Audit Report

Comptroller of Maryland
Field Enforcement Division

May 2011

OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

Bruce A. Myers, CPA
Legislative Auditor

May 11, 2011

Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Comptroller of Maryland - Field Enforcement Division (FED) for the period beginning January 1, 2008 and ending October 6, 2010. FED is responsible for the enforcement of trade practice regulations and revenue laws related to alcoholic beverages, tobacco, motor fuel, and sales and use taxes. FED is also responsible for the issuance of certain licenses, and testing motor fuel quality.

Our audit disclosed that FED had not established adequate controls and accountability over confiscated property (alcohol and tobacco) and payroll adjustments.

The Comptroller of Maryland's response to this audit, on behalf of FED, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during this audit by FED.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Field Enforcement Division (FED) of the Comptroller of Maryland is 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 is responsible for the issuance of certain business licenses and testing motor fuel quality. According to the State's records, FED's expenditures totaled approximately $4.7 million during fiscal year 2010.

Status of the Finding From the Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding audit report dated July 2, 2008. We determined that FED had not satisfactorily resolved this finding; therefore, it is repeated in this report.

Findings and Recommendations

Confiscated Property

Finding 1
Control and accountability over confiscated property was not sufficient.

Analysis
Physical inventories of confiscated property (alcohol and tobacco) were not conducted annually as required by the Field Enforcement Division's (FED) *Procedures Manual*, and the results of inventories that were conducted were not fully reconciled to the related detail records. Furthermore, inventory records were not always updated to reflect disposals from the sale, destruction, or return of property to the designated owners.

FED began its most recent physical inventory of confiscated property in April 2008 but did not complete it until April 2010. Furthermore, FED had not fully reconciled the results of these inventories to the related detail records, including an investigation of discrepancies noted, such as inventory that could not be located during the physical count. In addition, our test of 20 property records representing approximately 26,000 items noted as on hand as of October 2010, disclosed that the property relating to 8 of the records (15,330 items) had actually been disposed of, some as long ago as September 2008. However, the detail records had not been updated to reflect those disposals. Similar conditions were commented upon in our preceding audit report.

According to its records, during fiscal year 2010 FED confiscated approximately 72,000 packs of cigarettes and 6,900 containers of alcohol. As of October 2010, FED's confiscated property detail records included approximately 1,050 records containing 802,000 items.

Recommendation 1
We recommend that FED

a. conduct physical inventories of all confiscated property annually, as required, and fully reconcile and investigate the results of physical inventories taken (repeat); and
b. update the detail confiscated property records on a timely basis for all property disposals (repeat).

Payroll

Finding 2
Proper internal controls were not established over payroll adjustments.

Analysis
FED lacked sufficient controls over payroll adjustments. Specifically, the employee responsible for approving automated timekeeping reports used to process FED's payroll did not verify adjustments to the reports, such as payments for overtime and for unused leave, to supporting documentation. Consequently, errors or other discrepancies could occur without timely detection. According to the State's accounting records, FED's payroll totaled approximately $3.9 million during fiscal year 2010.

Recommendation 2
We recommend that FED ensure that the employee responsible for approving automated timekeeping reports verifies report adjustments to adequate supporting documentation, at least on a test basis.

Audit Scope, Objectives, and Methodology

We have audited the Comptroller of Maryland - Field Enforcement Division (FED) for the period beginning January 1, 2008 and ending October 6, 2010. 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 FED's financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the finding contained in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. The primary areas addressed by the audit included cash receipts, confiscated property, and payroll. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of FED's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

Our audit did not include certain support services provided to FED by the Comptroller of Maryland – Office of the Comptroller. These support services (such as processing of invoices, maintenance of accounting records, and related fiscal functions) are included in the scope of our audits of the Office of the Comptroller. Our audit also did not include certain support services provided to FED by the Comptroller of Maryland – Information Technology Division related to the procurement and monitoring of information technology equipment and services. These support services are included in the scope of our audits of the Information Technology Division.

FED'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.

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

The Comptroller of Maryland's response, on behalf of FED, to our findings 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 the Comptroller of Maryland regarding the results of our review of its response.

COMPTROLLER of MARYLAND
Serving the People

Peter Franchot
Comptroller

Linda L. Tanton
Deputy Comptroller

May 11, 2011

Mr. Bruce A. Myers, CPA
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, MD 21201

Dear Mr. Myers:

Enclosed is the Comptroller's response to your report on the Field Enforcement Division for the period beginning January 1, 2008 and ending October 6, 2010.

We have carefully reviewed each finding, and we believe that our responses fully address each recommendation contained in the report. Should you need additional information or clarification, please contact Renee Kenney, Director Internal Audit Division by email at rkenney@comp.state.md.us or by telephone at 410.260.6252.

The Comptroller appreciates your objective appraisal of our operations and your recommendations for continuous improvement, and commends your auditors for their professionalism and thorough review.

Very truly yours,

Linda L. Tanton
Deputy Comptroller

Jeff Kelly
Director, Field Enforcement

cc: Honorable Peter V.R. Franchot, Comptroller

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Confiscated Property

Finding 1
Control and accountability over confiscated property was not sufficient.

Recommendation 1:
a. conduct physical inventories of all confiscated property annually, as required, and fully reconcile and investigate the results of physical inventories taken (repeat).

Division Response: The Division concurs with the auditor's recommendation. Based on recommendations from the 2008 audit, FED management implemented procedures that required the completion of 25% of the inventory each quarter. The quarterly inventories were completed as required, but due to the fluid nature of confiscated property, we did not pull enough records each quarter to complete 100% of the property in 12 months. Since the current audit, FED management has completed a full inventory of confiscated property and fully reconciled the inventory listing with the actual physical inventory. Going forward, FED management will ensure physical inventories are completed on an annual basis.

Recommendation 1:
b. update the detail confiscated property records on a timely basis for all property disposals (repeat).

Division Response: The Division concurs with the recommendation. Historically, FED management has kept a detailed listing of disposals, including the 8 records identified during the audit process. However, the actual physical inventory listing was not updated accordingly as documentation supporting the details of the disposal were limited. Management has since implemented procedures that provide guidance on the write-off of long-standing disposals. The current inventory listing fully reconciles with the actual physical inventory (see recommendation "a" above).

Payroll

Finding 2
Proper internal controls were not established over payroll adjustments.

Recommendation 2:

a. We recommend that Fed ensure that the employee responsible for approving automated timekeeping reports verifies report adjustments to adequate supporting documentation, at least on a test basis.

Division Response: Although no audit exceptions were identified, the Division agrees with the recommendation and has strengthened its procedures over the review and approval of timekeeping reports. Report adjustments and overtime calculations are now verified on a test basis.

AUDIT TEAM

Paul R. Denz, CPA
Audit Manager

Keonna M. Wiley
Senior Auditor