



OFFICE OF THE INSPECTOR GENERAL  
MONTGOMERY COUNTY MARYLAND

---

MEGAN DAVEY LIMARZI, ESQ.  
INSPECTOR GENERAL

---

Inventory Internal Controls Follow Up Review

ALCOHOL BEVERAGE SERVICES

**OIG Publication # OIG-23-005**

---

OCTOBER 20, 2022

51 MONROE STREET, SUITE 600 | ROCKVILLE, MARYLAND 20850  
240 777 8240 |  MONTGOMERYCOUNTYMD.GOV/OIG

# EXECUTIVE SUMMARY

The Montgomery County Office of the Inspector General (OIG) conducted this follow up review to evaluate Alcohol Beverage Services' (ABS) actions to address previous findings and recommendations regarding inventory control issues. We focused on ABS's accuracy in loading trucks for order fulfillment during February and March 2022 and actions to identify and investigate inventory discrepancies during the order fulfillment process and inventory counts during fiscal year (FY) 2021 and FY 2022.

The review was announced in the OIG's FY 2022-25 work plan and furthers the OIG's goal to perform work that is relevant and enhances the efficiency and effectiveness of county operations and programs.

## OBJECTIVES

Through this review we attempted to: (1) determine the accuracy of inventory loaded on trucks for order fulfillment; (2) assess ABS's actions to identify and investigate inventory shortages and overages in the order fulfillment process; and (3) evaluate ABS's efforts to investigate inventory discrepancies discovered through daily cycle and annual inventory counts.

## SCOPE & STANDARDS

Our review was conducted between April and September 2022, in accordance with the *Association of Inspectors General Principles and Quality Standards for Inspections, Evaluations, and Reviews by Offices of Inspector General* (May 2014).

## RESULTS

- ABS had fewer discrepancies in its FY 2021 and 2022 year-end inventory reconciliations than those observed by the OIG in its 2015 review.
- ABS has implemented the use of several reports to track inventory and communicate discrepancies during the order fulfillment process.
- 74 percent of beer trucks and 52 percent of liquor/wine trucks analyzed in our sample were not accurately loaded.
- ABS does not consistently investigate discrepancies between the quantity of product in the electronic inventory system and what is physically located in the warehouse.
- ABS does not have written policies and procedures to address the investigation of variances between the quantity of product in the electronic inventory system and what is physically located in the warehouse.

## RECOMMENDATIONS

- Conduct an assessment to determine vulnerabilities in the order fulfillment process and implement procedures to improve accuracy of the loading of trucks.
- Expediate the development of written policies and procedures for investigating discrepancies in the order fulfillment process and during cycle counts.

# TABLE OF CONTENTS

EXECUTIVE SUMMARY .....	i
TABLE OF CONTENTS .....	ii
BACKGROUND .....	1
OBJECTIVES, SCOPE, AND METHODOLOGY.....	2
FINDINGS AND RECOMMENDATIONS .....	3
OIG COMMENTS TO THE CAO'S RESPONSE .....	6
APPENDIX A: THE CAO'S RESPONSE .....	7

## BACKGROUND

Alcohol Beverage Services<sup>1</sup> (ABS) serves as Montgomery County’s sole wholesale distributor of alcoholic beverages, with limited exceptions,<sup>2</sup> to 1,033 licensees<sup>3</sup> and 26 county-owned and operated retail stores. ABS’s mission is “to provide licensing, wholesale and retail sales of beverage alcohol [sic] products, enforcement, [and] effective education and training programs, while promoting moderation and responsible behavior in all phases of distribution and consumption.”<sup>4</sup>

ABS is a self-funded county department whose revenue is primarily derived from the wholesale and retail sale of alcohol. ABS also receives revenue from license and permit fees, fines, and penalties. From fiscal year (FY) 2018 to FY 2021, ABS transferred an average of \$24.6 million each year to the county’s General Fund. The General Fund is used to fund services and programs for children, transportation and transit projects, affordable housing initiatives, libraries, and recreation.

In FY 2022, ABS had a budget of \$66,348,075, divided into six program areas: Administration; Delivery Operations; Licensure, Regulation and Education; Marketing; Retail Sales Operations; and Warehouse Operations. Table 1 displays the allotted budget for each program for FY 2022.

Program Name	FY22 Approved Budget Allocation
Administration	\$16,506,306
<b>Delivery Operations</b>	<b>\$6,602,136</b>
Licensure, Regulation and Education	\$1,881,239
Marketing	\$700,859
Retail Sales Operations	\$30,623,740
<b>Warehouse Operations</b>	<b>\$10,033,795</b>
<b>Total</b>	<b>\$66,348,075</b>

Table 1. ABS FY22 Approved Operating Budget

ABS warehouse operations involves “the purchase, receipt, and storage of over 35,000 different stock and special-order items”<sup>5</sup> that are categorized as beer, kegs, wine, or liquor. Approximately \$26 million worth of product (at cost) is housed in the warehouse on any given day. ABS delivery operations is responsible for the delivery of approximately \$1 million worth of product (invoiced amount) daily to independent licensees and county retail stores.

In 2015 and 2019, the Office of the Inspector General (OIG) and the Montgomery County Office of Internal Audit (MCIA), respectively, conducted reviews of ABS operations. The OIG assessed the

<sup>1</sup> Alcohol Beverage Services was previously named the Department of Liquor Control.

<sup>2</sup> Md. Code Ann., Alcoholic Beverages Art. § 25-307

<sup>3</sup> <https://www.montgomerycountymd.gov/countystat/abs.html>

<sup>4</sup> <https://apps.montgomerycountymd.gov/basisoperating/Common/Department.aspx?ID=85D>

<sup>5</sup> Ibid.

vulnerability of warehouse and delivery operations to theft and product loss and found that although the delivery process was well designed, the controls had been poorly implemented. The OIG also found that adjustments made to the electronic inventory system to reflect the quantity of the physical inventory observed in the warehouse were made on an ad hoc basis and without investigation. We recommended that ABS implement a program of routinely performing physical inventory test counts, i.e., a cycle count program<sup>6</sup>, and that inventory discrepancies be investigated.

Both the OIG and MCIA in prior reports discussed the need for ABS to conduct investigations of variances and MCIA in the 2019 report recommended that ABS revise their written policies and procedures regarding variance investigations. MCIA reported that to date ABS has not finalized related policies and procedures.

## Objectives, Scope, and Methodology

Through this review we sought to (1) determine the accuracy of inventory loaded on trucks for order fulfillment; (2) assess ABS's actions to identify and investigate inventory shortages and overages in the order fulfillment process; and (3) evaluate ABS's efforts to investigate inventory discrepancies discovered through cyclical and annual inventory counts.

Our scope included ABS warehouse inventory records for FY 2021 and FY 2022. We analyzed records which documented the daily overages and shortages during deliveries for the months of February and March 2022 to determine the accuracy of loaded trucks. We also analyzed inventory adjustments made to the electronic inventory system during FY 2022 as part of the daily cycle count program, as well as those made during the year-end inventory counts for FY 2021 and FY 2022. We reviewed ABS's policies, procedures and records related to the documentation and investigation of variances. We interviewed numerous ABS staff and observed both day and evening operations at the ABS warehouse.

Our review was conducted between April 2022 and September 2022, in accordance with the Association of Inspectors General, Principles and Standards for Offices of Inspector General (May 2014).

---

<sup>6</sup> Cycle counting is a method by which a portion of the inventory is counted either daily, weekly, or monthly until the entire inventory has been counted over a set period of time. United States General Accounting Office, *Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property* (March 2002).

## FINDINGS AND RECOMMENDATIONS

Since our last review we noted fewer discrepancies in ABS's annual inventory reconciliation and greater compliance by drivers with check in procedures at the conclusion of their deliveries. We also observed that ABS implemented the use of several reports to track inventory and communicate discrepancies in response to prior findings that shortages, overages, and returns were not tracked, communicated to staff, or regularly investigated.

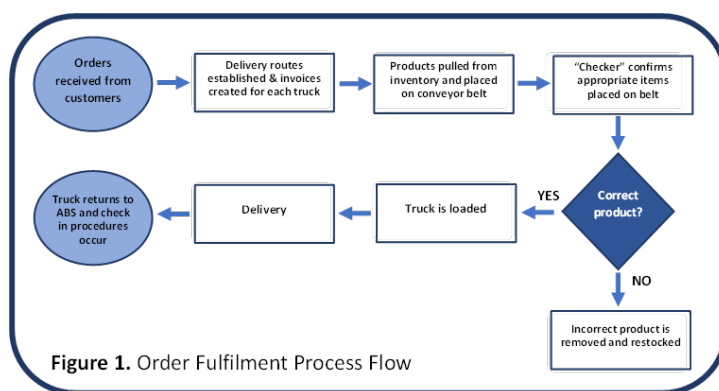
We continued to observe inaccuracies with the loading of trucks to fulfill orders as part of delivery operations. Additionally, in approximately 27% of the inventory adjustments we tested, ABS was not able to provide any evidence that they investigated the cause for the adjustment.

Previous OIG and MCI reviews took issue with ABS not conducting investigations of variances and MCI recommended that ABS update written policies and procedures accordingly. We observed that this has still not been done and likely contributes to continued variances. Furthermore, in 2019, MCI made recommendations to strengthen cycle count procedures. To date, ABS has not acted on those recommendations either.

### Accuracy of Inventory Loaded on Trucks

**Finding 1: Seventy-four percent of beer trucks, and fifty-two percent of liquor/wine trucks in our sample were inaccurately loaded for order fulfillment during the months of February and March 2022.**

The order fulfillment process includes multiple steps. See Figure 1. A delivery truck is considered "loaded accurately" when the products loaded on the truck are identical to the products found on the associated invoices for that truck.



To determine the accuracy of inventory loaded on liquor/wine and beer trucks we analyzed data obtained from the Final Routing Sheet Summaries<sup>7</sup> for the months of February and March 2022.

<sup>7</sup> Document completed daily that indicates the total overages or shortages for each driver.

We found that 74% of beer trucks and 52% of liquor/wine trucks were loaded inaccurately because they contained product that was not invoiced but present in the truck (overage) or product that was invoiced but not loaded on the truck (shortage). See Table 2.

February and March 2022				
Product	# Of Trucks Checked In	# Of Trucks loaded accurately	# Of Trucks loaded inaccurately	Percentage Of Trucks loaded inaccurately
Beer	634	167	467	74%
Liquor/Wine	389	185	204	52%

Table 2. OIG Assessment of Accuracy for February and March 2022

Although this represents a significant increase in accuracy from the OIG 2015 finding that only 4.4% (9 out of 206) of liquor/wine trucks were accurately loaded in June 2014,<sup>8</sup> a majority continued to be inaccurately loaded. Inaccuracies resulting from shortages and overages may create inventory discrepancies between the electronic inventory and physical inventory. When a shortage is realized ABS assumes the product remained in the warehouse and therefore automatically adds it back into the electronic inventory system. When an overage is discovered the product is returned to the warehouse and restocked without determining whether an adjustment had been made to the electronic inventory system. In both cases effort is inconsistently applied to determine what part of the order fulfillment process caused the inaccuracies. By not understanding the cause of the discrepancies, ABS misses the opportunity to prevent inaccuracies in inventory and the potential loss of inventory and revenue.

### Recommendation 1

#### We Recommend ABS:

**Conduct an assessment to determine vulnerabilities in the order fulfillment process and implement procedures to improve accuracy of the loading of trucks.**

<sup>8</sup> The 2015 OIG review did not include an analysis of beer trucks.

### Investigating Discrepancies in Inventory

**Finding 2: Twenty-seven percent of the inventory adjustments in our sample were not investigated to identify the cause of the variance.**

As a result of previous findings related to inventory, in 2019 MClA recommended that ABS update written policies and procedures to address the investigation of variances between the quantity of a product in the electronic inventory system and what was observed in the warehouse. The OIG and MClA also recommended that ABS establish thresholds above which investigations of variances would occur. To date, ABS has not implemented written policies and procedures to address these recommendations.

Although they lack formal policies and procedures, ABS does have informal thresholds for when to initiate an investigation. ABS staff told us that they typically investigate variances discovered during daily cycle counts that exceed four cases of product or product valued at \$200 or more per case. To evaluate ABS's adherence to their informal criteria for initiating an investigation, we analyzed a judgmental sample of 29 inventory adjustments made during February and March 2022. We found no evidence that an investigation was performed in 8 out of the 29 adjustments (27%), indicating inconsistent compliance with their informal criteria for conducting investigations. Having formal written policies and procedures for when to initiate an investigation will help prevent unjustified adjustments to inventory; promote consistency and efficiency in investigating discrepancies; and increase the effectiveness of warehouse and delivery operations.

### Recommendation 2

#### **We Recommend ABS:**

**Expediate the development of written policies and procedures for investigating discrepancies in the order fulfilment process and during cycle counts.**



## OIG COMMENTS TO THE CAO'S RESPONSE

The County Chief Administrative Officer's response to our report is included in its entirety in Appendix A. The response notes concurrence with the OIG's recommendations.

We expect specific details related to the County's actions and plans to implement our recommendations to be included in the Internal Auditor's fiscal year 2023 annual report which, in accordance with County Code §2-25A, is due in the fall of 2023.

# APPENDIX A: THE CAO'S RESPONSE

The Chief Administrative Officer provided the following response to our report.



OFFICE OF THE COUNTY EXECUTIVE

Marc Elrich  
*County Executive*

Richard S. Madaleno  
*Chief Administrative Officer*

MEMORANDUM

October 14, 2022

**TO:** Megan Davey Limarzi, Esq., Inspector General

**FROM:** Richard S. Madaleno, Chief Administrative Officer *RM*  
for

**SUBJECT:** OIG Confidential Draft Report – Inventory Internal Controls Follow Up Review, OIG Publication #OIG-23-00X

Thank you for the opportunity to respond to the issues identified in the draft report. As acknowledged in the draft report, Alcohol and Beverage Services (ABS) has implemented enhancements to its inventory control and reporting processes over the past several years, and reduced discrepancies in its year-end inventory reconciliations. It is noteworthy that ABS reports an order fulfillment rate (essentially, the number of orders ABS fulfills completely divided by the number of total orders placed) of 99.5 percent or greater over the last several years.

ABS states that it does investigate discrepancies between invoiced and loaded product deliveries. They have implemented an automated proof-of-delivery (POD) system that allows for the next day reporting of all shorted deliveries. ABS notes that they prioritize the investigation of shorts based on resources available to conduct the investigation. ABS plans to add additional staffing to assist with these investigations.

**Recommendation 1:** We recommend ABS conduct an assessment to determine vulnerabilities in the order fulfillment process and implement procedures to improve accuracy of the loading of trucks.

**CAO Response:** We concur. ABS continuously attempts to improve the accuracy of its order fulfillment process and has made improvements in this area. Additional efforts can and will be undertaken to improve the process. ABS has created an Inventory Control section, with a Loss Prevention sub-section, and have recently hired managers for both. ABS is in the process to staffing this organization to perform warehouse cycle counts and to fully investigate delivery shortages and overages.

---

101 Monroe Street • Rockville, Maryland 20850  
240-777-2500 • 240-777-2544 TTY • 240-777-2518 FAX  
[www.montgomerycountymd.gov](http://www.montgomerycountymd.gov)

OIG Confidential Draft Report – Inventory Internal Controls Follow Up Review, OIG  
Publication #OIG-23-00X  
October 14, 2022  
Page 2 of 2

**Recommendation 2:** We recommend ABS expedite the development of written policies and procedures for investigating discrepancies in the order fulfillment process and during cycle counts.

**CAO Response:** We concur. In response to previous reviews and recommendations, ABS has established a position whose responsibilities include development of ABS written policies and procedures, but that to date have been unsuccessful in filling that position. ABS continues its recruitment effort to fill the position and will make development of the recommended policies and procedures a priority once the position is filled.

Thank you for bringing these matters to our attention.

cc: Fariba Kassiri, Deputy Chief Administrative Officer  
Kathie Durbin, Director, Alcohol Beverage Services  
Bill Broglie, Internal Audit Manager, Office of the County Executive