Prince George's County, Maryland
Office of Audits and Investigations

Board of License Commissioners

Liquor License Issuance and Enforcement Follow-Up Audit

March 2013

David H. Van Dyke
County Auditor

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March 2013

The County Council and County Executive
of Prince George's County, Maryland

We have conducted a performance audit of the

BOARD OF LICENSE COMMISSIONERS' LIQUOR LICENSE ISSUANCE AND ENFORCEMENT PROCESSES

in accordance with the requirements of Article III, Section 313, of the Charter for Prince George's County, Maryland. Our report is submitted herewith.

We have discussed the contents of this report with appropriate personnel of the Board of License Commissioners and wish to express our sincere gratitude to them for the cooperation and assistance extended to us during the course of this engagement.

David H. Van Dyke, CPA
County Auditor

Turkessa A. Massiah, CPA
Audit Manager

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Auditor

Results In Brief

The Board of License Commissioners (BOLC or the Board) provides alcoholic beverage management services to the citizens, residents, and visitors of Prince George's County in order to ensure the community uses alcoholic beverages responsibly. The Board of License Commissioners for Prince George's County consists of five members, appointed by the Governor under the provision of Section 15-101 of Article 2B of the Annotated Code of Maryland. The Board serves a quasi-judicial function in administering and enforcing the Alcoholic Beverage Laws of the State of Maryland and the local rules and regulations of the Board of License Commissioners.

The core services provided by the BOLC include:

- Enforcement of laws and regulations regarding the sales and service of alcoholic beverages;
- Holding administrative hearings regarding the issuance, violations, and management of alcoholic beverage licenses; and
- Accepting and processing new, transfer, and renewal applications in compliance with Article 2B of the Annotated Code of Maryland.

An average of $1.3 million in total liquor license and permit revenue was collected by the County over the last five fiscal years. Below is a breakdown of this revenue by year:

Fiscal Year	Total Revenue
FY08	$1,168,773
FY09	$1,164,914
FY10	$1,250,370
FY11	$1,356,694
FY12	$1,602,866

The Board of License Commissioners effectively records and monitors agency receipts, and complies with State laws and BOLC's rules and regulations in granting liquor licenses. However, we identified the following opportunities for improvement:

- The Board's license application and inspection file folders were incomplete;
- The maintenance of the Board's complaint files was not centralized; and
- The Board does not maintain adequate records of the annual training received by its liquor inspectors.

Status of Prior Audit Findings (October 2001):

- Written procedures have been developed for conducting liquor inspections and reporting inspection results.
- Independent reconciliations of collections and deposits to the County financial records are being performed.
- There is adequate segregation of duties between the collection of license fees and license recordkeeping.
- License fees collected are adequately safeguarded.
- Deposits of receipts are being made timely and in accordance with the agency's Revenue Collection Procedure.
- Recommendations not implemented from the prior audit:
  - The BOLC does not maintain adequate individual records of the annual training received by their liquor inspectors.
  - Inspection records and records of complaints received from citizens are not maintained for an adequate length of time.

Internal control activities are an important part of the Board's liquor license issuance and enforcement functions. They are essential for effective and efficient operations and proper accountability of county, state, and federal resources. Hence, recommendations for improving internal controls are included in this report.

Background

Alcoholic Beverage Licenses are issued by the Board based on public accommodation. A fully completed application is filed with the Board's Office and then the application is scheduled for a Public Hearing. Applications must be fully completed and filed on or before the filing date designated for the hearing.

The following general classes of licenses are issued by the Board:

Class A – Off sales six days a week (Monday through Saturday)
Class B – Restaurant on sale six days a week
Class C – Club Licenses
Class D – On and Off Sale seven days a week

The Board is also authorized to issue Special Entertainment Permits to qualified businesses with Class B Licenses. This permit authorizes the licensed

establishment to provide entertainment, allow patron dancing, and assess a cover charge under conditions determined by the Board and in compliance with all County laws.

At the hearings, the Board accepts evidence and testimony regarding the issuance of the license for which the establishment has applied. Based on the information provided, the Board determines which application would best serve the public and, subsequently, the advertised alcoholic beverage license is granted. The Maryland General Assembly placed limitations on the number of licenses that the Board may issue; therefore, an application for an alcoholic beverage license may not necessarily result in the granting of a license.

Licensed establishments must also file an annual renewal by the pre-determined renewal date based on the class of license it has been issued. Renewal notifications are sent to licensed establishments approximately 60 days prior to the application deadline.

The Board's inspection program ensures that licensed establishments in the County are operating in conformance with Article 2B and the local rules and regulations of the Board. Routine inspections are performed to establish working relationships with licensees, thus encouraging voluntary compliance with laws and regulations. All inspectors are required to conduct a physical inspection of the licensed establishments listed on their route at least once each month. Inspections may be performed based on complaints from the public or law enforcement, requests from management of the establishment, or based on personal knowledge that violations are occurring. An inspection of a licensed establishment should present a complete picture of the alleged violation, as it may be necessary to prove intent and knowledge on the part of the licensee charged.

Objective, Scope, & Methodology

The purpose of this audit was to (1) assess the adequacy and performance of designed control activities in place to issue liquor licenses and perform inspections of licensed establishments; (2) determine adherence to applicable laws, regulations, and internal policies and procedures; and (3) identify factors inhibiting satisfactory performance and recommend corrective action.

To conduct this audit we requested a list of licenses issued or renewed by the County for the audit period of FY 2012. We also requested a list of all complaints filed and violations issued for the same period. Samples were selected from each of these lists and pertinent supporting documentation was requested to perform our testing. All significant fieldwork was completed by January 3, 2013.

Management's Responsibility for Internal Control

Internal control is a process, effected by people at every level of the organization, designed to provide reasonable assurance that the following objectives are being achieved[1]:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Management is responsible for establishing and maintaining an environment that sets a positive and supportive attitude towards internal control. When the importance of internal control is communicated to employees, particularly through management's own actions and beliefs, the process is more likely to function effectively.

A strong internal control environment is essential in minimizing operational risks and improving accountability, which further helps an agency to achieve its mission.

We noted the following strengths in relation to the controls we reviewed in the Board of License Commissioners' liquor license issuance and inspection processes:

- Written policies and procedures exist to govern the license issuance, fee collection, and inspection processes.

- All funds collected are recorded on pre-numbered treasurer receipts; blank treasurer receipts are stored in a locked storage cabinet.

- Fees collected from license applicants are filed in a secured area along with copies of the completed treasurer receipts.

- Cashier and bookkeeping (license issuance) duties are adequately segregated within the BOLC's operations. Two Administrative Aides are responsible for collecting funds, issuing receipts, and recording receipts in the logbook. A third Administrative Aide is responsible for issuing licenses.

- Revenues are reconciled monthly by the Deputy Chief Liquor Inspector and presented to the Board in Executive Session for their review/approval.

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[1] Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission, Copyright 1994

We also observed several control weaknesses in the process that require management's attention. The following sections detail the items noted during our review.

Inadequate Documentation

Issuance:

During our review of the Board of License Commissioners' fee collection process, we discovered that some of the license application file folders were incomplete and did not contain all required documentation for granting or renewing a license. This missing documentation decreases the amount of evidence available to ensure that only responsible business owners are granted the privilege of obtaining a liquor license.

We selected a sample of 40 renewals and 10 new licenses and reviewed the application packages for each to determine whether all required documentation for granting/renewing the licenses was obtained. During our testing we noted that 8 liquor license application packages out of the 50 sample licenses selected (16%) did not contain all required documentation – either the Certificate of Good Standing, Alcohol Awareness Training Certificate, or Use and Occupancy Permit could not be located for our review. Although they did not comply with all the requirements set forth by the BOLC, these applicants were issued liquor licenses.

According to the 'Official Notice of Renewal' distributed by the Board of License Commissioners, applications must be accompanied by a Certificate of Good Standing, a Stockholder or Individual/ Licensee Affidavit, and a Certificate of Compliance with Alcohol Awareness Training. In addition, new applications require establishments to provide a Use and Occupancy (U&O) Permit prior to license issuance.

The reason six of the application files in our sample were missing the Alcohol Awareness Training Certificate could not be explained. BOLC staff explained that the Certificate of Good Standing for one establishment was required since a new application is filed annually (therefore there is no renewal process). During our testing another establishment was determined to be a Limited Liability Corporation (LLC), thus requiring the Certificate of Good Standing. BOLC staff also explained that the U&O permits for two of the establishments were not received at the time of application because the businesses may not be provided the permit for up to six weeks. It has been the Board's practice to accept the "Ok to Issue" statement of approval in lieu of the actual permit.

Inspections:

For the sample of renewals selected, we also reviewed the inspection files to determine the frequency of liquor inspections performed in FY 2012. We discovered inspection files for 27 of the 40 establishments reviewed (68%) were either incomplete or did not have monthly inspections performed. For seven of these establishments (26%), inspections were not performed for six or more months within the fiscal year.

The Board of License Commissioners requires routine inspections of all licensed establishments, at least once a month. Liquor Inspectors "shall complete an Inspector's Report (PG 490) on all inspections conducted" and the forms "shall be completed with required information or N/A when warranted" as required by the Liquor Inspector Handbook. In addition, "reports need to be submitted promptly to the Chief/Deputy Chief, must be legible and all information must be explicit, detailed, and accurate" and "the Chief or Deputy Chief shall review all reports for completeness".

Per discussion with the Chief Liquor Inspector, when there is turnover in the number of inspectors employed by the BOLC, routes are not always re-assigned as needed. As a result, inspection reports may not be completed for establishments on these routes.

Ineffective filing procedures or lack of training may have also resulted in the missing/incomplete reports selected for testing. In addition, incompleteness of reports may be due to a lack of supervisory review by the Chief or Deputy Liquor Inspectors after an inspector returns all inspection reports for establishments on their route. Evidence of this review was not provided.

Incomplete inspection reports could result in an increase of establishments that may not abide by and operate their businesses in conformance with Article 2B of the Annotated Code of Maryland and the local rules and regulations of the Board of License Commissioners for Prince George's County, Maryland.

To further emphasize the importance of adequate documentation, in its publication on standards for internal controls (GAO/AIMD-00-21.3.1) the Government Accountability Office (GAO) states that:

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

In addition, *"internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations".*

We recommend the Board of License Commissioners require and hold applicants responsible for fully submitting all required documentation with an application. If all requirements are not satisfied, a license should not be granted or renewed.

We recommend the Board of License Commissioners consider establishing, where practical, an automated system of preparing and tracking license applications and inspection data to improve the efficiency and accuracy of the license issuance, renewal, and enforcement processes.

We further recommend that the Board of License Commissioners ensure that upon departure of a Liquor Inspector, establishments on those routes be re-assigned by the Chief or Deputy Liquor Inspector in a timely manner so that required monthly inspections may be performed.

We also recommend that the Board of License Commissioners ensure that existing policies of the BOLC Liquor Inspection Handbook are followed by all inspectors, including the Chief and Deputy Liquor Inspectors. Inspectors should be trained on the importance of completing inspection reports, thoroughly and properly. Also, all reports should be reviewed by the Chief or Deputy Liquor Inspector for completeness.

Inadequate Record Retention of Inspection Complaint Data

The Board of License Commissioners does not have a comprehensive centralized method of tracking citizen complaints and documenting results of investigations. We requested a list of complaints made to the BOLC during FY 2012 regarding licensed establishments in order to ascertain response times for a sample of complaints. **This finding also was discussed in a previous audit report issued by the Office of Audits & Investigations (A&I) in October 2001.**

As part of our testing, we discussed the complaint process with the Chief Liquor Inspector and we were informed that complaints are not formally logged and maintained. Although some complaints had been filed in the inspections office, there was no centralized location to gather all the complaints that were received during the audit period. We were unable to test the complaints process due to the lack of a formalized complaint receipt and filing system.

Inadequate records of complaint data may have resulted from a lack of established policies and procedures by the Board of License Commissioners requiring the inspections department to maintain a listing of complaints received and resolution dates of complaints. A log of complaints was previously maintained by the

BOLC, according to the Performance Audit completed in October 2001 by A&I. However, this practice is no longer in place.

The lack of a comprehensive centralized complaint log or database decreases the level of accountability for investigating complaints. Without a comprehensive log or database it is difficult to determine whether full and proper investigations of complaints were completed, whether all complaints were investigated, and whether complaints were investigated in a timely manner

Inadequate records of complaint data also could decrease the amount of evidence available in the event that a question arises regarding a licensed establishment, such as the number of complaints received, when and how those complaints were resolved, and the total number of violations issued.

As previously mentioned, the Government Accountability Office (GAO) states that good internal controls include clearly documenting significant events, having documentation requirements reflected in written policies and procedures, and ongoing monitoring should occur in the course of normal operations.

Furthermore, good management practice in the area of liquor license management recommends a comprehensive method to track and manage inspections, complaints, and violations.

We recommend that the Board of License Commissioners record all incoming complaints in a logbook for accessibility. The log book should record such information as the name of the complainant; date and time the complaint was filed, nature of the complaint; inspector assigned to the complaint; subsequent inspections performed, how the complaint was resolved, and the complaint resolution date.

We also recommend that the Board of License Commissioners ensure that original written complaints and all corresponding information are properly filed and maintained in a centralized location throughout the year, in case such evidence may need to be retrieved.

In addition, **we recommend** that the Board of License Commissioners consider establishing, where practical, an automated complaint tracking system.

Inadequate Professional Development Recordkeeping

The BOLC does not maintain adequate records of the annual training received by their Liquor Inspectors. During our audit, we requested a list of the training obtained by the liquor inspectors during FY 2012 in order to verify if they were receiving a sufficient level of training to strengthen and maintain their ability to effectively carry-out their inspection responsibilities. However, the Chief Liquor

Inspector was not able to provide documentation of the training provided to the Board's Inspectors. **This finding was also discussed in a previous audit report issued by A&I in October 2001.**

The Board's staff informed us that the Chief and Deputy Inspectors attend relevant external training then conduct internal training sessions with the Liquor Inspectors to ensure that all inspectors have the same information and to ensure consistency in the inspection process is maintained.

The BOLC Inspector's Handbook requires all liquor inspectors to complete the National Law Enforcement Association Training Academy's Inspector training and the State of Maryland Alcohol Awareness Certification within 24 months of employment. Since there are no records documenting training received, we could not verify whether this required training was completed. Additionally, although there are no established requirements for receiving ongoing training, ineffective filing procedures could have resulted in the misplacement of any training records that may have been retained.

Without proper documentation of training, it is difficult to ascertain the level of training received by the Liquor Inspectors, which hinders accountability in this area. Furthermore, if inspectors are not receiving an adequate amount of training, it reduces their efficiency and proficiency, and the agency's ability to effectively accomplish its mission.

Prudent organization practice involves maintaining adequate records to document essential activities of an organization. Also, as discussed in the previous findings, the Government Accountability Office (GAO) states that significant events should be clearly documented.

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

PRINCE GEORGE'S COUNTY GOVERNMENT

BOARD OF LICENSE COMMISSIONERS

MEMORANDUM

January 30, 2013

TO: David H. Van Dyke
County Auditor

FROM: Franklin D. Jackson
Chairman

RE: Notification of findings and recommendations

The Board of License Commissioners is in receipt of your memorandum dated January 16, 2013 along with the audit of liquor license issuance, fee collection and enforcement processes.

Notification of Findings and Recommendations No. 1

A review of the data indicated missing items or incomplete documentation. Alcoholic beverage licenses will be issued and/or accepted and follow up will be adhered to by the licensee's filing of all required documentation.

The lack of documentation falls within four categories:

- Alcoholic Awareness Training Certificate – Six of the documents were for AAT, the training is valid for four years. The Board concurs with this finding.

- Certification of Good Standing – The report indicates that three establishments did not have the required CGS. Of the three establishments two of the establishments are not held by Corporations/LLC's and therefore a CGS is not applicable The t/a Finish Line Bar and Grill located at Rosecroft Raceway, is based upon the number of racing days and therefore, a new application is filed annually. A Certificate of Good Standing is not required for effectuation of the alcoholic beverage license. The Board does not concur with this portion of the finding.

- Use and Occupancy – Businesses are not issued Use and Occupancy Permit's for up to six weeks after approval. In an effort to streamline the process and promote new businesses to Prince George's County the Board instituted a practice of accepting an approved permit for issuance of the alcoholic beverage license. The Board concurs with the part of the finding and will implement a system of requiring that upon receipt of a Use and Occupancy Permit by the business a copy of the actual Use and Occupancy Permit be filed with our office.

County Service Building, Room 204, 5012 Rhode Island A
(301) 699-2770

- Monthly Inspections – On November 7th, 2012, the Board of License Commissioners realigned the Inspection Staff. As part of that process the inspection staff has implemented a targeted enforcement system in place of the routine inspection practice. This change will ensure that all establishments are inspected regularly regardless of the staffing. The Board concurs with this portion of the findings.

The Board of License Commissioners concurs with all of the recommendations outlined in the findings.

Notification of Findings and Recommendations No. 2

A new procedure regarding complaints has been instituted. All complaints (written, e-mailed or telephonically) are entered into an Excel Spread Sheet database which includes the following:

- Date
- Time
- Recipient of complaint
- The name of the complainant
- The telephone contact number of the complainant
- The trade name
- The actual complaint
- Who the complaint was assigned to
- Complaint resolution and date

Please refer to attachment. The Board of License Commissioners concurs with all of the recommendations outlined in the findings.

Notification of Findings and Recommendations No. 3

The Board of License Commissioners will ensure that all Liquor Inspectors will be trained in alcohol awareness and further, that the certification will be filed in their master files of the respective employees.

The Board of License Commissioners concurs with all of the recommendations outlined in the findings.

Should you have any questions, or should you desire additional information, please do not hesitate to contact me at 301-699-2770.

COMPLAINT LOG

Date	Time	Received by:	Name of complainant?	Phone Number	Trade Name	Compliant	Assigned to:	Complaint resolution and date
11/20/2012		Diane Bryant			Jimmy's Crabhouse	Food not available during all hour of operation	Fanelli	Violation
		Diane Bryant	Jim Boyd	240-508-0355	Seitz Liquors	Selling of single cigarettes	Maryland Comptroller	No Board Action
11/30/2012	1:10 p.m.	Diane Bryant	Anonymous Compliant		Bill's Liquors	Selling alcoholic beverages from the proposed new location without transferring the liquor license. DMB contacted Evan Meyers, Esquire and told him to call his clients and if true to cease and desist immediately.	Inspection	The license was officially transferred
12/2/2013	1:00 p.m.	Diane Bryant	Chairman Jackson		Freddie's Liquors	Windows covered in plywood with signs on top of the plywood; DMB called licensee Betty Armstrong on 12/3/2012 and relayed the information to Albert Fanelli	Fanelli	Investigated - the establishment does not have windows; the design is there for signs
		Kelly Markomanolakis	Debra Stahman	301-512-7248	Big Daddy's BBQ	Excess noise from the licensed premises	Fanelli	Violation
		Kelly Markomanolakis	Kalenna Irving	434-946-5139	Jimmy's Crabhouse	Citizen called the restaurant to order the special; went to the restaurant at 10:10 a.m. food was not ready; the cook indicated that she does not come in until 10:00 a.m.; the only serve wings prior to 10	Fanelli	Violation
1/4/2013		Kelly Markomanolakis	Anonymous Compliant		Cornerstone	Two minors were over served in December - police involvement	Fanelli	Violation
1/10/2013	11:46 a.m.	Kelly Markomanolakis	Jeff	240-678-7757	2000 Spaulding Avenue, Suite I, Suitland, MD	Illegal entertainment establishment with alcoholic beverages; the business is operated on weekend and sometimes on Thursday; condoms on the parking lot; drugs for sale; business is open at 11 - 12 at night	Jordan	No Board Action
		Police Department	Jordan	email	Pike El Chalateco	Minors	Fanelli	No Violation
10/23/2012		Mi Patio	L. M. Rouse	email	Mi Patio	Noise	Fanelli	Violation
10/23/2012		Police Department	Grant	email	Cedar Hill Inn	Sunday Sales	Fanelli	
1/17/2012		Hyattsville	Joe Brewer	email	Mi Patio	Noise/After hours	Fanelli	Violation
2/8/2013	10:55 a.m.	Kelly Markomanolakis	D. Johnson		Eastpines Liquor	Sign indicated one price, customer was charged a higher price; spoke with the manager, he was defiant and rude to the patron	Fanelli	