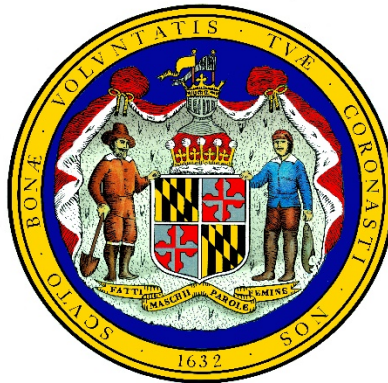


Audit Report

Alcohol, Tobacco, and Cannabis Commission

April 2025



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DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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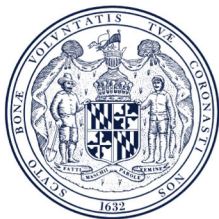
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Brian S. Tanen, CPA, CFE
Legislative Auditor

April 1, 2025

Senator Shelly L. Hettleman, Senate Chair, Joint Audit and Evaluation Committee
Delegate Jared Solomon, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Alcohol, Tobacco, and Cannabis Commission (ATCC) for the period beginning January 1, 2021 and ending June 15, 2024. ATCC is responsible for providing regulatory and enforcement oversight of Maryland's alcohol and tobacco industries and supporting the efforts of the Maryland Cannabis Administration to address the unlicensed cannabis market.

Our audit disclosed that ATCC did not segregate certain collection and licensing duties as required. Specifically, the employee who recorded collections was also responsible for verifying they were deposited. In addition, three of the nine employees who processed licenses also processed the related collections.

State law enacted during our audit period transferred enforcement authority over the State's laws concerning alcoholic beverages and tobacco products from the Office of the Comptroller's Field Enforcement Division to ATCC effective January 1, 2021. Consequently, our audit also included a review to determine the status of the finding contained in our *Comptroller of Maryland – Field Enforcement Division* audit report dated September 7, 2021. We determined that ATCC satisfactorily addressed this finding.

ATCC's response to this audit is included as an appendix to this report. We reviewed the response to our finding and recommendations, and have concluded that the corrective actions identified are sufficient to address all audit issues.

We wish to acknowledge the cooperation extended to us during the audit by ATCC.

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

Background Information

Agency Responsibilities

The Alcohol, Tobacco, and Cannabis Commission (ATCC) is responsible for providing regulatory and enforcement oversight of Maryland's alcohol and tobacco industries while supporting the efforts of the Maryland Cannabis Administration by addressing the unlicensed cannabis market. Specifically, the ATCC issues licenses and permits related to the manufacture, sale (excluding retail),¹ transportation, storage, and importation of alcohol, tobacco, and electronic smoking device products. ATCC also ensures that those involved in the alcohol, tobacco, electronic smoking device, and cannabis industries in Maryland act in accordance with local, State, and federal laws by conducting routine inspections and criminal investigations.

According to the State's records, ATCC's expenditures totaled approximately \$9.8 million during fiscal year 2024 (see Figure 1 on the following page). According to agency records, as of June 30, 2024, there were 1,063 alcohol licenses, 6,036 alcohol permits, and 284 tobacco and electronic smoking device licenses. Additionally, there were 8,496 local alcohol retailers and 6,247 local tobacco retailers located in Maryland.

¹ Local liquor boards license alcohol retailers and the Clerks of Circuit Courts license tobacco and electronic smoking device retailers in their respective jurisdictions.

Figure 1
ATCC Positions, Expenditures, and Funding Sources

Full-Time Equivalent Positions as of June 30, 2024		
	Positions	Percent
Filled	55	91.7%
Vacant	5	8.3%
Total	60	
Fiscal Year 2024 Expenditures		
	Expenditures	Percent
Salaries, Wages, and Fringe Benefits	\$6,399,086	65.6%
Technical and Special Fees	29,471	0.3%
Operating Expenses	3,324,071	34.1%
Total	\$9,752,628	
Fiscal Year 2024 Funding Sources		
	Funding	Percent
General Fund	\$7,527,228	77.2%
Reimbursable Fund	2,225,400	22.8%
Total	\$9,752,628	

Source: State financial and personnel records

Organizational and Name Changes

Prior to January 1, 2021, the Comptroller of Maryland’s (COM) Field Enforcement Division (FED) was responsible for the enforcement of trade practice regulations and revenue laws related to alcoholic beverages, tobacco, motor fuel, and sales and use taxes. Additionally, FED was responsible for monitoring and enforcing the use of business licenses and for testing motor fuel quality. Effective January 1, 2021, Chapter 12, Laws of Maryland 2019² transferred the authority to enforce the State’s laws concerning alcoholic beverages and tobacco products from FED to ATCC (formerly ATC).³ All other authority and responsibilities of the former FED remain with the COM under the newly established Field Enforcement Bureau.

² As modified by Chapters 359 and 360, Laws of Maryland 2020.

³ Chapters 254 and 255, Laws of Maryland 2023 (Cannabis Reform Act), effective May 3, 2023 renamed the Alcohol and Tobacco Commission as the Alcohol Tobacco and Cannabis Commission (ATCC), and required ATCC to collaborate with the Maryland Cannabis Administration to enforce laws related to the unlicensed cannabis market.

In addition, effective July 1, 2023, the ATCC assumed certain administrative responsibilities previously provided by the COM including procurement, processing of invoices, maintenance of accounting records, human resources, related fiscal functions (such as processing deposits), and payroll processing. Accordingly, our current audit included these activities since July 1, 2023 and the activity prior to that date will be included in our audit of the COM.

Status of Finding From Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding (and final) Comptroller of Maryland – Field Enforcement Division audit report dated September 7, 2021. We determined that ATCC satisfactorily addressed this finding.

Findings and Recommendations

Cash Receipts

Finding 1

The Alcohol, Tobacco, and Cannabis Commission (ATCC) did not properly segregate collection and licensing duties as required.

Analysis

ATCC did not properly segregate collection and licensing duties as required. As noted above, responsibility for processing collections transferred from the Comptroller of Maryland to ATCC effective July 1, 2023. According to State accounting records, ATCC collections during the period from July 1, 2023 through June 30, 2024 totaled approximately \$3.3 million, which primarily related to checks and money orders for licensing and permit fees and fines.

Our review of procedures subsequent to the transfer of collection processing to ATCC disclosed that the employee who recorded collections upon receipt was also responsible for verifying they were deposited. In addition, three of the nine employees who could independently issue or renew licenses also processed the related collections. As a result, there is a risk that collections could be misappropriated by these employees without being readily detected. ATCC management advised that this condition was caused by limited staffing.

The Comptroller of Maryland’s *Accounting Policies and Procedures Manual* requires that an employee independent of cash receipt functions verify initial

records of collections to amounts deposited and separation of cash handling duties and licensing duties.

Recommendation 1

We recommend that ATCC properly segregate collection and licensing functions. Specifically, we recommend that

- a. an employee independent of the collection function verify all collections are deposited, and**
- b. employees who process licenses not have access to the related collections.**

We advised ATCC how to achieve the necessary separation of duties using existing personnel.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Alcohol, Tobacco, and Cannabis Commission (ATCC) for the period beginning January 1, 2021 and ending June 15, 2024. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine ATCC's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included cash receipts, payroll, licenses, and inspections. State law enacted during our audit period transferred enforcement authority over the State's laws concerning alcoholic beverages and tobacco products from the Comptroller of Maryland's Field Enforcement Division to ATCC effective January 1, 2021. Consequently, our audit also included a review to determine the status of the finding contained in our Comptroller of Maryland - Field Enforcement Division audit report dated September 7, 2021.

Our audit did not include a review of certain support services provided to the ATCC by the Office of the Comptroller prior to July 1, 2023. These support

services (such as procurement, processing of invoices, maintenance of accounting records, human resources, related fiscal functions, and payroll processing) are included within the scope of our audit of the Comptroller of Maryland - Office of the Comptroller.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of January 1, 2021 to June 15, 2024, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of ATCC's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these sources were sufficiently reliable for the purposes the data were used during this audit.

We also extracted data from ATCC's internal licensing systems for the purpose of testing licensing transactions. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed. ATCC's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable

assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations, including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to ATCC, were considered by us during the course of this audit.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes a finding related to a condition that we consider to be a significant deficiency in the design or operation of internal control that could adversely affect ATCC's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. This finding is also a significant instance of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to ATCC that did not warrant inclusion in this report.

ATCC's response to our finding and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise ATCC regarding the results of our review of their responses.

APPENDIX



ATCC
Alcohol, Tobacco, and Cannabis Commission

Wes Moore
Governor

Aruna K. Miller
Lt. Governor

Jeffrey A. Kelly
Executive Director

March 28, 2025

Mr. Brian S. Tanen, CPA, CFE
Legislative Auditor
Office of Legislative Audits
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, MD 21201

Dear Mr. Tanen:

Enclosed, please find the responses to the draft legislative audit report on the Maryland Alcohol, Tobacco, and Cannabis Commission.

If you have any questions or need additional information, please do not hesitate to contact Andrew J. Waters directly at 410-260-6245 or email at andrew.waters@maryland.gov.

Sincerely,

Jeffery A. Kelly
Executive Director

cc: Jeffrey H. Herndon, Director – Field Enforcement Division
Thomas R. Akras, Esquire, Director – Legal & Legislative Division
Andrew J. Waters, Director – Regulatory, Licensing, and Administrative Services Division

Alcohol, Tobacco, and Cannabis Commission

Agency Response Form

Cash Receipts

Finding 1

The Alcohol, Tobacco, and Cannabis Commission (ATCC) did not properly segregate collection and licensing duties as required.

We recommend that ATCC properly segregate collection and licensing functions. Specifically, we recommend that

- a. an employee independent of the collection function verify all collections are deposited, and
- b. employees who process licenses not have access to the related collections.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	Due to the death of our Licensing Supervisor in combination with limited staffing, the ATCC was required to enlist and cross train employees in multiple duties for a brief interval to maintain the critical functions of the agency.		
Recommendation 1a	Agree	Estimated Completion Date:	August 2024
Please provide details of corrective action or explain disagreement.	The ATCC has since established an employee independent of the cash receipt function to verify and reconcile all collections as of August 2024.		
Recommendation 1b	Agree	Estimated Completion Date:	October 2024
Please provide details of corrective action or explain disagreement.	All three licensing personnel positions have since been filled and are strictly fulfilling licensing duties as of October 2024.		

AUDIT TEAM

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Senior Auditor

Nicole D. Bishop
Mia W. Foelster
Staff Auditors