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Office of the County Auditor

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September 9, 2013

The Honorable Toni Preckwinkle, President
And Board of Cook County Commissioners
118 N. Clark Street, Room 537
Chicago, Illinois 60602

Dear President Preckwinkle:

Per your request, we have examined the accounting records of the License Fee and Advertising Fund, Liquor Control Commission, Cook County, Illinois, for the period ended November 30, 2012. We conducted our examination in accordance with Government Auditing Standards where applicable as prescribed by the Cook County Auditor Ordinance.

Our objectives for this examination were to determine that the internal accounting controls provide a satisfactory basis for safeguarding assets and recording financial transactions. The scope of our work consisted of reviewing and evaluating the internal accounting controls including the accounting records used in recording transactions.

Please refer to the following audit report for the results of the audit. The [Executive Summary](#) provides an overview of the audit with the main finding areas.

We express our appreciation for the cooperation of the Liquor Control Commission staff extended to Ms. Julie Stack during the course of our examination. We have discussed our findings with the Liquor Control Commission staff and would be pleased to discuss our recommendations in greater detail in order to assist the Liquor Control Commission with their implementation of our recommendations.

Respectfully Submitted,

Shelly A. Banks, C.P.A.
Cook County Auditor

Cc: Mr. John C. Allen IV
Ms. Zahra Ali



COOK COUNTY GOVERNMENT
OFFICE OF THE COUNTY AUDITOR

License Fee and Advertising Fund
Liquor Control Commission

Internal Audit Report

Report Date: August 7, 2013

Issued By:
Shelly A. Banks
County Auditor

Audit Conducted By:
Julie Stack, Field Auditor V
William Carroll, Audit Supervisor

EXECUTIVE SUMMARY

We have examined the accounting records of the License Fee and Advertising Fund, Liquor Control Commission, Cook County, Illinois, for the period ended November 30, 2012.

The Cook County Liquor Control Commission regulates licensing and sale of alcohol in unincorporated Cook County Illinois. The Liquor Control Commission is presided over by the President of the Cook County Board of Commissioners who is the local Liquor Commissioner by virtue of State Statute 235 ILCS 5/4-2. The Liquor Commissioner appoints persons to assist in the exercise of powers and duties authorized by State Statute 235 ILCS/ 4-1 to 4-7, and County ordinance.

The scope and objectives of the License Fee and Advertising Fund Audit were designed to assess the internal control procedures of the Liquor Control Commission.

We noted the following findings in regards to the internal control structure:

- A complete list of liquor licenses issued for previous years could not be provided due to the file being purged on an annual basis.
- As part of the Liquor Control Commission's internal controls, supporting documentation is kept in each application, but various Liquor License applications were missing the proper documentation.
- As part of their internal controls, Liquor Control verifies with the Building and Zoning Department that the applicant does not have any outstanding fees due but they do not retain any documentation to verify this process.
- When an applicant changes officers in the business, Liquor Control collects \$250.00 as a "Change of Officer" fee without authorization from the County Board.
- Liquor Control should research administering late fees for applicants that renew their Liquor License after the expiration period.
- There are no written policies and procedures.
- It is not good business practice for the Liquor License Commission to have a separate bank account when money is processed through the Department of Revenue.
- There is no segregation of duties between the receipt collection and the issuance of the liquor license.

The findings noted were presented to the Deputy Liquor Control Commissioner. Please refer to the [Findings](#) section for more detail on the findings with the management responses, corrective action plans and estimated completion dates.

BACKGROUND

The President of the Board of Commissioners of Cook County is empowered, by state statute and a resolution passed by the Board of Commissioners of Cook County, to be the Liquor Control Commissioner of Cook County. The Liquor Control Commissioner has appointed a Deputy Liquor Control Commissioner to be in charge of the Liquor Control Commission.

Liquor License applications shall include publication fees, fingerprint fees, proof of liquor liability insurance and undergo inspections from the Cook County Department of Building and Zoning, Cook County Department of Health, and Sheriff's Department prior to licensure. After local Cook County authorization is obtained, a licensee is required to obtain a concurrent State of Illinois Liquor License from the State of Illinois Liquor Control Commission.

All new and renewal applications for a license to sell liquor in the unincorporated areas of Cook County are filed in the Liquor Control Commission's office. License fees, advertisement fees and fingerprinting fees are required to be deposited, in the form of a cashier's check, certified check or money order, when an application is filed. If an application is denied, the deposit is refunded.

The regular liquor license year begins May 1st and ends April 30th. The beer garden license period begins May 1st and ends October 31st.

The license application fees are as follows:

- Regular license \$3,000.00
- Special late license \$700.00, or a total of \$3,700.00
- Additional special late license \$1,500.00*, or a total of \$5,200.00
- Beer garden license \$750.00
- Beer garden late license \$700.00 or a total of \$1,450.00
- Beer garden additional special late license \$1,000.00* or a total of \$2,450.00
- Roadhouse and amusement license \$750.00

*Effective January 31, 2005, no additional special late liquor licenses authorizing sales of alcoholic liquor until the hour of 4:00 a.m. shall be issued. Any license issued prior to January 31, 2005 providing for hours in excess of 3:00 a.m. shall expire upon the transfer, forfeiture or revocation of the license.

With each new liquor license application, a publication fee of \$250.00 is collected to cover the publications of legal notices as required by law. Since April 14, 1987, all licensees are required to have their fingerprints processed by the Illinois State Police. A \$39.25 (per licensee) fee is collected for this service.

The Department of Revenue collects all liquor license fees for the Liquor Control Commission and deposits the fees collected to the bank account on a daily basis. Fees are disbursed to the Comptroller approximately twice a year.

AUDIT SCOPE AND OBJECTIVES

Our objectives were designed to assess the internal control procedures of the Liquor Control Commission. Our objectives included reviewing and evaluating the:

- Liquor License New Application process
- Liquor License Renewal Application process
- Liquor License Fee process
- Purpose of the Liquor Control Commission Bank Account
- Record Retention

FINDINGS

Finding #1:

The Liquor Control Commission cannot provide a list of all licenses issued or requested to date. A list of licenses issued or requested to date would provide valuable data, i.e. how many licenses were issued annually, how many businesses were new, how many businesses did not renew their licenses, denied applications, expired licenses and change of ownership. The Liquor Control Commission only maintains a list of issued licenses and purges this list every year with the current year's information. Only a current partial list for FY 2013 could be provided at audit time. Maintaining an all-inclusive list of licenses issued or requested is important to ensuring an effective and efficient operation; and also provides for the opportunity to analyze trends and fluctuations of the Liquor License Application process.

Recommendation

We recommend the Liquor Control Commission maintain a complete list on all licenses issued and requested to track key license information, i.e. business name, owner, location, application date, type of license, date issued or date denied, etc. Maintaining this list will allow the Liquor Control Commission to report key statistics (number and type of liquor licenses issued each year), track expired licenses, verify change of ownership and track denied licenses. It is also recommended that the Liquor Control Commission utilize this information to follow-up with businesses that did not renew their liquor license to verify that the business is not still selling liquor. Any follow-up performed should be documented.

Management Response

We agree with the finding as stated and accept the recommendation of the County Auditor. Already, the Liquor Control Commission (LCC) has created a new log to keep track of the licenses issued and key information. This new log is an expansion of the records that had been previously kept. The expansion includes the ability to keep separate information for each fiscal year for the licenses that have been issued. In addition, the record will include whether the establishment obtained any specialty license such as Roadhouse or Beer Garden. The list is kept on Microsoft Excel. Each fiscal year will be kept on a separate tab within Excel which will make yearly comparisons simple. Since the Liquor Control Commission only issues licenses for establishments or events within unincorporated Cook County, the number of licenses issued is a shrinking business process. Therefore, there is no need to attempt to develop a more robust technological solution than a simple spreadsheet. Currently, there are only 62 establishments with a Cook County Liquor Control License.

During the recent renewal season for liquor licenses to be issued by May 1, 2013, the Liquor Control Commission did make the attempt to contact delinquent businesses. During the contact, we attempted to determine whether the business intended to renew its license and whether the LCC could be of any assistance to the business owner. A portion of our client licensees use English as a second language and

were appreciative of the offer. The vast majorities of the clients is aware of the process and were simply getting through the process at their own pace. The bulk of the issues that we experienced were business owners trying to establish their Dram Shop insurance in the correct amount and during the correct time frame. Of the 3 establishments that did not renew, all were companies that completely dissolved and were not reachable by the LCC. We intend to continue that practice every year in order to provide better customer service and to eliminate late renewals.

Finding #2:

The Liquor Control Commission is collecting a \$250.00 “Change of Officer” fee without the authorization of the County Board. The prior Liquor Control Commissioner instituted this fee in Fiscal Year 2008 as a processing fee for the paperwork that has to be done when an applicant changes officers in a business.

Recommendation

We recommend the Liquor Control Commission seek authorization from the County Board to continue collecting the “Change of Officer” fee.

Management Response

We disagree with the finding as stated; however, we do agree with the recommendation of the County Auditor. After conversations with the previous Deputy Liquor Control Commission, it is our understanding that former Commissioner Michael Quigley had passed an ordinance several years ago that set a fee for the Change of Officers in a business that holds a Cook County Liquor License at \$250. That ordinance did not make it into the Municode version of the Cook County Ordinances as they are now published. It is our belief that an unrecorded ordinance that was passed by the County Board of Commissioners is still active and enforceable as good law. In the words of David Orr, County Clerk, Cook County, Illinois:

While the Cook County Board of Commissioners makes every attempt to keep the record of its proceedings up to date with current law and policies, the Board does not guarantee the accuracy, legality, reliability or content of any of the information contained herein in journals prior to December 6, 2010, and that the information is provided as submitted to the Cook County Clerk.

*Journal of the Proceedings
November 18, 2009*

Realizing that anecdotal information and *mea culpas* are an inappropriate method of operating a municipal corporation, the LCC intends to begin working on an ordinance amendment to rectify the fee structure. The LCC hopes to submit any ordinance amendments before the November Board of Commissioners meeting.

Finding #3

We discovered that during Fiscal Year 2012, 6 out of 61, 10% of businesses that renewed their Liquor License renewed after the 4/30/12 expiration date, therefore illegally operating without the proper license without any penalty. If the Sheriff had investigated the business, they would have been issued a ticket; but since the Sheriff did not investigate the business, there was no negative recourse for the business to pay on time.

Recommendation

We recommend the Liquor Control Commission explore the option of charging late fees or penalties to the applicants that do not obtain their new license before the April 30th expiration date.

Management Response

We agree with the finding as stated and accept the recommendation of the County Auditor. The Cook County Liquor Control Commission will explore the option of setting late fees or penalties to liquor license applicants that do not obtain their renewed license by the April 30th deadline. Our intention to do outreach to the license holders during our annual renewal season is to eliminate any overdue renewal application and payments. However, the LCC recognizes that there may always be instances where someone is not able to meet the deadline; therefore, we will consider adding a new late fee to the liquor license fee structure to any ordinance amendments that are proposed to the Cook County Board of Commissioners. We intend to continue that practice every year in order to provide better customer service and to eliminate late renewals.

Finding #4

The Liquor Control Commission's internal control process includes verifying with the Department of Building and Zoning whether the applicant has an outstanding fee due before they process the license application. The Liquor Control Commission does not retain any documentation to support that this verification was completed.

Recommendation

We recommend the Liquor Control Commission retain documentation in the application folder that verifies that all required payments due to the Department of Building and Zoning were made.

Management Response

We agree with the finding as stated and accept the recommendation of the County Auditor. Information regarding the status of an applicant's contact with the Department of Building and Zoning is transmitted electronically and not in a format that can be retained in an individual's business file. Our intention is to include in the Excel spreadsheet form above and include a column to indicate acknowledgement from the Department of Building and Zoning that the client licensee has paid the requisite fees. Any further support is already retained by the Department of Building and Zoning and can be easily accessed, if necessary, however, keeping duplicate copies of the underlying support documents would seem unnecessary. That spreadsheet should be completed with sixty (60) days of the acceptance of your Final Management Letter by the Board of Commissioners' Audit Committee.

Finding #5

We found that 23 out of 39 applications tested, or 59%, were missing the documentation required to process the applications. During our audit, we noted the following missing documentation:

- 2 entire applications could not be located
- 3 were missing the copy of the Liquor License
- 5 Child Support Compliance Forms did not have the approval from the Child Support Department
- 1 Child Support Compliance Form was missing
- 3 were missing the Certificate of Liability Insurance
- 3 Certificates of Liability Insurance did not cover the time period of the license
- 1 was missing the Notarized Indebtedness Affidavit; and
- 7 were missing the FBI background response.

Recommendation

We recommend the Liquor Control Commission provide a checklist in each application folder. The checklist should list all the documentation required as part of the application process. The staff person that puts the folder together should initial and date when the items are obtained. The checklist and application folder should be reviewed by the Deputy Liquor Control Commissioner who should verify

that all documentation has been obtained then sign off on the checklist that the application is complete with all required documentation prior to the issuance of the liquor license.

Management Response

We agree with the finding as stated and accept the recommendation of the County Auditor. In addition to creating a form within Microsoft Excel to keep track of the information for each client licensee, LCC will develop a checklist that will be placed and stapled to the inside cover of the file for each applicant. That checklist will contain the suggested information. The checklist has not been developed yet but will be in place within sixty (60) days of the acceptance of your Final Management Letter by the Board of Commissioners' Audit Committee.

Finding #6

The Liquor Control Commission does not have a written policies and procedures manual. Written procedures are important to establishing the internal controls and ensuring that there is a clear understanding of the duties and responsibilities. In addition, with a staff of two this could pose problems in the absence of one staff member.

Recommendation

We recommend a written policies and procedures manual be developed. A manual provides quick references, instructions for employees and documentation of the control system in the office. The manual should include descriptions of the assignments and duties of the Liquor Control Commission.

Management Response

We agree with the finding as stated and accept the recommendation of the County Auditor. As expected, the audit did allow for a clear definition of the process used to operate the office by the two unpaid staff of the Commission. The LCC will now take that experience and the notes gathered to develop a written policies and procedures manual as suggested. This manual is expected to be completed within sixty (60) days of the acceptance of your Final Management Letter by the Board of Commissioners' Audit Committee.

Finding #7

The Liquor Control Commission has its own bank account in which the Department of Revenue deposits all fees collected on behalf of Liquor Control and reconciles the bank account on a monthly basis. The Liquor Control Commission prepares and writes all checks out of the checkbook. The bank account has two authorized signers the Liquor Control Commissioner, President Toni Preckwinkle and the Deputy Liquor Control Commissioner, John C. Allen IV but requires only one signature for disbursement. This leaves the account at high risk for fraud. After reviewing the disbursements for the account for the last 4 years, there was an average of seventeen (17) checks written annually. In the last two years, there were twelve (12) checks written per year.

Recommendation

We recommend the Liquor Control bank account be closed, and the money the Department of Revenue receives on their behalf should be deposited along with the other general fees in the appropriate account and remitted to the Master Operating account. Closing the bank account would eliminate the risk for fraud through the disbursement of checks. It would also utilize the internal controls that the Department of Revenue already has in place for fee processing. In addition, the majority of checks written, specifically five (5) by Liquor Control are to the Illinois State Police for background checks. Liquor Control can inform the applicants to bring a separate money order or cashier check made payable directly to the Illinois State Police. The other majority of checks, specifically five (5) are to newspapers for the publications of new business. Per the Department of Revenue, they have a revolving account with the

newspapers and Liquor Control would be able to utilize deductions through those accounts. Any other disbursements including refunds can be made via a 29A through the Comptroller's Office.

Management Response

We disagree with the finding as stated and respectfully disagree with the recommendation of the County Auditor. At the February 25, 2013 meeting of the Board of Commissioners, a resolution was passed that corrected the signatory names on the account and specifically stated that two signers were necessary on a check. That resolution has been provided to Seaway National Bank and all approved signatories on the card have signed the bank's signature card. The existence of a separate checking account is essential to the operation of this office. Due to the nature of the business types that request a liquor license, the LCC requires that all fees be made through cashier's check or money order. These instruments have a fee attached whether it's through a commercial bank or a currency exchange draft. Quite often, our client licensees often present an instrument drawn in an incorrect amount. That requires the LCC to issue a refund check. Since those business types have a low overhead, the immediacy of that refund is important to our client base. Taking into consideration timely payments to other governmental entities and payments to publications for advertising, these factors are crucial in reducing the cycle time between completing an application and getting the license to commence business. Therefore, the LCC still believes it is in the County's best interests to maintain the Liquor Control Commission account.

Auditor Comment

While we appreciate the concerns raised by the Liquor Control Commission in their response, we still do not see the need for the Liquor Control Commission to maintain a separate bank account given the amount of activity in the account. For fiscal year 2011 and 2012, a total of twelve (12) checks were processed each year; none of which were refund checks. Currently, through April 2013, a total of two refund checks have been processed. Given the volume of checks processed, we believe that the Liquor Control Commission disbursements could easily be handled through the 29A process. In addition, while we understand that the resolution requires two signatures on each check, the bank only requires one signature to process the check, which is a control weakness.

Finding #8

There is no segregation of duties between the receipt collection and the issuance of the liquor license. The staff person verifies the application, verifies the total of fees to be paid and takes the payment down to the Department of Revenue for deposit. Lack of proper segregation of these duties can lead to fraudulent activity, where the employee could collect the fees for the license, retain the fees and still issue the license to the applicant without any verification from a separate individual that all licenses issued are supported by proper payments.

Recommendation

We recommend the staff review the application for the appropriate documents and the dollar amount, issue the client an approval form signed by the Liquor Control staff and have the applicant bring the payment directly to the Department of Revenue. When the applicant brings back the application with the payment recorded on the application, the Liquor Control staff can then proceed to issue the liquor license.

Management Response

While we understand the rationale of the findings and recommendations as stated, we respectfully disagree with the conclusions and inferences that are made. The Liquor Control Commission has consistently made all the requisite steps to ensure that all financial audit protections are in place and all transactions are safe. Currently, LCC maintains a NOW interest-bearing checking account. That account has three signatories, of which two people need to sign any check pursuant to a County Resolution. The checkbook is kept in a secure section of the Department of Revenue which is in close proximity to the

staff of the LCC. That process accomplishes two substantial audit controls in that deposits and withdrawals are not made by the same entity and that more than one signer is required to sign a check (withdraw funds). Monthly bank statements are mailed to the LCC staff and copies are provided to staff at the Department of Revenue who then reconciles the account and checkbook. Those copies are provided by scanning the statements and emailing the scanned documents; thereby reducing the amount of paper usage. Both sides of the audit control, Revenue and the LCC, are able to see the statements and examine for any incongruent entries which provides another audit control.

We are unable to agree with the concern that providing product simultaneously as accepting payment for that product creates an audit concern. That is typical of how business is done whether the transaction occurs in the private realm or in government. There are already significant controls in place to reconcile the LCC accounts for the funds it receives. It regularly transfers the funds in the account to the County Treasurer so that the County can best use that revenue by earning a higher rate of interest or return than can be provided by a simple NOW account. Taking into consideration the substantial safeguards that are in place, new controls suggested by the County Auditor in other findings in this report, and the value of efficient customer service to our client licensees, the Cook County Government is best served by maintaining the current operation that is in place.

Auditor Comment

In order to strengthen the internal controls over the handling of checks, we still recommend that the customer take their payment to the Department of Revenue after their application and fees due have been reviewed and approved by the Liquor Control Commission. Once the fees have been paid, and proof of such payment is presented to the Liquor Control Commission, the new liquor license should be issued.