

**FREDERICK COUNTY
INTERAGENCY INTERNAL AUDIT AUTHORITY**

**FOLLOW-UP TO
FREDERICK COUNTY
LIQUOR BOARD INDEPENDENT CHECKING
ACCOUNT**

DECEMBER 15, 2006



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Follow-Up To Frederick County Liquor Board Independent Checking Account

I. Introduction

Frederick County's Interagency Internal Audit Authority (IAA) Audit Manual, Policy 400 A. states:

Auditees are requested to provide us with documentation of the status of prior report recommendations. Auditors determine the validity of the status reported by examining documentation and performing tests, as considered necessary. The extent of testing is determined by the significance of the condition/recommendation in relation to the audit objectives and should be the minimum necessary to provide assurance that sufficient corrective action has been taken. Recommendations that are found to be not implemented or corrective action found not to be adequate should be disclosed in the audit report.

General Accountability Office (GAO) Auditing Standards state that much of the benefit from audit work is not in the findings reported or the recommendations made, but in their effective resolution. In addition, the Institute of Internal Auditors (IIA) states: "Internal Auditors should follow-up to ascertain that appropriate actions are taken on reported audit findings."

Our assessment primarily consists of reviewing the written status responses as submitted by the impacted departments. Testing of responses is only conducted if those areas under review are considered critical. The recommendations for this audit deal with the proper use of receipts being deposited into their independent checking account, which are considered critical. We reviewed the past three months (September, October and November 2006) of transactions along with reviewing their updated policy. We found their policy to be adequate and noted no improper use of this account.

It is management's responsibility to decide if action should be taken in response to original reported audit recommendations. However, it is also their responsibility to assume the risk by not correcting a reported condition because of cost or any other considerations.

II. Background

The original report, **REVIEW OF FREDERICK COUNTY LIQUOR BOARD INDEPENDENT CHECKING ACCOUNT**, was issued October 28, 2005. That report identified two conditions containing five recommendations for enhancing internal controls and providing review oversight by the Frederick County Accounting Department.

Management has addressed each of the five recommendations and has provided the current status (See Attached).

III. Current Status

The Frederick County Liquor Board has implemented all recommendations satisfactorily. Their revised policy (see attached) includes procedures for enhanced and adequate controls pertaining to the use of deposited funds. They have also provided the Frederick County Accounting Department with sufficient documentation regarding independent oversight of the checking account.

IV. Management's Formal Response

Below is management's formal written response, including their revised policy on the use of the independent checking account.

Follow-Up to Frederick County Liquor Board Independent Checking Account

STATE OF MARYLAND

JAMES E. McCLELLAN, CHAIRMAN
ROBERT C. SNYDER, MEMBER
CHARLES R. CLINE, MEMBER



HAROLD C. DELAUTER, INSPECTOR
LINDA B. THALL,
SENIOR ASSISTANT COUNTY ATTORNEY
KATHY L. VAHLE,
ADMINISTRATOR

FREDERICK COUNTY LIQUOR BOARD
8 EAST 2ND STREET, SUITE 100
FREDERICK, MARYLAND 21701
PHONE 301-600-1156
FAX 301-600-3500

TO: Martin T. Standel, Director
Internal Audit

FROM: Kathy L. Vahle, Administrator *KLV*

DATE: December 8, 2006

RE: Status Report

The Board has implemented Policy and Procedures to accommodate the recommendations made as a result of your audit of the independent checking account.

Recommendation 1:

- That this account be established using an impress methodology, thus assuring that applicants are paying all associated costs.
- That all fees associated to the application process are deposited into that account and only appropriate expenditures be charged to that account.
- That the account be placed under the supervision of the Accounting Department.

Status:

The Accounting Office will oversee independent checking account. The monthly statement will be sent directly to Accounting; a copy of the letter to BB & T requesting this change is attached. Deposit slips and a Transaction Report will be faxed directly to Accounting. Once they have reconciled the account, Accounting will forward a copy to the Board for its records. Detailed Policy and Procedures and a sample of the Transaction Report are attached. At the request of Accounting, monthly bank statements beginning June, 2006 to the present will be forwarded to Dan Lewis.

Recommendation 2:

- The Liquor License Board instruct staff that this account only be used for the actual processing of applications.
- That those expenditures previously funded and not permitted under the Code be included in the normal budget process where those expenditures can be reviewed by the public and approved by the County Commissioners.

Status:

As previously reported, this recommendation has already been implemented. All staff has been fully instructed as to what payments are made from this account. This is also addressed in the Policy and Procedures. Regarding the second part of Recommendation 2, the adopted FY'2007 Budget included an increase for the expenditures questioned by Audit in 2005.

Please let me know if you need anything further from the Board or me, and I will do my best to comply. Thank you.

Enc.: Policy and Procedures
Letter to BB & T
Sample Transaction Report

cc: James E. McClellan, Chairman
Robert C. Snyder, Board Member
Charles R. Cline, Board Member
Linda B. Thall, Senior Assistant County Attorney
John Kroll, Accounting
Leslie Pellegrino, Accounting

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POLICY: Independent
Checking Account

REVISED: December 6, 2006

POLICY: The Frederick County Liquor Board shall keep an independent checking account to collect deposits and pay the cost of expenses in connection with the publication of the notice of the application. (Article 2B, §10-105)

The independent checking account will also be used to collect fees and pay for criminal background checks for license applicants. (Article 2B, §12-102(v))

PROCEDURES:

1. Applicants will include an application fee of \$200 and fingerprint fees of \$45 per applicant with a completed application. The funds must be received by check, money order or certified check. Application fees and fingerprint fees will not be accepted in cash.
2. Within five days of processing a completed application, the funds must be deposited with BB & T or such other bank designated by the Frederick County Finance Division.
3. Within one business day after the funds are deposited, a copy of the deposit slip and a Transaction Report must be faxed to Dan Lewis, Accounting at X11302. The Transaction Report must summarize what part of the deposit is credited for application fees and what part of the deposit is credited for fingerprint fees.
4. BB & T or the designated bank will send the monthly statement directly to Dan Lewis, Accounting. After the statement is reconciled, a copy will be forwarded to the Board for its records.
5. The only payments to be made from this account are the invoices from a newspaper for the publication expenses, and invoices from CJIS (Criminal Justice Information Systems) Central Repository for the criminal background checks.

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6. Upon receipt, the charges appearing on the invoices are to be verified for accuracy. If the invoice is correct, the checks are to be prepared and forwarded to the Board for endorsement. Each check is to be signed by two Board members. Once endorsed, a copy of the invoice and the check are to be retained for the Board's records. The invoice and original check are to be mailed to the billing company.

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KATHY L. VAHLE,
ADMINISTRATOR

December 6, 2006

BB & T
Branch Banking and Trust Company
One North Market Street
Frederick, MD 21701

ATTN: Tara Dixon

RE: Frederick County Liquor Board
Account Number 5151341286

Dear Ms. Dixon:

Due to the implementation of new procedures, effective immediately, please send all monthly statements for the above referenced account to:

Frederick County Government
Accounting
ATTN: Dan Lewis
12 East Church Street
Frederick, MD 21701

Thank you for your assistance in this matter.

Sincerely yours,

A handwritten signature in cursive script that reads 'James E. McClellan'.

James E. McClellan, Chairman

December 15, 2006

/s/ Interagency Internal Audit Authority
Interagency Internal Audit Authority