Montgomery County, Maryland

Office of the County Executive

Office of Internal Audit

Internal Control Review of Retail Store Operations

Department of Liquor Control

November 8, 2017

MCIA-17-8

Highlights

Why MCIA Did this Assessment

The Department of Liquor Control (DLC) was established by Montgomery County to regulate the distribution and sale of alcoholic beverages to consumers Countywide. The DLC currently manages and operates 27 retail store locations. Each location is responsible for managing its inventory, sales, cash operations, and store personnel, with support from the DLC Management and the Department of Finance.

In March 2017, the DLC requested that the Office of Internal Audit (MCIA) perform an internal control review of the retail store operations for a sample of retail store locations. The focus was store-level cash operations, inventory control, timekeeping, and schedule adherence, for a sample of retail store locations. The assessment was conducted by the accounting firm SC&H, under a contract with MCIA.

What MCIA Recommends

MCIA is making 26 recommendations to the DLC to strengthen its internal controls, reduce risk, and improve overall performance related to the oversight, management, and performance of the retail stores.

November 2017

Assessment of the Department of Liquor Control's Retail Store Operations

What MCIA Found

Based on information obtained throughout our review, it appears that, in the absence of standardized policies and support/oversight from DLC, individual DLC retail stores have largely acted as standalone entities, with store management developing and implementing their own operating practices and strategies.

We identified control deficiencies that point to the need for stronger centralized management policies and oversight. These control deficiencies are related to:

- Daily cash overages and shortages
- Deficient procedures for handling refunds, coupons, and licensee discounts
- Establishing and reviewing product inventory levels
- Insufficient performance metric tracking and reporting
- Inadequate formal training for retail store personnel
- Overall lack of current, comprehensive procedures documents

Further, we identified control deficiencies at the store level that could impact store performance and result in a loss of revenue and/or inventory.

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Objectives

This report summarizes an internal control review performed by SC&H Group, under contract with the Montgomery County ("County") Office of Internal Audit (MCIA), of the Department of Liquor Control's (DLC) Retail Store Operations ("Retail Store"). The review was focused on store-level cash operations, inventory control, timekeeping, and schedule adherence, for a sample of retail store locations. The assessment used fiscal year 2017 as the basis for testing.

Specifically, we were engaged by the County to perform the following objectives:

- Perform a review of the existing internal control environment and the effectiveness of the existing controls at each of the selected retail stores.
- Identify risks and opportunities for improvements that would strengthen management of retails stores managed by the DLC. The assessment used fiscal year 2017 as the basis of testing.

SC&H Group's proposed procedures were developed to meet the objectives stated above, and were reviewed and approved in advance by MCIA. The interviews, documentation review, and field work were conducted from March 2017 to July 2017.

Background

<u>Department of Liquor Control Retail Store Operations</u>

The DLC was established by the Montgomery County Government to regulate the distribution and sale of alcoholic beverages to consumers Countywide. Montgomery County currently manages and operates 27 retail store locations. This review was conducted based on information gathered from interviewing DLC and store personnel and observing operations at four DLC retail store locations. The four locations selected were Clarksburg Village, Seneca Meadows, Wheaton, and Montrose.

<u>Cash Operations</u>

All customer transactions (sales, returns/refunds) are executed using the Microsoft Retail Management System (RMS), which is a point of sale system utilized by the DLC. Customers can pay for purchases using cash, check, credit card, or gift card. Each till is assigned to a Clerk and is filled with a pre-determined cash amount for the day. The tills are stored in a safe, and the starting cash amount is counted by the Clerk to verify the appropriate starting amount. All excess cash is stored in the locked safe.

Daily, Store Management is expected to report cash/check overages or shortages in the Over/Short application by 1:00 PM for the prior day. Each Clerk's register is counted at the end of his/her shift. A "Z Tape" report, generated from RMS when a till is "cashed out" after a shift, is generated for each register detailing expected cash/check totals and a reconciliation is performed. The results are recorded as over, short, or even. However, only the daily net amount for each store is reported to Finance through the Over/Short application. The DLC monitors retail store compliance with over/short reporting, by reviewing Microsoft RMS system generated reports automatically delivered to both the DLC and Finance daily, and following-up with recurring delinquent stores. On a daily basis, cash and check activity from the prior day is prepared for deposit and delivered to the bank by a store employee. A copy of the bank deposit slip and bank receipt is maintained with the daily reconciliation for record keeping and evidence.

Store Inventory

The Manager and Assistant Manager perform an annual inventory count in June of each year. The count is entered into Microsoft RMS and is subsequently reported to the DLC Field Supervisors, along with any inventory adjustments noted as a result of the inventory count. Throughout the year, periodic counts are performed every two months and the results are reported in a similar fashion.

All inventory orders are entered into RMS by the Manager or Assistant Manager and submitted to the DLC Warehouse for processing and fulfillment. Orders are received in the Warehouse through Oracle, the County's financial reporting and inventory tracking system. Once an order has been received, Warehouse staff utilize the orders to pick inventory from the shelves and load it onto delivery trucks. Upon delivery of each order, an Oracle invoice is provided to the store Manager who reconciles the invoice to the items on the truck to ensure that the appropriate goods are received.

At times, a delivery will not include all items ordered by a store. Discrepancies in inventory transfers between the stores and Warehouse are handled through processing credits. The Manager will complete a Credit form for the missing items and sign the document. The driver of the delivery truck also signs the Credit form, indicating his/her acknowledgment that the items were missing from the order. This same process is followed for warehouse delivery overages.

Timekeeping

At each of the retail stores, a manual timekeeping punch clock is used to record time worked in a pay period. At the beginning of a shift, all employees punch their timecard to record their start time. Employees punch their card again to record the time they ended their shift. If an employee forgets to punch his/her timecard at the beginning or end of his/her shift, the time is handwritten by the Manager. Only the Manager has the authority to manually record time on an employee's timecard.

Employees are paid every two weeks. Once a pay period has closed, the Manager or Assistant Manager at each store records each employee's hours into MCTime, the county-wide time entry system. Once the employee's time has been entered, the Manager or Assistant Manager will approve the time for the period. Manual timecards are then sent to the DLC Field Supervisors for review and retention.

Store Security

Each retail store is locked by key, has a working alarm system, and has security cameras positioned throughout the store to monitor customers and employees. The footage from the security cameras at each store is transmitted to the DLC and Montgomery County Police and centrally stored.

Scope and Methodology

The internal control review was initiated in March 2017 and fieldwork procedures were completed in July 2017. The review focused on policies, procedures, and controls in place at the time of the review with samples selected from the most recent twelve months at the time of sample selection (6/1/2016 through 5/31/2017). The four in scope process areas identified were:

- Cash Operations: Payment receipt, cash handling, recording, deposits, reconciliations, reporting, and return of product
- Timekeeping: Scheduling and adherence, leave practices, store staffing, and coverage
- Store Inventory: Ordering, receiving, periodic counts, safeguarding, and loss management
- Store Security: Camera coverage, functionality, and video retention

In order to achieve the objectives of this internal control review, SC&H performed the following procedures:

Process Walkthrough and Risk and Control Matrix Analysis

SC&H obtained and reviewed current Retail Store operations process documentation from the DLC Leadership at the outset of the review. Documentation specific to the four process areas identified to be in scope was reviewed in detail prior to meeting with store managers. SC&H then met with the store Manager from each of the four retail stores selected for review to conduct detailed process walkthrough discussions. These information-gathering discussions focused on daily procedures, store management and oversight, point of sale (POS) system utilization and reporting, and other control points. SC&H met with the two Retail Store Field Supervisors to gain an understanding of their processes and procedures for monitoring and managing store performance and overall program oversight. Additionally, SC&H met with the Finance department to discuss questions posed by the department regarding the various procedures performed across DLC retail stores. Based on the discussions and review of the procedural documentation, SC&H created a risk and control matrix summarizing the risks, controls, and gaps identified within each of the reviewed processes.

Audit Program Creation

Based on the information obtained and the resulting understanding of the processes, risks, and related controls, SC&H developed an audit program to achieve control and gap-based objectives. The program included detailed steps to address each objective with the goal of assessing risk and identifying opportunities for improvement, where necessary. The following audit objectives were established based on the program assessment's planning procedures:

A. Review the DLC policies and procedures for completeness and accuracy of retail store operations.
B. Ensure cash processes are performed in accordance with the DLC policies and procedures.
C. Verify retail store inventory orders are completely and accurately fulfilled.
D. Assess the volume, completeness, and accuracy of inventory adjustments/credits.
E. Verify employees are adhering to schedules and are accurately compensated.

Data Analytics

SC&H requested and received various Microsoft RMS reports for the audit period. Using these reports, SC&H performed data analytics to identify and quantify store trends. Areas over which analytics were performed were:

- Adjustment Transaction and User Analytics: SC&H obtained adjustment data for each of the four stores selected for testing. Using these data, SC&H calculated the total adjustment value. The information was broken out into overage and loss adjustments and aggregated to trend total adjustments in each month and by product. Additionally, the volume of overage and loss adjustments was calculated and aggregated to show total quantity in each month and by product.

- Credit Transaction Analytics: SC&H obtained credit data for each of the four stores selected for testing. Using these data, SC&H determined the dollar value of credits at each store, as well as the total amount of credits by reason code. This was further evaluated to determine the dollar value associated with each reason code at each store. The volume of credit transactions per store was also determined.

- Refund Transaction Analytics: SC&H obtained refund data for each of the four stores selected for testing. Using these data, SC&H determined the total dollar value and number of credit transactions for each employee at each of the four stores. Additionally, the total dollar value and number of credit transactions by reason code was determined for each store.

Transactional Testing

Using the data analytic results, SC&H selected samples for detailed transactional testing. The following testing was performed:

- 73 over-short reporting days: For each transaction selected, SC&H obtained the associated supporting documentation from the store managers. SC&H performed testing to ensure that the documentation provided agreed to what was reported in the over-short application and also that the bank deposit slip prepared by store personnel agreed to the bank deposit receipt.
    - Clarksburg: nine reporting days
    - Seneca Meadows: 17 reporting days
    - Montrose: 20 reporting days
    - Wheaton: 27 reporting days

- One credit transaction: For the transaction selected, SC&H obtained a copy of the credit form completed for the transaction. This was reviewed to confirm that both the store manager and the truck driver signed off on the form, agreeing that the item was missing from the delivery.

- 44 employee timecards: For each transaction selected, SC&H obtained the associated paper timecard and time information entered into MCTime. SC&H agreed the time on the timecard to the number of hours entered into the system to ensure the correct amount of time was reported. Additionally, SC&H reviewed security footage at each of the stores to ensure that the employees who handwrote time on their timecard arrived/left at the time reported.
    - Clarksburg: four timecards
    - Wheaton: nine timecards
    - Seneca Meadows: 10 timecards
    - Montrose: 21 timecards

- 50 refund transactions: For each transaction selected, SC&H reviewed security footage at each of the stores to ensure the transactions were legitimate and properly performed.

    - Seneca Meadows: seven transactions
    - Wheaton: 10 transactions
    - Clarksburg: 13 transactions
    - Montrose: 20 transactions

Findings and Recommendations

Based on the testing performed, SC&H identified 16 findings related to the DLC retail store operations. Findings, associated risks, and recommendations, are detailed below. There are two types of recommendations identified: those required to address specific internal control risks, and those that should be considered (suggested) to improve business operations and efficiencies. Recommendations for suggested improvements are so identified.

Finding 1

Policy and procedure documentation is not updated to reflect expected and current practices at the DLC retail stores.

Our review noted that overall the DLC policies and procedures are outdated and do not reflect current practices, processes/operations, and systems in place. Additionally, formal policies and procedures are not documented for several processes, such as over/short reporting, that are performed on a regular basis.

Risks

Outdated and undocumented processes can result in inconsistencies across retail stores and an overall reduction in efficiency. Additionally, outdated policy and procedural documentation increases the risk of interruption in business continuity.

Recommendation 1.1

The DLC should update its policy and procedure documentation related to retail store operations to provide guidance, expectations, and acceptable/unacceptable practices for all retail stores. The DLC Leadership should also implement a process to periodically review, approve, update, and communicate policy and procedure documentation to remain current and so stores can follow the most up-to-date policies. Policy manuals and updates should be communicated to stores timely. DLC Management should implement a process to ensure stores follow established policies and procedures as intended.

Finding 2

Over/Short application reporting is not accurate, timely, or monitored on a consistent basis.

Each retail store is required to report its daily summary net tender reconciliation for cash/check sales on a daily basis. This is performed in the Over/Short application (app) within Microsoft RMS. The stores report the value “over”, “short”, or “even”. The reporting entry for the day prior must be entered into the system by 1:00PM each day. The stores are expected to report completely and accurately, regardless of whether there was a discrepancy in the amounts in the cash registers.

The review of Over/Short reporting and store reconciliations between November 1, 2016 and May 31, 2017 found that stores inconsistently complied with the requirement to report completely, accurately, or timely. Specifically, the review found:

- A process is not in place for the DLC to independently audit, review, or verify daily store reconciliations to Over/Short app entries. As a result, accountability on the store to ensure that information is entered accurately and in a timely manner may be limited. Furthermore, reporting errors were identified through sample testing.
    - **Wheaton:** For five of 15 samples with over/short variances, the store had reported an overage, however, the store was actually short the amount reported.
- Discrepancies exceeding the $2.00 threshold outlined in DLC policy are not consistently supported with a documented explanation.
    - **Montrose:** Two of 20 samples reviewed had unexplained variances totaling $400.44.
        - The store processed a return for a customer who originally paid by check for the amount of $392.31. Return transactions that involve checks require the store to process the refund, and inform the customer that a check will be issued and mailed by the DLC (cash is not given). In this instance, there were total check payments of $796.70 for the business day. The aggregate check amount deposited was only $404.39 (less the return check amount). The check amount deposited should not be impacted by the return. The check deposit amount was short $392.31 and was not explained.
- Due to a lack of policy or guidance, transactions involving credit card malfunctions/time-out, are not consistently handled or communicated to the DLC and Finance.
    - **Montrose:** One occurrence was identified in the 20 samples tested. A Customer used a credit card to pay for their merchandise. The credit card did not approve for the full amount, however the customer had already left (swiped and left). To complete the transaction the store processed the difference as cash payment. As a result, the cash amount was short, because it was never collected from the customer. The store contacted the back office to have the customers card charged the remaining balance of $23.49. Finance attempted to charge the card but the payment declined due to insufficient funds, as a result, the payment was never received.
- We noted days when no data were collected/reported, indicating that over/short amounts were not entered into the system. Per inquiry with store Managers, the system is configured to not allow entries once the 1:00PM deadline has passed. If stores do not enter the amounts before the specified time, they are not be able to report an amount for that business day through the application.
    - **Seneca Meadows:** 15 occurrences: Five samples tested
    - **Clarksburg:** 20 occurrences: Five samples tested
    - **Wheaton:** 40 occurrences: 11 samples tested; two with unreported shortages.
    - **Montrose**: 42 occurrences: 13 samples tested
- Through inquiry we learned that Stores may sometimes retain “overage” funds as a reserve and eventually use the overage monies to replenish days with store shortages. Similarly, some stores allow Clerks to make up for shortages by paying out of pocket. If the store is able to make up the variance by either using money from their overage

monies or by paying out of pocket, the variance is not reported in the application and $0.00 is reported.

Risks

Noncompliance and the lack of clear direction, support, and accountability could result in misappropriation of cash, resulting from theft, false transactions, or human error. Additionally, inconsistent use of the application can result in incorrect and incomplete data provided to the DLC management, ultimately driving organization decisions.

Recommendation 2.1

In coordination with Finance, the DLC should document and implement a formal policy regarding Over/Short reporting. The policy should include acceptable and unacceptable practices including bank deposit timelines and over/short reporting (no out of pocket expenses or keeping of overage funds).

Recommendation 2.2

The DLC should re-train all store Managers on the proper usage of the Over/Short application. Emphasis should be to assure that entries must be made daily and that variances should be reported accurately.

Recommendation 2.3

The DLC should implement a scheduled formalized, documented recurring store audit process to select a representative sample of daily reporting and store reconciliations to re-perform and verify. The sample selected should include all days where an over/short entry was not made timely by the store. Non-compliance with timely over/short reporting should be tracked and discussed with management. The discussion should be documented and if not corrected, DLC should determine whether disciplinary action is warranted.

Finding 3

There is no process in place to ensure that Field Supervisors are adequately supporting retail stores.

The DLC employs two Field Supervisors whose primary responsibilities are to oversee retail stores and provide support to Managers/Assistant Managers. Field Supervisors are expected to visit their assigned stores on a monthly basis to ensure that the stores are operating according to protocol, and to assist in addressing any concerns and resolving any problems that the stores may have.

Through inquiry, our review noted that Field Supervisors could improve the support they provide to retail stores. Specifically, our review noted:

- Field Supervisors do not visit each of their assigned stores timely. Several months may pass without a visit or communication from a Field Supervisor.
- Field Supervisors do not discuss or provide Store Management with any data or feedback regarding store performance on adjustment volume, refunds, credits, etc.

Risks

Lack of adequate store support may prevent store operations from being aligned with the DLC's strategic objectives, which could result in the inability to meet performance goals.

Recommendation 3.1 (*SUGGESTED IMPROVEMENT*)

The DLC should consider implementing a process that creates documented accountability for the Field Supervisors to regularly visit and support stores. Store Management should confirm or validate visits by the Field Supervisors. A worksheet or tracking mechanism could be created detailing tasks to be completed during each site visit and would be signed by the Store Manager, Field Supervisor, and the DLC Leadership.

Finding 4

Store Managers are not held accountable for store performance and activity.

Through inquiry, we noted that Managers are not held fully accountable for their store performance and activity. Currently, performance metrics are not measured, reviewed, reported, or discussed between the DLC and the retail stores. Additionally, there is no evidence that store activity such as refunds, credits, inventory adjustments, etc. are monitored and/or assessed.

Risks

The lack of defined performance metrics and adequate monitoring of store activity prevents consistent periodic monitoring of store activity and performance against the DLC performance goals and strategic objectives.

Recommendation 4.1 (*SUGGESTED IMPROVEMENT*)

The DLC should consider defining and distributing specific, quantifiable metrics/expectations to assess store performance to each store on a regular basis. If a store fails to meet targeted performance goals, as necessary, a remediation plan should be developed and implemented to realign the store to the DLC objectives, and improve store performance. Store Managers should be held accountable for the performance and the related activity of their retail location. Similarly, Field Supervisors should be held accountable for the performance and activity of the stores under their direction.

Finding 5

A process is not in place for the DLC to provide ongoing training for store Managers and Assistant Managers. Evidence to support training attendance is not retained.

Through inquiry, our review noted that store Management does not receive formal training by the DLC Office on an ongoing basis. Instead, training is on-the-job and Managers rely on previous experience or seek guidance from peers as needed. Training classes are held for newly promoted Assistant Managers and Managers; however documentation to support their attendance is not retained. Policy and procedure documentation cannot be used to supplement training as existing process documents are out of date and don't reflect the current, intended operating environment of the retail locations.

Risks

Lack of formal training and store accountability may result in store operations not aligning with the DLC strategic objectives. Inconsistent training may also result in inconsistent practices across retail stores.

Recommendation 5.1 (*SUGGESTED IMPROVEMENT*)

The DLC should formalize and implement required ongoing and periodic training programs for existing Managers. Management should demonstrate their level of competency in regards to acceptable and expected practices and standards. Successful completion of required trainings should be documented. Formal training will help to reduce the risk of stores not aligning with the DLC strategic objectives.

Finding 6

There is a lack of segregation of duties in several process areas throughout the DLC retail stores.

Our review of general store operations and responsibilities identified an environment where segregation of duties does not optimally exist. Store Management attributed the lack of proper segregation to a small and incomplete workforce. Specifically, our review found:

- Bank deposits may be prepared by any member of a store's staff. As such, an employee may have worked the night prior and also prepare the subsequent deposit.
- Store Managers and Assistant Manager have the ability to enter and approve their own time in MCTime.
- A process is not in place to restrict RMS access by job role and necessary/appropriate abilities. Currently, there is no control in place to restrict certain employees from independently completing transactions that may be deemed unauthorized, as all employees have access to all functions of the POS system. Specifically, employees other than Managers and Assistant Managers have been recorded as processing inventory adjustments.
- A store employee who places an inventory order may be the person who also receives an order.
- All store employees have a store key access, alarm code access, and safe access.

Risks

Inadequate segregation of duties reduces the effectiveness of operational controls, which could result in the misappropriation of store assets.

Recommendation 6.1

The DLC leadership should assess critical roles, functions, and job responsibilities to implement controls/polices to segregate employee duties within retail stores. Access to roles and functions to RMS should be restricted and limited based on job title.

Recommendation 6.2

The DLC leadership should ensure physical store access is restricted based on employee job responsibility. While all employees may require the ability to unlock the store, only the Manager/Assistant Manager should be able to access the safe.

Recommendation 6.3

The DLC leadership should assess staffing levels at each store and ensure that each store is adequately staffed to manage and operate the store on a daily basis. Ensuring that each store is staffed appropriately would reduce the risk of improper segregation of duties.

Finding 7

A process is not in place for the DLC to notify retail stores timely of upcoming price changes.

Price changes can occur as a result of supplier price agreements or the DLC's strategic decisions. The Warehouse sends an e-mail to each retail store on the morning of the day that prices changes become effective. RMS is auto-updated to reflect the new pricing and Managers are expected to facilitate the creation of new product labels and update pricing on their shelves in the store.

Per inquiry, our review noted that adequate notice of product price changes is not consistently provided to retail stores to allow the stores to update the shelf tags accurately and timely. If an e-mail notification contains a high volume of price changes, the store may not be able to update all shelf tags prior to the store opening. If stores are unable to update price tags in a timely manner, the RMS price and the shelf tag price that the customers see will not agree. This can cause confusion, and the store is required to honor the shelf price if the RMS product price has increased.

Risks

Lack of a formal price change policy, specifically related to large volume price changes, may result in the risk of merchandise being inaccurately price marked. This can, in turn, result in lost revenue, inconsistent marketing, and decreased customer satisfaction. This can also impact the processing and accurate calculation of the bill back process that is completed by accounts receivable.

Recommendation 7.1 (*SUGGESTED IMPROVEMENT*)

The DLC should refine and formalize a policy regarding the communication of product price changes. When price changes are expected, the DLC should provide retail stores with advance notice to allow the stores adequate time to prepare the new shelf tags so that the prices align with the new RMS pricing. The DLC Management should determine the amount of notification time needed to carry out the price changes.

Finding 8

A formal process is not in place for stores to reconcile deliveries to the requisition.

Retail stores place inventory orders through RMS. The order requisition interfaces with Oracle prior to receipt by the Warehouse. The order is fulfilled by Warehouse staff and an invoice is generated for delivery. When the order is delivered to the store, an Oracle invoice is given to the store representative receiving the order. The store representative uses the Oracle invoice and reconciles the shipment with the warehouse delivery truck driver.

Our review noted that the Oracle invoice provided by the truck driver does not reference the original requisition number generated from RMS. Stores have a difficult time reconciling orders to the invoices provided by the truck driver. For the four retail stores reviewed, we noted:

- "Short on truck" was the number one reason for credits. See the table below and Appendix B for a breakdown by store.

The DLC Four Store Credit Reason Summary June 1, 2016 - May 31, 2017		
Row Labels	**Sum of Return Value**	**Percent**
Short on Truck (Case Count Short)	$(81,466.69)	73%
Breakage/Damage	$(18,437.03)	17%
Business Decision	$(5,951.99)	5%
Short Wrong Case on Truck	$(4,563.48)	4%
Out of Date	$(963.44)	1%
Duplicate Order	$(144.00)	0%
Repack, Did Not Want	$(80.46)	0%
Grand Total	**$(111,607.09)**	**100%**

<u>Risks</u>

The lack of ability for stores to reconcile orders placed through RMS may result in incomplete or inaccurate inventory orders being delivered by the Warehouse, which will result in excessive credits, unwanted inventory, and a lack of needed inventory replenishment.

<u>Recommendation 8.1</u>

The DLC should distribute an e-mail to stores detailing the RMS orders that connect to orders in the Warehouse (Oracle). The DLC Retail Office receives a daily email from Oracle detailing which RMS orders correspond to invoices in Oracle. This email should be disseminated to store Managers so that they may be able to reconcile their orders to invoices received from the Warehouse.

<u>Finding 9</u>

A formal process is not in place to require store Managers to assess, report, and update on-hand inventory levels for efficiency and accuracy on a scheduled basis.

Store Managers and Assistant Managers order merchandise for their stores as needed. RMS allows the store Managers and Assistant Managers to see how much of an item is on hand in their store. However, there is no notification sent to stores when a certain product needs to be ordered. Stores may perform an informal review to identify the volume sold in the last 90 days for specific items to assist with determining how much may be needed. For special order items, a three week history review may also be informally considered.

Our review noted that a formal process/policy concerning on-hand inventory or a min/max inventory has not been established. Managers do not formally evaluate, assess, and justify the inventory maintained at a given time. Furthermore, we identified the following:

- The volume of adjustments transactions appears excessive. Given the periodic cycle counts and annual inventory review, adjustment transactions should be limited in frequency. See Appendix C.
- RMS is not configured to require a reason be entered when adjusting inventory.
- Stores can disguise and falsify inventory through a miscellaneous code ("Managers Special").
    - In an effort to prepare for the holidays, one retail store purchased Hennessey in bulk, then allocated the inventory to a miscellaneous code. This gave the perception that the store was did not have any Hennessey in stock and thus would not have to share with other DLC Stores.

Risks

Lack of a formalized inventory method may result in inefficient or ineffective inventory levels. As a result, excess waste and lost revenue can occur.

Recommendation 9.1 (*SUGGESTED IMPROVEMENT*)

The DLC should develop a formal process for store Management to document, assess, and report on-hand inventory levels. The process should require each store to evaluate all products sold at the store and assign corresponding par levels. Managers should monitor on-hand inventory and adjust them based on changing demands. The DLC Field Supervisors should receive the documented inventory and review for accuracy and accountability. Any changes should be discussed with the store Manager.

Recommendation 9.2

The DLC should formally monitor the use of the miscellaneous code or remove it from use.

Recommendation 9.3

The DLC should require a reason code be entered for each adjustment entry. The DLC should consider having store management communicate various adjustment transactions reasons in order to establish a complete and accurate list for possible adjustments. The DLC should have the reasons added to RMS for adjustment transactions and train store Management (or other designated personnel) on the importance of selecting the accurate reason. The DLC Leadership should consider establishing targets for Management to reduce the volume of adjustments. Once adjustments reasons become required, Management can review and analyze the top adjustments reasons and develop strategies to reduce occurrences.

Finding 10

Employees may not be adhering to posted work schedules, and may not be accurately compensated for time worked.

Store employees record their time by clocking in and out manually on a punch time machine using a time card. If an employee forgets to clock in or out, his/her time is manually recorded by the Manager or Assistant Manager. This time should be recorded by the Manager for verification. Weekly, a Manager or Assistant Manager reconciles employee timecards to the schedule. The time to be compensated is entered into MCTime, the County's time entry system.

Our review noted several instances where entries in MCTime did not match entries on employee timecards or employee conformance with assigned schedules, specifically:

- The following instances occurred in which employees may not have been paid accurately:
    - 0.5-0.75 hours underpaid: Two instances.
    - 1-1.25 hours underpaid: Two instances.
    - .25 hours overpaid: Five instances.
- Employees are expected to adhere to their store's schedule, which lays out the shifts and employees working each shift on a weekly basis. We identified four instances where employees did not adhere to their assigned schedule.
- Timecards and security footage were reviewed to verify that employees began work at the time manually recorded on their timecards. We identified one instance in which an employee arrived one hour past the time that was noted as their arrival time, and was compensated for a full eight-hour shift – though they did not work the full time.

Risks

Manual time entries increase the risk of employees being paid incorrectly for time worked and could result in an unnecessary financial burden being placed on the DLC. If an employee is paid for time not worked, the DLC is overpaying the employee. Likewise, if an employee is underpaid, there may be legal actions an employee may seek for lost wages.

Additionally, when employees do not adhere to assigned schedules, it may result in the store not being properly staffed, and may adversely impact the store's intended segregation of duties.

Recommendation 10.1

DLC should formalize and implement a policy regarding time entry. This policy should detail thresholds with respect to how soon before a shift an employee is allowed to clock in and should also detail penalties for clocking in late. This policy should consider and align with applicable union/CBA agreements as well as state and federal regulations regarding time entry.

Recommendation 10.2 (*SUGGESTED IMPROVEMENT*)

The DLC should consider development and implementation of a policy and process to require documented explanations be obtained from store Managers to explain employee schedule variances. Further, the process should define expectations and consequences for employees who deviate from their assigned schedules without prior approval.

Recommendation 10.3 (*SUGGESTED IMPROVEMENT*)

DLC should consider modernizing its timekeeping system in order to remove the need for manual calculations and ensure accurate time reporting by employees. Newer timekeeping systems can incorporate additional controls such as unique employee identifiers and can capture time worked more accurately.

Finding 11

A formal process is not in place to verify that legitimate electronic coupons were presented at the time of transactions.

The DLC offers and accepts both paper and electronic coupons from customers for certain purchases of beer, wine, and spirits. When a customer wishes to use a paper coupon, he/she must present the coupon to the Clerk completing their transaction. The Clerk scans the barcode on the coupon, takes the coupon from the customer, and completes the transaction.

Our review found that if a customer uses an electronic coupon, the clerk is unable to evidence that the coupon was presented. Electronic coupons are not bar code scanned and only visual inspection is currently needed.

Risks

Use of undocumented or non-scanned coupons may result in misappropriation of cash, resulting in false transactions. An employee could discount purchases for friends, family, or the public, and claim the customer presented with an electronic coupon. Furthermore, it may result in unauthorized transactions or discounts being processed, leading to loss of revenue.

Recommendation 11.1 (*SUGGESTED IMPROVEMENT*)

The DLC Leadership should consider implementing electronic coupons that are barcoded for scanning as evidence of presentation by a customer. Non-verifiable coupons should not be accepted.

Recommendation 11.2 (*SUGGESTED IMPROVEMENT*)

The DLC should monitor monthly coupon processing data for each store. The data should identify the number and value of paper and electronic coupons processed by the store. The data should be detailed by the store Clerk. The DLC should establish an average for store and have a process for following up on any outliers identified. Monthly data should be discussed with the store Manager.

Finding 12

A process is not in place to validate licensee credentials at the time of discounted purchase.

The DLC offers product discounts to licensees who make purchases at the DLC retail store locations. When a licensee checks out, he/she provides the store Clerk with a valid licensee code to receive the discount. The licensee code is entered into RMS and the discount is applied.

The review noted that a process is not in place to validate or ensure that the customer making a purchasing as a licensee is indeed a registered licensee. If the licensee code given is valid, the discount is granted.

Risks

Invalidated licensee codes may result in unwarranted processed discounts (licensee code sharing) resulting in a loss of revenue.

Recommendation 12.1 (*SUGGESTED IMPROVEMENT*)

The DLC should implement a process to validate customers as authorized/approved licensees. The DLC should consider issuing a county licensee photo ID card to identify the customer as authorized to make purchases at the discounted licensee prices. Furthermore, the DLC should maintain a list of verified licensee employees who are authorized to make purchases on behalf of their establishment.

Finding 13

A standardized refund policy is not consistently practiced across all the DLC retail stores.

The DLC allows returned merchandise to be accepted at any DLC retail store location. The customer must present the original receipt in order to receive full refund. If the customer does not have the original receipt, he/she may exchange the item for one of equal or lesser value, or she/she may be given a gift card for the amount of the product being returned.

Our review noted that the refund policy in place does not provide standard guidance for Store Management to follow. The refund policy does not explain acceptable quantities of opened or used merchandise allowed to justify a return of monies. As a result, returns are not being consistently processed across retail store locations. Furthermore, a process is not in place to monitor refund activity. Specifically, we noted:

- Based upon the store, full refunds or exchanges may inconsistently be honored for products that cannot be resold at a retail location (quarter bottle, half bottle, one product remaining out of a quantity of six).
- A process is not in place for stores to generate a daily RMS report of refunds to verify that all items refunded are on premises to be returned to the Warehouse or placed back on the shelf.
- RMS is configured with a predetermined list of four return reason codes (wrong product, clerk error, overbought for party, defective product). The return codes do not capture all possible reasons for refund transactions. As a result, managing and monitoring refunds may not be accurately performed.
    - Refund transactions can be processed to simply correct the price of a recently purchased item. No exchange of returned product occurs in this type of transaction. Store employees should be able to note this as a type of refund. This would allow for management to focus on true refunds.

Risks

Lack of a uniform refund policy may result in inappropriate refunds being given. Furthermore, the lack of a reconciliation between RMS and returned merchandise poses a risk of theft or fraudulent transactions. Additionally, if an unauthorized or inappropriate refund transaction is processed, it could result in the misappropriation of inventory or lost revenue.

Recommendation 13.1

In coordination with Finance, the DLC should develop and implement a standardized refund policy to be practiced consistently at all retail store locations. The policy should clearly state the types of merchandise and condition that the merchandise must be in, and quantity needed to receive a refund. If a full refund cannot be given, such as when a customer does not have a receipt to accompany the item, there should also be a policy in place to provide an exchange of product.

Recommendation 13.2

The DLC should ensure that all allowable reasons for refunds (including price differences on sale items) under the DLC refund policy are reflected in/added to RMS for return transactions, and should train store Management and employees on the importance of selecting the accurate refund reason.

Recommendation 13.3 (*SUGGESTED IMPROVEMENT*)

The DLC should consider implementing a process to generate RMS Refund/Return reports for each store and discuss identified trends and outliers. The DLC should assess and establish targets for each store to achieve. The store should strive to decrease refund/return transactions that can be controlled by the store (clerk error). The DLC should continue to monitor and trend the store's progress towards achieving the targeted range.

Recommendation 13.4 (*SUGGESTED IMPROVEMENT*)

The DLC should consider implementing a process for Store Management to generate a daily return/refund report as part of their daily tasks. Store Management should review the report and reconcile return transactions to physical returned merchandise. Any discrepancies or issues noted should be documented, resolved, and reported to the DLC.

Finding 14

Store employees are not required to operate only their assigned register.

A process is not place for store Management to ensure that all clerks only perform transactions and store activity on their assigned register/terminal. Store clerks and Management perform various types of transactions across multiple registers. As a result, transactions in question cannot be traced to an accurate individual user. Based on a sample selected for testing we observed the following:

- Seneca Meadows: One of seven return transactions was not performed by the recorded user.
- Wheaton: Four of 10 return transactions were not performed by the recorded user.
- Clarksburg: Six of 13 return transactions were not performed by the recorded user.
- Montrose: Seven of 20 return transactions were not performed by the recorded user.

Risks

If employees are allowed to use registers other than the one to which they were logged in, it could prevent accountability and increase the risk that an inappropriate transaction or the misappropriation of funds from the register could go unresolved.

Recommendation 14.1

The DLC should formalize, adopt, and enforce a policy that requires each store employee to operate at only their assigned register. As Management moves towards more formal monitoring, it will be important for Management to be able to rely on system data that captures the assigned user. The employee should understand and acknowledge that he/she is accountable and responsible for any activity associated with their username/login.

Finding 15

A special order policy is not in place to require customers to pay for their orders in advance.

During our review it was noted that the DLC retail store customers are not required to pay for special order items at the time of request or order placement. As a result, customers may order an item and never return to the store to pay for the product. Stores are left with products that they are then unable to sell because they are special order items not purchased by other customers.

Risks

Lack of a formal policy that requires customers to pay for special order items at the time of request may result in excess waste and unrecoverable expenses to the stores.

Recommendation 15.1 (*SUGGESTED IMPROVEMENT*)

The DLC should consider development and implementation of a standardized special order policy to be practiced at all retail store locations. The policy should clearly state that customers must either pay in full for their special order item at the time it is ordered, or put down a deposit for the item.

Finding 16

Security equipment is outdated, insufficient, and ineffective.

Each retail store is equipped with locked doors, an alarm system, and security cameras. While visiting the four stores, we observed and noted:

- Each store has blind spots where employees or customers could misappropriate merchandise.
- There is no coverage of parking lots and the immediate vicinity outside the entrances to stores.
- There is insufficient camera coverage facing the front of customers completing their purchases at store registers.
- The camera quality and resolution varies from store to store and can limit facial recognition.
- While each store had security footage dating back at least 30 days, the length of time varied from store to store. Stores with older cameras had more footage, but it was of a lower quality. However, stores with new cameras retained footage for a shorter amount of time that was of a higher quality.

Risks

Without adequate security equipment, there is a risk that stores/merchandise are not adequately safeguarded, which could result in misappropriation of assets and employee safety concerns.

Recommendation 16.1

The DLC should perform a security equipment assessment for each retail store location. During the evaluation, the number and placement of security cameras should be evaluated, as well as the age of equipment and camera resolution. Cameras should be angled to capture and record footage of the most vulnerable areas within each store, including the backroom, and should also be placed facing the customers at each register.

Comments and MCIA Evaluation

We provided the DLC and the Department of Finance ("Finance") with a draft of this report for review and comment on October 18, 2017. Both DLC and Finance responded with comments on November 3, 2017. MCIA reviewed the DLC and Finance responses to the report, and determined that no changes to the report's findings or recommendations were warranted. The DLC agreed with the findings and recommendations, noting that several recommendations have already been implemented, and that the Department had undertaken actions in several areas prior to the initiation of the internal control review. Finance focused on specific recommendations, concurring with these recommendations and committing to working with DLC to implement the recommendations. The DLC and Finance responses have been incorporated in the report at Appendix D.

Appendix A – Store Return Summaries

Wheaton Returns June 1, 2016 – May 31, 2017			
RMS Reason	**Count of Return Reason**	**Sum of Dollars Credited**	**Percent**
Wrong Product	467	$(11,306.46)	50%
Overbought for Party	124	$(6,144.57)	27%
Clerk Error	152	$(4,201.24)	19%
Defective Product (Opened Bottle)	33	$(895.01)	4%
Grand Total	**776**	**$(22,547.28)**	**100%**

Seneca Meadows Returns June 1, 2016 - May 31, 2017			
RMS Reason	**Count of Return Reason**	**Sum of Dollars Credited**	**Percent**
Wrong Product	306	$(7,691.51)	38%
Clerk Error	209	$(4,822.88)	24%
Overbought for Party	144	$(4,544.59)	22%
Defective Product (Opened Bottle)	95	$(3,161.44)	16%
Grand Total	**754**	**$(20,220.42)**	**100%**

Montrose Returns June 1, 2016 - May 31, 2017			
RMS Reason	**Count of Return Reason**	**Sum of Dollars Credited**	**Percent**
Wrong Product	581	$(20,072.66)	41%
Clerk Error	430	$(15,227.47)	31%
Overbought for Party	311	$(10,738.03)	22%
Defective Product (Opened Bottle)	145	$(3,245.02)	7%
Grand Total	**1,467**	**$(49,283.18)**	**100%**

Clarksburg Returns June 1, 2016 through May 31, 2017			
RMS Reason	**Count of Return Reason**	**Sum of Dollars Credited**	**Percent**
Wrong Product	272	$(6,715.13)	38%
Clerk Error	202	$(5,492.57)	31%
Overbought for Party	131	$(4,133.29)	23%
Defective Product (Opened Bottle)	74	$(1,454.63)	8%
Grand Total	**679**	**$(17,795.62)**	**100%**

Appendix B – Store Credit Summaries

The DLC Four Store Credit Summary June 1, 2016 - May 31, 2017		
Row Labels	Sum of Return Value	Percent
MONTROSE	**$(46,114.10)**	
Breakage/Damage	$(7,641.55)	17%
Business Decision	$(701.69)	2%
Duplicate Order	$(144.00)	0%
Out of Date	$(247.05)	1%
Short on Truck (Case Count Short)	$(36,011.52)	78%
Short Wrong Case on Truck	$(1,368.29)	3%
CLARKSBURG	**$(17,766.77)**	
Breakage/Damage	$(2,732.64)	15%
Business Decision	$(589.07)	3%
Out of Date	$(406.75)	2%
Short on Truck (Case Count Short)	$(13,604.76)	77%
Short Wrong Case on Truck	$(433.55)	2%
SENECA MEADOWS	**$(25,673.54)**	
Breakage/Damage	$(4,427.03)	17%
Business Decision	$(2,839.53)	11%
Out of Date	$(139.57)	1%
Short on Truck (Case Count Short)	$(16,946.90)	66%
Short Wrong Case on Truck	$(1,320.51)	5%
WHEATON	**$(22,052.68)**	
Breakage/Damage	$(3,635.81)	16%
Business Decision	$(1,821.70)	8%
Out of Date	$(170.07)	1%
Repack, Did Not Want	$(80.46)	0%
Short on Truck (Case Count Short)	$(14,903.51)	68%
Short Wrong Case on Truck	$(1,441.13)	7%
Grand Total	**$(111,607.09)**	

Appendix C – Store Adjustment Summaries

Clarksburg Loss Adjustments	
Month	Sum of Adjustment Cost
6/1/2016	$2,957.75
7/1/2016	$858.79
8/1/2016	$2,127.83
9/1/2016	$2,499.33
10/1/2016	$4,055.22
11/1/2016	$1,056.70
12/1/2016	$4,394.45
1/1/2017	$2,237.14
2/1/2017	$1,604.25
3/1/2017	$12,961.11
4/1/2017	$466.02
5/1/2017	$898.95
Grand Total	**$36,117.53**

Clarksburg Overage Adjustments	
Month	Sum of Adjustment Cost
6/1/2016	$(4,180.39)
7/1/2016	$(1,377.88)
8/1/2016	$(2,009.59)
9/1/2016	$(1,972.86)
10/1/2016	$(3,519.82)
11/1/2016	$(1,000.85)
12/1/2016	$(4,583.41)
1/1/2017	$(2,113.64)
2/1/2017	$(1,445.02)
3/1/2017	$(12,773.38)
4/1/2017	$(503.76)
5/1/2017	$(964.27)
Grand Total	**$(36,444.88)**

Montrose Loss Adjustments	
Month	Sum of Adjustment Cost
6/1/2016	$8,202.31
7/1/2016	$2,092.54
8/1/2016	$2,063.63
9/1/2016	$2,582.27
10/1/2016	$6,586.67
11/1/2016	$5,172.05
12/1/2016	$4,402.90
1/1/2017	$7,112.57
2/1/2017	$8,152.26
3/1/2017	$4,990.49
4/1/2017	$4,360.63
5/1/2017	$3,832.08
Grand Total	**$129,550.40**

Montrose Overage Adjustments	
Month	Sum of Adjustment Cost
6/1/2016	$(6,233.74)
7/1/2016	$(2,842.28)
8/1/2016	$(2,315.01)
9/1/2016	$(2,513.59)
10/1/2016	$(7,994.65)
11/1/2016	$(5,159.71)
12/1/2016	$(3,994.54)
1/1/2017	$(5,973.94)
2/1/2017	$(6,895.41)
3/1/2017	$(5,010.13)
4/1/2017	$(4,889.49)
5/1/2017	$(4,149.49)
Grand Total	**$(57,971.98)**

Seneca Meadows Loss Adjustments	
Month	Sum of Adjustment Cost
6/1/2016	$14,859.81
7/1/2016	$1,963.94
8/1/2016	$3,126.80
9/1/2016	$3,586.96
10/1/2016	$1,390.94
11/1/2016	$2,503.20
12/1/2016	$2,686.72
1/1/2017	$2,887.00
2/1/2017	$2,096.21
3/1/2017	$16,786.63
4/1/2017	$970.65
5/1/2017	$1,299.83
Grand Total	**$54,158.69**

Seneca Meadows Overage Adjustments	
Month	Sum of Adjustment Cost
6/1/2016	$12,968.69)
7/1/2016	$(2,266.81)
8/1/2016	$(2,262.40)
9/1/2016	$(1,906.74)
10/1/2016	$(2,149.14)
11/1/2016	$(607.16)
12/1/2016	$(3,491.14)
1/1/2017	$(1,623.86)
2/1/2017	$(1,516.92)
3/1/2017	$(13,851.63)
4/1/2017	$(940.49)
5/1/2017	$(1,786.16)
Grand Total	**$(45,371.13)**

Wheaton Loss Adjustments	
Month	Sum of Adjustment Cost
6/1/2016	$4,790.61
7/1/2016	$937.75
8/1/2016	$2,225.18
9/1/2016	$12,899.88
10/1/2016	$4,161.92
11/1/2016	$3,200.40
12/1/2016	$2,521.11
1/1/2017	$5,111.58
2/1/2017	$5,055.09
3/1/2017	$2,281.30
4/1/2017	$3,579.71
5/1/2017	$1,507.44
Grand Total	**$48,271.97**

Wheaton Overage Adjustments	
Month	Sum of Adjustment Cost
6/1/2016	$(4,150.56)
7/1/2016	$(1,129.89)
8/1/2016	$(1,416.48)
9/1/2016	$(5,317.62)
10/1/2016	$(2,246.78)
11/1/2016	$(11,364.24)
12/1/2016	$(3,543.32)
1/1/2017	$(4,466.58)
2/1/2017	$(4,853.66)
3/1/2017	$(2,359.48)
4/1/2017	$(4,198.55)
5/1/2017	$(1,075.82)
Grand Total	**$(46,122.99)**

Appendix D – Department of Liquor Control and Department of Finance Responses

DEPARTMENT OF LIQUOR CONTROL

Isiah Leggett
County Executive

Robert Dorfman
Director

MEMORANDUM

November 3, 2017

TO: Bill Broglie, Internal Audit Manager
Office of the County Executive

FROM: Robert M. Dorfman, Director
Department of Liquor Control

SUBJECT: Formal Comments on Draft Report: **Internal Control Review of Retail Store Operations – Department of Liquor Control – dated September 2017**

The Department has reviewed the draft audit report and hereby submits our comments on their recommendations. Unless noted below, we agree with the Audit's recommendations and intend to develop an Action Plan to track their implementation. As you know, the next two months represent our busiest time of the year and we must maintain focus on our customer service and sale activity. For that reason, we are targeting the completion of the Retail Action Plan for the end of February, 2018. As appropriate, we will coordinate our efforts with the Department of Finance.

The following audit recommendations **have already been implemented**:

8.1 Formal email process to reconcile store deliveries to the initial requisition.
10.1 Develop policy regarding time entry. We need consistent enforcement, however.
15.1 Special orders from customers at stores must fully pay in advance for their orders, before the store process the order.

There was activity already under way before this audit to implement several of the recommendations, and for the most part these recommendations should be implemented in the **first two quarters of calendar 2018**. Those include:

1.1 Update Policies and Procedures documentation.
4.1 Development, distribution, monitoring and periodic review of performance metrics of stores.
5.1 Development and implementation of training programs for store managers and assistant managers.
6.1 Review of critical roles, functions and job responsibilities of staff in relation to the RMS system.

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6.3 Review of staffing levels at each store.

9.1 Documentation of on-hand inventory. The existing store order book tool provides an immediate 90-day sales snapshot, plus user-defined date ranges to show previous sales, plus current quantity on hand, plus upcoming planned sales (specials) of that product

10.3 Modernization of time keeping system is under review.

16.1 We are in total agreement with this recommendation dealing with the assessment of security equipment at the stores, however, implementation of upgrades will be based on financial constraints, and approvals by others.

The following individuals participated in this review. Please contact them if you, or the audit firm working with you, have any questions relating to the attached comments:

- Diane Wurdeman, Acting Chief of the Division of Retail Operations at 240-777-1931
- Edgar Gonzalez, DLC Deputy Director at 240-777-1923
- John Utermohle, Chief, Division of Administration Services at 240-777-1929

cc.: Alexandre A. Espinosa, Director, Department of Finance
Edgar Gonzalez, Deputy Director, Department of Liquor Control
John Utermohle, Chief, Division of Administration Services, DLC
Diane Wurdeman, Acting Chief, Division of Retail Operations
Karen Q. Hawkins, Chief Operating Officer, Finance
Lenny Moore, Controller, Finance
Jhason Abuan, IT Division Chief
Kim Williams, General Accounting Manager, Finance

Isiah Leggett
County Executive

Alexandre A. Espinosa
Director

DEPARTMENT OF FINANCE

MEMORANDUM

November 3, 2017

TO: Bill Broglie, Internal Audit Manager
Office of the County Executive

FROM: Alexandre A. Espinosa, Director
Department of Finance

SUBJECT: Formal Comments on Draft Report: **Internal Control Review of Retail Store Operations – Department of Liquor Control – dated September 2017**

The draft audit report referenced above contains recommendations relating to the Department of Liquor Control coordination with the Department of Finance on policies and procedures relating to retail store internal controls. Attached please find the Department of Finance formal response to this draft audit report.

If you, or the audit firm working with you, have any questions relating to the attached, please contact Karen Hawkins, Chief Operating Officer, at 240-777-8828, or Lenny Moore, Controller, at 240-777-8802.

Attachment

cc: Robert Dorfman, Director, Department of Liquor Control
Edgar Gonzales, Deputy Director, Department of Liquor Control
Karen Q. Hawkins, Chief Operating Officer, Department of Finance
Lenny Moore, Controller, Department of Finance
Jhason Abuan, IT Division Chief, Department of Finance
Kimberly Williams, General Accounting Manager, Department of Finance

Office of the Director

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montgomerycountymd.gov/311 MC311 ANSWERING TO YOU 240-773-3556

Finance Response to Recommendations
Department of Liquor Control
Internal Control Review of Retail Store Operations
Dated September 2017

The Department of Finance is available to support the Department of Liquor Control in its implementation of recommendations from this report, particularly those involving internal controls over assets and processing of financial transactions as contained in Recommendations 6.1, 6,2, and 7.1. For recommendations specifically relating to processes involving the Department of Finance, our responses are noted below.

Recommendation 1.1:

The DLC should update its policy and procedure documentation related to retail store operations to provide guidance, expectations, and acceptable/unacceptable practices for all retail stores. The DLC Leadership should also implement a process to periodically review, approve, update, and communicate policy and procedure documentation to remain current and so stores can follow the most up-to-date policies. Policy manuals and updates should be communicated to stores timely. DLC Management should implement a process to ensure stores follow established policies and procedures as intended.

Finance Response:

> The Finance Department concurs with this recommendation, especially as it relates to cash handling and inventory-related processes, and is available to participate in review of relevant updated documentation. This is particularly important as it relates to controls over cash handling, where requests for updated documentation have been made by the County's external auditors.

Recommendation 2.1:

In coordination with Finance, the DLC should document and implement a formal policy regarding Over/Short reporting. The policy should include acceptable and unacceptable practices including bank deposit timelines and over/short reporting (no out of pocket expenses or keeping of overage funds).

Finance Response:

> The Finance Department concurs with this recommendation. Finance and DLC have worked together in establishing updated processes and systems for reporting cash overages/shortages, especially for purposes of recording financial transactions and performing bank and other reconciliations. We will continue to work together with DLC to update remaining policy as appropriate.

Recommendations 6.1 & 6.2:

Recommendation 6.1

The DLC leadership should assess critical roles, functions, and job responsibilities to implement controls/polices to segregate employee duties within retail stores. Access to roles and functions to RMS should be restricted and limited based on job title

Recommendation 6.2

The DLC leadership should ensure physical store access is restricted based on employee job responsibility. While all employees may require the ability to unlock the store, only the Manager/Assistant Manager should be able to access the safe.

Finance Response:

> The Finance Department concurs with these recommendations (6.1 and 6.2), and is available to work with DLC on segregation of duties for roles involving financial transaction processing including processing of inventory adjustments, and custody of assets, particularly those involving cash, inventory, and access to the safe.

Recommendation 9.3:

The DLC should require a reason code be entered for each adjustment entry. The DLC should consider having store management communicate various adjustment transactions reasons in order to establish a complete and accurate list for possible adjustments. The DLC should have the reasons added to RMS for adjustment transactions and train store Management and employees on the importance of selecting the accurate reason. The DLC Leadership should consider establishing targets for Management to reduce the volume of adjustments. Once adjustments reasons become required, Management can review and analyze the top adjustments reasons and develop strategies to reduce occurrences.

Finance Response:

> The Finance Department concurs with this recommendation, and would anticipate working with DLC to ensure reason codes capture information useful for financial reporting analysis in addition to management and operational needs. We also believe segregation of duties and management control over recording inventory adjustments, as referred to in Finding 6, is an important internal control element to be incorporated to implementation of this recommendation.

Recommendations 10.1 & 10.3:

Recommendation 10.1

DLC should formalize and implement a policy regarding time entry. This policy should detail thresholds with respect to how soon before a shift an employee is allowed to clock in and should also detail penalties for clocking in late. This policy should consider and align with applicable union/CBA agreements as well as state and federal regulations regarding time entry.

Recommendation 10.3
DLC should consider modernizing its timekeeping system in order to remove the need for manual calculations and ensure accurate time reporting by employees. Newer timekeeping systems can incorporate additional controls such as unique employee identifiers and can capture time worked more accurately.

Finance Response:

The Finance Department is actively working with DLC on a project to replace their existing timeclocks with an electronic version that will integrate with MCtime. Part of this project will entail DLC reviewing their attendance policy and setting a threshold when an employee clocks in after their designated start time that will require a manager or supervisor to clock-in that employee. DLC, the Office of Human Resources, and Office of the County Attorney, have been working together to ensure that expectations of the attendance policy to include timeclock thresholds conform with the MCGEO collective bargaining agreement and other applicable laws. This project is anticipated to be completed by the end of FY18,

Recommendation 12.1:

The DLC should implement a process to validate customers as authorized/approved licensees. The DLC should consider issuing a county licensee photo ID card to identify the customer as authorized to make purchases at the discounted licensee prices. Furthermore, the DLC should maintain a list of verified licensee employees who are authorized to make purchases on behalf of their establishment.

Finance Response:

The Finance Department concurs with this recommendation, and can also work with DLC to reevaluate whether such authorized listing of licensees should also incorporate consideration of past history of bounced and rejected payments.

Recommendation 13.1:

In coordination with Finance, the DLC should develop and implement a standardized refund policy to be practiced consistently at all retail store locations. The policy should clearly state the types or merchandise and condition that the merchandise must be in, and quantity needed to receive a refund. If a full refund cannot be given, such as when a customer does not have a receipt to accompany the item, there should also be a policy in place to provide an exchange of product.

Finance Response:

The Finance Department concurs with this recommendation, and will be available to work with DLC on the development and/or review of such policy.

Recommendation 15.1:

The DLC should consider development and implementation of a standardized special order policy to be practiced at all retail store locations. The policy should clearly state that customers must either pay in full for their special order item at the time it is ordered, or put down a deposit for the item.

Finance Response:

The Finance Department concurs with this recommendation, especially as it relates to ensuring proper coding, accounting and reporting for advance orders and deposits, and would work closely with DLC to implement such changes.