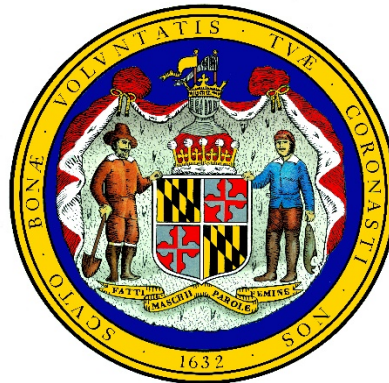


Performance Audit Report

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

September 2024



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DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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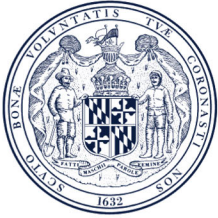
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MARYLAND GENERAL ASSEMBLY

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Legislative Auditor

September 13, 2024

Senator Clarence K. Lam, M.D., 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 performance audit to evaluate the effectiveness and efficiency of the management practices of the Board of Liquor License Commissioners for Baltimore City (BLLC) as required by the State Government Article, Section 2-1220 of the Annotated Code of Maryland. BLLC issued 1,138 alcoholic beverage and adult entertainment licenses during license year 2023, and fiscal year 2022 revenues (the most recent data available) totaled \$2.7 million, primarily derived from license fees.

The law requires our audit to focus on BLLC operations relating to licensing, inspections, disciplinary procedures, and management oversight, which broadly represent the four audit objectives established. BLLC had findings in the following three areas reviewed.

Licensing

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

Inspections

BLLC did not ensure information in the inspection database was entered accurately and did not always retain the inspection reports to support the information recorded. In addition, BLLC did not conduct at least one annual routine inspection of each licensee as required.

Management Oversight

Although BLLC monitored Board and employee compliance with State ethics filing requirements, it did not ensure employees submitted an annual conflict

of interest questionnaire as required by its policies for compliance with statutory independence restrictions in State law regarding secondary employment and business investments.

This is our fourth audit of the BLLC and we have noticed continual improvement in BLLC audit results with the number of report findings decreasing from 24 in our first report to 4 in this report. That said, three of the four findings are repeated from our prior report including one finding related to collections that was included in two preceding reports dating back to July 13, 2016.

Our overall audit scope, objectives, and methodology are explained on page 5. BLLC'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 while there are other aspects of the response which will require further clarification, we do not anticipate that these will require the Joint Audit and Evaluation Committee's attention to resolve. In accordance with our policy, we have redacted any vendor names or products mentioned by BLLC in this document.

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

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

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Audit Scope, Objectives, and Methodology

Audit Scope

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

Our audit was performed in accordance with generally accepted government auditing standards. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained 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 BLLC policies and procedures for conducting inspections of alcoholic beverage licensees and maintaining related records, and to determine whether inspections were performed in accordance with governing laws, policies, and procedures.
3. Evaluate the disciplinary process and determine if BLLC complied with applicable State law, enforced applicable Board rules and regulations governing licensees, and maintained accurate disciplinary records.
4. Evaluate management processes to determine whether proper oversight exists over BLLC operations.

To accomplish our objectives, we reviewed applicable State laws, and the policies and procedures established by the Board and BLLC administrative personnel governing the licensing process and related records. We also reviewed pertinent sections of BLLC's *Board of Liquor License Commissioners for Baltimore City: 2020 Policy and Procedure Manual* that governs BLLC administrative functions and the *Alcoholic Beverages Rules and Regulations for the Board of Liquor*

License Commissioners for Baltimore City most recently revised in 2024, which governs the conduct of licensee business operations.

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

We obtained data files of current BLLC licensees as of July 2023 and a report of the licenses transferred and renewed during license year 2023 (May 1, 2022 through April 30, 2023) from the BLLC licensing database; this database is stored on the servers maintained by the Baltimore City Mayor's Office of Information Technology. We also obtained a data file of inspections performed during license year 2023 from a separate inspection database maintained by the Baltimore City Office of Information and Technology. We used these data files to perform various tests of the licensing, inspection, and disciplinary processes, and performed various tests of the relevant data and determined these data files were sufficiently reliable for the purposes used during the audit.

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

Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, 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.

The reliability of data used in this report for background or informational purposes was not assessed. In addition to the conditions included in this report, other findings were communicated to BLLC that were not deemed significant and, consequently, did not warrant inclusion in this report.

Fieldwork and Agency Response

We conducted our fieldwork from July 2023 to December 2023. BLLC's response to our findings and recommendations is included as an appendix to this audit report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise BLLC regarding the results of our review of its response.

Background Information

Agency Responsibilities

The operations of the Board of Liquor License Commissioners for Baltimore City (BLLC) are governed by Title 12 of the Alcoholic Beverages and Cannabis Article of the Annotated Code of Maryland for alcoholic beverage licensing, and by Subtitle 1 of Article 15 of the Baltimore City Code for the licensing and regulation of adult entertainment businesses. BLLC is responsible for processing applications for and renewals of licenses to sell beer, wine, and liquor; conducting periodic inspections of businesses licensed to sell alcoholic beverages; collecting all license fees and fines; fining, suspending, or revoking the licenses of violators of alcoholic beverage laws; and licensing and regulating adult entertainment businesses in Baltimore City. BLLC also issues licenses for special events (such as one-day licenses for beer and wine festivals) and for special venues (such as a casino, zoo, or stadium).

All BLLC revenues from licenses issued, fines, and late fees are paid to Baltimore City's Director of Finance, and all BLLC expenditures, including employee salaries, are paid by the City. Furthermore, BLLC is included in the City's annual budget and its financial activity is included in the City's Comprehensive Annual Financial Report. According to Baltimore City records, BLLC's fiscal year 2022 revenues (the most recent data available) totaled approximately \$2.7 million and expenditures totaled \$2.5 million.¹ In accordance with State law, BLLC revenues in excess of its expenditures and salaries are to be used by the Mayor and City Council for the general purposes of the City.

BLLC is governed by a three-person board, plus one alternate member. The Mayor of Baltimore appoints two members and the President of the City Council of Baltimore City appoints one member and the alternate member. The appointments are subject to the advice and consent of the Maryland Senate. As of August 2023, BLLC had 20 employees—which included 3 executive staff, 1 supervising inspector, 9 full-time inspectors, and 5 support staff—as well as a part-time appeals counsel and a community liaison contractual employee. Except for the executive secretary and deputy secretary, all employees of the Board are in the classified civil service of the City.

Between March 2020 and June 2022, BLLC's operations were impacted by the COVID-19 pandemic health crisis. Specifically, the Governor's Executive Order,

¹ According to the 2025 Baltimore City Budget, the City implemented the financial modules of a new enterprise resource planning system in August 2022. Due to quality issues associated with this implementation, fiscal year 2023 actual spending data was not included in the 2025 Budget.

effective March 12, 2020, permitted State and local government licensees to extend license and permit renewals for license years 2019-2020 and 2020-2021 until 30 days after the pandemic state of emergency was rescinded (July 1, 2021). Furthermore, during the period from March 16, 2020 through June 1, 2020, all restaurants and bars in Baltimore City were closed (except for food and beverages carry-out, drive-through, or delivery), which resulted in BLLC performing focused inspections to ensure that establishments complied with the executive order.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the 8 findings contained in our preceding audit report dated May 11, 2020. As disclosed in Figure 1 on the following page, we determined that BLLC satisfactorily addressed 5 of these findings. The remaining 3 findings are repeated in this report.

Figure 1
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	BLLC did not always follow its Standard Operating Procedures (SOP) for securing and processing cash receipts and certain procedures need improvement to ensure all collections are properly deposited.	Repeated (Current Finding 1)
Finding 2	BLLC's SOPs did not include certain critical aspects of the inspection process.	Not repeated
Finding 3	BLLC did not always retain inspection reports to support the information recorded in the inspection database. Additionally, the recorded information was not independently reviewed for accuracy.	Repeated (Current Finding 2)
Finding 4	BLLC did not always follow its SOPs when investigating and documenting complaints received through Baltimore City's 311 Complaint System.	Not repeated
Finding 5	BLLC inspectors did not always follow up on inspection violations and did not always appropriately document conclusions when conducting inspections.	Not repeated
Finding 6	BLLC's process to monitor the inspections of licensed establishments did not provide assurance that all licensees were subject to an annual inspection or inspected at appropriate frequencies.	Not repeated
Finding 7	BLLC did not track and monitor instances of licensee noncompliance that did not involve the Baltimore Police Department or the Baltimore City Sheriff's Office to ensure that each was properly addressed.	Not repeated
Finding 8	BLLC did not have an ongoing internal process to identify potential conflicts regarding interests in the alcohol beverage industry consistent with State law specific to BLLC.	Repeated (Current Finding 4)

Findings and Recommendations

Objective 1 – Licensing

Objective and Methodology

Our objective for the licensing process was to evaluate the adequacy of Board of Liquor License Commissioners for Baltimore City (BLLC) procedures for alcoholic beverage licensing and the maintenance of related records, and to determine, based on this evaluation and transaction testing, if the licensing process complied with State law and Board requirements. To accomplish our objective, we reviewed applicable State laws, the BLLC *Board of Liquor License Commissioners for Baltimore City: 2020 Policy and Procedure Manual* (SOPs) and the *Alcoholic Beverages Rules and Regulations for the Board of Liquor License Commissioners for Baltimore City*.

Additionally, we interviewed BLLC staff to determine the processes used to collect fees; issue, renew, and transfer licenses; and maintain related records. We obtained data files of the current licenses as of August 2023 and a report of the licenses transferred and renewed during license year 2023 (May 1, 2022 through April 30, 2023) from the BLLC automated licensing system maintained by the Baltimore City Mayor’s Office of Information Technology. We used the license files to perform various tests of the licensing process including license renewals, license transfers, and collection of related cash receipts. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit.

Background

BLLC processes applications for new licenses, license renewals, and transfers of existing licenses to sell beer, wine, and liquor in Baltimore City and licenses adult entertainment businesses in the City. There are different classes of alcoholic beverage licenses, and each are valid for a one-year period ending April 30.

- **Class A licenses** are issued to liquor stores.
- **Class B licenses** are issued to restaurants, and other special venues as described in law, including arenas, hotels/motels, casinos, zoos, and stadiums.
- **Class C licenses** are issued to non-profit private clubs.
- **Class D licenses** are issued to taverns.

BLLC also issues licenses for special events (such as beer and wine festivals) and adult entertainment licenses for a one-year period ending June 30.

According to BLLC records, there were 1,116 alcoholic beverage and 22 adult entertainment licenses, excluding special event licenses, issued during license year 2023. Annual fees for alcoholic beverage licenses are established in State law and vary depending on the type of establishment and the beverages sold. The Baltimore City Code establishes the \$1,000 annual fee for an adult entertainment license, which is in addition to the alcoholic beverage license fee, if applicable. Figure 2 includes the types of licenses issued by BLLC and the related license fees. Additional permits and other privileges with fees can be found in Figure 3.

Figure 2
Annual License Fees and Licenses Issued for License Year 2023

License Type	Annual License Fee	Licenses Issued
Class A Beer and Wine ¹	\$110	16
Class A Beer, Wine, and Liquor ¹	\$858	171
Class A - 2 Beer, Wine, and Liquor ²	\$858	7
Class B Beer and Wine ³	\$165	8
Class B Beer, Wine, and Liquor (seating capacity of 200 or fewer) ³	\$1,320	334
Class B Beer, Wine, and Liquor (seating capacity greater than 200) ³	\$1,800	
Class B Beer, Wine, and Liquor (Hotel/Motel) ³	\$6,500	30
Class B-D-7 Beer, Wine, and Liquor ³	\$1,320	384
Class B Beer, Wine, and Liquor (Video Lottery Facility) ⁴	\$15,000	1
Class B Beer, Wine, and Liquor (Video Lottery Concessionaire) ⁴	\$5,000	0
Class C Beer and Wine	\$83	8
Class C Beer, Wine, and Liquor	\$550	43
Class D Beer and Wine ³	\$165	36
Class D Beer, Wine, and Liquor ³	\$825	47
All Other Alcoholic Beverage Licenses	Varies	31
Adult Entertainment	\$1,000	22
Total Licenses		1,138

Source: Annotated Code of Maryland, Baltimore City Code, and BLLC's Licensing Records.

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

Notes:

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

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

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

⁴ There was one Video Lottery Concessionaire licensee in license year 2023, however BLLC issues a single license to the Video Lottery Facility, therefore, the table states '0' Video Lottery Concessionaire licenses were issued.

Figure 3
Additional Permits and Privileges and Related Fees

Permits and Other Privileges	Annual Fee
Live Entertainment (for Class B)	\$500
Off Premises Catering (for Class B)	\$500
Outdoor Table Service (for Class B)	\$200
Beer and Wine Tasting (for Class A)	\$25/per day
One Day Beer and Wine	\$25/ per day
One Day Beer, Wine, and Liquor	\$50/ per day
Special Amusement License (for Class D)	\$750
Refillable Container Permit (Without Off Sale Licenses)	\$500
Refillable Container Permit (With Off Sale Licenses)	\$50
Growler Fee	\$50
Special Sunday (for Class A)	\$75
Special Supplemental License (for class D)	\$75

Source: Annotated Code of Maryland

New and Transfer Licenses

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

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

According to the Board, there has been a moratorium on the issuance of new licenses since 1968, except for restaurant, arena, and hotel licenses, or as authorized by law. In license year 2023, there were approximately 33 transfers finalized according to BLLC’s system.

License Renewals

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

Conclusion

BLLC did not always follow its *Board of Liquor License Commissioners for Baltimore City: 2020 Policy and Procedure Manual* (SOPs) for processing and controlling collections. Consequently, assurance was lacking that all collections were accounted for.

Findings

Finding 1

BLLC did not always follow its SOPs for processing and controlling collections.

Analysis

BLLC did not always follow its SOPs for processing and controlling cash receipts. According to Baltimore City records, BLLC's fiscal year 2022 revenues totaled approximately \$2.7 million.

Our review disclosed that BLLC did not adequately separate duties over license collections and deposit verification, and a documented independent review of these deposit verifications was not performed as required by its SOPs. Specifically, the employee who prepared checks for deposit and delivered the checks to the Baltimore City Department of Finance (DoF) for bank deposit and recordation into the City's accounting records, also reconciled the deposit documentation to these accounting records to ensure all receipts were properly accounted for. This employee was also assigned capabilities in the BLLC's cash receipts and licensing systems which allowed the employee to record a collection and later void the collection, without any supervisory review. Furthermore, an independent review of the deposit verification by supervisory personnel was not performed and documented as required by the SOP. Consequently, this employee could misappropriate collections without detection.

Similar conditions regarding the reconciliation process were commented upon in our two preceding audit reports. In response to our prior report, BLLC disagreed with our recommendations primarily due to its assertion that its procedures were compliant with Baltimore City government cash handling policies and procedures. As noted in our auditor comment to their response, we believe that these recommendations are valid controls needed to ensure the integrity of the collection process. Despite the prior disagreement, BLLC established SOP requirements for independent supervisory reviews of deposit verifications, but such reviews were not performed.

Recommendation 1

We recommend that BLLC follow its SOPs for processing and controlling cash receipts. Specifically, BLLC should ensure deposit reconciliations are performed and voided transactions are reviewed by an employee without access to collections using original source documentation (repeat).

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

Objective 2 – Inspections

Objective and Methodology

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

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

We obtained a data file, which we deemed reliable for our purposes, from the inspection database maintained for BLLC by the Baltimore City Office of Information and Technology. The database included 6,416 inspection-related activities conducted during license year 2023. We judgmentally selected 30 inspections to determine if they were properly conducted in accordance with BLLC policies, documented, and supported with an inspection report. We also analyzed the inspection database used to record inspection dates and other relevant information to determine if all licensed establishments received an inspection in license year 2023.

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

Background

BLLC conducts periodic inspections of businesses licensed to sell alcoholic beverages as well as licensed adult entertainment businesses in Baltimore City. State law does not specify the frequency of or establish a schedule for required inspections, but BLLC management advised us that its informal goal is to conduct four inspections of each licensee annually. BLLC conducts the following inspections and related activities:

- Routine inspections are inspections of licensed liquor establishments to determine if they are open and operating in full compliance with the *Alcoholic Beverages Rules and Regulations for the Board of Liquor License Commissioners for Baltimore City* (such as validity of licenses and bathroom

operation and cleanliness). BLLC management advised us that its informal goal is to annually conduct at least one routine inspection of each licensee.

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

BLLC has written guidance over the Inspection Division operations. Specifically, the *Alcoholic Beverages Rules and Regulations for the Board of Liquor License Commissioners for Baltimore City* provides specific guidance to licensees and is used as criteria for determining violations. State law requires BLLC to review

these *Rules and Regulations* every five years. In addition, as a result of our preceding audits, BLLC prepared SOPs that were approved by the Board in 2016 and were last updated in 2020. The SOPs present detailed procedures related to inspection activities including frequency goals and types of inspections.

Based on Board policy and professional judgment, establishments are subject to multiple inspections of a similar type (such as routine inspections) or specialized inspections (such as complaint-based), which are often initiated by external sources. According to BLLC records, during license year 2023, BLLC conducted 6,416 inspection-related activities, which consisted of 1,897 routine inspections, 2,218 compliance inspections, 1,108 investigation inspections, 802 inspections in response to 311 System complaints, 195 transfer/new application activities, 195 sign-posting activities, and 1 one-day event inspection.

Conclusion

BLLC did not ensure information in the inspection database was entered accurately and did not always retain the inspection reports to support the information recorded. In addition, BLLC did not ensure that each licensee was subject to at least one annual routine inspection.

Findings

Finding 2

BLLC did not ensure information in the inspection database was entered accurately and did not always retain inspection reports to support the information recorded.

Analysis

BLLC did not ensure information in the inspection database was entered accurately and did not always retain inspection reports to support the information recorded. In response to our preceding audit, BLLC established a policy to require that the Chief Inspector perform a review of 15 to 20 inspections each month. Specifically, the Chief Inspector was to compare information in the database to supporting documentation to ensure it was entered accurately by the applicable inspector and to document the results of the review in the inspection database.

Our review disclosed that there was no documentation of the reviews since December 2020. BLLC management advised us that approximately 5 reviews are being performed each month but could not document these assertions.

We selected 30 routine and compliance inspections recorded in the inspection database during license year 2023 and compared the information to the related inspection reports to determine if the inspection results were accurately recorded. Our test disclosed that, while data was generally reflected accurately in the inspection database, BLLC could not provide the original inspection reports for 2 of the 30 inspections to support the accuracy of the information recorded.

Similar conditions relating to an independent review of inspection information and the need to retain inspection reports was commented upon in our preceding audit report. As noted above, BLLC revised its SOPs to address the conditions and stated that the related procedures would be in place as of April 2020. However, our procedural review and testing disclosed that documentation is not always retained to support the inspections results or to support the review of inspection information in the database as required by the SOPs.

Recommendation 2

We recommend that BLLC comply with its established policies by

- a. ensuring that a documented review of inspection information recorded for accuracy and consistency is performed as required (repeat), and**
- b. retaining inspection reports to support the information recorded in the inspection database (repeat).**

Finding 3

BLLC did not conduct at least one annual routine inspection of each licensee.

Analysis

BLLC did not conduct annual routine inspections of each licensed establishment. Although State law does not specify the frequency of required inspections, BLLC management advised us that its goal for each of its over 1,100 licensees is to annually conduct at least one comprehensive routine inspection to determine if the establishment is open and operating in full compliance with the *Alcoholic Beverages Rules and Regulations for the Board of Liquor License Commissioners for Baltimore City*.

Based on our analysis of the inspection database for license year 2023, we determined that 270 establishments did not have a routine inspection recorded in the database for license year 2023. Routine inspections are more comprehensive than the other inspections and would include, for example, a review to ensure the establishment is properly purchasing its alcohol from a distributor, the bar is clean and meets Baltimore City Health Department Standards, and the bathroom and kitchen are clean and working.

Recommendation 3

We recommend that BLLC ensure that all licensed establishments are subject to an annual routine inspection.

Objective 3 – Disciplinary Procedures

Objective and Methodology

Our objective for BLLC’s disciplinary process was to evaluate the disciplinary procedures, BLLC’s compliance with applicable State laws, its enforcement of applicable Board rules and regulations governing licensees, and its maintenance of the related disciplinary records.

To accomplish this objective, we interviewed BLLC employees and reviewed the *Alcoholic Beverages Rules and Regulations for the Board of Liquor License Commissioners for Baltimore City* to determine the procedures over disciplinary proceedings and the process that occurs when it is determined that a violation may have occurred. We also observed two public Board hearings in which cases resulting from licensee violations were adjudicated. Additionally, we performed testing to evaluate whether the disciplinary process was properly administered and documented. We also reviewed the monitoring of licensed establishments that were closed or inactive for more than 180 days, as their license would expire by law, to determine if the Board and BLLC took appropriate action.

Background

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

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

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

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

- For any violation which is cause for suspension, the Board may, for a first offense, impose a fine of not more than \$500 or suspend the license or both.
- For any subsequent offense, the Board may impose a fine of not more than \$3,000 or suspend the license or both.²
- For underage sales of alcohol, the Board may impose a fine not exceeding \$1,000 or suspend the license or both.
- The Board may revoke or suspend any license for any cause which, in the judgment of the Board, is necessary to promote the peace or safety of the community in which the place of business is situated.
- A license must be revoked or suspended under certain specific circumstances (such as when a licensee makes a material false statement in any application for a license or permit).

According to BLLC's records, in fiscal year 2022 there were 95 fines assessed by the Board totaling approximately \$223,000. Figure 4 on the following page reflects a summary of Board hearings for fiscal year 2022.

² Effective July 1, 2023, Chapters 393 and 394, Laws of Maryland 2023 altered the maximum fine for subsequent offenses to \$20,000.

Figure 4
Board of Liquor License Commissioners for Baltimore City Hearings
Fiscal Year 2022

Referral Source	Number of Hearings	Number of Violations	Percentage of Hearings	Percentage of Violations
BLLC Inspectors	6	14	10%	15%
Comptroller of Maryland	1	2	2%	2%
Baltimore City Police Department (BCPD) & BLLC	49	65	78%	69%
BCPD, BLLC, Baltimore City Fire Department (BCFD), Health, and Housing	2	4	3%	4%
BLLC, BCPD, and Housing	1	3	2%	3%
BLLC, Housing, BCFD, Maryland Alcohol and Tobacco Commission ³	2	2	3%	2%
BLLC, Social Club Task Force	1	3	1%	3%
BCPD, BLLC, BCFD	1	2	1%	2%
TOTALS	63	95	100%	100%

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

Conclusion

Based on our review, BLLC has established adequate procedures over disciplinary proceedings in compliance with State laws and its own rules and regulations.

³ Effective May 3, 2023, Chapter 255, Laws of Maryland 2023 renamed the Alcohol and Tobacco Commission as the Alcohol, Tobacco, and Cannabis Commission.

Objective 4 – Management Oversight

Objective and Methodology

Our objective was to determine if adequate oversight exists over BLLC operations. To accomplish this objective, we reviewed Board approved SOPs, interviewed BLLC employees, and reviewed and tested BLLC’s procedures with respect to financial disclosures and potential conflicts of interest. Our review was restricted to BLLC oversight of its operations and compliance with certain County policies. Our review did not include an assessment of the appropriateness or suitability (to achieve the stated purpose) of the County governance practices or policies.

Conclusion

Although BLLC did develop an annual conflict of interest questionnaire to be completed by its employees and commissioners to disclose secondary employment and business investments, BLLC did not ensure that the questionnaires were submitted. In this regard, no questionnaires were submitted by any BLLC employee or commissioner for the most recent four-year period reviewed.

Findings

Finding 4

BLLC did not obtain annual conflict of interest questionnaires from its employees and commissioners as required by its policy.

Analysis

BLLC did not obtain annual conflict of interest questionnaires from its employees and commissioners as required by its *Financial Disclosure and Conflicts of Interest Policy*. Specifically, as of November 7, 2023, all 20 BLLC employees and 3 commissioners had not filed a conflict of interest questionnaire for calendar years 2020, 2021, and 2022. In addition, BLLC had not obtained conflict of interest questionnaires for any employees for calendar years 2020 and 2021.⁴

According to BLLC’s *Financial Disclosure and Conflicts of Interest Policy*, effective March 2020, between the months of April and May of each year, all BLLC employees and commissioners are required to complete a conflict of interest questionnaire. The *Policy* was established to ensure compliance with requirements in State law that employees and commissioners do not have a direct

⁴ Our review disclosed BLLC employees complied with the State Ethics Commission requirement to submit a standard annual financial disclosure form.

or indirect occupation, business, or investment interest in a premises where alcoholic beverages are manufactured, distributed, or sold.

Recommendation 4

We recommend that BLLC ensure that each employee and commissioner annually complete the required conflict of interest questionnaire to identify and report potential conflicts in the alcohol beverage industry specific to BLLC's law (repeat).

APPENDIX

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

COMMISSIONERS
EDWARD L. REISINGER
GRANVILLE TEMPLETON, III, ESQ.

ALTERNATE COMMISSIONER
HARVEY E. JONES



DOUGLAS K. PAIGE
EXECUTIVE SECRETARY

MICHELLE B. WIRZBERGER, ESQ.
DEPUTY EXECUTIVE SECRETARY

STACI L. RUSSELL
ASSISTANT EXECUTIVE
SECRETARY

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BOARD OF LIQUOR LICENSE COMMISSIONERS
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September 6, 2024

Brian S. Tanen, CPA, CFE
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
Maryland General Assembly
301 West Camden Street
Suite 400
Baltimore, Maryland 21201

Mr. Tanen,

The Board of Liquor License Commissioners for Baltimore City (BLLC) would like to thank the Office of Legislative Audits (OLA) for conducting a performance audit of the BLLC as required by State Government Article, Section 2-1220 of the Annotated Code of Maryland for the operations conducted by the agency for the 2018-2023 license years.

The OLA Audit of 2024 (Audit) shows that the agency showed “continual improvement in BLLC audit results with the number of report findings” by the auditors.¹ The success of such improvement is reflected in the fact that the BLLC’s prior findings as identified in the OLA Audit of 2016 decreased from 24 to 4 within this report.

The BLLC reconstituted its operating policies and procedures, restructured personnel within its inspection and administrative divisions, and instituted management practices to increase transparency and compliance with the law and internal Standard Operating Procedures (SOP’s). However, the Ransomware attack the city endured in 2019 and the COVID-19 pandemic that enforced several Executive Orders from both the Governor of Maryland and the Mayor of Baltimore City created obstacles that the BLLC had to create solutions, not only to ensure the safety of employees, but the compliance of licensees per the Executive Order. This did hinder some operations that were previously in place, but after the pandemic restrictions were lifted, the BLLC resumed normal operations set forth by the SOP’s.

The BLLC agrees with the overall sentiment of this Audit. With the BLLC’s current SOP’s and makeup of staff, the BLLC will be able to accomplish the goals to ensure repeated findings are addressed. In

¹ Letter to the Joint Audit Committee written by Legislative Auditor Mr. Brian S. Tanen. Page 2.

addition to the SOP's, the BLLC will continue to conduct weekly InspectionStat, DocketStat, and AccountingStat meetings to ensure staff adheres to the policies and procedures the BLLC has in place.

Lastly, I would like to thank my fellow Commissioners, the Executive Secretary, Deputy Executive Secretary, and all other members of the BLLC staff for their hard work in helping to accomplish the significant structural and operational changes necessary to address the findings from prior OLA audits. The BLLC can accomplish our goals and mission with the realignment of our inspections division and administrative division, and continued upgrades to technology.

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

Sincerely,

Albert J. Matricciani, Jr.

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

Board of Liquor License Commissioners for Baltimore City

Agency Response Form

Objective 1 - Licensing

Finding 1

BLLC did not always follow its SOPs for processing and controlling collections.

We recommend that BLLC follow its SOPs for processing and controlling cash receipts. Specifically, BLLC should ensure deposit reconciliations are performed and voided transactions are reviewed by an employee without access to collections using original source documentation (repeat).

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

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	The new licensing system, once implemented, will provide different levels of user access to perform specific functions related to the employees' duties		
Recommendation 1	Agree	Estimated Completion Date:	7/1/2024
Please provide details of corrective action or explain disagreement.	The BLLC is ensuring that Administrative staff are restrictively endorsing checks once received. Administrative staff may request a void for receipts they have inputted, but the Accountant is the only staff member who will process the void request. The Accountant will continue to provide checks and balances between their deposit form and reports compiled from the Director of Finance.		

Board of Liquor License Commissioners for Baltimore City

Agency Response Form

Objective 2 – Inspections

Finding 2

BLLC did not ensure information in the inspection database was entered accurately and did not always retain inspection reports to support the information recorded.

We recommend that BLLC comply with its established policies by

- a. ensuring that a documented review of inspection information recorded for accuracy and consistency is performed as required (repeat), and
- b. retaining inspection reports to support the information recorded in the inspection database (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	Upon implementation of the new licensing system with the inspection segment, inspections will be completed in real time on a tablet and will not require a yellow sheet for the purpose of recording later.		
Recommendation 2a	Agree	Estimated Completion Date:	5/1/2024
Please provide details of corrective action or explain disagreement.	Chief Inspector is providing supervisory oversight to ensure independent reviews of inspection information has been completed as required by the BLLC SOP with random compliance checks of physical reports against the electronic report within SharePoint.		
Recommendation 2b	Agree	Estimated Completion Date:	7/1/2024
Please provide details of corrective action or explain disagreement.	After the review of the Chief Inspector, inspection reports will be provided to the Administrative staff for filing in the appropriate file.		

Board of Liquor License Commissioners for Baltimore City

Agency Response Form

Finding 3

BLLC's did not conduct at least one annual routine inspection of each licensee.

We recommend that BLLC ensure that all licensed establishments are subject to an annual routine inspection.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 3	Agree	Estimated Completion Date:	6/1/2024
Please provide details of corrective action or explain disagreement.	<p>The BLLC realigned the Inspection Division and inspection assignments to ensure better accountability and equal responsibility pertaining to the number of licenses they are required to inspect on a quarterly basis. District maps and spreadsheets were created internally to provide easier location access and tracking their progress within their assigned area. The data is closely monitored by the Chief Inspector and Deputy Executive Secretary and progress reports are disseminated during weekly meetings to ensure productivity on meeting required tasks.</p>		

Board of Liquor License Commissioners for Baltimore City

Agency Response Form

Objective 4 – Management Oversight

Finding 4

BLLC did not obtain annual conflict of interest questionnaires from its employees and commissioners as required by its policy.

We recommend that BLLC ensure that each employee and commissioner annually complete the required conflict of interest questionnaire to identify and report potential conflicts in the alcohol beverage industry specific to BLLC’s law (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	The BLLC is and has been 100% compliant with the State Ethics Commission for the annual financial disclosure form submission that is due by April 30 th of each year, however the agency failed to complete the internal conflict of interest question stated within the SOP’s.		
Recommendation 4	Agree	Estimated Completion Date:	5/1/2024
Please provide details of corrective action or explain disagreement.	The Deputy Executive Secretary followed-up with each employee and received answers to the BLLC’s conflict of interest question for the years 2021, 2022, and 2023 from all employees and commissioners. The BLLC conflict of interest question will be disseminated alongside the State Ethics annual financial disclosure form and is also due by April 30th of each year.		

AUDIT TEAM

Raymond G. Burton Jr., CPA, CFE
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