STATE OF NEW HAMPSHIRE
LIQUOR COMMISSION

MANAGEMENT LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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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, 2019 and have issued our report thereon dated December 18, 2019.

This management letter, a byproduct of the audit of the New Hampshire Liquor Commission for the fiscal year ended June 30, 2019, contains our auditor's report on internal control over financial reporting and on compliance and other matters and related audit findings. The appendix to this letter, beginning on page 18, provides a summary of the status of observations presented in the fiscal year 2018 and the fiscal year 2017 Liquor Commission management letters.

The New Hampshire Liquor Commission's fiscal year 2019 Comprehensive Annual Financial Report can be accessed online at:

http://www.gencourt.state.nh.us/LBA/AuditReports/FinancialReports/pdf/Liquor_2019_CAFR.pdf

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

December 18, 2019

STATE OF NEW HAMPSHIRE
LIQUOR COMMISSION
2019 MANAGEMENT LETTER

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***** No audit comments suggest legislative action may be required.

This report, and all other LBA-issued financial audit reports, can be accessed in its entirety on-line at: http://www.gencourt.state.nh.us/LBA/AuditReports/FinancialReports.aspx

Abbreviations Used

CFO	Chief Financial Officer
DAS	New Hampshire Department of Administrative Services
DoIT	Department of Information Technology
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
IT	Information Technology
MAPPER	Current front and back office, point of sale information system
MLO	My Licensing Office – Licensing software application
NextGen	New point-of-sale, E-commerce, warehouses, and back office financial systems
NHFirst	New Hampshire state government accounting system
NHLC	New Hampshire Liquor Commission

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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, 2019 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, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated December 18, 2019.

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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in Observations No. 1 through No. 10, that we consider 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. 11 and No. 12.

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

December 18, 2019

Internal Control Comments
Significant Deficiencies

Observation No. 1: Implement And Staff A Financial Accounting And Reporting Structure Appropriate For The Commission's Size And Complexity

Observation:

Management letters issued from 2013 through 2018 have reported a material weakness in the Commission's core financial accounting and reporting resources and have recommended the Commission enhance its operations by employing additional staff that have financial accounting and reporting expertise appropriate for the scope and complexity of the Commission's operations. For fiscal year 2019 the Commission's ability to prepare accurate and timely financial statements substantially improved, but significant challenges remained.

The Commission nets $706 million a year in sales, operates 77 stores, and maintains $86 million of products in inventory. The Commission's financial reporting involves wholesale, retail, and government accounting practices. We noted the following challenges at the Commission during our audit:

1. As of December 2019, the Commission had not adequately staffed its financial reporting section resulting in daily accounting and recording tasks being performed by the Chief Financial Officer (CFO) and the Comptroller and not subject to effective review and approval controls, limiting the time senior staff may dedicate to the Commission's complex accounting and financial reporting challenges.

2. The Commission's CFO continued to accrue and be paid for overtime work at a rate that was inconsistent with other business office employees. During fiscal year 2019, the CFO was paid approximately $24,600 for 500 hours of overtime. No other Commission business office employee accrued more than 192 hours of overtime during the period. During fiscal year 2018, the CFO accrued 400 hours of overtime and, in fiscal year 2017, the CFO accrued 358 hours of overtime.

   The Commission's continued reliance on the performance of a single employee is an organizational design weakness in financial operations and the Commission assumes significant risk in allowing this control deficiency to remain unaddressed.

3. The Commission has not established comprehensive and documented policies and procedures for all critical financial accounting and reporting activities. While the Commission has made progress in its establishment of policies and procedures for certain financial accounting activities, significant financial accounting and reporting activities performed by the CFO and Comptroller remain unaddressed.

4. The Commission should develop a routine process for the compilation of its financial statements, including its Statement of Cash Flows that allows for a streamlined process. Each year the Commission is challenged in preparing the Statement of Cash Flows. The initial fiscal

year 2019 draft of the Statement of Cash Flows had a significant misclassification that was eventually resolved.

Recommendation:

The Commission must continue its endeavor to commit appropriate resources to implement and staff a financial accounting and reporting structure appropriate for the size and complexity of its business. While improvements have been recognized with the hiring of the Comptroller in May 2018, significant challenges still exist. We continue to recommend these challenges be met with the Commission establishing a head financial accounting and reporting position in a senior level management unclassified position, such as a Director of Finance.

The Commission must mitigate the risk of its continued reliance on the performance of an individual employee and build redundancy in critical operations. While additional financial-analyst level staff may also be needed, the Commission needs to ensure it has sufficient staff with higher-level experience in managing and performing complex financial accounting and reporting activities.

The Commission should continue its efforts to establish written policies and procedures to support all significant financial accounting and reporting activities, including high-level financial statement processes in order to support the responsibilities of key employees, and to provide for continuity of operations in the event of employee turnover.

The Commission should continue to develop a routine process for the compilation of its financial statements, including its Statement of Cash Flows, that facilitates annual preparation. The process and experience of one year should be understood and incorporated into the financial reporting of the following year.

Auditee Response:

Concur.

After careful consideration and review of operations over the last year and a half the Commission is requesting, through the department of personnel, to establish a new comptroller of operations position and reclassify a position to a budget, inventory, ERP administrator. These changes will create greater division of responsibilities, build redundancy in critical operations, and alleviate the reliance on one individual as recommended in the 2018 management letter.

As part of the restructuring in finance the two inventory control positions currently reporting to the Auditing Administrator will be moved to the budget, inventory, ERP administrator which will also help with Observation No. 3: Internal Audit Function Should Be Developed.

The Commission continues its effort to document policies and procedures for the critical financial accounting and reporting activities and for compiling financial statements.

Observation No. 2: Implement Independent Timely Monitoring Of Project Deliverables And Preventative Controls To Aid In Completion Of New Information System

Observation:

Beginning in fiscal year 2016 and continuing into fiscal year 2020, the Commission has been in the process of replacing a legacy information system that provided the base information technology support for the Commission's inventory, purchasing, sales, and other financial and operational activities. The new information system is intended to support essentially all aspects of the Commission's activities, including financial accounting and reporting.

In May 2019, based on difficulties encountered and concerns regarding contract deliverables, the Commission began an independent review focused on the governance, functional, and technical design aspects of the project. The review noted multiple issues that contributed to a project that was delayed and appeared increasingly unlikely to culminate into a fully functioning system. During August 2019, the Commission terminated its contract with the software vendor responsible for the development and implementation of the new Enterprise Resource Planning system, referred to as NextGen, based on a mutually agreed upon separation plan.

As noted in Observation No. 7, the Commission is in the process of determining what assets continue to have utility in accordance with guidelines provided in GASB 42. During January 2020, subsequent to our auditor's report date, the Commission issued a Request For Proposal to obtain a qualified vendor to continue with the development and implementation of the NextGen IT project.

Recommendation:

The Commission should implement independent, timely monitoring of project deliverables and preventative controls to help ensure the successful completion of the NextGen IT project. Important critical success factors could include a robust issue management process, clear succession planning to address the loss of experienced resources during the project, escalation and resolution mechanism, continuous risk assessment, and the hiring of business expertise in contract management.

Auditee Response:

Concur in part.

The eCommerce portion of the NextGen project is already underway by means of a contract approved by the Governor and Executive Council on February 5, 2020. The Commission's project management team monitors and manages all aspects of the project on a daily basis, including scope, planning parameters, issues, risks, performance and quality. The Commission is in the procurement process to select a new vendor to complete the ERP portion of the project.

The Commission does not concur that independent project management is necessary for successful completion of the project. The Commission utilized an independent consultant to help oversee the prior contract and project, which nonetheless suffered from a poorly performing vendor.

Observation No. 3: Internal Audit Function Should Be Developed

Observation:

The internal audit function at the Commission has not been developed to effectively monitor controls, identify risks, or ensure that management's objectives are being carried out. The Commission's internal audit function does not appear to perform duties consistent with internal audit in the traditional sense, but rather performs tasks typically assigned to agency accounting staff.

According to the Institute of Internal Auditors, internal auditing can help an organization "accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." Internal auditors should not be responsible for the execution of an entity's operational activities, and should report to top management, as independence and objectivity are essential to the work they perform. A critical aspect of the internal audit function includes reporting issues and challenges identified and making recommendations to address these problems. Internal auditors typically issue reports at the end of each audit summarizing their findings, recommendations, and any responses or action plans from management.

The Commission's internal auditors currently perform duties that are related to standard operating procedures or control activities, including the review and approval of refunds and investigating and reconciling daily purchase orders for discrepancies.

Several of the findings in this management letter may have been identified and resolved if the Commission's internal audit function had been developed.

Recommendation:

The Commission should develop its internal audit function and work towards the implementation of leading internal audit industry practices.

Internal auditors should not be responsible for the execution and operation of the Commission's standard operating procedures or control activities; and auditors should have the appropriate training, education, and professional background to perform internal audit activities. The internal audit function should include a formalized process, including the reporting of issues and challenges identified, and recommendations to address these problems.

Auditee Response:

Concur.

As part of the finance restructure inventory control will be separated from internal audit along with any other operating procedures or control activities. The Commission will review and develop the internal audit process to effectively monitor controls, identify risks, and ensure that management's objectives are being carried out.

Observation No. 4: Controls Over Issuance Of Promotional Cards Should Be Improved

Observation:

The Commission has not reviewed or expanded its policies and procedures or implemented automated controls for issuing promotional cards.

The Commission offered promotional cards for three different periods within fiscal year 2019. Promotional cards are essentially gift cards that can be applied towards future purchases at any New Hampshire Liquor Commission (NHLC) retail store. During promotional periods, retail customers are issued a $25 promotional card for each $150 spent on product purchases at a NHLC retail store.

While the NHLC uses a point of sale system to process purchases, including the redemption of promotional cards, the system does not prompt or limit the number of promotional cards a cashier can issue for a sales transaction. The NHLC reports that the issuance of promotional cards is subject to its internal auditors' policies and procedures. No such policies and procedures have been formalized or documented.

During fiscal years 2017, 2018, and 2019, the NHLC issued promotional cards in the total amount of $5.5, $9.0, and $9.5 million, respectively.

The absence of preventative automated controls combined with ineffective detection controls over the improper issuance of promotional cards presents a significant risk that errors or frauds could occur and not be detected in a timely manner.

Recommendation:

The Commission should develop automated controls within its point of sale system to limit the number and amount of promotional cards issued to retail customers according to total dollars spent on product purchases.

The Commission should establish policies and procedures over the issuance and safeguards of promotional cards.

Auditee Response:

Concur.

The Commission concurs the point of sale system needs automated controls. The new ERP system being developed will incorporate automated controls for issuing and redeeming promotional cards.

The Commission is in the processes of developing policies and procedures over the issuance and safeguards of promotional cards.

Observation No. 5: Reconciliation Procedures Should Be Developed And Improved

Observation:

The Commission has not developed robust reconciliation procedures for key general ledger accounts. The following areas were found to be lacking sufficient reconciliation procedures:

- The Division of Enforcement and Licensing records revenue receipts into the My Licensing Office (MLO) licensing software application. These receipts are also posted in the State's accounting system, NHFirst. There are no policies and procedures to require a periodic reconciliation to ensure that the revenue by account in each system agrees.

- The Commission does not regularly reconcile gift card and promotional card activity between MAPPER, the front and back office, point of sale information system, and NHFirst. Upon inquiry regarding a variance, the Commission performed some research and determined two sales accounts were misclassified. The variance could have been identified had regular reconciliations been performed.

- The accounts payable reconciliation between MAPPER and NHFirst is performed by the CFO and is not subject to a review and approval control. The reconciliation performed for June 2019 resulted in the Commission decreasing the NHFirst accounts payable balance by $900,000 to closely agree with MAPPER. The decrease was not adequately supported by transaction amounts. The Commission was not able to provide an explanation for the difference between the two systems.

Recommendation:

The Commission should develop formal policies and procedures over its reconciliation processes. The Commission should investigate and sufficiently understand the causes of significant variances prior to adjusting the accounts. Periodic and timely reconciliations should be performed for all significant accounts where activities are recorded in separate systems. Reconciliations should be performed by someone knowledgeable of the activity, but independent of the recording and posting processes. The reconciliations should be reviewed and approved by management to ensure timely and accurate performance.

Auditee Response:

Concur.

The Commission has documented and implemented a monthly reconciliation of gift cards.
Procedures are being drafted for the reconciliation of MLO to NHFirst and for liquor payables.

Observation No. 6: Complete Account Activity Should Be Maintained In The State's Accounting System

Observation:

The Commission does not fully account for all its financial accounting activities in the state accounting system, NHFirst, increasing the risk that certain financial activity may be inaccurate, inadvertently altered, lost, or excluded in the financial reporting process.

The NHFirst general ledger application accounts for financial activity on a budgetary basis. NHFirst utilizes a module, Multi-Ledger, for use by the State's enterprise funds to record full accrual-basis entries as required by generally accepted accounting principles (GAAP) for compilation of enterprise fund financial statements. The Commission does not use Multi-Ledger, but instead uses spreadsheets to account for its accrual activities.

The use of spreadsheets for the accounting and reporting of balances and activities, including journal entries, is unnecessary, inefficient, less transparent as certain entries are summarized, and prone to errors. At June 30, 2019, the Commission reported the following balances: $51.8 million of capital assets, $36.1 million of bonds payable, $23.0 million of net pension liability, $53.1 million of other post-employment benefits (OPEB), $6.1 million of deferred outflows of resources, $24.7 million of deferred inflows of resources, and $7.2 million OPEB expense, which were accounted for via the use of spreadsheets.

The Department of Administrative Services (DAS) reports that since April 2017 it has been encouraging the Commission to use the Multi-Ledger functionality in NHFirst. The Commission approached DAS in May 2019 to begin the process for Multi-Ledger use, but at that time the DAS was in the middle of a fiscal year-end closing process and could not accommodate the Commission's request.

Recommendation:

The Commission should coordinate with the Department of Administrative Services to obtain access to the Multi-Ledger module in NHFirst in order to properly record and account for all its financial activities. Journal entries should be detailed rather than summarized to provide transparency.

Auditee Response:

Concur.

Over the last year the Commission has been researching the NHFirst multi-ledger module. In March of 2019 we informed DAS of our intent to use the module and they provided contact information for individuals who currently use it at other state agencies. Then in May we requested system access at which time DAS didn't feel there was enough time or resources to look into it.

The Commission was recently provided access to the module and intends to use the module for FY2020 year-end entries.

Department of Administrative Services Response:

Concur.

We have previously provided the Commission's Comptroller with contact information for both Turnpike and Lottery's finance departments since both of those entities currently use Multi-Ledger (ML). We have also confirmed with DAS' Financial Data Management Division that the Commission currently has systems and security access to ML. We would recommend that ML be used to account for the full accrual financial transactions and used to prepare and submit their financial statements. We are available to provide assistance as needed.

Observation No. 7: Capitalized Costs Should Be Properly Evaluated For Impairment Under GASB 42

Observation:

The Commission has not thoroughly reviewed the NextGen software work in progress capitalized costs for impairment.

On August 26, 2019, the Commission terminated its contract with the software vendor responsible for the development and implementation of its NextGen Information Technology (IT) project, resulting in the impairment of certain costs capitalized as software work in progress. While the Commission performed an assessment of its impaired capitalized assets using the guidance contained in Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, it appears the assessment may be incomplete due to lack of sufficient knowledge and expertise.

The Commission issued a Request for Proposal (RFP) in January 2020 to obtain a qualified vendor to continue with the development and implementation of the NextGen IT project.

GASB 42, Section 9, states, "Impairment is indicated when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined." Sufficient knowledge and expertise are needed to determine what capitalized IT costs continue to have value and utility for the NextGen IT project as it moves forward with a new vendor. GASB 42, Section 16, states, "Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value."

On December 4, 2019, the Commission provided auditors with a self-assessment of impaired capital assets associated with the NextGen IT project. The assessment identified impaired asset cost totaling approximately $970,000 of the $11 million capitalized IT costs. While the capitalized costs included approximately $3 million in hardware and other peripherals, it is not clear what software development costs remain usable and not impaired. Commission personnel involved in the assessment stated they did not have adequate knowledge regarding the determination of service utility of the capitalized assets, and that additional guidance would be needed from the replacement vendor to help make the proper determination of those capitalized assets that are usable versus impaired.

Recommendation:

Once the Commission has obtained a vendor to continue with the development and implementation of the NextGen IT project, it should coordinate with the vendor to help determine what capitalized assets continue to have utility in accordance with guidelines provided in GASB 42. A formal evaluation should be completed to support the assessment of the capitalized assets, including support for the reduction in the carrying value of those assets determined to be impaired.

Auditee Response:

Concur.

On January 24, 2020, the Commission issued an RFP for a vendor to complete the development and deployment of the NHLC's Microsoft D365 software platform, which will integrate the NHLC's point-of-sale, eCommerce, warehouses, and back office financial systems (the "NextGen" project). On March 9, 2020, in accordance with the schedule set out in the RFP, the Commission received proposals from qualified vendors, which it is now in the process of reviewing. After selecting a vendor in accordance with the criteria outlined in the RFP, the Commission will negotiate and enter a contract, subject to approval by the Governor and Executive Council. The engagement with the new vendor will include further assessment of the development done to date and its transferability.

Observation No. 8: Non-GAAP Inventory Adjustment Should Be Discontinued

Observation:

The Commission has not implemented policies and procedures to ensure that its liquor inventory is valued in accordance with generally accepted accounting principles (GAAP).

Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Section 194, dictates acceptable cost basis methods to account for inventory, and states, "A departure from the cost basis of pricing the inventory is required when the utility of the goods is no longer as great as its cost." The Commission uses the average cost method to value its inventory.

The Commission wrote down its June 30, 2019 inventory value by $515,000 to reflect a lower more recent cost for inventory that continued to have a utility greater than its cost. Management was unaware the lower of cost or market rule applies to lowering the cost basis of inventory when the utility of the goods is no longer as great as its cost.

The adjustment understated the June 30, 2019 inventory and overstated cost of goods sold by $515,000.

Recommendation:

The Commission should implement policies and procedures to ensure inventory is valued in accordance with GAAP and only write down inventory in compliance with the provisions of GASB Statement No. 62.

Auditee Response:

Concur.

The Commission is developing procedures to ensure inventory is valued in accordance with GAAP and will write down inventory in compliance with the provisions of GASB Statement No. 62.

Observation No. 9: Centralize Cash Receipt Procedures

Observation:

The Commission could benefit from centralizing its cash receipt procedures at headquarters.

Certain receipts, such as cash, checks, and credit card receipts, are collected at the Commission's headquarters located on Storrs Street in Concord. The Commission's business office primarily collects payments from vendors for price reduction allowances and from licensees who purchase liquor products on credit. The Commission's Division of Enforcement and Licensing, also located at headquarters, collects beer, wine, and liquor tax receipts, in addition to license and permit fees, fines, and other miscellaneous revenues.

From an internal control perspective, the collection and recording of cash receipts should be centralized. Centralizing and streamlining the cash receipt process would increase efficiencies; and provide for the consistent application of controls to ensure cash receipts are properly recorded, posted, and deposited timely and securely.

Recommendation:

The Commission should centralize the cash receipt process to eliminate the handling of cash, checks, and credit card payments at multiple locations within Commission headquarters; and effectively segregate duties of the business office from those of operations.

Auditee Response:

Concur.

The Commission is currently reviewing cash, check, and credit card payment processes for Headquarters to determine the most efficient process.

Observation No. 10: Develop And Provide An Electronic Beer Tax Filing System

Observation:

Payers of the State's beer tax file monthly paper-based tax returns, often with up to seven supporting schedules. The use of paper-based returns and supporting schedules appears inefficient for the taxpayer to prepare and file and inefficient for Commission staff to process, review, and audit. The paper-based returns do not allow the Commission to efficiently use computer assisted techniques to check for completeness, consistency, and accuracy of the returns and to efficiently use the submitted data for monitoring of tax compliance.

The Commission reported that it collected $12.8 million of beer tax during fiscal year 2019. Most of the beer tax collected was paid by six wholesale distributors who filed monthly returns with seven supporting schedules. Liquor Enforcement Division employees, including examiners and other available staff, trace and agree amounts reported on the beer tax returns to the supporting schedules accompanying the returns. Information on the beer tax returns is agreed to information on three of the seven schedules and cross checked against sales and returns reports received from the beverage manufacturers and vendors and the remaining schedules are not included in the reviews. Employees also reported that none of the information on the returns or schedules is regularly checked for clerical accuracy.

Similar comments were reported in the fiscal year 2015 and 2016 Management Letters. These comments were reported as "Remediation In Process" in the Appendix of the 2017 and 2018 Management Letters. The Commission reported that an electronic beer tax filing system is included in the functional design of the NextGen System.

Recommendation:

The Commission should continue in its efforts to develop and implement an electronic beer tax filing system as part of the NextGen IT project. At a minimum, the Commission should consider converting the current paper based forms to spreadsheets that can be electronically submitted to improve efficiency and facilitate the recalculation of the returns.

Auditee Response:

Concur.

The eCommerce component of the NextGen project incorporates an electronic beer tax filing system.

Compliance Comments
State Compliance

Observation No. 11: Adopt Administrative Rules Required By Statute

Observation:

The Commission has not adopted administrative rules required by RSA 178:28 relative to purchase discounts allowed to Commission licensees.

RSA 178:28 Discount and Credit on Sales to Licensees, states that:

> Pursuant to RSA 541-A and in furtherance of the objectives of this chapter and title, the commission shall adopt rules providing for the following:
>
> I. When fixing the price for sale of liquor and wine to on-premises licensees, the commission may allow discounts at percentages to be determined by the commission from the regular retail price on case lot orders F.O.B. the warehouse or commission direct delivery system. No discount determined by the commissioner under this paragraph shall be less than 10 percent.
>
> V. A schedule of hours and procedures by which fortified wines and table wines may be purchased at the discount price for resale by holders of off-premises retail licenses at percentages of discount to be determined by the commission. Discounts for holders of off-premises retail licenses with annual wine purchases under $350,000 shall be no less than 15 percent less than the regular retail price in the liquor stores and 20 percent less than the regular price F.O.B. at the warehouse.

The above comment was initially reported in the fiscal year 2013 Management Letter. In its response to the 2013 finding, the Commission indicated it was considering requesting an amendment to the statute. During fiscal year 2018, the Commission reported it was no longer considering a revision to the statute. As of the date of this Management Letter, December 18, 2019, the Commission has not yet begun the rulemaking process to adopt the required rules.

Recommendation:

The Commission should adopt the administrative rules required by statute. If the Commission determines the required rules are not necessary for the operation of the Commission, the Commission should request an appropriate revision to the statute.

Auditee Response:

Concur.

The Commission will adopt administrative rules to support this practice that has been in place since 2009.

Observation No. 12: Impose Late or Nonpayment Requirements

Observation:

The Liquor Commission has not complied with the requirements of Administrative Rule Liq 904 *Late/Non Payment* for vendors and licensees who fail to make timely payments of amounts due to the Commission.

Administrative Rule Liq 904.01 *Operating Conditions Governing Licensees* states:
"(a) Any vendor or vendor's agent who has not paid the price reduction allowance shall be assessed a fee equal to 18% per annum of the amount overdue.
(b) Any invoices for merchandise not paid in full under the terms of Liq 903.03 [within 15 days]….shall result in application of the following:

> (1) All sales of liquor and wine to the licensee shall be suspended by the commission until the account is paid;
> (2) Any licensee whose account is 30 days in arrears shall develop a payment plan with the commission;
> (3) The payment plan shall consist of at least 2 and no more than 12 equal consecutive weekly payments;…
> (5) A licensee who is late with payment by 3 days or more or late 4 times in the prior 12 consecutive months shall have credit privileges suspended. A licensee wishing to reestablish credit may reapply after a period of 6 calendar months from the loss of credit privileges, subject to the rules and conditions of this chapter;".

During fiscal year 2019, the Commission did not:

1) Assess late vendor fees to vendors or their agents who have not paid the price reduction allowance (depletion) by the invoice due date. As of June 30, 2019, there were six vendors overdue in paying their price reduction allowance totaling $128,000.
2) Suspend purchasing privileges for licensees who had not paid their invoices within 15 days. We noted three licensees (two off-premise and one on-premise) out of 15 off/on premise licensees tested submitted their payments more than three days late.
3) Establish payment plans that were limited to 12 equal consecutive weekly payments. According to Commission personnel, as of June 30, 2019, one licensee had a payment plan established beyond 12 consecutive weeks.
4) Revoke credit privileges for licensees who were more than three days late.

According to Commission personnel, Administrative Rule Liq 904 is too stringent and there is a need for some flexibility when dealing with licensees.

Recommendation:

The Commission should impose the late and nonpayment requirements identified in Administrative Rule Liq 904. If the Commission determines that the requirements of Administrative Rule Liq 904 are not practical, it should seek an appropriate revision to the rule.

Auditee Response:

Concur.

The Commission will seek an appropriate revision of the Administrative Rule to reflect the practice.

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APPENDIX

Current Status Of Prior Audit Findings

The following is a summary of the status, as of December 18, 2019, of the observations contained in the New Hampshire Liquor Commission Management Letters for the fiscal years ended June 30, 2018 and 2017. Those reports can be accessed at, and printed from, the Office of Legislative Budget Assistant website: www.gencourt.state.nh.us/LBA/AuditReports/FinancialReports/pdf/.

		Status	
2018 Audit Comments			
Internal Control Comments			
Material Weakness			
2018-1	Implement And Staff A Financial Accounting And Reporting Structure Appropriate For The Commission's Size And Complexity *Enhance financial accounting staff with additional staff having financial accounting and reporting expertise appropriate for the scope and complexity of operations, establish comprehensive and documented policies and procedures for all critical financial activities, and consider compiling and reporting a more complete set of periodic interim financial statements. (See Current Observation No. 1)*	●	○
Significant Deficiencies			
2018-2	Review And Expand Accounts Payable Policies And Procedures *Ensure direction provided to staff promotes the accurate accrual of liabilities in accordance with State and Commission policy, and the proper basis of accounting. (See Current Observation No.5)*	●	○
2018-3	Establish Objectives And Policies And Procedures For Gift And Promotional Card Programs *Design and document objectives for gift and promotional card programs and establish policies and procedures for meeting its objectives and controlling and recording the related activity in alignment with its objectives. Review assumption data to determine if it is reflective of the redemption patterns for sold and issued cards. (See Current Observation No.4)*	●	○
2018-4	Review Information System User Access Controls *Review the user access controls of the information systems, including the automated timeclock system, and ensure that policies and procedures are appropriately designed and in operation to meet management's objectives for the systems' and security needs; and ensure that information controls are sufficient to allow timely notification to responsible parties of new and terminated users.*	●	●

Compliance Comments			
2018-5	Prepare And Submit Action Plans Required By Executive Order #2014-03 *Prepare and submit action plans required by Executive Order #2014-03 to address audit findings included in the Commission's management letters.*	●	●
2018-6	Adopt Administrative Rules Required By Statute *Adopt administrative rules required by statute unless the Commission determines the required rules are not necessary for the operation of the Commission, then request an appropriate revision to the statute. (See Current Observation No. 11)*	○	○
2017 Audit Comments			
Internal Control Comments			
Material Weakness			
2017-1	Strengthen Core Financial Accounting And Reporting Resources *Enhance financial accounting staff with additional staff having financial accounting and reporting expertise appropriate for the scope and complexity of operations, establish comprehensive and documented policies and procedures for all critical financial activities, and consider compiling and reporting a more complete set of periodic interim financial statements. (See Current Observation No. 1)*	●	○
Significant Deficiencies			
2017-2	Review Availability Of Information Technology Project Cost Data *Review with DoIT the potential for including additional job numbers in the DoIT timekeeping system.*	●	●
2017-3	Resolve Budgetary Retained Earnings Balance *Identify the source of the reported retained earnings balance.*	●	●

Status Key			**Count**
Fully Resolved	●	●	4
Remediation In Process (Action beyond meeting and discussion)	●	○	4
Unresolved	○	○	1