer, Wine, and Liquor (Development District)	\$3,025
Class B Beer, Wine, and Liquor (Education Conference Facility/Dining Service)	\$8,275
Class B Beer, Wine, and Liquor (Educational Conference Facility)	\$5,175
Class B Beer, Wine, and Liquor (Entertainment Concessionaire)	\$5,000
Class B Beer, Wine, and Liquor (Entertainment Facility)	\$22,000
Class B Beer, Wine, and Liquor (Equestrian Center Restaurant)	\$2,420
Class B Beer, Wine, and Liquor (Golf Course)	\$500
Class B Beer, Wine, and Liquor (Hotel)	\$5,000
Class B Beer, Wine, and Liquor (Luxury-Type Restaurant)	\$3,875
Class B Beer, Wine, and Liquor (Plus)	\$3,270
Class B Beer, Wine, and Liquor (Stadium)	\$21,780
Class B Beer, Wine, and Liquor (Theme Park)	\$4,290
Class B Liquor (MB/22)	\$1,090
Class C Beer and Wine	\$245
Class C Beer, Wine and Liquor (Concessionaire)	\$1,815
Class C Beer, Wine and Liquor (Fraternal/Sororal/Service Organization)	\$910
Class C Beer, Wine and Liquor (Veterans' Organization or Club)	\$910
Class D Beer	\$500
Class D Beer and Wine	\$500

Source: BOLC's licensing database

License Type Classes: A-Package Goods; B-Restaurant; C-Private Membership Club; D-Tavern and Convenience Stores

Note: The license types above exclude certain special event licenses for beer, wine, and/or liquor tastings and festivals.

Table 2
Additional Permits and Privileges and Related Fees

Permits and Other Privileges	Annual Fee
Beer Tasting License	\$120
Beer and Wine Tasting License	\$120
Beer, Wine, and Liquor Tasting License	\$220
Draft Beer Container Permit	\$500
Special Entertainment Permit	\$1,500
Sunday Off-Sale Permit - Class A Beer, Wine, and Liquor Only	\$2,590
Sunday Off-Sale Permit - Class B Beer, Wine, and Liquor with an Off-Sale Privilege Only	\$1,080

Source: Annotated Code of Maryland and BOLC's rules and regulations book

Table 3
Revenues for Fiscal Year 2017

Description	Amount
Class A License and Permit Fees	\$378,016
Class B License and Permit Fees	\$1,360,597
Class C License and Permit Fees	\$75,045
Class D License and Permit Fees	\$48,379
Administrative Fees	\$173,029
Fines	\$293,500
Total	\$2,328,566

Source: Prince George's County's accounting system

Notes:

1. The revenues include the annual license fees and any additional fees due to permits (such as entertainment permit) or additional privileges (such as beer tasting) attached to the license.
2. The administrative fees includes the application fees, alcohol awareness training fees, and late fees for extending renewals.
3. Fines are addressed in Objective 3 - Disciplinary Procedures.

Conclusion

BOLC licensing procedures and controls were inadequate, as there was a lack of separation of application processing, approval, and recording functions, and an independent supervisory review of these functions was not performed. Specifically, clerks who processed applications were also responsible for recording the license data in the database, printing the license, embossing it with the County Seal, and stamping it with the signature of the Board Chair. Additionally, BOLC did not ensure that applications were properly completed and evidence was lacking that all required documents were obtained prior to the issuance of licenses and permits as required. For example, our review of 73 applications disclosed they all lacked documentation supporting the identity and legal status of the applicant business owners or principals.

BOLC also did not adequately document criminal background checks of license applicants and had not established a process to receive updates of licensee criminal records as required by law. Specifically, after an employee reviewed the background information results requested for applicants received electronically from the criminal justice information system, they would immediately delete the record without any other individual's review. Consequently, assurance was lacking that background checks were properly performed.

BOLC did not always verify that license applicants had no undisputed Maryland State or Prince George's County taxes payable prior to issuing licenses, as required by law. For example, our review of 58 license applications submitted from February 2016 to April 2017 disclosed that for the 26 non-renewal applications tested, no verifications of unpaid County taxes were performed by BOLC prior to the issuance of the related licenses as required by law. Rather, BOLC's procedure for identifying unpaid County taxes was to review an annual list of debts previously received in December each year. Furthermore, our review of the 49 business entities, for the 58 applications tested, who received a new license, or transferred or renewed a license during fiscal year 2017, disclosed that BOLC did not request a verification from the Comptroller of Maryland or County for unpaid taxes for any of the related 87 owners or principals, as required by law.

Finally, BOLC had not established adequate record keeping procedures and internal controls over license fees and other office collections, which totaled \$2.3 million in fiscal year 2017. For example, the BOLC employees responsible for collecting licensing payments, also recorded receipts in the accounting and licensing records, sometimes made deposits, and also printed and issued the licenses. As a result, payments could be misappropriated and licenses issued without detection.

Findings

Finding 1

Licensing procedures and controls were inadequate, as there was a lack of separation of application processing, approval, and recording functions. In addition, an independent supervisory review of these functions was not performed.

Analysis

Licensing procedures and controls were inadequate, as there was a lack of separation of application processing, approval, and recording functions. In addition, an independent supervisory review of these functions was not performed. As a result, there was no assurance that licenses were properly issued and recorded in the licensing database.

License applications were received, reviewed, approved, and recorded in the licensing database by any one of three BOLC clerks. Additionally, the same clerks who processed the applications also were responsible for printing the license or permit from the database, embossing it with the County Seal, and stamping it with the signature of the Chairman of the Board. Further, the embosser and ink stamp were kept in unsecured locations during the workday and overnight, leaving them accessible to all BOLC employees.

The three BOLC clerks are responsible for verifying that applicants submit all required documentation. Additionally, these clerks were responsible for preparing the monthly hearing agenda for the Board, and for providing a binder of applications and related document copies for the commissioners' review. However, there was no documented supervisory oversight of the application processing, recording, and hearing preparation process by supervisory personnel such as the BOLC Director or Administrative Assistant. Consequently, assurance was lacking that the clerks properly performed their application processing and hearing agenda preparation duties. Specifically, the concerns raised by the lack of segregation of duties and independent supervisory review include that applications were properly completed, accompanied by all required documents, applicants met all licensing requirements, all fees were paid in accordance with governing law, applications were accurately recorded, and complete information was provided to the Commissioners at their monthly hearings.

Our tests of licenses and permits issued (see Finding 2) disclosed many documentation deficiencies that impaired our ability to assess the propriety of the licenses and permits issued. During fiscal year 2017, BOLC issued 744 licenses and permits (including 18 new licenses, 617 renewals, and 40

transfers) and collected approximately \$2 million in license, permit, and application fees (excluding fines).

Recommendation 1

We recommend that BOLC establish adequate procedures and controls over the licensing process. Specifically, the BOLC should ensure that

- a. application processing duties are properly segregated and the embosser with the County seal and ink stamp with the Board Chair's signature are properly safeguarded; and**
- b. there is a documented independent supervisory review over the licensing and hearing process that verifies required documents are received, complete information is provided to the Commissioners at monthly hearings, and applications are accurately recorded in the licensing database.**

We advised BOLC how to achieve the necessary segregation of duties using existing personnel.

Finding 2

BOLC did not ensure that all required documents were obtained prior to the issuance of licenses and permits as required.

Analysis

There was a lack of evidence that all required documents were obtained prior to the issuance of licenses and permits as required, resulting in a lack of assurance that all licenses were appropriately issued. Our review of 73 applications (8 new, 5 conversion, 10 transfer, 10 substitution of corporate officers, 32 renewals, and 8 special entertainment permits) disclosed that each of them lacked certain information or documentation required by Board policy. Specifically, our test disclosed the following conditions:

- Documentation supporting the identity, residency, and/or legal status of the applicant business owners or principals was lacking for each of the 73 applications reviewed. For example, there were no copies of driver's licenses, passports, or permanent resident cards in the individual application file. The lack of information may have been due, in some cases, to the shredding of documents per established BOLC policy or it may not have been received.
- Twenty-five applications reviewed by us were not completed as required, had incorrect information, or both. Examples included application questions or explanations not answered or provided, incorrect ownership

or officer information, and/or lacked a required current consent statement allowing BOLC access to the premises³.

- Twenty-three applications did not have one or more documents required to process and issue the related license within the license holder's file. For example, the missing documentation included worker's compensation certificates, certificates of good standing, security plans, and leases or deeds.

In accordance with State law, applications are to include documentation related to certain requirements such as an applicant's residency and citizenship, and a license renewal application shall be accompanied by a consent statement signed by the owner of the license premises allowing Board staff access to the premises in the same manner as for an original application to be approved. Further, the BOLC has established policies to govern licensees, which stipulate the information and form of documentation that applicants are required to submit, to comply with State law, in order for the Board to issue them a license. For example, all applications must be fully completed and filed on or before the filing date designated for the Board hearing.

However, the BOLC Policy and Procedure Manual instructs the administrative personnel not to retain any personal information in the application file. Specifically, after proof of compliance with the various requirements of the license or permit applied for is verified by staff⁴, original documents were to be returned to the applicant and any copies received shredded. Consequently, we were unable to assess the propriety of the applications tested and the resultant Board action. Further, in response to this situation, we requested advice from counsel to the Maryland General Assembly regarding this issue and were informed that State law requires that the Board's licensing records, including the application and related documents, must be retained for at least three years or until they have been audited. We provided the Board with a copy of the related advice.

³ State law does allow a license holder to renew the license without obtaining a consent statement if the license holder has a lease on the entire building for at least the term of the renewed license and the building owner had previously filed a consent statement with the original or another renewal application. However, since BOLC does not maintain a copy of the licensee's lease agreement on file, we could not determine whether the lease term extended for the entire renewal period allowing for an exemption from the consent statement.

⁴ The applicant writes their name and address on the application and there is a check-off box for the Clerk to indicate that legal status was verified. The application is also notarized.

Recommendation 2

We recommend that BOLC ensure that, in accordance with governing statutes and BOLC rules and regulations

- a. all license applications are properly completed and all required documentation is received before the applications are processed, and
- b. all required documentation is retained on file for at least three years or until audited.

Finding 3

BOLC did not adequately document criminal background checks of license applicants and had not established a process to receive updates of subsequent changes to licensee criminal records, as required by law.

Analysis

BOLC did not adequately document criminal background checks of license applicants and had not established a process to receive updates of subsequent changes to licensee criminal records, as required by law.

- BOLC's review of the results of Maryland Criminal Justice Information System (CJIS) criminal background checks was not adequately documented or subject to independent confirmation. CJIS results were e-mailed to the deputy chief liquor inspector, who logged the name of the applicant on an electronic spreadsheet (no other information was recorded) and then immediately deleted the CJIS e-mail record. The clerks, who subsequently processed the applications, reviewed the spreadsheet for the name of the applicant to verify compliance with the criminal background check requirement.

We were informed by BOLC management that any significant infractions noted by the deputy chief liquor inspector would be discussed with the Board's administrative assistant (who would not necessarily review the CJIS record) and, if need be, brought to the attention of the Board. However, neither party could recall such an instance happening. Consequently, disregarding the electronic spreadsheet, there was no independent documentation that background checks were performed or the results received.

When we questioned the rationale for destroying the CJIS records, we were told that the CJIS e-mails were deleted in order to comply with State law that required the Board to destroy the criminal history record information on completion of its "necessary use". We requested advice from counsel to the Maryland General Assembly on this issue and were told that

“necessary use” includes the need to accomplish a governmental purpose, which would extend to having all audit requirements complied with⁵. Counsel advised that in accordance with State law, criminal history record information, like other licensing records, should now be retained by BOLC until next audit, after which time it may be destroyed.

- BOLC did not receive available updates to criminal background information on licensees after the initial CJIS background checks were completed. State law allows BOLC to receive updates on licensee criminal records that are available from CJIS; however, BOLC had not made any inquiries about such updates or arranged to receive them. As a result, BOLC had continued to rely on the licensee reporting on annual renewal applications as to whether the licensees had been convicted of any crimes.

Although we did not have access to CJIS reports, our review of the criminal history records of the applicants for 60 applications for licenses issued in license fiscal year 2017 did not disclose any with criminal infractions per Maryland court records.

State law provides that a local licensing board may apply to CJIS for a Maryland and national criminal history records check for each applicant for a license. The law also provides for boards to receive updates on licensee criminal records. In accordance with State law and its policy, BOLC requires applicants for a new license, transfer, or substitution of corporate officers to undergo a criminal background check (be fingerprinted at a licensed facility and remit the required fees) and have the results e-mailed directly to the BOLC. State law and BOLC policy also specify that the Board shall deny a license application if, in the judgment of the Board, the applicant is not a fit person to receive the license or for other reasons the Board considers sufficient; and the Board may revoke a license for a felony conviction of a license holder.

Recommendation 3

We recommend that BOLC

- a. adequately document criminal background checks of license applicants, by retaining criminal records received from CJIS for at least three years or until the next legislative audit;**

⁵ This records retention provision generally applies to any audit requirement and has existed in some form since 1951, although until July 1, 2017, the Board was not subject to an Office of Legislative Audit’s performance audit requirement.

- b. require all criminal records received from CJIS be reviewed by the processor of the application and supervisor and that the reviews be documented; and
- c. establish a process to periodically obtain and review updates to licensee criminal records from CJIS and take appropriate licensing actions based on the updates received.

Finding 4

BOLC did not always verify that license applicants had no undisputed taxes due to the State or Prince George's County prior to issuing licenses as required by State law.

Analysis

The BOLC did not always verify that license applicants had no undisputed taxes due to the State or Prince George's County prior to issuing licenses as required by State law. Although procedures had been established to identify the unpaid State and Prince George's County taxes of certain applicants and license holders, we determined that such tax status obtained may not necessarily be current.

Specifically, it was not clear if a verification of taxes due for non-renewal licenses was performed based on current tax debt information. Additionally, the verification of renewals was performed based on annual listings of business debtors received from the Comptroller of Maryland (Comptroller) and the Prince George's County Office of Finance (County) in December each year, so current tax debt information was not used at the time licenses were issued. Instead, the prior December's listings were used as a reference when licenses were renewed in April, May, and June to determine if the renewals needed to be put on hold until the taxes were paid. In addition, BOLC did not obtain verification from the State and County that each owner or principal of an entity applying, transferring, or renewing a license did not owe unpaid taxes as required by law. For example, our review of 58 business license applications submitted from February 2016 to April 2017 disclosed that:

Test of License Applications

- For the 26 non-renewal (new, transfer, permit) applications of the 58 applications tested, there were letters received from the Comptroller in the applicant's file for 24 of the 26 applications that stated that all [State] taxes had been paid. However, that information may not necessarily be

current. Specifically, the BOLC sends listings⁶ of non-renewal license applications being considered by the Board to the Comptroller, under the presumption they will be notified of any taxes owed. In response the Comptroller sends a letter advising that no taxes are owed, which according to our discussion with Comptroller's Office personnel, may not be based on a current search of taxes owed databases taken as a direct response to the Board's listing. Consequently, the State tax information request response may not be based on the most current available.

- Additionally, for the 26 non-renewal applications of the 58 applications tested, no verifications of unpaid County taxes were performed by BOLC prior to the issuance of the related licenses as required by law. Rather, BOLC's procedure for identifying unpaid County taxes was to send a listing of trade and business names of all active licensees to the County each December. The County in turn sends a spreadsheet to the BOLC indicating if any taxes were owed, or not, for each applicant (no amounts are provided). However, BOLC only reviews this spreadsheet during the license renewal period (not for the original license issuance).
- For the 32 renewal applications of the 58 applications tested, our test disclosed that the verification and consideration of unpaid State and County taxes for the related licensed businesses was properly performed (although later in this finding, we comment on the inadequacy of the unpaid tax verification for the owners and principals of the licensed businesses).

BOLC Tax Verification Procedural Inadequacies

- BOLC did not obtain verification from the Comptroller and Prince George's County that each owner or principal of an entity applying, transferring, or renewing a license did not owe unpaid taxes to the Comptroller and the County. Our review of 49 entities, of the 58 applications tested, that received a new license, or transferred or renewed a license during fiscal year 2017 disclosed that no verification was requested from the Comptroller or County for unpaid taxes for any of the related 87 owners or principals. We could not readily determine whether the owners or principals of the licensed entities had unpaid taxes to the Comptroller or County because BOLC does not require the aforementioned individuals to provide their social security numbers.

⁶ The Board had established a process where the Comptroller of Maryland is copied on the periodic hearing agendas, which includes a listing of the names of the businesses and related individuals who submitted license applications for consideration by the Board (excludes renewals).

State law stipulates that the Board may not issue or transfer a license to an applicant unless the Board is provided verification from the Comptroller and the County that the new license applicant or license transferor has paid all undisputed taxes or provided for payment of the taxes. The law also stipulates the same requirement for license renewals, requiring that before a license may be renewed, the Board shall verify through the Comptroller and County that the license holder has paid all undisputed taxes payable to the Comptroller and the County or provided for payment of the taxes. In addition, the law stipulates that if an application was made on behalf of a corporation, club or other entity (including sole proprietor), the tax verification requirements also apply to the undisputed taxes payable by each owner or principal of the entity.

Recommendation 4

We recommend that BOLC take appropriate actions to ensure that license applicants had no undisputed State or County taxes payable prior to issuing and renewing licenses as required by law. Specifically, we recommend that BOLC

- a. determine if they can initiate a process that ensures applicants for new and transfer licenses and renewals do not have undisputed unpaid taxes at the time of Board action, and
- b. ensure verifications of unpaid taxes include the owners and principals of the businesses applying for or holding existing licenses.

Finding 5

BOLC had not established adequate record keeping procedures and internal controls over license fees and other office collections.

Analysis

BOLC had not established adequate record keeping procedures and internal controls over license fees and other office collections. According to the County's records, all collections deposited by BOLC during fiscal year 2017 totaled approximately \$2.3 million, with the vast majority comprised of license fees.

- Collections were not immediately recorded upon receipt. Although checks and money orders were restrictively endorsed and date stamped by the clerk who opened the mail or received over-the-counter collections, a money mail listing or cash receipts log was not maintained as an initial record of collection to establish accountability over collections. Instead, collections were stored in a safe until the bank deposit was prepared. At that time, the collections were recorded on a pre-numbered two-part cash

receipts form, with the original remaining with the application and the duplicate kept with the check to be deposited. There was no receipt book copy to serve as the initial record of collection and the customer did not receive a copy as a receipt, as there was no customer copy to issue and it was not prepared at the time of payment.

- In addition, although a pre-numbered cash receipt form was issued, there was no accountability created by its issuance. Specifically, an accountability of the pre-numbered cash receipt forms as to issued, void and on-hand was not performed and access to the blank forms, which were kept in a box in the unlocked mailroom accessible to all BOLC employees, was not adequately secured. The pre-numbered receipt forms issued for each collection were ultimately recorded on an electronic spreadsheet, but the spreadsheet was maintained by the same employee who recorded the collections and was not reconciled to deposits. Furthermore, our review of this spreadsheet for the period of January 2015 to December 2017 disclosed that 4,405 pre-numbered receipt forms were issued, but 15 numbers within the sequence, including 9 in consecutive order, were not listed and the related form copies could not be located in the application files.
- Collections were not deposited daily, but rather usually two or three times per week, and were not adequately safeguarded prior to deposit. We observed checks during the day that were left in unsecured areas clipped to applications in-process. Collections were stored in a locked safe overnight, but the two front desk employees and another administrative employee responsible for verification of deposits had access to the safe. During fiscal year 2017, BOLC made 76 deposits ranging in amounts from about \$5,600 to \$103,000 (an average of about \$30,678 per deposit).
- Collection, recordkeeping, deposit, and licensing duties were not adequately segregated. Specifically, the employees responsible for collecting licensing payments, also recorded receipts in the accounting and licensing records, sometimes made deposits, and also printed and issued licenses. As a result, customer payments could be misappropriated and the related licenses issued without detection.
- An independent verification was not performed to ensure all collections received were properly deposited. A BOLC administrative employee performed a documented reconciliation of monthly County revenue reports to the related detailed deposit records and cash receipt forms (from the electronic spreadsheet). However, the individual performing the verification was not independent, as this individual had access to receipts

prior to deposit, and as previously commented upon, no record of initial accountability existed, which is necessary to perform a proper deposit verification.

BOLC accepts money orders, cashier's checks, and certified checks for payment of licensing applications, fees, penalties, and fines through the mail or in-person at the BOLC's office. Collections are deposited into a Prince George's County bank account. The County government has established a standard procedure for the collection, transmittal, and depositing of revenues to provide instructions to County departments and agencies, which require adequate internal controls be established that safeguard revenue. Specifically, County collections should be recorded in a permanent register when received, customers should be issued a receipt, duties should be properly segregated where possible, collections should be deposited daily when in excess of \$100, and collections should be independently verified to deposit. In response to a law change that brought the BOLC under direct County authority, BOLC made some procedural changes in November 2017 to address the County's guidelines, but this occurred subsequent to the start of our fieldwork in June 2017 and after our related review and testing in this area. Although our review did not disclose any license application or issuance fees that were not deposited, the aforementioned lack of controls, could allow the manipulation of records and misappropriation of collections without timely detection.

Recommendation 5

We recommend that BOLC establish adequate record keeping procedures and internal controls over office collections in accordance with County standards. Specifically, we recommend that BOLC

- a. record collections immediately upon receipt in a permanent record such as a money mail listing or cash receipts log;**
- b. issue pre-numbered receipts for all payments collected;**
- c. perform periodic (such as monthly) accountabilities of pre-numbered cash receipt forms as to issued, voided, and on-hand, properly safeguard unused forms on-hand, reconcile used forms to deposit, and investigate the missing forms identified that were mentioned above;**
- d. deposit collections daily and adequately safeguard them prior to deposit;**
- e. segregate collection, recordkeeping, deposit, and licensing duties to the extent possible; and**
- f. perform a documented independent verification, using an employee that does not have access to or handle collections, that all collections received were properly deposited using a record of initial accountability.**

We advised BOLC how to achieve the necessary segregation of duties using existing personnel.

Objective 2 - Inspections

Objective and Methodology

Our objective for the inspection process was to evaluate the adequacy of Board 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 performed in accordance with governing laws, policies, and procedures.

To accomplish our objective, we reviewed applicable State laws, and the policies and procedures established by the Board and BOLC administrative personnel governing the inspection process and related records. We interviewed BOLC staff to determine the processes used to schedule, conduct, record, and monitor inspections. We also observed the inspection process by accompanying BOLC staff on inspections.

We obtained a data file from the inspection database maintained on the Prince George's County Network that listed 13,779 liquor inspections performed during fiscal years 2015 through 2017; we deemed the data file reliable for our purposes. We randomly selected a preliminary sample of 20 inspection reports to determine if inspections were properly conducted, documented, and recorded. We intended to use this preliminary sample as a basis for determining and conducting a random statistical sample, but deemed the resulting error rate too high to make practical use of statistical sampling. Consequently, we selected an additional 30 inspection test items from fiscal years 2016 and 2017 on a judgmental basis, which means that the results of our test of 50 transactions cannot be projected to the population of all inspections. We also obtained electronic spreadsheets used by BOLC to schedule certain types of inspections, and we matched them to the database of inspections performed to identify licensees who were not inspected.

Finally, we tested inspections related to telephone complaints received by BOLC, as well as complaints registered through the Prince George's County 311 Community Relations Service Request System (311 System), to evaluate the BOLC process for complaint-initiated inspections.

Background

BOLC conducts periodic inspections of businesses licensed to sell alcoholic beverages (licensees), including those who have also been issued permits to provide entertainment in Prince George's County. State law requires that an inspector visit and inspect periodically every licensed premise, although no frequency of inspection is specified. BOLC conducts three primary types of inspections, routine, focused, and compliance. During fiscal year 2017, BOLC inspectors conducted 4,790 inspections, which consisted of 1,756 routine, 2,494 focused, 526 compliance, and 14 other types of inspections. For each inspection, BOLC inspectors prepare an Inspector's Report, which is a paper form used to document the areas reviewed (such as valid and current licenses and cleanliness of the premises) as well as any violations and corrective actions needed.

- Routine inspections are standard in scope, and cover the basic business operating requirements as established for licensees in various Board policies, including having a current license properly displayed, having applicable permits, not serving minors, and not serving after hours. Routine inspections are to be assigned to all inspectors to be completed monthly according to established physical routes in designated areas, with the informal goal of inspecting all licensees at least quarterly (the inspection goal has not been formalized by Board-approved policy).
- Focused inspections are narrow in scope and address a specific requirement, complaint, or common problem with licensees. A schedule is prepared, based on public complaints or issues recently noted by inspectors, and selected inspectors are assigned the focused inspections to be completed that week. For example, the area of focus could be whether licensees with off sales only privileges had patrons who loitered or consumed alcohol while on the licensee's premises.
- Compliance inspections are conducted to identify licensees that allow minors (under age 21) to illegally purchase alcoholic beverages. There is no set number of inspections to be conducted monthly or annually, as they are scheduled on an intermittent basis depending on the availability of minor operatives, but may also be performed in response to a complaint. The inspection is performed using at least two inspectors and a minor operative, who attempts to purchase an alcoholic beverage at the selected licensed establishment.

As previously mentioned, certain inspections are conducted to follow-up on complaints, which are received at the BOLC via telephone, e-mail, or in-person and are logged on an electronic spreadsheet. In addition, complaints about

licensees are received from the 311 System. BOLC can access the complaint records from the 311 System website and update it with the current status and ultimate resolution. However, there is no written County or Board criteria for the timely resolution of complaints. According to BOLC and County records, BOLC received 31 complaints in fiscal year 2017, 22 from the 311 System and 9 at the BOLC.

The rules for inspections were promulgated by the Board policy under the authority of State law, as early as November 2014, which also established rules of conduct to govern licensee business operations (available in paper form or on the BOLC web site). The inspection policies stipulate that all license holders must cooperate with representatives of the BOLC whenever these persons are on the licensed premises on official business. In addition, the BOLC internal Policy and Procedures Manual, established by the BOLC Director in September 2016, established general written guidelines for liquor inspectors. As of July 2017, BOLC employed 1 supervising inspector (deputy chief inspector) and 23 part-time inspectors. Subsequently, 10 part-time inspectors resigned (see Finding 15), while 13 part-time inspectors remained employed as of May 2018.

Conclusion

Our review of the BOLC inspection process disclosed that BOLC policies and procedures for conducting inspections of alcoholic beverage licensees and maintaining related records were inadequate. In addition, our review of inspections selected for testing disclosed they were not performed on a sufficiently frequent and comprehensive basis in accordance with governing laws, policies, and procedures or BOLC's goals, and that there were inadequacies in the related records.

Not all licensed businesses were subject to periodic inspection, as required by State law, as many were not included on the inspection schedules because of scheduling omissions and a lack of scheduling oversight. Although it was BOLC's policy or goal to perform quarterly routine inspections of all licensees, no written scheduling procedures or criteria that had been formally adopted by the Board were in place, and inspections were scheduled at the discretion of the deputy chief inspector. For example, our review of the fiscal year 2017 inspection schedules disclosed that routine type inspections for the third quarter of 2017 were not assigned, nor performed, for 102 of the existing 618 licensed businesses.

Reports of inspections completed were not comprehensive, properly completed, or subject to an independent documented supervisory review. Our review of the results of 50 inspections performed disclosed that evidence was

lacking that 25 of the inspections were properly completed. For example, for 10 of the recorded inspections, the inspection reports were incomplete or inaccurate as they had missing or erroneous information. In addition, for four of the recorded inspections the inspection reports were not signed by the owner or manager of the licensed business to confirm the inspection was actually performed.

Also, no procedure had been established to ensure all completed inspection reports were properly recorded in the BOLC inspection database. Completed inspection reports were submitted to the BOLC Office for recordation, often delivered in-person outside of BOLC's business hours, and left in an unsecure location where office employees and inspectors had 24-hour access. Furthermore, although many inspection reports were pre-numbered, the numbers were not recorded in the inspection database, and the numbering sequence was not used to ensure all reports were accounted for. Inspection reports received were recorded in the inspection database by one or more BOLC clerks as they were received; however, the inspection data entered was not compared to the related inspection report for accuracy or completeness by supervisory personnel.

The completion of scheduled inspections that have been assigned to inspectors was not monitored. Specifically, the total numbers of scheduled inspections completed and not completed were not tracked and reported periodically to BOLC management and the Board to assess the effectiveness of BOLC inspection efforts. As a result, we found BOLC management were unaware that all scheduled inspections assigned were not completed. For example, our review of scheduled inspections disclosed that of the 536 routine inspections selected, which were scheduled to be completed monthly from January to June 2017, 231 had not been performed as of January 2018 (6 to 11 months later). Additionally, of the 219 focused inspections selected, which were scheduled to be completed weekly from July to October 2016, 114 had not been performed as of July 2017 (9 to 12 months later). In addition, formal procedures had not been established to follow-up on inspections cancelled, because the licensee's business was found to be closed at the time of the inspector's visit.

Complaints regarding licensees received both directly by BOLC and through the County's 311 System were not always investigated or resolved timely. No documented independent supervisory reviews were performed of the complaints received for timely and appropriate follow-up. Additionally, BOLC had not established any written policies or procedures specifying how complaints were to be investigated and how timely they should be resolved. During fiscal years 2015, 2016, and 2017 there were 53 complaints reported

directly to BOLC, which as of July 2018 according to BOLC records, 17 remained unresolved from 12 to 45 months after receipt. In addition, liquor related complaints from the 311 System were not always addressed, with several open for 5 to 48 months.

Finally, access to the various complaint records was not adequately controlled. Complaints received directly at the BOLC Office were logged in an electronic spreadsheet by one of several employees, but access to the spreadsheet was not restricted and any office employee or field inspector could make entries or delete complaints from the log. Further, complaints received through the 311 System could be accessed and modified by numerous users, and our review found 15 of the 22 BOLC users did not need access to the 311 System, which included 3 former inspectors no longer employed by BOLC.

Findings

Finding 6

Not all licensees were subject to periodic inspection, as required by State law.

Analysis

Not all licensees were subject to periodic inspection, as required by State law. Further, no written scheduling procedures or criteria had been adopted by the Board. Rather, inspections, including routine inspections, were scheduled on a judgmental basis at the discretion of the deputy chief inspector. In addition, there was no independent supervisory review of the inspection scheduling process or verification that all licensed establishments were included on the applicable inspection schedules. For example, our review of 2017 inspection schedules, prepared by the deputy chief inspector, disclosed the following conditions:

- For routine inspections, which per BOLC's informal policy are to be assigned and completed quarterly for all licensed establishments, 4 of the 24 required inspection routes for the third quarter of fiscal year 2017, were not assigned per the route schedule. We were advised by the deputy chief inspector that it was the intent that each licensed establishment be assigned to a routine inspection route in a designated area. Further, each route was to be assigned to an inspector and completed each quarter. The 4 unassigned routes included 103 of the 618 licensed businesses, and only 1 of those 103 businesses received a routine inspection that quarter. Of the remaining 102 businesses, 25 did not receive any type of

inspection that quarter; however, we did note that the other 77 did receive one or more focused and/or compliance inspection.

- For focused inspections, 164 of 357 licensed businesses were not scheduled for inspection, nor actually inspected, although they met the focused inspection selection criteria for at least one of five established target issues. The target issues tested were established by the deputy chief inspector for the period from July 2016 to October 2016. For example, the target issues included, verifying businesses without entertainment permits in designated areas were not providing entertainment, and businesses with certain types of license were in compliance with related signage criteria. Licensees would also be subject to a focused inspection or a compliance inspection due to a public complaint or other concern also at the discretion of the deputy chief inspector.

State law stipulates that an inspector shall visit and inspect periodically every licensed premise. However, without established criteria and supervisory oversight, there is a lack of assurance that all eligible licensed businesses will be scheduled for inspection, as supported by our review results.

We discussed our findings with BOLC management staff who advised that businesses had been omitted from the inspection schedules due to error or a lack of familiarity with the file matching and filtering capabilities of the electronic licensing spreadsheet that could be useful in identifying eligible uninspected businesses. We believe that this situation reinforces the desirability for a formal comprehensive Board-approved inspection policy, coupled with supervisory and Board oversight of the inspection scheduling process and related decisions to ensure that inspections are performed in accordance with State law and Board intent.

Recommendation 6

We recommend that BOLC

- a. establish written Board-approved inspection scheduling procedures and criteria which define the scheduling methodology and required frequency for each type of inspection,**
- b. require that the inspection schedules and scheduling process are subject to independent supervisory review,**
- c. periodically reconcile the population of licensees subject to inspection to the related inspection schedule to ensure all eligible licensees are scheduled for inspection, and**
- d. periodically report the results of inspection activity to the Board.**

Finding 7

Inspection reports were not comprehensive, properly completed, or subject to an independent documented supervisory review.

Analysis

Inspection reports were not comprehensive, properly completed, or subject to an independent documented supervisory review. Reports submitted by inspectors that we reviewed were often incomplete, making it difficult to formulate definitive conclusions on the related inspection. Although reports submitted by inspectors were to be subject to a review for any reported violations and completion of certain key fields (such as date, time) by a BOLC clerk and the chief deputy inspector, this review was not documented and certain questionable inspector conclusions appeared to be unaddressed. Our review of the results of 50 inspections performed (including focused, routine, and compliance), per the inspection database during the three year period of fiscal year 2015 to fiscal year 2017 disclosed that evidence was lacking that 25 of the inspections were properly completed. For example,

- For 10 of the recorded inspections, the inspection reports were incomplete or inaccurate as they had missing or erroneous information. For example, there were four instances where the inspector did not document the entertainment observed during the inspection for businesses with such permits. This information is necessary because licensees are restricted as to the type of entertainment that can be provided based on the terms of their entertainment permit. In another instance, we found a blank inspection report that was signed by the inspector, where the only information recorded was the name of the business and the time and date of the inspection, with all of the inspection questions left unanswered. In another instance, an inspection report indicated the business had no Sunday sales or entertainment permits despite the fact that it did have such permits.
- For four of the recorded inspections (including one of the ten above) the inspection reports (for two focused and two compliance inspections) were not signed by the owner or manager of the licensed business. We were advised by the BOLC deputy chief inspector that only inspection reports with violations have to be signed by the business owner or manager. Conversely, the Board's Policy and Procedures Manual states that only focused inspection reports must be signed by the business owner or manager. However, 40 (4 compliance, 20 focused and 16 routine) of the 50 inspection reports tested were signed by the owner or manager. (Of the remaining 10 of the 50, four were not signed, four were closed at the time of inspection, and the other two reports were missing.) Without a

signature from the business owner, there is no independent assurance that the inspection was actually performed.

- For four of the recorded inspections (one routine, two focused, and one compliance), the report indicated that the business was closed so the inspection could not be performed. However, a timely follow-up inspection was not performed within 30 days for three of the four businesses. In such cases, a timely rescheduling of the inspection is important to ensure that the closure was not over a 30 days' duration and as such, subject to Board action (such as license revocation provided for in State law). See Finding 9 for additional comments.
- For two of the recorded inspections, no related inspection report could be located on file. See Finding 8 for related comments.

We also noted that the type of inspection report form used was not always appropriate for the type of inspection performed. Specifically, the general inspection report used for routine inspections was sometimes used for focused inspections. In such cases, the specific objective of the focused inspection was not defined, and sufficient pointed questions and detailed conclusions related to the area or areas of focus were not provided. In our opinion, tailoring the inspection form to fit the purpose of the inspection would better document the inspection. Finally, without a supervisory review of the adequacy of inspection reports, there is a lack of assurance that inspections will be properly performed.

Recommendation 7

We recommend that BOLC ensure all inspection reports are

- a. tailored for the type of inspection to be performed, include specified objectives, sufficient questions to achieve a comprehensive understanding, and require detailed conclusions;**
- b. properly completed with all requested information provided and all checklist questions answered with clarifying information as necessary;**
- c. signed by the owner or manager of the licensed business to provide assurance that the inspection was actually performed; and**
- d. subject to an independent documented supervisory review to ensure the appropriateness of the conclusions and proper completion of the inspection.**

Finding 8

No procedures had been established to ensure all completed inspection reports were properly recorded in the BOLC inspection database and all scheduled inspections were performed.

Analysis

BOLC had not established procedures to ensure all completed inspection reports were properly recorded in the BOLC inspection database and all scheduled inspections were performed.

- Completed inspection reports submitted by the part-time inspectors to the BOLC Office for recordation were not adequately controlled and accounted for. Inspectors could submit inspection reports by scanning and emailing copies of the completed paper report or delivering the paper version of the report in-person. Inspections were often performed outside of BOLC's office hours, so customarily inspectors left the paper reports in a non-secure location, available to all office employees and inspectors at all times. Furthermore, although routine and compliance inspection reports were pre-numbered, the form numbers were not recorded in the inspection database and the numbering sequence was not used to ensure all inspection reports were accounted for. Consequently, reports could be misplaced, altered, or stolen without detection and related violations identified by inspectors would not be recorded and acted upon. Since the form numbers were not recorded in the database, we could not readily determine if any completed inspection reports were missing, although, as noted previously, there were many scheduled inspections for which no completed inspection was recorded in the database.
- The accuracy and validity of inspection results recorded in the inspection database was not independently verified to the supporting inspection reports. Inspection reports received were recorded in the inspection database by one or more BOLC clerks as they are received. However, the inspection data entered was not compared to the related inspection report for accuracy or legitimacy by independent supervisory personnel.⁷ As a result, there was a lack of assurance all reports received were accurately recorded. Nevertheless, our test of 20 inspections found that 19 were accurately recorded in the database.

⁷ The inspection records are an electronic database on the Prince George's County Network, which does not have the ability to generate a transaction report for a defined period for review. Consequently, the inspection report itself would have to be compared to the system entry by a supervisor.

- The completion of scheduled inspections assigned to inspectors was not monitored by BOLC administrative personnel nor were the results reported to the Board. Specifically, completed inspection reports were not periodically reconciled to the related inspection schedule prepared by the deputy chief inspector, to ensure all scheduled inspections assigned were actually performed. Furthermore, the total number of scheduled inspections completed or not completed was not tracked nor reported periodically (such as quarterly) to BOLC management and the Board to assess the effectiveness of BOLC inspection efforts. As a result, we found that BOLC management was unaware that all scheduled inspections assigned were not completed. For example, our test of scheduled inspections disclosed they were not always completed as scheduled (see below).
 - Of the 536 scheduled routine inspections selected (applicable to 18 inspection routes assigned to 16 inspectors), which were to be completed during a month assigned from January to June 2017, 231 had not been performed by the assigned 11 inspectors as of January 2018 (6 to 11 months later).
 - Of the 219 scheduled focused inspections selected, which were to be completed during a week assigned from July to October 2016, 114 had not been performed as of July 2017 (9 to 12 months later).
 - Of the 615 scheduled compliance inspections to be completed at least annually for businesses during calendar year 2017, 145 of the businesses were not inspected during that calendar year.

Recommendation 8

We recommend that BOLC establish procedures that ensure

- a. all completed inspection reports are properly controlled and accounted for, by providing a locked drop box, using pre-numbered inspection report forms for all inspections, and performing periodic accountabilities;
- b. all completed inspection reports are accurately recorded by having independent administrative personnel verify the data entered for each inspection recorded to the related supporting paper report;
- c. all scheduled inspections are completed by having independent supervisory personnel monitor periodic reconciliations of recorded inspection reports with the related inspection schedules; and
- d. the Board is kept informed as to the status of inspection efforts, by periodically compiling and reporting the number of inspections scheduled and completed.

Finding 9

Adequate procedures had not been established for the follow-up of inspections aborted because the licensee's business was closed at the time of the inspector's visit.

Analysis

Adequate procedures had not been established for the follow-up of inspections aborted because the licensee's business was found to be closed at the time of the inspector's visit. Timely follow-up of such aborted inspections is necessary to ensure that the closure was not over a 30 days duration, which would subject the licensee to Board action (such as license revocation provided for in State law).

The results of our test of scheduled inspections as described in Finding 7 disclosed three instances where inspections were aborted because the business was closed when the inspector visited the premises, and no subsequent re-inspection or documented follow-up action was taken within 30 days of the initial inspection to determine if any licensing action was warranted. Further, a review of the inspection database as of January 9, 2018 disclosed that during fiscal year 2017 the scheduled inspections of 112 businesses were recorded as aborted because the business was closed at the time of the attempted inspection. Our review of these 112 businesses with 135 aborted inspections (32 compliance, 63 focused, and 40 routine inspections) disclosed that no follow-up inspection of any type had been performed for 7 of the businesses from 7 to 15 months after the initially scheduled inspection. We found that for another 38 of the businesses a follow-up inspection of some type was performed, but it was over 30 days past the date of the original aborted inspection (from 1 to 11 months beyond the original inspection date).

Although the BOLC had an aborted inspection policy, which required the inspector to return to the business at various times for the next 20 days, this policy was not comprehensive. Specifically, it only applied to routine inspections and did not address any alternative actions, such as contacting the owners of the business via telephone or written correspondence if no contact was made within the 20-day period. Without timely follow-up of aborted inspections, the Board cannot determine if any licensing action is required. State law provides that the Board may revoke the license for the closing of licensed premises for more than 30 days without the approval of the Board, while the BOLC policies stipulate that the Board will revoke, suspend, or fine the licensee in such cases.

Recommendation 9

We recommend that BOLC enhance its procedures for the timely follow-up of aborted inspections to determine if licensing actions are warranted. Such efforts should include both contacting owners and rescheduling inspections.

Finding 10

Licensee complaints received both directly by BOLC and through the County's 311 System were not always timely investigated and resolved or subject to supervisory review. Further, employee access to complaint records was not controlled.

Analysis

Licensee complaints received both directly by BOLC and through the County's 311 System were not always timely investigated and thereby remained unresolved for extended periods and their status was not subject to supervisory review. Further, employee access to related complaint records was not controlled. During the period from July 1, 2014 to June 30, 2017 there were 53 complaints reported directly to BOLC, of which, according to BOLC records as of July 2018, 17 remained unresolved from approximately 12 to 45 months after receipt. In addition, liquor related complaints from the County's 311 System were also not always resolved timely. Based on County records, which we did not audit for reliability, as of July 2018 there were 66 liquor-related complaints received since fiscal year 2015, of which 21 had been open for 5 to 48 months. BOLC management could not readily provide an explanation for the general lack of timely complaint follow-up.

We also noted that documented independent supervisory reviews were not performed of the status of complaints and their subsequent resolution. Additionally, BOLC had not established any written policies or procedures specifying how liquor-related complaints were to be investigated and how timely they should be resolved.

Finally, access to the various complaint records was not adequately controlled. Complaints received directly at the BOLC Office by telephone, e-mail, or in-person were recorded in an electronic spreadsheet by one of several employees. Access to the spreadsheet was not restricted and any office employee or field inspector could make entries or delete complaints from the spreadsheet. Further, complaints received through the County 311 system could be accessed by numerous users, who could add comments about the complaint follow-up and enter a closed status. Our review of user access disclosed that 15 of the 22 BOLC users did not need access to the

311 System as of July 2018. Specifically, the 15 users included 12 inspectors and 3 former inspectors.

Recommendation 10

We recommend that BOLC

- a. establish comprehensive written policies and procedures for investigating and resolving complaints on a timely basis;**
- b. ensure all complaints are reviewed by an independent supervisor to ensure their timely resolution and the appropriateness of the resolution reached; and**
- c. restrict access to the BOLC complaint records and the 311 System, to the extent possible, to BOLC employees who require access based on their job responsibilities.**

Objective 3 – Disciplinary Procedures

Objective and Methodology

Our objective for BOLC's disciplinary procedures was to evaluate the disciplinary process, BOLC's compliance with applicable State law, its enforcement of applicable Board rules and regulations governing licensees, and its maintenance of disciplinary records. To accomplish this objective, we interviewed BOLC employees to determine the types of disciplinary proceedings that existed and the process for each. We also attended two public Board hearings. Additionally, we performed testing, using the BOLC's database of licensee violation activity for fiscal years 2015 to 2017, to evaluate (for the specific activity tested) whether the disciplinary process was properly administered and documented. We also reviewed the licensee paper files and the minutes for Board hearings, that evidenced the decisions and actions taken for the violations tested.

Background

Most disciplinary proceedings are generated from the periodic inspections of the businesses licensed to sell alcoholic beverages. Other proceedings result from County and municipality police referrals, Board order violations, and reports from the Comptroller of Maryland. Using the BOLC violation database, we summarized the sources and number of reported violations for fiscal years 2015 to 2017; see Table 4.

Table 4
Reported Number of Violations by Source from Fiscal Years 2015 to 2017

Source	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Total Violations	Percent of Total
Inspector	60	165	85	310	89.6%
Prince George's County Police	0	14	5	19	5.5%
Board ¹	0	4	2	6	1.7%
Local Municipality Police	1	1	1	3	0.9%
Comptroller	3	5	0	8	2.3%
Grand Total	64	189	93	346	100.0%

Source: BOLC violation database

¹ A Board violation occurs when a licensee fails to follow an order of the Board.

Although BOLC inspectors, County police, and the Comptroller of Maryland may note instances of licensee noncompliance with laws and Board rules and regulations, the Board is responsible for adjudicating cases to determine if violations have actually occurred and for setting the related penalties.

State law provides that a local licensing board may revoke or suspend a license at its discretion for any reason to promote the peace or safety of the community in which the premises are located. The law further provides that a board may adopt regulations regarding the conduct of business by license holders. Additionally, the law states that a board shall revoke or suspend a license under certain specific circumstances (such as making any material false statement in any application for a license or permit). The law also allows that, for a first offense, instead of or in addition to suspending or revoking the license, a board may impose a fine not exceeding \$1,500 (unless the offense is furnishing for or allowing underage consumption in which case the minimum fine is \$1,500). For a second offense in the same 24-month period, a fine not exceeding \$6,000, or for a third offense a fine of \$7,500, may be imposed.

While State law provides the Board may initiate revocation or suspension procedures, it also provides that a license holder against whom proceedings are brought shall be entitled to a hearing. The Board meets twice a month in public hearing sessions to adjudicate cases resulting from violations and once a month to grant new licenses and license transfers. The hearings are quasi-judicial and include testimony from inspectors, police, licensees, and their legal representatives.

BOLC administrative staff are responsible for screening reported violations received to determine those that warrant being placed on the Board's monthly administrative hearing schedule. The Board determines during the administrative hearing whether a violation warrants having a public hearing. However, administrative staff are permitted by the Board under certain circumstances, to offer compromises to licensees that allows them, in exchange for a written admission of guilt, to avoid having to attend a public Board hearing, and pay a fine, possibly for a reduced amount. After the fact, via the next proposed hearing agenda, the Board is advised that a compromise was reached, but the terms of the compromise are neither disclosed to nor approved by the Board.

During a Board hearing, the Board determines the guilt or innocence of the licensee based upon the evidence presented. Licensees may be represented by counsel, and the Board will hear testimony and obtain other information (such as any violation of the licensee over the preceding three years) prior to

making a decision and determining whether a penalty is appropriate. Licensees are provided the Board's rulings verbally at the hearing and in writing if the ruling results in a penalty (fine, suspension, or revocation) via a Penalty Assessment Notice. The Notice includes the law or rule violated, the amount of the penalty, and the amount of time the licensee has to pay the fine (usually up to 21 days). The Board's decision is documented in the meeting minutes and a copy of the Penalty Assessment Notice is also included in the licensee files to document the Board's action. Licensees may appeal the decisions of the Board to the Circuit Court.

Conclusion

BOLC had not established adequate procedures and internal controls over its disciplinary process and the maintenance of related records. Specifically, certain critical enforcement actions and decisions were made by administrative staff without the benefit of management oversight and in contradiction with State law. The Board's practice of permitting and offering an administrative compromise in lieu of a formal Board hearing is not permitted under the law, based on a 2015 Attorney General's Opinion. Further, formal accounts receivable records were not established for fines assessed by the Board and related late fees due were sometimes not collected.

There is a lack of assurance that all violations were properly considered and adjudicated. Specifically, decisions to schedule reported violations of liquor license holders for a Board administrative hearing, or to offer a compromise instead of requiring the licensee to attend a Board public hearing, were made by administrative staff without documented independent oversight or approval by the Board).⁸ Administrative staff were responsible for screening reported licensee violations received and determining whether each violator should be included on the administrative hearing docket. In addition, the administrative staff decided whether the violators, whom the Board determined warranted a public hearing, should instead be offered an administrative offer of compromise in lieu of attending the public hearing. These staff decisions were not subject to Board review or approval. Finally, this type of delegation of the Board's discretionary authority to punish licensee misconduct was found in an April 15, 2015 Attorney General's Opinion on the similar process by another local board to not be allowed under State law.

⁸ Although this finding is now irrelevant, based on the aforementioned Opinion of the Attorney General that deemed the practice of administrative compromise contrary to State law, it was developed prior to us becoming aware of the legal opinion and is still included as a further example of the lack of Board oversight of BOLC operations at the time of the audit.

Although the fines assessed by the Board for violations were generally consistent with the amounts allowed by law, offers of compromise made by administrative staff were not always consistent with the Board's informal compromise policy. There were 89 offers in compromise made by the BOLC administrative staff accepted by licensees, with fines totaling \$156,500 in fiscal year 2017. Specifically, our test of the disposition of 20 inspection violations, per the inspections database from June 2016 to June 2017, disclosed 7 violations were properly scheduled for a public hearing at which they were fined by the Board, 3 violations were not scheduled for a Board hearing without a documented explanation, and for 10 violations the licensees accepted a compromise offer from the administration staff. However, we determined that 3 of the 10 compromises tested did not comply with the informal compromise policy, having been fined a combined \$5,500 instead of a combined \$17,500, if assessed in accordance with policy.

The amount of all fines due, whether established by a Board hearing or by administrative staff through the compromise process, were documented via letter correspondence mailed to the license holder, which represented the official record of debt due. Therefore, formal accounts receivable records were not established or maintained for fines assessed and late fees due were sometimes not collected.

Finally, the Board did not adequately explain the formal basis for its decisions regarding the continuation of an active status of two licensees who had plead guilty to criminal charges. Although two licensees pleaded guilty to federal felony charges in April and May 2017 and therefore became eligible for license revocation, the Board did not take any related action regarding the active status of the two licensees. Although State law permits the Board latitude in such a situation there was no record to explain why the two licenses were not revoked as allowed by law.

Findings

Finding 11

The Board delegated its discretionary functions, in certain cases, to its staff in conflict with State law. The Board did not review and approve administrative staff decisions to refer violations for a hearing or make offers of compromise and the disposition of all reported violations was not verified.

Analysis

The Board delegated its discretionary functions, in certain cases, to its staff in conflict with governing law. An Attorney General Opinion issued in 2015 at the request of the Board of Liquor License Commissioners for Baltimore City, stated that that board did not have statutory authority to delegate to its staff the discretionary functions of deciding whether, and in what amount, to fine an offender⁹. The Opinion went on to conclude there was no authority in the law that would allow staff to decide whether to omit violations from the public record. We confirmed with the counsel to the Maryland General Assembly that this Opinion is applicable to the Board's use of the administrative compromise process to punish licensee misconduct, without a formal public hearing of the Board.

During the audit, we performed a review of the compromise process and conducted a test of compromises, before becoming aware of the aforementioned Opinion of the Attorney General and determining its relevance to the BOLC. Since the scope of our audit is intended to assess Board oversight of BOLC operations in general, we deemed it useful to present the results of this work in this audit report, as a further example of the level and extent of Board oversight during the period under review.

Compromise Process

Administrative staff reviewed reported licensee violations per inspection reports and correspondence from other organizations, such as the Comptroller and the County police, and unilaterally decided which violations should be included on the Board administrative hearing agenda based on staff's personal judgement without any documented rationale. For certain violations, after being reviewed by the Board during an administrative hearing and being judged as worthy of a public Board hearing, administrative staff were allowed to make offers of compromise to the related licensees in lieu of them attending the public Board hearing. However, these referral and

⁹ Opinion 1000AG029: Alcoholic Beverages – Board of Liquor License Commissioners – Scope of Administrative Authority.

compromise decisions were not subject to a documented Board review as provided for in State law.

Furthermore, a log of violations reported by other organizations was not maintained and the violations reported on inspection reports were not accounted for to ensure the proper disposition of all reported violations. Finally, there was no verification of the accuracy of the recordation of Board hearing results in the violation database.

Test of Compromises

From our test of the disposition of 20 inspection violations from June 2016 to June 2017, we identified 10 violations where the licensee was offered a compromise and the decisions were made solely by administrative staff without supervisory oversight or Board approval. Although the name of a licensee who accepted an offer of compromise is reported on the next hearing agenda, the details of the compromise, such as the amount of the fine, which may have been reduced from the statutorily permitted fine, were not reported and the compromise was not approved by the Board.

Further, 3 of the 10 compromises tested did not appear to comply with the BOLC's informal compromise policy, which allows licensees to pay a fine in lieu of attending a Board hearing for certain violations, such as liquor sales to a minor, that were a first or second offense. Specifically, two of the three compromises were for a third offense and should have been included in a Board hearing in accordance with the informal policy and the licensees possibly fined \$7,500 instead of the fine compromise amounts of \$2,500 and \$1,500, respectively. Also, one was a second offense and should have been fined a minimum of \$2,500 according to the policy, instead of the fine compromise amount of \$1,500.

The BOLC offer of compromise policy was approved by the Board in April 2014 in an effort to reduce the volume of cases included on the Board's hearing docket, but the specifics of what was approved is not clear, since the policy details were not disclosed in the Board minutes.

Recommendation 11

We recommend that, in order for the Board to carry out its required statutory duties, the Board should

- a. require BOLC administrative staff to maintain a log of all reported violations received from outside entities;**
- b. establish clear written guidelines for the scheduling of violations for hearings, and when the Board would consider offers of compromise for its own use; and**

- c. not delegate its discretionary functions to staff.

Finding 12

Formal accounts receivable records had not been established for fines assessed by the Board and related late fees due were sometimes not collected.

Analysis

Formal accounts receivable records had not been established for fines assessed by the Board and related late fees due were sometimes not collected.

Procedural Issues

BOLC does not maintain detail accounts receivable records or a control account to determine the total dollar amount of, or account for, unpaid fines outstanding. Further, the folder containing copies of the unpaid fine letters, which serves as the detailed records, is not properly secured, as it is kept within an unlocked rolling file cabinet. We have observed that this file cabinet is left unlocked at all times even at the end of the business day. Since all BOLC staff and inspectors have 24-hour access to the office, a fine letter could be removed or misplaced without detection.

Licensed businesses that have been assessed a fine are given 21 days to submit payment from the date of the letter. If the fine amount is not submitted to the Board before the late date specified in the letter, a \$500 late fee is due and payable. Both the 21-day period and additional \$500 late fee are disclosed in the original letter mailed to the licensee. We were advised by BOLC management that no employee had been assigned the duty to monitor the timely payment of the fines assessed or send follow-up collection letters. We were further advised that the date of payment was not always recorded in the collection (cash receipt forms and deposit listing) or licensing records.

OLA Testing Results

Due to a lack of formal receivable records, we used Board hearing minutes, the violation database, and available cash receipt records to identify fines assessed by the Board and offers of compromise fines accepted, in an attempt to identify receivables due and paid during the period tested. Our review of those records identified fines assessed totaling approximately \$300,000 during fiscal year 2017, with total related collections (fines and fees) of approximately \$294,000. Our test of 49 fines totaling \$149,500 either assessed by the Board (39 fines totaling \$132,500) or through offer and compromise (10 fines totaling \$17,000) between June 2016 and

February 2018 disclosed that as of May 2018, all had been paid except for one fine of \$1,500. Further, 29 of the 49 fines had been generally paid timely, but for those paid late the collection of the late fee was inconsistent. For example, there were 7 fines paid from 9 to 66 days late (averaging 24 days late) for which a \$500 late fee was properly collected, but another 12 fines paid from 3 to 15 days late (averaging 6 days late) for which no late fee was collected.

All fines that are due, whether established by Board action or by administrative staff through the compromise process, are documented via a letter mailed to the license holder. After a fine is assessed, one of the three administrative staff will draft, mail, and place copies of the letter in the license holder's manual file and in a manual folder, known as the "money folder", which serves as the accounts receivable record for the unpaid fines for all open accounts. Once the payment is received, the letter is removed from the "money folder" and put into the license holder's file with documentation of payment. The same administrative staff who handle the fine letters also collect and process related fine payments.¹⁰

Recommendation 12

We recommend that BOLC

- a. establish formal detail accounts receivable records and a related control account for fines and late fees assessed licensees, segregating these from the related collection functions to the extent practicable;
- b. ensure that receivable records are adequately safeguarded;
- c. establish a formal follow-up process to aid in the timely collection of fines and the assessment and collection of all late payment fees; and
- d. require documented independent supervisory oversight of the debt recording, collection, and follow-up recordkeeping processes.

Finding 13

The Board did not adequately document the basis for its decisions regarding the continued active status of two licensees who had pleaded guilty to criminal charges.

Analysis

The Board did not adequately document the basis for its decisions regarding the continued active status of two licensees who had pleaded guilty to criminal charges. BOLC administrative staff were made aware the Federal

¹⁰ Segregation of duties and BOLC accountability over the cash receipt and collection function is addressed in Finding 5.

Bureau of Investigation (FBI) was investigating these two licensees in January 2017 when the BOLC was served with a search and seizure warrant by the FBI related to these licensees' records. According to a federal Department of Justice website, the two licensees pleaded guilty to federal felony charges in April and May 2017, and therefore appeared to become eligible for license revocation. No Board action regarding the status of the two licensees was initiated until they submitted license ownership transfer applications to the Board in April and May 2017. After a number of hearings, the Board ruled in August 2017 to allow one of the two applicants to transfer (sell) their license, while it ruled in September 2017 to deny the other transfer, but allowed the licensee to continue in business until their license expired in April 2018 when their renewal request was denied by the Board. There was nothing on record to explain why the Board did not formally consider the possible revocation of the two licenses as allowed by law.

Ultimately, the Board approved one of the license holders in question to transfer their license, which enabled them to benefit from its transfer, via its sale for an undisclosed amount. According to Board hearing records, during a June 2017 meeting, the Board acknowledged the federal indictment and voted to withdraw the transfer application, but the Board later agreed to hear arguments from the licensee's legal counsel. Licensee counsel argued that the licensee was not under indictment, had not been convicted of a felony, the application question being considered sought information not required by law,¹¹ and that provisions of State law supporting the Board's position did not apply under the circumstances. (The application included a question confirming that there were no indictments or complaints pending against the applicant in any federal or state court of the United States.) However, there was no evidence the Board challenged any of those claims by seeking advice from its own legal counsel and the Board approved the license transfer in August 2017. There was no explanation on record regarding why the Board did not seek legal counsel or challenge the aforementioned attorney claims.

The other licensee, who had also pleaded guilty to federal felony charges in April 2017, attempted to transfer the license to a spouse, but the transfer application was denied by the Board in September 2017. However, the licensee was allowed to continue business operations under the license until the next license renewal period in April 2018 when the renewal application was denied. The Board had no explanation on record as to why this licensee was allowed to continue in business until the license expired, instead of the license being revoked when the licensee pleaded guilty to felony charges.

¹¹ We noted that the Board has taken no subsequent action to address the legality of the application form question challenged by the licensee's attorney.

State law provides that a local licensing board may revoke or suspend a license for any reason to promote the peace and safety of the community. It further provides that a local licensing board shall revoke or suspend a license for making a material false statement in an application for a license. Additionally, State law provides that the Board of License Commissioners for Prince George's County may revoke a license for a felony conviction of a license holder, and the law defines conviction to include a verdict or plea of guilty.

Recommendation 13

We recommend that in the future the Board adequately document the basis for its legal decisions on criminal matters affecting licensees.

Objective 4 – Management Oversight

Objective and Methodology

Our objective was to review management processes to determine whether adequate oversight exists over BOLC operations. To accomplish this objective, we reviewed Board policies, interviewed BOLC employees, and reviewed BOLC's procedures with respect to payroll, employee performance evaluations, employee work load requirements, user access to critical data files, financial disclosures, and employee compliance with statutory independence restrictions. We also tested payroll processing, employee productivity, user access to critical data files, and employee independence.

Conclusion

BOLC's established management practices were not comprehensive and did not necessarily ensure efficient and effective operations. Specifically, although the Board had adopted certain rules and regulations to govern licensees, they had not formally approved a policy and procedures manual drafted by the BOLC staff to govern its employee and management policies and related operations. Further, although the manual included policies on topics such as employee conduct, revenue collection and application processing, it was not sufficiently comprehensive. For example, it did not establish requirements for independent supervisory reviews of inspector performance, the maintenance of time records, or document retention.

Additionally, inspector performance measures had not been established to assist in the determination of annual workload requirements. Moreover, user access capabilities to critical data files were not monitored for necessity, and certain user transaction reports were not generated for review. Finally, although key personnel were required to file financial disclosure forms with the State Ethics Commission, no process had been established to monitor employee compliance with statutory independence restrictions concerning secondary employment, business investment, and political activities.

Findings

Finding 14

Written policies and procedures governing BOLC operations were not sufficiently comprehensive and had not been formally adopted by the Board.

Analysis

Written policies and procedures governing BOLC operations were not sufficiently comprehensive, and while generally followed, had not been

formally adopted by the Board. A policy and procedures manual was created under the direction of a former Chief Liquor Inspector during calendar year 2016, and was subsequently amended in June 2017; however, as of September 2017, the manual had not been submitted to the Board for review and approval.

Furthermore, although the manual included key statutory requirements for BOLC functions such as licensing, inspections, disciplinary actions, and certain administrative tasks, it lacked specificity and failed to provide staff with adequate guidance in a number of areas as noted earlier in this report. For example, policies or standards had not been established addressing adequate internal controls, including a documented supervisory review process for critical transactions, such as the proper processing of license applications and performance of inspections. In addition, a policy had not been established requiring all completed inspection reports to be signed by the business owner or manager for all types inspections. Further, there were no requirements for maintenance of inspector time records, completion of annual employee evaluations, or document retention in general.

Consistent with these findings, we were advised that BOLC's part-time inspectors were not required to complete positive time records or work a minimum number of hours until March 2018. Administrative staff advised us that at that time a policy was implemented that established a 20-hour minimum workweek and required positive time records. However, the policy on the 20-hour minimum work week and positive time records was not included in the policy and procedures manual and was not formally approved by the Board, County, or BOLC Director. We did not test compliance with that policy which was implemented during the course of our audit fieldwork. However, we did confirm that during the three-year period under review (fiscal years 2015 to 2017), the part-time inspectors were paid a salary of \$10,900 for fiscal year 2015 and \$13,900 for fiscal years 2016 and 2017 with no related minimum work hour requirements or positive time records. In addition, BOLC management advised us that routine annual performance evaluations were neither completed nor required for any BOLC employees.

Recommendation 14

We recommend that BOLC

- a. develop comprehensive written policies and procedures that address the internal control, time record keeping, annual performance evaluations, document retention, the signing of inspection reports and other issues commented on in this report; and**
- b. obtain formal Board approval of its written policies and procedures.**

Finding 15

The Board had not adopted formal measures to evaluate inspector performance and determine annual workload requirements.

Analysis

The Board had not adopted formal measures to evaluate inspector performance and determine annual workload requirements. Further, we noted that recorded productivity between individual inspectors varied greatly and the lack of measures would make it difficult for the BOLC to determine the optimum number of inspectors needed. Complicating matters is the status of vacant inspector positions. Specifically, between March 2, 2018 and June 29, 2018, 10 of the 24 part-time inspectors resigned (we were advised by BOLC management that the resignations were related to the newly established minimum workweek). This was preceded by the resignation of two other part-time inspectors during calendar year 2017. As of June 30, 2018, the BOLC had 13 Liquor inspectors (one full-time and 12 part-time) and 14 vacant inspector positions (two full-time and 12 part-time). Two of the three full-time inspector positions have been vacant since December 2015 and January 2017, respectively.

No Inspector Performance Standards

Although position descriptions had been developed for inspectors, they did not include any measurable performance standards. Additionally, as previously commented upon, annual employee performance evaluations were not prepared for inspectors. While certain measured activity data, such as the number of inspectors and inspections performed, were reported in the annual budget, no inspector output or efficiency measures and goals had been established. Furthermore, a documented analysis of the optimum number of inspectors actually needed, that considered the number of inspections required and the number of inspections that reasonably could be completed within a specified time period, had not been performed.

We were advised by BOLC administrative staff that the number of part-time inspectors was originally set at 24 in State law in order to provide each of the 8 county legislators with 3 inspector appointments, but the law was amended in 2017 to provide for 'up to' 24 inspectors. The amended law further provides that, under the direction of the Board, the chief inspector shall regulate the duties, hours, and assignments of the inspectors. However, while the part-time inspectors received an offer letter that specified the amount of their salary when they were hired, no contract was executed and no related written work requirements were established.

Although all inspectors were paid the same salary, we found that the actual individual workload (the number of inspections performed by each inspector) varied greatly. We calculated, considering only those inspectors employed for an entire fiscal year period, during fiscal year 2015, 2016 and/or 2017, the least number of completed inspections (of all types) by an inspector for any year was 123, while the greatest number was 441, with the average number of annual inspections for an inspector over the entire 3 year period ranging from 189 to 334. In addition, there were 10 inspectors who averaged less than 275 inspections per year (see Table 5). When this result was brought to its attention, BOLC management could not readily provide an explanation for the disparity in inspections completed.

Table 5
**Number of Inspections Completed by Part-Time Inspectors Employed
for the Entire Fiscal Year**
(Fiscal Years 2015 to 2017)

Inspector	Average Inspections Completed by Fiscal Year (One, Two or Three-Year Period)	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017
Inspector 1	123	-	123	-
Inspector 2	166	-	-	166
Inspector 3	189	221	191	156
Inspector 4	220	273	244	144
Inspector 5	228	328	183	172
Inspector 6	232	-	267	196
Inspector 7	233	-	-	233
Inspector 8	237	237	-	-
Inspector 9	249	275	205	266
Inspector 10	272	318	235	264
Inspector 11	282	310	272	264
Inspector 12	289	285	273	308
Inspector 13	295	344	223	319
Inspector 14	300	346	270	284
Inspector 15	310	334	296	299
Inspector 16	317	375	318	259
Inspector 17	320	368	284	308
Inspector 18	328	391	281	312
Inspector 19	329	-	-	329
Inspector 20	330	284	414	292
Inspector 21	334	341	349	313
Inspector 22	344	344	-	-
Inspector 23	374	-	441	307
Inspector 24	382	382	-	-
Annual Number of Inspections Completed		5,756	4,869	5,191
Least Number of Inspections Completed		221	123	144
Greatest Number of Inspections Completed		391	441	329
Average Number of Inspections Completed		320	270	260

Source: BOLC inspection database as of July 24, 2017

Pre-March 2018 Inspector Attendance Policy

In February 2014, the Board approved an inspector absentee policy, which stated that inspector attendance was expected to remain above 75 percent and that failure to comply could result in disciplinary action to include termination, with each case determined on a case-by-case basis. The baseline “attendance” to which the 75 percent was to be applied, was not specified, but this vaguely defined policy appeared to be purposely left open to interpretation. We were advised that it was interpreted by administrative staff as requiring that each inspector submit one inspection report, or sign-in one day, each week to be counted present for the week, with the goal of being in “attendance” for at least 75 percent of the weeks in a year. An ‘attendance record’ was established to track policy compliance where each inspector was marked as absent or present each week based on that interpretation.

Without opining on the appropriateness of this “attendance policy”, we reviewed calendar year 2017 attendance records for a period of 50 weeks¹² for all of the employed part-time inspectors and found that 2 of the 24 inspectors failed to achieve an attendance percentage of at least 75 percent and one of the two resigned during the period tested. The remaining inspector had attended 64 percent of the 50-week period, but was not reported to the Board and no disciplinary action was taken.

State law provides that the part-time inspectors receive a salary as provided in the county budget. BOLC did not keep time records (an employee time sheet with work start and end times recorded each day) or track the number of hours that part-time inspectors worked until March 4, 2018 when a minimum workweek was established for part-time inspectors of 20 hours, and their salaries were converted to an hourly rate. We were advised by BOLC administrative staff that the standard written work week schedule was prepared based on the input of County officials, but as noted previously in Finding 14, the new minimum workweek schedule and time-keeping policy had not been formally approved by the Board, County, or current BOLC Director.

Optimal Number of Inspectors Not Known

BOLC had not performed a study to determine the required number of part-time inspectors necessary to complete all required and necessary inspection activity. Further, since BOLC has not established any formal criteria regarding the number of inspections that should be performed by each inspector during a given period, and did not maintain time records during the complete fiscal

¹² We observed that there was a week in both November and December 2017, for which no attendance records were maintained, so the records included 50 instead of 52 weeks.

years under audit, we were not readily able to estimate the number of inspectors required. We did observe that if information gathered from previous audits conducted by the Office of Legislative Audits of the Board of Liquor License Commissions for Baltimore City (for example, where full-time inspectors are required to complete four inspections per day), were applied to BOLC, approximately 12 part-time inspectors (working a 20-hour week) might be indicated to conduct the approximately 5,300 inspections that BOLC completed during fiscal year 2017. Our estimation was only based on the aforementioned Baltimore City information and actual inspections completed by BOLC, rather than the inspections required and necessary for the proper performance of its mission. Consequently, it should not be construed as authoritative or prescribing a standard.

Recommendation 15

We recommend that, in order to efficiently carry out its regulatory responsibilities and meet its performance goals, BOLC should

- a. adopt measurable standards for inspector performance and include them in their position descriptions;**
- b. monitor the number of hours worked and inspections completed by each inspector;**
- c. perform annual employee evaluations for inspectors; and**
- d. consider performing a formal staffing analysis, and periodically evaluate inspector workloads, making staffing decisions as appropriate.**

Finding 16

User access to critical BOLC data files was not adequately monitored and restricted to BOLC employees whose job duties required such access, and user transaction reports were not available to review for propriety.

Analysis

User access to critical BOLC data files (maintained by the Prince George's County government) was not adequately monitored and restricted to BOLC employees whose job duties required such access, and user transaction reports were not available to review for propriety.¹³ Furthermore, a periodic review of the propriety of BOLC user access capabilities was not performed. Additionally, we were advised by County Information Technology (IT) staff that the information edited on the BOLC's databases was overwritten when updated and no transaction history was saved on the system. Consequently, no user transaction reports could be generated by the system for review.

¹³ We did not review or assess Prince George's County government employee access to BOLC records, as this was deemed to be beyond the scope of this audit.

From our review of system records provided by County IT staff; we concluded that, as of May 2018, 26 of the 30 active BOLC network users had been assigned unnecessary update access to the licensing, inspection, and violation databases, as well as other critical BOLC files, such as the internal complaint log and completed criminal background investigation list. This update access included the ability to unilaterally add, edit, and delete data such as approved licenses, completed inspections, or criminal background checks performed. These 26 employees included 7 former employees who resigned in either January, 2017, or March or April 2018 and 19 current employees (5 commissioners, 13 part-time inspectors, and BOLC legal counsel) that did not require such access to perform their job duties. We were advised by County IT personnel that assigned users could access BOLC files from anywhere in the County network.

Furthermore, no procedure had been established for reporting terminated employees to County IT for removal of access. In addition, although County IT personnel advised us that any user account not used for 45 days would be automatically inactivated by the system, we found one BOLC account that was still active 15 months after the employee's separation. As a result, there was a lack of assurance as to the propriety of information recorded on the BOLC databases and other critical files.

System access to BOLC data files was requested through an informal process where a BOLC administrative aide would e-mail the County IT staff requesting access for a specific individual. Although an assigned logon identification code and password was needed to access BOLC's shared drive on the County network, once assigned, they provided unlimited update access to the BOLC licensing, inspection, and violation databases. We also found that individual BOLC workstation files were not password protected. Best practices as stated in the State of Maryland *Information Security Policy* require that passwords be used to authenticate users to protect critical databases and individual files.

Recommendation 16

We recommend that BOLC, in conjunction with the County, establish adequate access controls over its critical data files. Specifically, they should

- a. establish a formal documented process, subject to supervisory review, for assigning and restricting user access commensurate with each employee's duties, monitoring user access, and removing access for terminated employees;**
- b. make system changes that enable the saving of a user's transaction history and the generation of a report for independent documented review; and**

- c. establish logon and password controls over critical databases and individual workstation files.

Finding 17

BOLC had not established procedures to monitor employee compliance with statutory independence restrictions concerning secondary employment, business investments, and political activities.

Analysis

Procedures had not been established to monitor employee compliance with statutory independence restrictions concerning secondary employment, business investments, and political activities; violations of which could be grounds for termination of employment. Specifically, BOLC employees were not required to sign an affidavit to attest to their knowledge of, and compliance with, independence requirements when applying for employment or periodically, such as annually, after they were hired.

In addition, during the course of our audit, it came to our attention that three BOLC part-time inspectors and a commissioner were members of a political committee and a full-time inspection employee held office in a local municipality within the County. Additionally, another commissioner was the campaign manager for a local candidate and a fourth commissioner was the treasurer for a political campaign (but resigned from that position a month after Board appointment). For example, regarding the three aforementioned part-time employees and commissioner, we found a campaign finance report submitted to the State Board of Elections that disclosed the political committee in question had received certain contributions from individuals or corporations that included \$500 from two BOLC licensees. However, it was not clear as to whether the County Executive and Board were aware of these political activities, since the employees were not required to report them. In our opinion, such political activities could, under certain circumstances through either fact or appearance, impact employee independence, reinforcing the need for the Board to provide specific guidance to its staff on potential independence restrictions and requiring BOLC to establish related procedures.

Ultimately, advice from Counsel to the Maryland General Assembly was sought by interested parties on the permissibility of a person who is a member of a county central committee or a campaign manager for a local candidate serving on the Board. Counsel advised that such persons can be appointed to the Board, but once appointed, they would have to avoid campaign activities that are barred by law. We did not determine, and were not aware, of any of

the individuals' direct involvement in barred activities, as such was beyond the scope of this audit.

Finally, all BOLC employees were required to file annual disclosures with the State Ethics Commission (SEC). Our review found that while all required employees filed the required disclosures for 2016, one employee did not report all of their secondary employment (holding public office) and political activities. Specifically, SEC staff advised us that the current ethics law and disclosure form does not require the disclosure of political fund raising activities, but that holding public office should have been disclosed. In addition, upon our raising the issue, SEC staff added that having the Board commissioners and BOLC employees sign an annual internal affidavit attesting to their knowledge of and compliance with applicable restrictions and disclosing all political and fund raising activities would provide meaningful transparency going forward.

State law provides that Board members be appointed by the County Executive and confirmed by the State senate. The Board in turn appoints the BOLC Director who hires the administrative staff and liquor inspectors. Additionally, the law requires, among other things, that BOLC employees not have a direct or indirect employment, business, or investment interest in the alcoholic beverage industry or premises where alcoholic beverages are sold. Additionally, employees are forbidden to solicit or accept a commission, remuneration, gift, or political contribution from a person engaged in the manufacture or sale of alcoholic beverages or a license holder. Finally, the law requires that an employee of the Board who violates these restrictions shall be removed.

Recommendation 17

We recommend that BOLC establish procedures to monitor employee compliance with statutory independence restrictions. Specifically, the Board should consider

- a. requiring employees to sign an annual affidavit attesting to their knowledge of and compliance with key statutory provisions, including disclosure of all political and fund raising activities;**
- b. provide specific guidance to its staff on potential independence restrictions; and**
- c. advise the aforementioned full time employee to revise their SEC disclosure noting their holding of public office.**



APPENDIX

PRINCE GEORGE'S COUNTY GOVERNMENT

BOARD OF LICENSE COMMISSIONERS

Angela D. Alsobrooks
County Executive

March 18, 2019

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

Dear Mr. Hook:

The Prince George's County Board of License Commissioners would like to thank the Office of Legislative Audits for conducting the performance audit as required by the State Government Article, Section 2-1220 of the Annotated Code of Maryland. The finding provided essential insight into the operating deficiencies of the agency. The Board of License Commissioner is committed to addressing all aspects of the audit and furthermore is making significant strides to become more accountable, transparent and effective to the needs of the citizens of Prince George's County and the State of Maryland.

It should be noted that the Board of License Commissioners submitted a preliminary corrective action plan in January of 2019. This plan was well received by the auditors and this agency was commended on the progress already made. The Board of License Commissioners was aware of many of the items that would be detailed in the audit and incorporated improvement throughout the audit period. The Board of License Commissioners has developed an aggressive completion plan which addresses and rectifies each of the seventeen findings. The completion plan takes into consideration the recommendations detailed by the auditors, by order of execution. Furthermore, the completion plan details the steps that will be taken to come into compliance and further highlights the dates of completion for each of the forty-four action items. The Board of License Commissioners is confident that all recommendations will be completed before August 1, 2019. Attached is the Board of License Commissioners response to the audit report.

Should you require any additional information, please feel free to contact me.

Sincerely,

A handwritten signature in dark ink, appearing to read "Terence Sheppard", with a long, sweeping flourish extending to the right.

Terence Sheppard
Director

9200 Basil Court, Room 420, Largo, Maryland 20774
(301) 583-9980

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for Prince George's County

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Objective 1 - Licensing

Finding 1

Licensing procedures and controls were inadequate, as there was a lack of separation of application processing, approval, and recording functions. In addition, an independent supervisory review of these functions was not performed.

Recommendation 1

We recommend that BOLC establish adequate procedures and controls over the licensing process. Specifically, the BOLC should ensure that

- a. application processing duties are properly segregated and the embosser with the County seal and ink stamp with the Board Chair's signature are properly safeguarded; and
- b. there is a documented independent supervisory review over the licensing and hearing process that verifies required documents are received, complete information is provided to the Commissioners at monthly hearings, and applications are accurately recorded in the licensing database.

We advised BOLC how to achieve the necessary segregation of duties using existing personnel.

Agency Response			
Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.	The Board of License Commissioners agrees that the licensing process was not adequately segregated. The administrative staff incorporated a supervisory review of the renewal applications during the time the audit was being performed.		
Recommendation 1a	Agree	Estimated Completion Date:	January 2019
Please provide details of corrective action or explain disagreement.	Procedures were developed to further segregate the duties of the licensing process. The process will first require applications be reviewed by one member of the administrative staff and then processed by a second member of the staff. The embosser with the County seal and the ink stamp are maintained in a locked cabinet, only accessible by the supervisor. Licenses will be issued by the supervisor after a documented review.		
Recommendation 1b	Agree	Estimated Completion Date:	January 2019

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Please provide details of corrective action or explain disagreement.	The Board of License Commissioners agrees that verification of a supervisory review for hearing documents was not always completed. Applications are reviewed in a management meeting prior to each hearing. The coversheet for each application will be revised to include supervisory review as a requirement prior to the hearing.
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Finding 2
BOLC did not ensure that all required documents were obtained prior to the issuance of licenses and permits as required.

Recommendation 2

We recommend that BOLC ensure that, in accordance with governing statutes and BOLC rules and regulations

- a. all license applications are properly completed, and all required documentation is received before the applications are processed, and
- b. all required documentation is retained on file for at least three years or until audited.

Agency Response			
Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.			
Recommendation 2a	Agree	Estimated Completion Date:	July 2019
Please provide details of corrective action or explain disagreement.	To ensure all required documents are obtained prior to the issuance of a license or permit the Board of License Commissioners identified specific items that were missing from the master file. These items will be added to the master check list ensuring completion in the future. Additionally, the master files have been updated to include a section for identity sensitive information. To ensure an application is thoroughly reviewed for completeness and accuracy each reviewer is required to initial the checklist.		
Recommendation 2b	Agree	Estimated Completion Date:	January 2019
Please provide details of corrective action or explain disagreement.	All documentation will be retained in the file for at least three years.		

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Finding 3

BOLC did not adequately document criminal background checks of license applicants and had not established a process to receive updates of subsequent changes to licensee criminal records, as required by law.

Recommendation 3

We recommend that BOLC

- a. adequately document criminal background checks of license applicants, by retaining criminal records received from CJIS for at least three years or until the next legislative audit;
- b. require all criminal records received from CJIS be reviewed by the processor of the application and supervisor and that the reviews be documented; and
- c. establish a process to periodically obtain and review updates to licensee criminal records from CJIS and take appropriate licensing actions based on the updates received.

Agency Response			
Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.	The Board of License Commissioners agrees that there was not a policy in place to request updated Criminal Justice Information Systems (CJIS) Central Repository of the State of Maryland for updates on licensee criminal records. However, the Board notes that Section 4-107(f)(1) of the Alcoholic Beverage Article states "When criminal history record information of an application or license holder is reported to the Central Repository after the initial criminal history records check is completed, the central Repository shall provide the local licensing board with a revised printed statement of the criminal record of the application for license holder." Based upon this section of the law, the Board did not believe that follow-up from this agency was required.		
Recommendation 3a	Agree	Estimated Completion Date:	July 2019
Please provide details of corrective action or explain disagreement.	During the 2018 Renewal process the Board of License Commissioners required that licensees submit a background check prior to accepting the application. The background checks were verified prior to the issuance of the alcoholic beverage license in 2018. Pursuant to this finding a filing system was established to retain the information for at least three years.		
Recommendation 3b	Agree	Estimated Completion Date:	March 2019

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Please provide details of corrective action or explain disagreement.	To ensure all CJIS criminal background checks of license applicants are adequately documented each printed copy will be reviewed by a supervisor and a staff member for processing, included in an electronic database and maintained in the file.		
Recommendation 3c	Agree	Estimated Completion Date:	July 2019
Please provide details of corrective action or explain disagreement.	The Director has requested from CJIS updated information be provided annually. Any updates to the licensee's criminal records from CJIS will be reviewed by two supervisors. Appropriate licensing actions will be taken based on the updates received.		

Finding 4

BOLC did not always verify that license applicants had no undisputed taxes due to the State or Prince George's County prior to issuing licenses as required by State law.

Recommendation 4

We recommend that BOLC take appropriate actions to ensure that license applicants had no undisputed State or County taxes payable prior to issuing and renewing licenses as required by law. Specifically, we recommend that BOLC

- a. determine if they can initiate a process that ensures applicants for new and transfer licenses and renewals do not have undisputed unpaid taxes at the time of Board action, and
- b. ensure verifications of unpaid taxes include the owners and principals of the businesses applying for or holding existing licenses.

Agency Response			
Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.	The Board of License Commissioners has consistently requested verification of the tax status of the business but agrees that it did not verify the information for individuals.		
Recommendation 4a	Agree	Estimated Completion Date:	July 2019
Please provide details of corrective action or explain disagreement.	The Board of License Commissioners currently provides the Comptroller of Maryland a list of applicants for new and transfer applications to verify the tax status of the entity issued the alcoholic beverage licenses on a monthly basis. The Administrative Staff will include Prince George's County's Office of Finance in the current process for new and transfer applications. Additionally, to address the timeliness the information related to renewals will be requested in January of the license year.		

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Recommendation 4b	Agree	Estimated Completion Date:	July 2019
Please provide details of corrective action or explain disagreement.	The Board of License Commissioners implemented a process for verification that owners and principles of existing licenses do not have any undisputed taxes due the Comptroller of Maryland or Prince George's County. The information was provided to the Comptroller of Maryland and Prince George's County early in 2019. The renewal of the alcoholic beverage will not be issued until this verification process is complete.		

Finding 5

BOLC had not established adequate record keeping procedures and internal controls over license fees and other office collections.

Recommendation 5

We recommend that BOLC establish adequate record keeping procedures and internal controls over office collections in accordance with County standards. Specifically, we recommend that BOLC

- a. record collections immediately upon receipt in a permanent record such as a money mail listing or cash receipts log;
- b. issue pre-numbered receipts for all payments collected;
- c. perform periodic (such as monthly) accountabilities of pre-numbered cash receipt forms as to issued, voided, and on-hand, properly safeguard unused forms on-hand, reconcile used forms to deposit, and investigate the missing forms identified that were mentioned above;
- d. deposit collections daily and adequately safeguard them prior to deposit;
- e. segregate collection, recordkeeping, deposit, and licensing duties to the extent possible; and
- f. perform a documented independent verification, using an employee that does not have access to or handle collections, that all collections received were properly deposited using a record of initial accountability.

We advised BOLC how to achieve the necessary segregation of duties using existing personnel.

Agency Response

Analysis	Factually Accurate
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Please explain any concerns with factual accuracy.			
Recommendation 5a	Agree	Estimated Completion Date:	June 2019
Please provide details of corrective action or explain disagreement.	Revenue is immediately recorded by the staff member receiving the payment in to a spreadsheet maintained solely by that staff member. The Standard Operating Procedure is being revised to incorporate this requirement.		
Recommendation 5b	Agree	Estimated Completion Date:	January 2019
Please provide details of corrective action or explain disagreement.	Upon acceptance of all revenue received transactions will be documented on a pre-numbered three-part receipt. One part of the receipt will remain with the master file, one will be issued to the remitter and one will be used to reconcile the revenue monthly.		
Recommendation 5c	Agree	Estimated Completion Date:	April 2019
Please provide details of corrective action or explain disagreement.	The three-part prenumbered receipts will be reconciled with the spreadsheets as part of the monthly reconciliation of the revenue. The reconciliation will be reviewed by the Board in Administrative Voting Session. The receipts are maintained in a locked cabinet.		
Recommendation 5d	Agree	Estimated Completion Date:	February 2019
Please provide details of corrective action or explain disagreement.	The Board of License Commissioners incorporated a teller scan digital check system to deposit the revenue. Deposits are made daily when possible; when the deposit is not completed the same day, the funds will be maintained in a locked safe.		
Recommendation 5e	Agree	Estimated Completion Date:	July 2019
Please provide details of corrective action or explain disagreement.	A policy is being developed to incorporate the required segregation of revenue collection duties.		
Recommendation 5f	Agree	Estimated Completion Date:	July 2019
Please provide details of corrective action or explain disagreement.	A reconciliation of all revenue will be performed monthly to ensure compliance with the requirements of this revenue collection operating procedure.		

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Objective 2 – Inspections

Finding 6

Not all licensees were subject to periodic inspection, as required by State law.

Recommendation 6

We recommend that BOLC

- a. establish written Board-approved inspection scheduling procedures and criteria which define the scheduling methodology and required frequency for each type of inspection,
- b. require that the inspection schedules and scheduling process are subject to independent supervisory review,
- c. periodically reconcile the population of licensees subject to inspection to the related inspection schedule to ensure all eligible licensees are scheduled for inspection, and
- d. periodically report the results of inspection activity to the Board.

Agency Response			
Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.			
Recommendation 6a	Agree	Estimated Completion Date:	March 2019
Please provide details of corrective action or explain disagreement.	The inspection staff is developing a procedure to address scheduling, criteria and frequency of inspections. The procedure will be presented to the Board for approval.		
Recommendation 6b	Agree	Estimated Completion Date:	February 2019
Please provide details of corrective action or explain disagreement.	All inspections are scheduled by a supervisor and are periodically reviewed by the Chief Liquor Inspector. Trail Audits are also conducted weekly by supervisors to ensure compliance and accountability.		
Recommendation 6c	Agree	Estimated Completion Date:	April 2019
Please provide details of corrective action or explain disagreement.	Supervisors will conduct a quarterly review of all scheduled inspections to ensure complete coverage. Any establishment assigned for inspection that was not inspected will be placed on the next inspection assignment for the following shift.		

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Recommendation 6d	Agree	Estimated Completion Date:	February 2019
Please provide details of corrective action or explain disagreement.	The Board of License Commissioners will be provided a monthly report capturing statistics of the organization.		

Finding 7

Inspection reports were not comprehensive, properly completed, or subject to an independent documented supervisory review.

Recommendation 7

We recommend that BOLC ensure all inspection reports are

- a. tailored for the type of inspection to be performed, include specified objectives, sufficient questions to achieve a comprehensive understanding, and require detailed conclusions;
- b. properly completed with all requested information provided and all checklist questions answered with clarifying information as necessary;
- c. signed by the owner or manager of the licensed business to provide assurance that the inspection was actually performed; and
- d. subject to an independent documented supervisory review to ensure the appropriateness of the conclusions and proper completion of the inspection.

Agency Response			
Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.			
Recommendation 7a	Agree	Estimated Completion Date:	January 2019
Please provide details of corrective action or explain disagreement.	<p>The Board of License Commissioners uses an electronic inspection program that uses two (2) distinct platforms:</p> <ol style="list-style-type: none"> 1. The first platform assigns inspections to each inspection team and tracks real-time performance using GPS technology. 2. The second platform provides tailored reporting templates that speed the collection process with predefined questions that use logic and provide easy-to-fill answers. 		

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	<p>Additionally, the program allows the uploading of images for evidence collection.</p> <p>There are numerous templates specifically designed to cover a range of all BOLC reporting objectives and inspection types.</p>		
Recommendation 7b	Agree	Estimated Completion Date:	April 2019
Please provide details of corrective action or explain disagreement.	The reporting templates in the second platform require each report to be fully completed with all corresponding information including a signature before it can be closed and submitted.		
Recommendation 7c	Agree	Estimated Completion Date:	March 2019
Please provide details of corrective action or explain disagreement.	The reporting templates in the second platform require each report to be fully completed with all corresponding information including a signature before it can be closed and submitted.		
Recommendation 7d	Agree	Estimated Completion Date:	March 2019
Please provide details of corrective action or explain disagreement.	Reports are reviewed by the supervisor to whom the inspectors are assigned. A control has been added that documents and independent review of every report generated. Subsequently, when a violation is submitted, an additional report written as a Word document is required recording the time, date, location, observations, and the specifics of the violation.		

Finding 8

No procedures had been established to ensure all completed inspection reports were properly recorded in the BOLC inspection database and all scheduled inspections were performed.

Recommendation 8

We recommend that BOLC establish procedures that ensure

- a. all completed inspection reports are properly controlled and accounted for, by providing a locked drop box, using pre-numbered inspection report forms for all inspections, and performing periodic accountabilities;
- b. all completed inspection reports are accurately recorded by having independent administrative personnel verify the data entered for each inspection recorded to the related supporting paper report;
- c. all scheduled inspections are completed by having independent supervisory personnel monitor periodic reconciliations of recorded inspection reports with the related inspection schedules; and

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- d. the Board is kept informed as to the status of inspection efforts, by periodically compiling and reporting the number of inspections scheduled and completed.

Agency Response			
Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.			
Recommendation 8a	Agree	Estimated Completion Date:	December 2018
Please provide details of corrective action or explain disagreement.	All inspections are generated electronically through the second platform and stored in a database. Only BOLC personnel have access to the database. Printed violation summary reports are stored in the licensee's master file which is in a secured room.		
Recommendation 8b	Agree	Estimated Completion Date:	January 2019
Please provide details of corrective action or explain disagreement.	The inspections are now completed electronically eliminating the data entry process previously used. The electronic process mitigates the errors found during the audit.		
Recommendation 8c	Agree	Estimated Completion Date:	March 2019
Please provide details of corrective action or explain disagreement.	A quarterly report of all completed inspections will be generated for the director's review and approval.		
Recommendation 8d	Agree	Estimated Completion Date:	January 2019
Please provide details of corrective action or explain disagreement.	Beginning January 2019, a monthly report will be provided to Board members which will include: <ul style="list-style-type: none"> • the current number of completed inspections • underage compliance checks and their accompanying violations • violations incurred from special entertainment, and routine inspections 		

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Finding 9

Adequate procedures had not been established for the follow-up of inspections aborted because the licensee's business was closed at the time of the inspector's visit.

Recommendation 9

We recommend that BOLC enhance its procedures for the timely follow-up of aborted inspections to determine if licensing actions are warranted. Such efforts should include both contacting owners and rescheduling inspections.

Agency Response			
Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.			
Recommendation 9	Agree	Estimated Completion Date:	February 2019
Please provide details of corrective action or explain disagreement.	The Board of License Commissioners will establish a comprehensive policy to ensure closed or uninspected establishments are inspected. The policy will ensure that the hours of operation are verified and that the follow up inspection be included during the appropriate hours in the next inspection cycle. Businesses found to be closed during reported hours of operation will be contacted by the inspection staff to determine the status of the business. If location is permanently closed, a twenty (20) day monitoring process will be done by inspection staff to recommend expiration of the license.		

Finding 10

Licensee complaints received both directly by BOLC and through the County's 311 System were not always timely investigated and resolved or subject to supervisory review. Further, employee access to complaint records was not controlled.

Recommendation 10

We recommend that BOLC

- a. establish comprehensive written policies and procedures for investigating and resolving complaints on a timely basis;
- b. ensure all complaints are reviewed by an independent supervisor to ensure their timely resolution and the appropriateness of the resolution reached; and

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- c. restrict access to the BOLC complaint records and the 311 System, to the extent possible, to BOLC employees who require access based on their job responsibilities.

Agency Response			
Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.			
Recommendation 10a	Agree	Estimated Completion Date:	May 2019
Please provide details of corrective action or explain disagreement.	The Board of License Commissioners will develop a written policy and procedure for investigating and resolving complaints in a timely manner. Each complaint received by phone, 311 system, e-mail or walk in, will be sent to the Chief Liquor Inspector or his designee, logged in the complaint log on the password protected document on the shared drive and assigned to a Deputy Chief for investigation. The complaint should be investigated and resolved within 30 days. If the complainant provides contact information, the respective Deputy Chief will contact the complainant for follow up and to close out the complaint. If additional time is needed to investigate the complaint an extension request shall be made by the respective Deputy Chief to the Chief Liquor Inspector. The electronic complaint logbook will have restricted access to enhance better control. Only Deputy Chiefs and above grade levels will have access to the electronic logbook.		
Recommendation 10b	Agree	Estimated Completion Date:	May 2019
Please provide details of corrective action or explain disagreement.	The Chief Liquor Inspector will be responsible for reviewing all complaints to ensure they are resolved completely in a timely manner.		
Recommendation 10c	Agree	Estimated Completion Date:	January 2019
Please provide details of corrective action or explain disagreement.	The 311 system is restricted by log in. Access will be restricted to two supervisors and a member of the administrative staff.		

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Objective 3 – Disciplinary Procedures

Finding 11

The Board delegated its discretionary functions, in certain cases, to its staff in conflict with State law. The Board did not review and approve administrative staff decisions to refer violations for a hearing or make offers of compromise and the disposition of all reported violations was not verified.

Recommendation 11

We recommend that, in order for the Board to carry out its required statutory duties, the Board should

- a. require BOLC administrative staff to maintain a log of all reported violations received from outside entities;
- b. establish clear written guidelines for the scheduling of violations for hearings, and when the Board would consider offers of compromise for its own use; and
- c. not delegate its discretionary functions to staff.

Agency Response			
Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.			
Recommendation 11a	Agree	Estimated Completion Date:	March 2019
Please provide details of corrective action or explain disagreement.	The Board of License Commissioners has created a log for violations received from outside entities.		
Recommendation 11b	Agree	Estimated Completion Date:	February 2019
Please provide details of corrective action or explain disagreement.	The Board of License Commissioners implemented a process of providing the information to the Commissioners in an Administrative Voting Session. This process including providing the Board with the pertinent information and the ability to determine if the matter will be resolved with an offer letter or a public hearing.		
Recommendation 11c	Agree	Estimated Completion Date:	January 2019

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Please provide details of corrective action or explain disagreement.	The Board of License Commissioner no longer delegates its discretionary functions to staff.
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Finding 12

Formal accounts receivable records had not been established for fines assessed by the Board and related late fees due were sometimes not collected.

Recommendation 12

We recommend that BOLC

- a. establish formal detail accounts receivable records and a related control account for fines and late fees assessed licensees, segregating these from the related collection functions to the extent practicable;
- b. ensure that receivable records are adequately safeguarded;
- c. establish a formal follow-up process to aid in the timely collection of fines and the assessment and collection of all late payment fees; and
- d. require documented independent supervisory oversight of the debt recording, collection, and follow-up recordkeeping processes.

Agency Response			
Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.			
Recommendation 12a	Agree	Estimated Completion Date:	March 2019
Please provide details of corrective action or explain disagreement.	A coversheet will be developed for each fine assessed incorporating the due date for each violation and the late fee will be assessed. The collection function will be assigned to one member of the administrative staff with supervisory oversight.		
Recommendation 12b	Agree	Estimated Completion Date:	January 2019
Please provide details of corrective action or explain disagreement.	The letter assessing the fine with the corresponding coversheet will be mainlined in a locked filing cabinet.		
Recommendation 12c	Agree	Estimated Completion Date:	July 2019

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Please provide details of corrective action or explain disagreement.	A formal follow up process will be formulated. The process will include required timeframe for reminder notices and contract information for each business.		
Recommendation 12d	Agree	Estimated Completion Date:	July 2019
Please provide details of corrective action or explain disagreement.	The coversheets will be provided to the Director monthly for review and supervisory oversight.		

Finding 13

The Board did not adequately document the basis for its decisions regarding the continued active status of two licensees who had pleaded guilty to criminal charges.

Recommendation 13

We recommend that in the future the Board adequately document the basis for its legal decisions on criminal matters affecting licensees.

Agency Response			
Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.			
Recommendation 13	Agree	Estimated Completion Date:	July 2019
Please provide details of corrective action or explain disagreement.	The Board will adopt a policy that any time a licensee is convicted/guilty of a crime the matter will be heard in Regular Session with the decision made on the record.		

Objective 4 – Management Oversight

Finding 14

Written policies and procedures governing BOLC operations were not sufficiently comprehensive and had not been formally adopted by the Board.

Recommendation 14

We recommend that BOLC

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- a. develop comprehensive written policies and procedures that address the internal control, time record keeping, annual performance evaluations, document retention, the signing of inspection reports and other issues commented on in this report; and
- b. obtain formal Board approval of its written policies and procedures.

Agency Response			
Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.			
Recommendation 14a	Agree	Estimated Completion Date:	July 2019
Please provide details of corrective action or explain disagreement.	Comprehensive written policies are being developed to address internal controls for time recordkeeping, annual performance evaluations and document retention.		
Recommendation 14b	Agree	Estimated Completion Date:	July 2019
Please provide details of corrective action or explain disagreement.	As they policies are developed they will be presented to the Commissioners for approval.		

Finding 15

The Board had not adopted formal measures to evaluate inspector performance and determine annual workload requirements.

Recommendation 15

We recommend that, in order to efficiently carry out its regulatory responsibilities and meet its performance goals, BOLC should

- a. adopt measurable standards for inspector performance and include them in their position descriptions;
- b. monitor the number of hours worked and inspections completed by each inspector;
- c. perform annual employee evaluations for inspectors; and
- d. consider performing a formal staffing analysis, and periodically evaluate inspector workloads, making staffing decisions as appropriate.

Agency Response	
Analysis	Factually Accurate

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Please explain any concerns with factual accuracy.			
Recommendation 15a	Agree	Estimated Completion Date:	July 2019
Please provide details of corrective action or explain disagreement.	Measurable standards for the inspection staff are being developed.		
Recommendation 15b	Agree	Estimated Completion Date:	April 2019
Please provide details of corrective action or explain disagreement.	The inspector staff's hours and inspections will be monitor by the Deputy Chief Liquor Inspectors.		
Recommendation 15c	Agree	Estimated Completion Date:	February 2019
Please provide details of corrective action or explain disagreement.	Annual Performance appraisals were completed for the inspection staff.		
Recommendation 15d	Agree	Estimated Completion Date:	March 2019
Please provide details of corrective action or explain disagreement.	Management will periodically evaluate inspector's workload by analyzing the number of inspections completed in comparison to the number of inspections issued. This assessment will be done periodically to ensure staffing levels are commensurate with Agency Goals and Objectives.		

Finding 16

User access to critical BOLC data files was not adequately monitored and restricted to BOLC employees whose job duties required such access, and user transaction reports were not available to review for propriety.

Recommendation 16

We recommend that BOLC, in conjunction with the County, establish adequate access controls over its critical data files. Specifically, they should

- a. establish a formal documented process, subject to supervisory review, for assigning and restricting user access commensurate with each employee's duties, monitoring user access, and removing access for terminated employees;

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- b. make system changes that enable the saving of a user's transaction history and the generation of a report for independent documented review; and
- c. establish logon and password controls over critical databases and individual workstation files.

Agency Response			
Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.			
Recommendation 16a	Agree	Estimated Completion Date:	July 2019
Please provide details of corrective action or explain disagreement.	The licensing data base is currently restricted to the administrative staff for edits and updates. An active log in profile is required to make edits. A formal process will be developed to remove employees no longer with the agency.		
Recommendation 16b	Agree	Estimated Completion Date:	July 2019
Please provide details of corrective action or explain disagreement.	Currently the data is stored in a database. Changes are tracked by who makes changes or updates to the database. There are only four users that can edit and update. The only way to see the record is for approved users to login with registered access.		
Recommendation 16c	Agree	Estimated Completion Date:	July 2019
Please provide details of corrective action or explain disagreement.	The current data base system has a login and password control to restrict and control users with a daily backup.		

Finding 17

BOLC had not established procedures to monitor employee compliance with statutory independence restrictions concerning secondary employment, business investments, and political activities.

Recommendation 17

We recommend that BOLC establish procedures to monitor employee compliance with statutory independence restrictions. Specifically, the Board should consider

- a. requiring employees to sign an annual affidavit attesting to their knowledge of and compliance with key statutory provisions, including disclosure of all political and fund raising activities;
- b. provide specific guidance to its staff on potential independence restrictions; and

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- c. advise the full-time employee to revise their SEC disclosure noting their holding of public office.

Agency Response			
Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.			
Recommendation 17a	Agree	Estimated Completion Date:	July 2019
Please provide details of corrective action or explain disagreement.	An affidavit will be developed for employees to disclose all political and fundraising activities annually.		
Recommendation 17b	Agree	Estimated Completion Date:	July 2019
Please provide details of corrective action or explain disagreement.	A policy will be developed to address potential independence restrictions.		
Recommendation 17c	Agree	Estimated Completion Date:	July 2019
Please provide details of corrective action or explain disagreement.	The employee has notified the SEC of holding the public office. A written policy for all employees will be developed.		

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