# STATE OF NEW HAMPSHIRE
# LIQUOR COMMISSION

## MANAGEMENT LETTER
## FOR THE FISCAL YEAR ENDED JUNE 30, 2015

*To The Fiscal Committee Of The General Court:*

We have audited the financial statements of the New Hampshire Liquor Commission as of and for the fiscal year ended June 30, 2015 and have issued our report thereon dated January 15, 2016.

This management letter, a byproduct of the audit of the New Hampshire Liquor Commission for the fiscal year ended June 30, 2015, contains our auditor's report on internal control over financial reporting and on compliance and other matters and related audit findings. The appendix, on page 31 of the management letter, provides a summary of the status of observations presented in the fiscal year 2014 management letter of the Liquor Commission.

The New Hampshire Liquor Commission's fiscal year 2015 Comprehensive Annual Financial Report can be accessed online at:

http://www.gencourt.state.nh.us/LBA/AuditReports/FinancialReports/pdf/Liquor_2015_CAFR.pdf

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

January 15, 2016

**STATE OF NEW HAMPSHIRE**
**LIQUOR COMMISSION**
**2015 MANAGEMENT LETTER**

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* Audit comments suggest legislative action may be required.

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This report can be accessed in its entirety on-line at:http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx

**Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards***

*To The Fiscal Committee Of The General Court:*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the New Hampshire Liquor Commission (Commission) which comprise the Statement of Net Position as of June 30, 2015 and the Statements of Revenues, Expenses and Changes in Net Position and Cash Flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated January 15, 2016. Our report includes an emphasis-of-matter paragraph noting the Commission's adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting For Pensions* as amended by GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date* in the fiscal year ended June 30, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the following observations, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in Observation No. 1 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Observations No. 2 through No. 15 to be significant deficiencies.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Observations No. 16 and No. 17.

**Liquor Commission's Responses To Findings**

The Commission's responses to the findings identified in our audit are included with each reported finding. The Commission's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**Purpose Of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Liquor Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

January 15, 2016

## Internal Control Comments
## Material Weakness

**Observation No. 1: Strengthen Core Financial Accounting And Reporting Resources**

*Observation:*

Delays in meeting financial statement reporting goals and the identification of certain financial reporting errors during the fiscal year 2015 audit of the Liquor Commission's financial statements, as discussed in more detail in other observations in this report, indicate a fundamental problem in the Liquor Commission's financial activities and reporting structure.

At its base, financial reporting should be a routine process. That is, the process and experience of one year should be understood and incorporated into the financial reporting of the following year. Accounting policies and practices, including how to arrive at ending balances, where amounts are found in the accounting records, what amounts are based on estimates and how those estimates are made, and what amounts have a direct effect on the subsequent period and how those affected accounts are reflected, should all be identified, discussed, and supported in the accounting records. This ensures that the financial activity, and the results of that activity, are consistently reported and flow from the financial statements of one period to the next. This understanding and documentation of the financial accounting and reporting routine appears to be missing at the Liquor Commission.

Fiscal year 2015 was the third consecutive year the Liquor Commission's financial statements were audited.[1] During that period, the Liquor Commission's financial reporting staff changed several times, with the result that an understanding and development of a routine process and financial reporting practice based on employee experience has not had an opportunity to develop. Compounding this problem is the fact that the Liquor Commission has not adequately documented its financial reporting process and practices, as reported in Observation No. 2. Subsequent to long-standing employees leaving service during fiscal year 2014, the Liquor Commission recognized that there was a lack of documented processes supporting the preparation of the financial statements. This situation was exacerbated during fiscal year 2015 when the Liquor Commission's chief financial reporting position again became vacant, prior to any concerted effort by the Liquor Commission to establish a practice of documenting the financial statement preparation process.

The lack of depth in the Liquor Commission's financial reporting structure and process, combined with limited assistance received by the Commission from the Department of Administrative Services, contributed to delays in the Liquor Commission meeting financial reporting deadlines, and to errors in reported financial activity. The significance of the delays in the preparation of the financial statements and the nature of the errors identified in the drafts of those statements caused the auditors concern about the timely completion of the fiscal year 2015 financial statements and the related audit.

[1] Both the fiscal year 2013 and fiscal year 2014 management letters reported material weaknesses in the Liquor Commission's core financial accounting and reporting resources.

*Recommendation:*

As recommended in both the fiscal year 2013 and fiscal year 2014 management letters, the Liquor Commission should strengthen its core financial accounting and reporting resources.

- The Commission should ensure its key financial accounting and reporting personnel have sufficient training and resources to allow them to adequately perform their responsibilities. When necessary and appropriate, the Commission's financial accounting and reporting staff should reach out for assistance to other personnel within the State with more subject matter expertise or training.
- The Commission should establish comprehensive and documented policies and procedures for all critical financial accounting and reporting activities in order to support the responsibilities of key employees, and to provide for a continuity of operations upon employee turnover. All financial transactions should be sufficiently supported and documented to allow for an understanding of the transactions, both for the current accounting and reporting period and for possible accounting and reporting effects in future periods.

*Auditee Response:*

Concur.

The financial reporting issues which are mentioned in more than half of the observations in this audit are a direct result of the Finance Section staff vacancies that occurred for lengthy periods during fiscal year 2015 to include the two most senior positions - Chief Financial Officer and the Comptroller. All told, certain positions in the Finance Section were vacant for over 1,000 hours during fiscal year 2015. This clearly had an adverse impact on the operations of the Finance Section.

The Commission, in operating with the above mentioned staff shortages, made a conscious decision to make financial reporting the priority mission. Creating, modifying and implementing policies and procedures was a secondary mission.

The Commission will continue to strengthen its financial accounting and reporting policies, procedures and resources.

## Significant Deficiencies

**Observation No. 2: Establish Written Policies And Procedures To Support All Significant Financial Accounting And Reporting Activities**

*Observation:*

Errors in the Liquor Commission's processing of yearend transactions identified during the audit highlight the opportunity to move towards more controlled and consistent operations, that could be realized through an effort to better document standard policies and procedures for the Liquor Commission's financial accounting and reporting processes. Examples of errors noted include:

1. In removing the demolished Hooksett North and South stores from the capital asset records, related building improvements and accumulated depreciation balances were not properly accounted for, resulting in a $99,000 overstatement of building improvements and accumulated depreciation at June 30, 2015.

2. The form used by the Liquor Commission to report yearend accounts payable in support of the amounts reported on the June 30, 2015 financial statements was not subject to a review and approval control, as the form was prepared by the employee who submitted the report. The Liquor Commission could not support $936,000 of accounts payable included on the June 30, 2015 report.

3. Payments for the installation of a boiler in the Liquor Commission's warehouse were made even though the vendor's invoice did not provide the detail required by the contract. The contract states, "All invoices must include detail of work performed, dates, location of services and prices." The invoice was paid even though it did not include information on the dates the work was performed or the breakout of labor and material charged for the invoiced work.

4. Approximately $320,000 of fiscal year expenditures for building improvements initially paid for by the State's Capital Projects Fund were not recorded in the Liquor Commission financial statements, understating both the amount Due to the Capital Fund and additions to the Building Improvements accounts.

5. Promotional fees paid by brokers during the last quarter of fiscal year 2015 were posted in error to an unused Stock In Trade account. The employee who had taken over responsibility for recording promotional fees was unaware of the proper accounting treatment due to a lack of relevant documented policies and procedures. A correcting entry was completed prior to yearend.

While none of the identified items were materially significant, the nature of the identified errors indicate processes failed either because an appropriate control process was not designed and implemented; or an appropriate control process was not accurately performed. The likelihood of similar errors reoccurring could be reduced by establishing comprehensive, well-designed, and effectively communicated policies and procedures that support the Commission's accounting and financial reporting processes.

*Recommendation:*

The Liquor Commission should establish written policies and procedures to support all significant financial accounting and reporting activities. Regular training, including cross-training, should occur so the Commission can operate in a controlled and efficient environment, even when there is turnover in key employee positions.

Employees performing nonroutine transactions, including yearend transactions, should be encouraged to regularly reference the policies and procedures documentation to ensure they are performing their responsibilities as intended, and that the policies and procedures remain relevant to their activities.

*Auditee Response:*

Concur.

The Commission will insure that financial accounting and reporting policies and procedures are current and can be clearly followed and performed by new personnel filling positions in the Finance Section.

It is important to note that many of these oversights were due to finance personnel performing in new positions or were performing their own job responsibilities along with the job responsibilities of certain vacant finance positions.

**Observation No. 3: Document The Responsibilities Of Key Employees**

*Observation:*

The Liquor Commission has not sufficiently documented the responsibilities of employees who hold key positions in the Commission's Business Office, including the accounts receivable supervisor, in order to reasonably guard against disruptions of operations if those key employees terminate their employment unexpectedly.

The accounts receivable supervisor oversees the daily reconciliation of store and warehouse sales and receipts activity to the bank and credit card processor information. This position relies upon numerous spreadsheets and the employee's institutional knowledge from years of experience in the position. That experience and understanding of the Liquor Commission's unique revenue systems makes the accounts receivable supervisor position important to the Commission's continuity of operations. There currently are no formal policies and procedures or other supporting descriptions of the job activities of the accounts receivable supervisor that would allow someone else to readily understand and perform those responsibilities in the event of unplanned employee turnover in that position.

Maintaining current and detailed policies and procedures promotes continuity of operations and includes the documentation of significant employee activities to ensure clarity and understanding of both their purpose and process. Documented job responsibilities can also be used to monitor employee performance.

*Recommendation:*

The Liquor Commission should ensure it documents with policies and procedures the responsibilities of employees who are critical to the Commission operations, including the accounts receivable supervisor.

The documentation of the job responsibilities of key employees should be sufficiently detailed to provide for reasonable continuity of operations in the event of unplanned employee turnover.

*Auditee Response:*

Concur.

All job responsibilities performed by the accounts receivable supervisor have been cross-trained to others in this section. During the current fiscal year (fiscal year 2016), we have cross-trained 36 tasks within the accounts receivable section. At least two staff members in this section know how to perform every job duty.

It is important to note that this section underwent significant disruption during fiscal year 2015 due to the loss of staff in this section and the significant number of days the Accountant I position was vacant.

**Observation No. 4: Establish Risk Assessment Process And Related Planning**

*Observation:*

The Liquor Commission did not have a formal risk assessment process, disaster recovery plan, or a business continuity plan in place during fiscal year 2015. The related controls provided by a well-designed risk assessment process and disaster recovery and continuity of operation planning are intended to minimize the risk to operations if a foreseeable disruptive event were to occur.

In response to a similar fiscal year 2014 audit comment, the Liquor Commission stated that a continuity of operation plan, which would also address disaster recovery, was in draft form and would be completed by September 2015. The Liquor Commission subsequently reported the intended timeframe was altered during fiscal year 2015 as a result of Homeland Security advising the Liquor Commission to prepare an individual plan for each of the Liquor Commission's divisions.

*Recommendation:*

The Liquor Commission should establish a formal risk assessment process to identify and to appropriately respond to significant risks facing its operations.

The Liquor Commission should continue its establishment of disaster recovery and continuity of operations plans that address significant risks identified.

*Auditee Response:*

Concur.

The Liquor Commission completed a Continuity of Operations plan for the Division of Enforcement & Licensing on January 7, 2016 and a plan for the Divisions of Administration & Marketing, Merchandising & Warehousing on February 11, 2016.

## Observation No. 5: Review The Need For Significant Overtime

*Observation:*

Certain Liquor Commission employees were reported to have worked a significant number of hours in excess of their regular workdays during calendar year 2015. Work in excess of the scheduled workday is recorded as either compensatory time or overtime, depending upon whether it is anticipated the employee will be compensated with compensatory leave time or overtime pay. Accrued compensatory time that exceeds certain limits is paid out to the employee as paid compensatory time. Requiring or allowing a certain few employees to work an unusually large number of excess hours could be viewed, at best, as indicative of an organization under stress.

1. The Liquor Commission business office is scheduled to be open 1,875 hours per year. Calendar year 2015 payroll records report two high-level finance employees and an information technology employee in the Liquor Commission business office worked 792, 568, and 458 hours, respectively, in paid compensatory and overtime hours. These excess hours were equivalent to 2.1, 1.5, and 1.2 additional days of work per week, respectively, for the three employees and increased their calendar year 2015 earnings by $28,648, $22,511, and $19,003, respectively.

   Payroll records indicate one of the three noted business office employees was fulltime with the Commission and accrued 336 hours of compensatory hours during calendar year 2014. One noted employee began work with the Liquor Commission in October 2014, and earned 58 hours of compensatory time in calendar year 2014. The other noted employee began employment with the business office in January 2015.

2. Liquor enforcement officers are scheduled to work 2,080 hours per year. Liquor Commission payroll records report one enforcement officer worked 1,027 hours of paid overtime during

calendar year 2015. This number of overtime hours was equivalent to an additional 25.7 weeks of work, or 2.5 additional days of work per week, and increased the employee's calendar year 2015 earnings by approximately $45,000. No other Liquor Commission enforcement officer was paid for more than 434 hours of paid overtime during calendar year 2015.

While the Liquor Commission encountered challenges during calendar year 2015, including key employee turnover in the business office that undoubtedly stressed its operations, it is not clear that allowing a certain few employees to regularly work unusually large amounts of paid compensatory time and overtime represented prudent management.

*Recommendation:*

The Liquor Commission should review the business circumstances that caused and allowed three business office employees and an enforcement officer to regularly work significant numbers of hours beyond their scheduled workdays.

The Liquor Commission should review its allocation of job responsibilities and better distribute those responsibilities across its workforce to reduce the risk to its operations of relying on the performance of too few employees for its successful operations.

*Auditee Response:*

Non-Concur.

The Liquor Commission strongly objects to this observation. While other state agencies may be "open" 1,875 hours per year, the Liquor Commission is a 24/7 retail operation. As such, the demands on our employees exceed that of a typical state agency. Those demands start and end with an expectation of certain revenue expectations from the Governor and Legislature and high quality service to our business partners and our customers.

The LBA acknowledges that we have experienced significant personnel turnover in key financial positions over the past two years, yet it fails to acknowledge the need – particularly in the financial and information technology (IT) areas – for new individuals to have to spend additional work time to attain the proficiency required to perform their jobs properly and to insure our financial and information technology operations are adequately supporting the overall mission of the Commission.

Six positions in the Finance Section and our IT Lead position were vacant for approximately 478 days (3,585 hours) during fiscal year 2015. Total compensation not paid out due to these vacancies exceeded $109,000. Overtime in the amount of $70,162 was paid to three individuals who were performing the duties of multiple vacant positions besides their own. While certainly not an optimal situation, the Commission and its employees did what was needed to be done to properly maintain the integrity of our overall financial and IT operations.

Regarding the business office employees, the extra hours worked were a direct result of their being assigned to new positions and taking on new duties and responsibilities.

Concerning the Enforcement Division employee, a Sergeant, is a labor grade 20, step 7 with an hourly wage of $30.92 calculating to an overtime compensation of $46.38 per hour.

The reason for the employee's final yearly compensation total for fiscal year 2015 is three fold:

- The employee, due to staffing shortages, occasionally was called upon to cover other areas and calls for service. The Division was short 2 to 3 investigators during fiscal year 2015, and this sergeant was responsible for covering two counties and half of another county and dealt with all licensee issues in these counties himself. When issues arise with a licensee, they must be investigated immediately.
- The employee is an energetic person that will work any overtime the division offers. Such as holiday details and store security, special OUIL assignments etc.
- The employee worked many hours of federal grant time that is compensated at an overtime rate of pay.

The Division of enforcement field unit members work 160 hours in a 28 consecutive day schedule by collective bargaining agreement. That schedule affords the investigator ample time to be rested and assume additional assignments with overtime compensation.

For the LBA to assume there was a lack of appropriate management oversight in the Finance Section and Enforcement Division that contributed to these employees receiving a higher than typical final yearly compensation is factually inaccurate.

As a point of information, this situation continued into a portion of fiscal year 2016, and we experienced similar overtime use during that period as well.

It is also important to note that based on fiscal year 2014's audit Observation No. 1: Strengthen Core Financial Accounting And Reporting Resources, we requested two new finance positions during the fiscal year 2016-2017 biennium budget process, a Financial Analyst and Internal Auditor II. Both positions were approved however they are to remain unfunded until January 1, 2017.

Also based on the audit observations and after re-evaluating the structure of the finance department we will request additional positions to help strengthen our Finance Section.

*LBA Rejoinder:*

The audit comment did not state or assume there was a lack of appropriate management oversight. The comment questioned whether allowing a certain few employees to regularly work unusually large amounts of paid compensatory time and overtime represented prudent management. Concentrating responsibility with, and relying on the expertise of, so few business office employee positions increases the risk an organization will be challenged when facing unplanned employee turnover, as apparently happened during calendar year 2015. It should also not be overlooked that the hours and amounts incurred during calendar year 2015 were highly unusual for a State business office.

**Observation No. 6: Record Expenses In The Liquor Commission Fund**

*Observation:*

Certain expenses incident to the administration of the Commission during fiscal year 2015 were not paid from the Liquor Commission Fund established by RSA 176:16.

1. The Liquor Commission did not pay the full invoiced amount for its share of State-wide indirect costs for fiscal year 2015. The Liquor Commission was billed $1,981,482 in indirect costs and paid $835,060, its budgeted appropriations, for the fiscal year. The Liquor Commission did not accrue an accounts payable for the unpaid balance.

   Statewide indirect costs are the costs of the State's central services that support general agency operations. The Statewide indirect costs are allocated and billed to self-supporting State agencies enabling those agencies to pay, and also recover for the State, their proportionate share of the central service costs. The Department of Administrative Services develops and documents the Statewide [central services] cost allocation plan (SWCAP) which is submitted to the office of the Division of Cost Allocation of the U.S. Department of Health and Human Services (Region I) for approval for participation by federal financial programs. Upon approval by Health and Human Services, the plan and indirect cost allocation is binding on all state agencies listed, as well as all federal agencies furnishing grants to the State. The figures are not negotiable once approved by Health and Human Services.

   The Liquor Commission reported it did not pay the full billed amount as there were insufficient appropriations in the relevant expenditure class to make the full payment. As a result, the Liquor Commission did not pay approximately $1.1 million of the billed amount.

2. The Liquor Commission did not reimburse the State's General Fund $2.5 million for a legal settlement initially paid on the Commission's behalf during fiscal year 2015, or reflect the cost on its fiscal year 2015 financial statements.

   Chapter 144:99, Laws of 2013 states, "Notwithstanding any other law to the contrary, for the biennium ending June 30, 2015, the liquor commission shall reimburse the cost for any legal services provided by the department of justice to the commission that would not normally be included as part of the statewide cost allocation paid by the commission."

   During fiscal year 2015, the State's General Fund paid $2.5 million to a plaintiff in settlement of a contracting claim. The Liquor Commission did not reimburse the General Fund or reflect the cost of the settlement on its fiscal year 2015 financial statements. The legal settlement was a cost of the Liquor Commission's administration during fiscal year 2015 and should be reflected in the Liquor Commission's financial statements. The amount paid by the Department of Justice to settle the claim should be reimbursed by the Liquor Commission.

As a result of the above noted omissions, the fiscal year 2015 Liquor Commission financial statements do not reflect the Liquor Commission's complete cost of operations. The unpaid indirect costs and the cost of the legal settlement were paid by the General Fund and were not reflected in the fiscal year 2015 financial activity reported in the Liquor Commission Fund.

*Recommendation:*

All expenses incident to the administration of the Liquor Commission should be paid from, and recorded in, the Liquor Commission Fund, in order to have a more complete and accurate accounting for, and reporting of the financial operations of the Liquor Commission, including the Commission's net position and results of operation.

1. The Liquor Commission should pay its proportionate share of the approved SWCAP amount. If appropriations are insufficient to support full payment of the bill, the Liquor Commission should request appropriate supplemental appropriations, or transfers of appropriations.

2. The Liquor Commission should reimburse the cost of any legal services provided by the Department of Justice that would not normally be included as part of the statewide cost allocation paid by the Commission, including the cost of legal settlements.

*Auditee Response:*

Concur in Part.

The Liquor Commission has made every effort to pay indirect cost expenses. For the fiscal year 2016-2017 budget process, the Commission budgeted the amount advised by the Department of Administrative Services (DAS) ($835,060) at the beginning of the budget process. When DAS invoiced the Commission for fiscal year 2015, they invoiced a significantly higher number ($1,981,482). The Commission was not in a position to change our budgeted amount in that the budget had long since been finalized by the Legislature. We paid DAS the amount they originally requested at the beginning of the budget process. This situation can be avoided in the future by invoicing the same amount as DAS projected at the beginning of the budget process. This problem could occur again if DAS invoices the Commission for an amount above what was budgeted for fiscal year 2016 and fiscal year 2017.

The Commission believes there is a need for the State to review the statewide cost allocation plan methodology (SWCAP) as the costs for simple financial and human resource transactions appear to have increased rather dramatically in the past few years compared to historical increases in our SWCAP since the implementation of Lawson.

Regarding the $2.5 million payment to a plaintiff to settle a contract claim, the N.H. Department of Justice told us that this payment would not come out of the Commission's budget. We understood that this money would come from the Treasury from funds not otherwise appropriated.

RSA 491:8: Actions Against State, states that for any judgment, if the agency does not have amount budgeted, then the attorney general will seek the amount from the general court. In this instance, the amount was not budgeted and the attorney general did not go to the general court because the amount was under the threshold which requires them to do so (14:35-b).

*LBA Rejoinder:*

RSA 491:8, *Actions Against State,* states in part,

> The attorney general, upon the presentation of a claim founded upon a judgment against the state, shall submit the claim to the department or agency which entered into the contract, and said department or agency shall manifest said claim for payment from the appropriation under which the contract was entered into; provided, that if there is not sufficient balance in said appropriation, the attorney general shall present said claim to the general court for the requisite appropriation.

It is clear from the statute that the Commission's accounts should be charged for the contract claim and, as such, the Commission's financial statements should report that charge, whether funded from Liquor Commission funds prior to transfers to the General Fund, or from the General Fund balance subsequent to transfers.

**Observation No. 7: Strengthen Financial Accounting For, And Reporting Of, Capital Assets**

*Observation:*

The Liquor Commission experienced a delay in its preparation of the June 30, 2015 long-term capital asset schedules and disclosures. Drafts of the schedules included errors in reported balances and activity indicative of problems obtaining, interpreting, and reporting the relevant data.

The Department of Administrative Services' (DAS) fiscal year 2015 *Annual Closing Review* instructions directed agencies to submit a *Fixed Asset Rollforward* (Exhibit E) by August 3, 2015. The Liquor Commission did not submit the June 30, 2015 Exhibit E to DAS until November 2, 2015. The following issues were noted in a review of data reported on the draft Exhibit E.

- Approximately $700,000 of manual adjustment entries that were booked in fiscal year 2014 and reflected in the July 1, 2014 beginning balances were also included as fiscal year 2015 additions and transfers out of activity on the Exhibit E, overstating the fiscal year 2015 addition and transfer activity, but not affecting the June 30, 2015 reported asset balances.

- Prior to fiscal year 2015, the Liquor Commission recorded manual capital asset account adjustments in the State accounting system (NHFirst). These entries, recorded in the subsequent year, allowed the Liquor Commission to use NHFirst to track asset balances. However, the Liquor Commission did not record $1.6 million of fiscal year 2014 capital asset account adjustments in NHFirst. This lack of continuity of practice during fiscal year 2015 may have contributed to the Liquor Commission's difficulty in the completion of the fiscal year 2015 Exhibit E, and may complicate tracking capital asset balances in future years.
- In its fiscal year 2015 Exhibit E reporting, the Liquor Commission decided to separately report leasehold improvements that had been reported in the building and building improvements accounts in prior years. Instead of restating the July 1, 2014 asset balance on the Exhibit E to reflect this breakout, the Commission posted a $1.8 million "decrease" to buildings and a corresponding "increase" to leasehold improvements, misstating the activity in these accounts on the Exhibit E.

The Liquor Commission employee who prepared the fiscal year 2015 Exhibit E reported spreadsheets were used to support the Exhibit E, and not the database application that had been used in prior years. It is generally understood that databases provide a more controlled process than a spreadsheet, as a spreadsheet presents greater exposure to clerical, formula, and logic errors, as well as increased risk of inconsistent application of processes from period to period. It is not apparent that the risk of exposure in transitioning from the database to the spreadsheets for the preparation of the Exhibit E was fully considered and approved by Liquor Commission management.

*Recommendation:*

The Liquor Commission should strengthen its financial accounting for, and reporting of, capital assets. The Liquor Commission should establish capital asset policies and procedures that promote adherence to the State's policies and procedures and also provide for the information needed for the Liquor Commission and State to account for and report their capital assets.

The Liquor Commission should review the rationale for transitioning from its database application to a spreadsheet to accumulate and report capital asset activity for fiscal year 2015. While the use of the spreadsheets in fiscal year 2015 likely was expedient, the errors in reporting experienced in fiscal year 2015 are indicative of the problems that can result with unplanned changes in accounting and reporting procedures. The Liquor Commission should review the utility of its current database and, if necessary, consider implementing a new database system to account for and report the financial balances and activity in its capital asset accounts, an increasingly important aspect of the Liquor Commission's business with the recent and future rebuilding and remodeling of stores.

*Auditee Response:*

Concur.

The Commission will review (and revise as required) its capital asset policies and procedures to ensure adherence to State policies and procedures. The Commission will also immediately begin researching and evaluating the use of a database system to track capital asset accounts.

**Observation No. 8: Review The Operating Effectiveness Of Capital Asset Expenditure Controls**

*Observation:*

A key capital expenditure control was not consistently operating as designed during fiscal year 2015.

The Liquor Commission reported it had a control that required:

1. Capital expenditures for building construction to be approved by both the Department of Administrative Services' Division of Public Works Design and Construction (DPWDC), consistent with RSA 21-I:83, and a Liquor Commission supervisor or division director.

   For two of the six building-addition expenditures tested, the Liquor Commission paid the invoice even though the DPWDC did not recommend payment, as further described below.

   - The DPWDC did not recommend payment of one invoice since, according to the DPWDC, the contractor had already been paid for work that had been completed.
   - The DPWDC did not recommend the payment of an invoice for retainage. An email provided by the Liquor Commission indicated the Department of Justice recommended the Liquor Commission pay the invoice to avoid potential legal issues. However, there was no evidence a Liquor Commission supervisor or director approved the payment.

2. Equipment purchases to be approved by a Liquor Commission supervisor or division director.

   - For one of four equipment additions tested, there was no evidence a Liquor Commission supervisor or division director approved the related invoice prior to payment.

*Recommendation:*

The Liquor Commission should review the operating effectiveness of its capital asset expenditure controls to determine whether the above noted instances where the control did not operate as designed indicates the need to revise the control, or to better document exceptions in the application of the control.

*Auditee Response:*

Concur.

The Commission reviewed and increased its capital asset expenditure controls by documenting and improving the process flow. All building construction invoices will be approved by both the Department of Administrative Services' Division of Public Works Design and Construction (DPWDC) and one of the following Liquor Commission employees: Chairman, Assistant Commissioner, Director of Administration or the Real Estate Administrator. Other State projects costing over $25,000 and equipment purchases will be approved by one of the Liquor Commission Directors or the Chief Financial Officer. Additionally, the Liquor Commission Internal Audit staff verifies invoices are appropriately signed and approved prior to approving vendor payments.

**Observation No. 9: Ensure Store Employees Comply With Cash Handling Policies**

*Observation:*

Despite random reviews by area store supervisors that began in June 2014, Commission stores continue to have difficulty complying with the Store Operations Manual and the store operating policies for handling cash. The policies are intended to establish and maintain accountability and control over store receipts. A similar comment was included in the fiscal year 2013 management letter.

A review of end-of-day documentation for a sample of 29 stores indicated that 27 stores did not fully comply with the Liquor Commission's November 22, 2011 Cash Handling Policy, or the Cash Control and Security Policy 2-1, Void Procedures contained in the Store Operations Manual dated May 9, 2012.

1. Of the 29 stores tested, twelve (41.4%) fully complied with the policy requiring the utilization of cashier pickup slips that listed daily cash activity by cashier. One store did not print the required cashier pickup slips, five stores included the slips but neither the manager nor the cashier signed them, five stores included only the manager's signature on the slip, five stores included only the cashier's signature on the slip, and information from one store was not available.

2. Of the 29 stores tested, five (17.2%) fully complied with the cashier accountability report procedures outlined in the policy. The cashier accountability reports for five stores were missing entirely. The reports for 11 stores were not signed by either the manager or the cashier. The reports for six stores were either signed by the cashiers or the manager, but not both, and the reports for two stores were signed by some but not all of the cashiers at the store.

3. Only one of the 15 stores (6.7%) with void sales complied with the policy's void procedures.

4. The store reconciliation control described in the Cash Handling Policy did not appear to be in place at 27 of the 29 stores (93.1%) reviewed. The Liquor Commission's Business Office does have a compensating reconciliation control, where the accounts receivable section reconciles each store's bank deposits and reported financial activity.

*Recommendation:*

The Liquor Commission should ensure that all store employees are familiar with and comply with the current cash handling policies. Store managers and supervisors should review and revise, as appropriate, their current monitoring and enforcement efforts to make them more effective.

If the Liquor Commission determines current policies and procedures are no longer relevant to the Liquor Commission's control objectives, the Liquor Commission should revise and establish policies and procedures that are achievable by the stores and are responsive to the Liquor Commission's current operations and control objectives.

*Auditee Response:*

Concur.

Current cash handling procedures are relevant to our control objectives. The Commission will re-train all store managers and employees responsible for handling cash. This re-training will be completed by November 15, 2016. Furthermore, this will be a regular topic of discussion at all future area supervisor and store manager meetings.

Additionally, the Liquor Commission Internal Auditors will insure that when they perform full store audits, they are analyzing the stores financials to make sure they are complying with the Cash Control Policy. The Internal Auditors will make sure they include this in all full audits until the level of error is in a normal range of errors.

**Observation No. 10: Adhere To Statewide Policies And Procedures For Recording And Reporting Accounts Receivable**

*Observation:*

The Liquor Commission was not in compliance with certain statewide procedures for recording and reporting yearend accounts receivable during fiscal year 2015. Inconsistent application of accounting procedures increases the risk of errors and other misstatements in financial reporting.

The statewide yearend accounts receivable recording process is documented in the *State of New Hampshire Annual Closing Review.* Given that the determination of yearend accounts receivable is made annually, the Liquor Commission's yearend accounts receivable process should be routine in nature with accounts receivable recorded for restricted revenue accounts coded to automatically reverse in the new fiscal year, cash-in-transit should not be recorded as a yearend accounts receivable, and accounts receivable should be recorded in the appropriate accounts so revenue activity from period to period is comparable and accurate. During our review of the June 30, 2015 accounts receivables, we noted the following instances where the Liquor Commission was challenged in accounting for and reporting accounts receivable at June 30, 2015.

1. The Liquor Commission neglected to identify some June 30, 2014 accounts receivable to be automatically reversed in fiscal year 2015. This oversight resulted in a $190,000 overstatement of fiscal year 2015 revenue and yearend accounts receivable.

2. The Liquor Commission neglected to reverse $1.2 million of June 30, 2014 beer tax accounts receivable, prior to the preparation of the unaudited fiscal year 2015 financial statements. In recording the June 30, 2015 beer tax receivable, the Liquor Commission posted a net correcting amount, instead of reversing the June 30, 2014 amount and recording the June 30, 2015 amount. While there was no negative effect on the financial statements, posting a net amount is inconsistent with the procedures described in the *Annual Closing Review* and potentially complicates the review and understanding of the transaction in a subsequent period.

3. The Liquor Commission's chart of accounts includes specific accounts to record debit and credit card accounts receivable. However, the Liquor Commission posted the entire June 30, 2015 credit and debit card accounts receivable balance of $920,000 to a generic accounts receivable account, and not to the applicable card-type accounts. While the reported June 30, 2015 accounts receivable balance was not misstated, inconsistent use of appropriate detail accounts makes review and analysis of account activity problematic and complicates the preparation of accurate and consistent financial reporting from period to period.

4. As the result of an oversight, the Liquor Commission recorded $1.5 million of June 30, 2015 Cash in Transit as accounts receivable, overstating the June 30, 2015 accounts receivable balance and understating cash by the same amount. The Liquor Commission subsequently prepared a correcting entry to properly reflect the transaction as cash.

*Recommendation:*

The Liquor Commission should adhere to statewide policies and procedures for recording and reporting accounts receivable. These statewide policies and procedures should be supplemented as appropriate to address the Liquor Commission's specific accounts and accounting structure to provide for consistent accounting for, and reporting of, accounts receivable and related revenues. The Liquor Commission's policies and procedures should include review and approval and other control activities, and monitoring controls to ensure procedures remain appropriate and are operating as intended.

*Auditee Response:*

Concur.

The Commission will insure that the Chief Financial Officer or Controller review year-end accounts receivable transactions. A procedure is currently being drafted to comply with the state-wide policies.

**Observation No. 11: Strengthen Controls Over Refunds**

*Observation:*

The Liquor Commission did not have adequate controls in place over significant risks related to the manner in which its Business Office processed certain credit and debit card refunds during fiscal year 2015.

Most credit and debit card refunds transacted by the Liquor Commission are processed at the stores in a relatively secure manner that only allows the refund to be applied to the account of the card used to process the original transaction. Credit and debit card refunds processed through the Business Office follow a different process. Full refunds processed by the Business Office have the same control as the store refunds, in that the complete sales transaction is reversed back to the original credit or debit card account number and amount. The refund operator cannot change the card and account number the refund is paid to or the amount paid. Partial refunds processed by the Business Office are processed with a different program where the refund processor enters the card number to which the refund is paid and the amount to be refunded. The partial refund process essentially allows one employee to initiate and make a disbursement, without any review and approval control over the amount or account to which money is disbursed.

Recognizing the weakness in its partial refund process that allows an operator either by error or fraud to improperly disburse money, the Liquor Commission implemented a control in the fall of 2014 whereby all Business Office refunds were to be reviewed and approved by the Internal Auditor, who is otherwise independent of the refund process. The Liquor Commission did not support the operation of this control with a documented policy and procedure, and it is unclear when the control was actually implemented.

A test of 10 large refunds processed at the Business Office during fiscal year 2015 noted the following errors.

- For three of the tested refunds, there was no evidence that the internal auditor reviewed and approved the refunds prior to the refunds being made. These three refunds were processed in December 2014, presumably after the implementation of the Liquor Commission’s control described above. No monetary errors were noted in the refunded amounts.
- For one tested refund processed prior to the implementation of the control, the cardholder was incorrectly provided a full refund, resulting in a $599 overpayment of the refunded amount.

*Recommendation:*

The Liquor Commission should strengthen controls over refunds. The Liquor Commission should review the business case for accepting the significant risks of allowing an employee to change card account numbers when processing refunds from the Business Office.

Employees should not be allowed to both initiate and make a disbursement without appropriate controls in place. The Liquor Commission should further review its refund process to implement appropriate controls intended to limit the risk inherent in credit and debit card refunds. Effective review and approval controls should be implemented that minimize the risk that refunds will be directed to erroneous or fraudulent accounts. The effectiveness of those controls should be continuously monitored to ensure the controls remain in place and relevant to the perceived risk.

*Auditee Response:*

Concur.

The documented refund procedure was developed in fiscal year 2015. The Commission will review, update, formalize and implement the refund procedure by June 30, 2016.

**Observation No. 12: Perform Regular Control Activities Over MAPPER System**

*Observation:*

The financial and other operations of the Liquor Commission continue to be challenged by problems with its primary computer information system, MAPPER, including issues with the Liquor Inventory Distribution System (LIDS) component of MAPPER and the related controls over that system.

1. Programming peculiarities in LIDS combined with irregular but not infrequent inventory transactions resulted in material errors being posted to inventory accounts during July and August of 2014 and a significant error being posted in May of 2015. The effects of these errors were also posted to the State accounting system, NHFirst, resulting in a $130 million variance between the $519 million of product recorded as purchased during fiscal year 2015 in LIDS and the $649 million of additions posted to the NHFirst inventory account during the period. The Liquor Commission reported there were no relevant automated data checks in LIDS to alert management of the potential of these large inventory anomalies or errors as occurred during fiscal year 2015. While the Liquor Commission's preparation of monthly income statements normally includes reconciliations between LIDS and NHFirst, which likely would have identified the errors, the inconsistent data was not initially identified, as the Liquor Commission did not prepare monthly income statements or perform the key control of reconciling LIDS purchase and sales transactions to NHFirst data during fiscal year 2015. The Liquor Commission posted correcting adjustments in NHFirst, prior to their preparation of fiscal year 2015 financial statements.

While the root cause of the LIDS programming issue has been identified, the Liquor Commission had not identified a correction to the issue as of December 31, 2015. LIDS is a component of MAPPER, a legacy computer system based in a computer program and language that is no longer supported or in current widespread use. The Liquor Commission relies heavily on one part-time retired Commission employee to provide technical support for the MAPPER information system.

2. An oversight in revising procedures related to a change in the processing of accessory inventory resulted in $500,000 of fiscal year 2015 accessory purchases not being uploaded from LIDS to the NHFirst inventory account. Prior to the change in procedures, accessory inventory was sent directly to stores and the inventory accounts in LIDS and NHFirst were appropriately updated. The interface between LIDS and NHFirst was not updated subsequent to the Liquor Commission's revised procedures and, as a result, the NHFirst inventory account was not routinely updated to reflect the purchases of accessory inventory. The Liquor Commission posted a $500,000 adjustment to correct the reporting of the June 30, 2015 inventory balance.

*Recommendation:*

As long as the Liquor Commission relies on information from the MAPPER, LIDS, and NHFirst systems, the Liquor Commission should establish and perform regular control activities, including reconciliations of related data, to ensure that information provided by the systems is consistently recorded and reliable. Where possible, automated data edit checks should be used to review for and notify users when data is outside of recognized parameters.

The Liquor Commission should consider and respond to the risk posed by its reliance on one part-time retired employee for support of the MAPPER and LIDS systems.

*Auditee Response:*

Concur.

NHSLC had previously identified these business issues with the prior warehouse contractor. When they were identified they were corrected with workflow within the prior warehouse contractor's applications so they would provide the correct information back to the NHSLC.

After the transition to the new warehouse contractor NHSLC, DoIT and the contractor were dealing with new business processes and new applications. The workflow between the contractor's applications and NHSLC applications supported by DoIT is becoming more mature. These same types of issues mentioned in the finding above became an issue early on in the transition to the new contractor, were identified and an action plan and weekly meetings between NHSLC, the contractor and DoIT were put in place to remediate. Prior to this audit finding, workflow within the warehouse contractor and NHSLC applications was identified, created, modified, tested and released in order to remediate the issues and the finding stated above.

In fiscal year 2016 the Chief Financial Officer and Comptroller commenced producing monthly Income Statements along with conducting reconciliations between LIDS and NHFirst. The statements are reviewed by management.

The Liquor Commission does not rely heavily on one part-time Commission employee to provide technical support for the entire MAPPER information system as there are four embedded systems developer resources from DoIT that also support, manage and deliver modifications to the MAPPER systems.

We are comfortable managing any risk given that we will be moving to our Next Gen system within the next 12-18 months, and MAPPER and LIDS will be replaced with new software systems.

*LBA Rejoinder:*

While the Commission reports there are four DoIT employees providing support to the MAPPER systems, the retired part-time employee was identified as the Commission's primary MAPPER system resource, and it was this individual that was responsible for investigating and identifying the source of the inventory discrepancies discussed above.

### Observation No. 13: Review Beer Tax Reporting Processes

*Observation:*

The Liquor Commission has not automated its beer tax reporting system. The beer tax return is a paper-based process that includes taxpayers filing multiple pages of detailed data and schedules.

Beer tax returns are filed on paper Wholesales Monthly Return forms prescribed by the Liquor Commission. The information reported on the Return is supported by Schedules A through G, reporting beer purchase and sales activity by product brand name, size, and type of packaging. The taxpayer returns, and the accompanying tax payments, are processed by liquor examiners in the Division of Liquor Enforcement (Division). Inefficiencies noted within the beer tax reporting process include the following.

1. The paper-based reporting and processing of the amount and detail of information included on the tax forms is inefficient to file by the taxpayer, and inefficient to process by the Liquor Commission. An electronic beer tax filing process could improve the ability of the Liquor Commission to efficiently administer the tax.

2. There is no current structure in the Division to provide an independent review of the work performed by the liquor examiners in processing tax returns.

3. The collection and processing of the beer tax appears to be primarily a financial and clerical based procedure, and not an enforcement based procedure. It would seem more efficient for the Liquor Commission's Business Office to collect and process the beer tax. Information

needed by the Enforcement Division from the beer tax schedules could be made available to the Division as appropriate.

*Recommendation:*

The Liquor Commission should review its beer tax reporting processes.

1. The Liquor Commission should provide an electronic-based process for filing monthly beer tax returns. The use of an electronic-based filing process, such as electronic spreadsheets or datasets, would provide a more efficient and clerically accurate filing process and also make the Liquor Commission's review and use of the submitted tax data more efficient and effective.

2. The Liquor Commission should establish a review and approval control over the processing of the beer tax returns.

3. The Liquor Commission should consider reassigning the processing of tax returns to the Commission's Business Office. The review of the filed returns and deposit of tax receipts is clerical and financial in nature, and the Business Office has the appropriate control structure for that type of activity.

*Auditee Response:*

Concur.

The Enforcement Division will be moving to our Headquarters building in the spring of 2017, and we expect that the Finance Section will, at that time, begin to handle the processing of all checks for auditing and direct shipping. Applicable policies and procedures will be revised to reflect this change. We anticipate that the auditing of tax reports will remain a responsibility of personnel in the Enforcement Division as they are the only ones who can issue violations based on their audits.

**Observation No. 14: Review The Biometric Timeclock System And Ensure Proper Controls Are Implemented**

*Observation:*

The Liquor Commission's implementation of a biometric timeclock system in a limited number of stores during fiscal year 2015 suffered from insufficient planning and assigned resources necessary to promote the controlled and successful implementation of the system.

During fiscal year 2015, the Liquor Commission began using biometric timeclocks in 15 liquor stores. The timeclocks use a fingerprint scan to record the start and end times of employee work days. The Liquor Commission reports it intends to utilize the timeclocks in all stores by March 2016.

The Liquor Commission has a written Timeclock User Guide and Instructions, which provides certain guidelines for using the timeclock, including how to record time, program employees into the timeclock system, and to address "missed punches," fingerprint, and other errors. There are no additional policies and procedures describing control activities, including guidance on how often and at what level of detail managers should review Time/Attendance Detail Reports.

During the fiscal year 2015 implementation of the timeclock system:

1. One employee was primarily responsible for designing the operating functionality of the timeclock system, including forms, reports, data entry (e.g. loading the employees), setting tables, employee parameters, etc. These duties were in addition to the employee's regular responsibilities of administering the Liquor Commission's other payroll functions.

2. Written policies and procedures (protocol) for system development were not established and utilized for the implementation and maintenance of the timeclock system. The system vendor appeared to have complete system and program access, and the ability to make changes without requiring a Liquor Commission review and approval control over the changes made. Written development protocols are important to ensure development and implementation follows an organized and planned approach, with proper emphasis placed on controls to ensure changes are appropriately vetted and tested for intended outcomes prior to their implementation.

3. The timeclock system was implemented under a "trial and error" or reactive methodology. Various foreseeable problem conditions, for example issues in recording and accounting for leave, were not addressed until problems were recognized in the recorded data.

4. During fiscal year 2015, two employees, sharing one password, had "super-user" access to the timeclock system. Super-user access is a high-level access that should be tightly controlled. Allowing super-users to share a password is contrary to most control criteria.

   One employee made required edits to the record of employee work hours recorded by the timeclock system. Edits typically were made for missed punches and corrections for leave. During fiscal year 2015, there was no independent review and approval control over the changes made to employee time records. Subsequent to fiscal year 2015, one other employee, who shared this user's password, assisted in editing work hour activity, again without an independent review and approval of the changes made to the recorded hours worked.

Lack of resources assigned to the implementation of the biometric timeclock, and a lack of controls, including comprehensive and well-designed policies and procedures, increase the risk the implementation of the system will not be as successful as it might otherwise be. Lack of segregation of duties increases the risk the key controls expected from the use of the biometric timeclock system will be weakened or otherwise not effective.

*Recommendation:*

The Liquor Commission should review the biometric timeclock system and ensure proper controls are implemented, including comprehensive policy and procedure documentation intended to support expected practices, and appropriate segregation of duties that will allow for controlled and accountable development and operation of the system. Super-user access should be limited and passwords should not be shared.

In order to demonstrate a commitment to the success of the system, management should assign appropriate and sufficient resources to ensure employees understand management's intentions and expectations regarding compliance with system processes and controls.

*Auditee Response:*

Concur.

Comprehensive policies and procedures are ready to be implemented, and all employees using this system will be oriented to these policies and procedures prior to our going live with this new process.

**Observation No. 15: Expand Content Of Current Store Plan**

*Observation:*

The Liquor Commission has not developed and maintained a formal written store plan for its retail liquor stores that is fully compliant with statute. This observation was also noted during our fiscal year 1998, 2006, and 2013 financial audits, and the 2009 performance audit of the Liquor Commission.

RSA 177:3 states, "The state liquor commission shall develop and maintain a formal written store plan for its retail liquor stores. This plan shall establish goals and policies related to the number, size, and staffing patterns of state operated retail liquor stores to ensure the efficient and effective operation of the state store system. The plan shall be reviewed and revised as necessary and shall include, but not be limited to, policies related to:

I. The operational definition of a marginal store, identification of such stores, and specific plans to consolidate or otherwise improve the profitability of such stores.

II. The optimum size, location, and staffing pattern of stores to maximize their profitability. This shall include a plan to increase use of part-time employees to reduce store personnel costs and a formula for determining appropriate rental payments for leased stores.

III. Plans for the expansion of the existing store system where such expansion is justified."

The Liquor Commission's current store plan dated September 2014 includes two pages of narratives seemingly formatted to meet the statutory requirements in I, II, and III above. The store plan also includes a fiscal year 2013 income statement for each store, a list of full-time store positions by store, and a graph comparing each store's full-time positions to annual sales. The store plan does not outline a formula for determining appropriate rental payments for leased stores.

While the store plan technically addresses most of the requirements in the statute, the information contained in the store plan is limited and cannot be regarded as sufficiently descriptive to serve as a useful tool to support the operations of the Liquor Commission in its determination of how to efficiently and effectively operate the State's system of liquor stores.

*Recommendation:*

The Liquor Commission should expand the content of its current written store plan to fully comply with RSA 177:3 and to increase the utility of the document as a valuable tool for supporting store planning and operations. The Commission should monitor compliance with the plan and periodically review and revise the plan as appropriate

*Auditee Response:*

Concur.

The Commission will review the plan during calendar year 2016 and make changes as necessary. It should be pointed out that the plan will be reviewed and revised "as necessary". The plan was reviewed and updated within the past two years.

## State Compliance Comments

### Observation No. 16: Issue Timely Financial Statements

*Observation:*

The Liquor Commission made stand-alone fiscal year 2015 financial statements available at the beginning of December 2015, two months after the 90 day period provided for in RSA 21-I:8, II(b). Not having timely stand-alone Liquor Commission financial statements caused significant inefficiencies in the progress of the audit of those financial statements.

RSA 21-I:8, II(b) requires the Department of Administrative Services, Bureau of Financial Reporting, to assist "…the department of transportation turnpike system, liquor commission, and lottery commission in the completion of separate, stand-alone financial statements for the preceding fiscal year that detail the financial condition and operation of each entity in a manner consistent with generally accepted accounting principles. The statements shall be available no later than 90 days after the close of the fiscal year, unless the governor and council for good cause shall extend such period."

Neither the Liquor Commission nor the Department of Administrative Services requested an extension to the 90 day period.

*Recommendation:*

The Liquor Commission should issue timely financial statements as provided for in RSA 21-I:8, II(b). The Liquor Commission, with the assistance of the Department of Administrative Services, should establish and implement policies and procedures that reasonably ensure a complete set of financial statements are issued no later than 90 days after the close of the fiscal year.

*Auditee Response:*

Concur.

The Commission will make every effort to complete its financial statements within the timeframe established by law.

*Department Of Administrative Services' Response:*

We concur.

As a result of further employee turnover at the Liquor Commission and lack of dedicated resources needed to complete the full set of financial statements by September 30, 2015, the best and most complete information was provided to the auditors as soon as possible. The Department of Administrative Services provided assistance and support to the Commission to the best of its abilities during this time; however, the Department of Administrative Services also experienced additional turnover during this period of time, with the departure of the Department's

Commissioner and the State Comptroller in fiscal year 2015. Also, there were two high-level financial positions within the Department's Division of Accounting Services vacant for several months before each was filled well into fiscal year 2016. In addition to the departures of long-term knowledgeable employees and lengthy position vacancies, the Division of Accounting Services has seen its statutorily required duties increased over the past two years, without any associated increase in resources to accomplish the workload increase. Despite these limitations, the Department of Administrative Services has already been working with the Liquor Commission in planning for the preparation of the fiscal year 2016 financial statements and we will, to the best of our ability, work with the Commission to meet the requirements in fiscal year 2016.

**Observation No. 17: Adopt And Maintain Administrative Rules Required By Statute**

*Observation:*

The Liquor Commission has not adopted certain administrative rules required by statute and has allowed certain other administrative rules to expire without readoption.

The Liquor Commission has not adopted rules required by the following statutes:

- RSA 126-K:5, II, *Distribution of Free Samples*, and
- RSA 178:28, I, and RSA 178:28, V, *Discount and Credit on Sales to Licensees.*

The Liquor Commission has allowed the following rules to expire without readoption:

- RSA 126-K:18, *Rulemaking*, N.H. Admin. Rule Liq 605, expired on July 1, 2014;
- RSA 178:5, *Insurance for Liquor Liability,* N.H. Admin. Rule LIQ 603.04 expired on July 1, 2014; and
- RSA 179:56, *Hearings; Investigations; False Statement; Enforcement Policy.* N.H. Admin. Rules LIQ 601, LIQ 602, LIQ 603, and LIQ 604 expired on July 1, 2014.

The absence of current rules can affect the Commission's authority to regulate statutorily-assigned responsibilities.

*Recommendation:*

The Liquor Commission should adopt and maintain administrative rules required by statute, or seek to have the statutes appropriately amended.

*Auditee Response:*

Concur.

The Commission has drafted proposed rules where none exist and is completing proposed amendments for the readoption of rules that have expired. The Commission is reaching out to stake holders that will be affected by the rules to obtain further input and suggestions. This should be completed by the Spring of 2016. At the completion of the outreach phase, the Commission will formally file proposed rules. The Commission intends to complete the adoption and readoption of the rules by the end of Calendar Year 2016.

The Commission continues to work on amending RSA 178:28 *Discount and Credit on Sales to Licensees.* The Commission has met with the broker community and licensees effected by the statute and the Commission and parties have agreed that a sales component structure needs to be added to the statute to incentivize licensees who reach the $350,000 threshold such that the discount is not decreased by 5% as soon as the threshold is reached. A graduated approach is preferred by the Commission. The Commission intends to address the issue in the Legislature.

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**APPENDIX**

**Current Status Of Prior Audit Findings**

The following is a summary of the status, as of January 15, 2016, of the observations contained in the financial audit of the New Hampshire Liquor Commission for the fiscal year ended June 30, 2014. That report can be accessed at, and printed from, the Office of Legislative Budget Assistant website:
www.gencourt.state.nh.us/LBA/AuditReports/FinancialReports/pdf/Liquor_2014_Management_Letter.pdf

| | **Status** | | |
|---|---|---|---|
| ***Internal Control Comments*** | | | |
| *Material Weakness* | | | |
| 1. Strengthen Core Financial Accounting And Reporting Resources *(See Current Observation No. 1)* | ● | ○ | ○ |
| *Significant Deficiencies* | | | |
| 2. Establish Risk Assessment And Disaster Recovery And Business Continuity Plans *(See Current Observation No. 4)* | ● | ○ | ○ |
| 3. Identify And Respond To Financial Transaction Risk *(See Current Observation No. 11)* | ● | ● | ○ |
| 4. Modify Controls To Address System And Process Changes *(See Current Observation No. 12)* | ● | ○ | ○ |
| 5. Document Information System Controls | ● | ● | ● |
| 6. Improve Controls Over Store Payroll *(See Current Observation No. 14)* | ● | ○ | ○ |
| 7. Determine Compliance With Federal Wage And Hour Regulations | ● | ● | ● |
| ***State Compliance Comments*** | | | |
| 8. Pay All Liquor Commission Expenses From The Liquor Commission Fund *(See Current Observation No. 6)* | ● | ● | ● |
| 9. Prepare Timely Year End Financial Statements *(See Current Observation No. 16)* | ○ | ○ | ○ |
| 10. Prepare Statutorily Required Store Plan *(See Current Observation No. 15)* | ● | ● | ○ |
| 11. Adopt Required Administrative Rules *(See Current Observation No. 17)* | ● | ○ | ○ |

| **Status Key** | | | | **Count** |
|---|---|---|---|---|
| Fully Resolved | ● | ● | ● | 3 |
| Substantially Resolved | ● | ● | ○ | 2 |
| Partially Resolved | ● | ○ | ○ | 5 |
| Unresolved | ○ | ○ | ○ | 1 |

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