STATE OF NEW HAMPSHIRE
LIQUOR COMMISSION

MANAGEMENT LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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, 2013 and have issued our report thereon dated December 20, 2013.

This management letter, a byproduct of the audit of the New Hampshire Liquor Commission for the fiscal year ended June 30, 2013, contains our auditor's report on internal control over financial reporting and on compliance and other matters and related audit findings. The appendix, included as an attachment to the management letter, provides a summary of the status of observations presented in the fiscal year 2006 financial audit of the Liquor Commission.

The New Hampshire Liquor Commission Comprehensive Annual Financial Report (CAFR) can be accessed online at:

www.gencourt.state.nh.us/LBA/AuditReports/FinancialReports/pdf/Liquor_2013_CAFR.pdf

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

December 20, 2013

STATE OF NEW HAMPSHIRE
LIQUOR COMMISSION
2013 MANAGEMENT LETTER

TABLE OF CONTENTS

PAGE

* No audit comments suggest legislative action may be required.

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

To The Fiscal Committee Of The General Court:

We have audited, in accordance with 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 (SLC) which comprise the Statement of Net Position as of June 30, 2013 and the related 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 December 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the SLC'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 SLC's internal control. Accordingly, we do not express an opinion on the effectiveness of the SLC'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 discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness and other deficiencies in internal control that we consider to be 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 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. 10 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the SLC'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 SLC's responses to the findings identified in our audit are included with each reported finding. The SLC'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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity'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 20, 2013

Internal Control Comments
Material Weakness

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

Observation:

The financial accounting and reporting control environment in place at the SLC during and subsequent to the audit period exhibited weaknesses that impacted the SLC's ability to account for and report financial activity in compliance with accounting principles generally accepted in the United States of America.

A primary component of an entity's overall control system is its control environment. An entity's control environment includes, among other things, its commitment to competence, its organizational structure, and its assignment of authority and responsibility. The control environment has a pervasive influence on the way an entity's business activities are structured and controlled. The auditors proposed, and the SLC made, a material adjustment to the fiscal year 2013 financial statements, evidencing a weakness in SLC's control environment and support structure for financial accounting and reporting. In addition, other significant audit adjustments were also identified and proposed to the SLC.

The SLC's financial accounting and reporting expertise during fiscal year 2013 was centered in two employee positions. The incumbents in those positions had been with the SLC for more than ten years and were experienced in their job responsibilities. However, even with that experience, difficulties in financial accounting and reporting issues were encountered during fiscal year 2013 which were identified by the audit. Based on discussions, it appears the SLC has largely relied upon the experience and expertise of those employees and has not established policies and procedures to support their financial accounting and reporting functions. By placing such reliance on the job performance of incumbent employees for its financial accounting and reporting responsibilities, the SLC faced significant risk to its financial accounting and reporting operations in the event those employees chose to leave SLC employment, which occurred in the period subsequent to the audit.

Recommendation:

The SLC should strengthen its core financial accounting and reporting resources.

- The SLC should ensure that its key financial accounting and reporting personnel have sufficient training and resources to allow them to accurately implement new accounting and financial reporting systems and standards. When necessary and appropriate, the SLC financial accounting and reporting staff should reach out for assistance to other personnel in the State with more subject matter expertise or training.

- The SLC should also develop comprehensive policies and procedures that document all critical financial accounting and reporting activities in order to support the responsibilities of key employees.

Auditee Response:

Concur. The financial accounting and reporting environment for the past 10 plus years has centered on primarily two employees who have recently left employment with the NH State Liquor Commission. The Commission has recently filled the CFO position and we are actively recruiting to fill the second vacancy. The Commission has also taken steps to improve its financial accounting and reporting structure by requesting a pay grade increase for a recently vacated accounting position. The NHSLC will also begin the process of performing desk audits to document and record procedures of accounting and reporting functions which support the responsibilities of key accounting personnel.

Significant Deficiencies

Observation No. 2: Develop And Implement Comprehensive Risk Assessment Process And Business Continuity And Disaster Recovery Plans

Observation:

The SLC does not have a comprehensive risk assessment process and does not have business continuity and disaster recovery plans in place to respond to disruptions to its operations. While the SLC was able to demonstrate it had taken some steps toward risk assessment, primarily the implementation of a risk assessment policy covering a portion of the SLC's operations and the completion of an internal control checklist prepared in conjunction with a review of security over credit card processing, both the policy and the checklist were too limited in scope to adequately address the likely threats, hazards, and vulnerabilities facing the SLC's entire financial operations.

A risk assessment process and disaster recovery and business continuity plans are intended to protect financial operations from, or minimize the effects of, foreseeable disruptions.

Risk assessment is one of the five recognized components of internal control. An ongoing risk assessment process is essential to ensure an organization regularly reviews operations for, and reacts to, changes in conditions that could present a risk to financial and other operations. An ineffective risk assessment process can result in situations where an organization faces an unanticipated vulnerability.

Disaster recovery and business continuity plans, while related, do not serve the same purpose. A disaster recovery plan describes procedures and assigns responsibilities for reacting to and recovering from a natural or other disaster such as the loss of a critical asset. The business continuity plan describes the organization's roadmap for continuing operations under adverse conditions.

Recommendation:

The SLC should further develop its risk assessment process and develop and implement business continuity and disaster recovery plans for its operations. The risk assessment process should operate on a continual basis and remain current, and the business continuity and disaster recovery plans should be tested periodically to ensure staff are knowledgeable of and trained in their assigned responsibilities in the event the plans are put into action.

Auditee Response:

Concur In Part. The Commission has created a risk assessment policy and process and has implemented this process within the past two years. A Business Risk Assessment Checklist was created as part of this process and has been provided to the LBA. As recommended, the

Commission will reevaluate the current risk assessment process and seek to strengthen this process in an ongoing effort. The checklist noted above will be completed annually.

The NHSLC has begun the process of creating a disaster recovery plan and will complete this plan by the end of calendar year 2014.

Observation No. 3: Establish Fraud Policies

Observation:

The SLC has not implemented a fraud prevention, detection, and reporting policy. While the SLC has a draft fraud policy dated 2010, the SLC has not finalized, implemented, and trained its employees in the operation of the policy.

Fraud encompasses an array of irregularities and illegal acts characterized by intentional deception. Persons outside or inside the organization can perpetrate fraud for the benefit or to the detriment of the organization. Fraud runs the spectrum from minor employee theft and unproductive behavior to misappropriation of assets, fraudulent financial reporting, and intentional noncompliance with a law or rule leading to an undue benefit.

Management is responsible for assessing the risk of fraud and implementing measures to reduce the risks of fraud to an organization. Fraud assessment, prevention, deterrence, and detection are crucial to the controlled operations of an organization.

This comment was also included in the 2006 management letter.

Recommendation:

The SLC should finalize and implement an appropriate fraud prevention, detection, and reporting policy. The policy should encourage employee reporting while protecting all parties involved.

In conjunction with its implementation of a fraud policy, the SLC should take measures to ensure employees are appropriately trained in their responsibilities and also understand that adhering to the policy is a primary concern of management.

Auditee Response:

Concur. The Commission is working on completing a draft fraud policy and implementing this policy by June 30, 2014. Recently, the commission reestablished security meetings with our Enforcement & Licensing Division. These security meetings seek to address the risks within the organization with regards to theft and fraud. The Commission understands and values the importance of implementing such a fraud policy. We expect implementation to include training all Commission personnel and requiring that they read the policy annually and confirm that they have done so in writing.

Observation No. 4: Document Controls Over Changes In Product Costs

Observation:

The SLC does not consistently document its control for monitoring quarterly vendor price changes.

The SLC reports it monitors vendor price changes quarterly; however, the design of the control is not documented in SLC policies and procedures, and the performance and results of the control are not documented in the SLC's financial records. The lack of documentation of a control increases the risk that the control will not be consistently and accurately performed, and the results effectively communicated.

Pursuant to N.H. Admin. Rule Liq 307.01, vendors may change the product costs charged to the Commission quarterly. The SLC identifies and reviews product cost changes in a quarterly "Cost Comparison" report. The SLC follows up with vendors in the event of an unacceptable proposed product cost change, either by negotiating an agreeable cost or revising purchasing plans. The SLC does not retain documentation of its review of the Cost Comparison report and acceptance of price cost changes. While the Commission reports it reviews the Cost Comparison report and accepts the quarterly price changes, the Commission did not vote on the acceptance of cost changes during fiscal year 2013.

An ineffective monitoring control for quarterly price changes increases the risk that the SLC may not timely recognize and respond to unacceptable changes in product cost, negatively impacting the SLC's marketing.

Recommendation:

The SLC should formalize and document its quarterly review of changes in product cost. Policies and procedures should be implemented describing a cost review process that allows the SLC to timely and consistently recognize and respond to product costs changes offered by vendors.

Auditee Response:

Concur. The Commission will address vendor price changes at least quarterly in the weekly Commission business meeting. The Director, Division of Marketing, Merchandising and Warehousing will create a formal policy to address this issue and will coordinate with the Commission's chief financial officer so that the results are documented in financial records.

Observation No. 5: Enforce And Monitor Compliance With Cash Handling Control Policies

Observation:

The SLC does not have effective monitoring controls in place to ensure stores remain in compliance with the SLC Cash Handling policy that is intended to establish and maintain accountability over sales proceeds. Testing revealed a significant number of stores were not in compliance with the SLC Cash Handling policy during fiscal year 2013.

The Commission's Cash Handling Policy, dated November 22, 2011, requires preparation of periodic cash pick-up slips when the drawer total exceeds a specified amount. Per the policy, "All pick-up receipts shall be signed by the cashier and will be verified and signed off by the manager in charge."

The Policy also states, "Each employee shall count down their drawers at the end of the shift. … Store Manager will verify amount for deposit using the Cashier's Accountability report. This report is to be printed and the employee and manager will sign confirming they have reviewed and agree with the Sales Statistics, Sales Accountability and Media Accountability detail provided."

Auditor's review of the end-of-day documentation for a random sample of 29 stores and days identified instances where tested stores did not comply with SLC's accountability control policies.

- 18 out of 29 stores (62%) did not comply with the cash pick-up procedures outlined in the policy. We noted four stores did not print the required pick-up slips, eight stores included the slips but neither the manager nor the cashier signed them, five stores included only the manager's signature on the slip, and one store was missing one slip and included only the manager's signature on another.
- 28 of 29 stores (97%) did not comply with the Cashier Accountability report procedures outlined in the policy. We noted nine stores did not print the required Cashier Accountability reports, 13 stores did not require any signatures on the reports, three stores included only the cashier's signature on the reports, and reports from three stores only included the manager's signature.

In addition, 11 of the 29 stores (38%) did not utilize a Cashier Pickup sheet listing all cash activity for the day by drawer. Although not required by the policy, the Cashier Pickup sheet is an SLC document used to summarize cash activity by cashier.

It also appeared the store reconciliation control was not functioning as designed, as the stores were not adequately documenting the reconciliation of their financial activity to their bank deposits. However, a compensating reconciliation control existed at SLC headquarters.

Store noncompliance with SLC Cash Handling policies increases the risk that accountability for sales proceeds will not be established and maintained, and the responsibility for missing proceeds cannot be identified.

Recommendation:

The SLC should ensure that store employees comply with the SLC Cash Handling accountability control policies. Store managers should be periodically reminded about critical store controls and policies and the expectation of employee compliance with those policies. SLC management should periodically monitor employee compliance with all control policies and procedures.

Auditee Response:

Concur. The Commission will insure that all store managers are aware of and adhere to this policy related to cash handling policies. Store managers will be responsible for adherence to this policy and for insuring that all their employees are aware of this policy. Area supervisors will be responsible to insure that their respective stores are following our cash handling policies by inspecting these procedures when they visit their stores. Finally, a review of critical policies such as cash handling will be conducted at formal store manager meetings conducted by the Commission.

Observation No. 6: Enforce And Monitor Controls Over Voided Sales Transactions

Observation:

Not all stores were in compliance with SLC policies and procedures to control voided sales transactions during fiscal year 2013.

The SLC's Cash Control and Security Policy requires documentation of store management review and approval to "completely void an in-process sale or a sale that occurred earlier in the day. The manager's signature and reason for the void is required." Improperly voided sales transactions present an increased risk of fraud.

In two out of 28 stores (7%) where voided transactions were tested, the reason for the void and the signature of the manager approving the void was not documented.

The SLC reported that it was unaware that all stores were not in compliance with its policies and procedures for controlling voided sales transactions.

Recommendation:

The SLC should reinforce with its employees the expectation for compliance with policies and procedures for controlling voided sales transactions.

The SLC should establish monitoring controls to regularly confirm control activities, including review and approval controls, are in place and operating as intended.

Auditee Response:

Concur. The Commission will insure that all store managers are aware of and adhere to this policy related to voided sales transactions. Store managers will be responsible for adherence to this policy and for insuring that all their employees are aware of this policy. Area supervisors will be responsible to insure that their respective stores are following our voided sales transactions policy by inspecting these procedures when they visit their stores. Finally, a review of critical policies such as voided sales transactions will be conducted at formal store manager meetings conducted by the Commission.

Observation No. 7: Review And Revise Controls Over License And Permit Revenues

Observation:

The SLC's reconciliation of daily license and permit activity is not complete as it does not include a reconciliation of the number and type of licenses and permits issued to revenue collected.

Daily, the SLC reconciles revenue collected from licenses and permits issued in the L2K licensing system to an L2K Report of Collections/Receipts, that summarizes all of the collected revenue entered into the system. Because a license or permit can be issued without recording revenue, the daily reconciliation performed by the SLC would likely not detect the theft of license or permit revenue.

Recommendation:

The SLC should review its current licensing procedures and systems to determine if there is an effective control that could be implemented to prevent a license or permit from being issued without the receipt of corresponding revenue.

The SLC should revise its reconciliation procedures to include a comparison of license and permit revenue received to the number and type of licenses and permits issued.

Auditee Response:

Concur. The Enforcement & Licensing Division has subsequently generated an end-of-the-day reconciliation report which resolves the issues outlined in this observation.

Observation No. 8: Improve Accountability Controls Over License And Permit Revenues

Observation:

The SLC's processing of liquor licenses and permits does not include effective accountability controls over the processed cash and checks. Access to cash and checks awaiting deposit is not sufficiently restricted to establish responsibility for receipts.

The SLC's Licensing and Enforcement Division processes liquor licenses and permits using the L2K computerized licensing system. Payments, whether delivered in person or received in the mail, are entered into L2K when received, and once processed, cash and checks are stored in a locked file cabinet drawer until the daily deposit is prepared. Incomplete applications and related payments are also stored in the drawer until additional required documentation is received or the application is otherwise completed. While RSA 6:11-a, II, directs that payments received by any state department or institution for a fee, license, or product shall be returned to the sender if the application submitted with the payment is incorrectly submitted; the SLC holds payments received with incomplete applications unprocessed in the drawer for up to a week. Although the drawer is kept locked, multiple employees regularly access the drawer and the key to the drawer is not effectively secured. As a result, establishing accountability for missing receipts may be problematic.

Recommendation:

The SLC should improve accountability controls over revenues collected from liquor licenses and permits.

1. Employees processing receipts should not share a cash drawer. The SLC should obtain and use secure cash-holding equipment that would allow each employee processing the receipt of revenue to have accountability over their accumulated receipts through deposit.

2. The SLC should consider returning receipts associated with incomplete license and permit applications, as directed by RSA 6:11-a, II.

Auditee Response:

Concur. The Enforcement & Licensing Division is working with DoIT to obtain point-of-sale cash machines to improve how receipts are processed. The division recently purchased a safe to improve the security of receipts/payments received. The division will continue to hold incomplete applications/fees for seven days as RSA 6:11-a, II does not prohibit this procedure.

Observation No. 9: Enforce And Monitor Compliance With Store Operations Manual

Observation:

Audit payroll testing identified that in two of 21 payroll transactions tested (9%), store employees and managers did not fully comply with the SLC's Store Operations Manual.

The State's Time Management System (TMS), as implemented for the SLC retail stores, allows store managers to both enter part-time employees' hours and submit those hours through NHFirst for payment, without a review and approval of the hours keyed. As a compensating control, the SLC has designed its payroll procedures to ensure part-time employees are satisfied with the hours keyed on their behalf by having them sign a hardcopy of the timesheet data entered.

Auditors tested a random sample of 21 payroll transactions involving store employees below a Store Manager Level, primarily part-time employees. In two of the test items, the employee did not sign their timesheet, even though in one instance the employee was working in the store the following week and able to sign the timesheet, as required by the Store Operations Manual. In one instance the manager initialed in place of the employee and in the second instance, the timesheet was not printed by the manager, as the test transaction was the employee's last week of employment. Signed timesheets remain on file at the stores and are subject to review by the store's regional supervisor. While having employees sign timesheets can be an effective control, as noted above, the control is not consistently operating as designed. As a result, the SLC's payroll is at an increased risk of misstatement due to errors or fraud.

Recommendation:

The SLC should ensure that store employees comply with the SLC payroll control policies. Store managers should be periodically reminded about critical store controls and policies and the expectation of employee compliance with those policies. SLC management should periodically monitor employee compliance with all control policies and procedures.

The SLC should periodically review employee TMS access levels and ensure a reasonable segregation of duties exists in the authority to submit and approve a timesheet.

Auditee Response:

Concur. Maintaining proper procedures and controls under Lawson's Time Management System has been a major challenge for the Commission. Unfortunately, implementation of this software module was not researched adequately as it related to our agency's ability to conform to the new reporting requirements. This payroll module is very difficult to use in a retail environment. Restrictions such as part time store employees not being able to enter their own time and other issues with this system has dramatically impacted our store managers' ability to handle payroll efficiently and effectively, and they are spending far too much time handling payroll issues. We are planning to place biometric time clocks in all retail store locations in order to make the payroll process manageable. Once these time clocks are in place it should eliminate human error and reduce the payroll data entry of time. In the interim, the stores will follow the present procedures in order to ensure that the employees are compensated properly. Regional Store Supervisors will inspect this area when they visit each of their stores. We expect these time clocks to be in place within six months. Vendor proposals have already been received, and we will be testing the winning vendor's equipment and system in several stores before a full rollout takes place.

Observation No. 10: Align Inventory Computer Application With Intended Workflow

Observation:

A reportedly minor, and previously unrecognized, inconsistency between the inventory application process and the intended workflow for the SLC's computerized inventory system prevented the SLC from evidencing certain inventory adjustments posted as a result of physical inventory counts.

The SLC generally records an inventory adjustment when two matching physical counts indicate an adjustment is required. The SLC typically is able to document the counts supporting inventory adjustments.

Auditors observed the SLC's third quarter inventory procedures on a test basis and noted in one instance that the SLC was unable to support an adjustment.

The SLC's inventory counts were observed by auditors at six store and two warehouse locations in April 2013. The SLC reported the data needed to support an inventory adjustment at one of the observed stores had been "over-written" when a correcting entry was made and, therefore, the SLC was unable to evidence the adjustment was supported by two matching counts. Information technology (IT) personnel at the SLC reviewed the issue and confirmed the application overwrote the previously entered data.

Recommendation:

The SLC should implement controls to ensure all adjustments resulting from physical inventory counts are appropriately documented and supported. The SLC should review with IT personnel the solution to ensure the application process is consistent with the intended workflow for the inventory system.

Auditee Response:

Concur. A programmatic change has already been implemented to prevent overlaying of inventory cycle counts. The Commission now has the ability to report and review between cycle count adjustments and system inventory counts.

State Compliance Comments

Observation No. 11: Prepare Store Plan

Observation:

The SLC has not developed and maintained the formal written store plan for its retail liquor stores that is required by statute. This observation was also noted during our fiscal year 1998 and 2006 financial audits, and the 2009 performance audit of the SLC.

RSA 177:3 requires, "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 SLC reported pieces of a store plan exist but the SLC has not prepared a formal store plan as described in statute.

Recommendation:

The SLC should adopt a formal written store plan in compliance with RSA 177:3. Once adopted, the SLC should monitor compliance with the plan and periodically review and revise the plan as appropriate

If the SLC does not believe a store plan for its retail stores is appropriate, it should seek to have the statute amended accordingly.

Auditee Response:

Concur. The Commission will complete its formal Store Plan by September 30, 2014.

Observation No. 12: Adopt Required Rules

Observation:

The Commission has not adopted administrative rules required by RSA 178:27-a, VI, and RSA 178:28, I. and V.

Pursuant to RSA 178:27-a, *Alcohol Consultant*, VI, "Alcohol consultants shall register each educational event with the liquor commission-division of enforcement and licensing. The commission shall adopt rules, pursuant to RSA 541-A, relative to: (a) The registration procedures and required information to ensure that consumers are over 21 years of age. (b) The signature form or other identification procedures to be used by an alcohol consultant to ensure compliance with RSA 179:5 [Prohibited Sales] and 178:27 [Direct Shippers]."

Pursuant to 178:28, *Discount and Credit on Sales to Licensees,* "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."… And pursuant to "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 SLC reported the noted administrative rules have been drafted to meet the requirements of RSA 178:27-a, and are in the internal review process. No rules have been drafted to comply with RSA 178:28.

A similar observation referencing other expired administrative rules was noted in our 2009 performance audit of the SLC.

Recommendation:

The SLC should adopt rules required by RSA 178:27-a, VI, and RSA 178:28, I, and V.

If the SLC determines the adoption of rules is not in the best interest of the SLC and State, the SLC should request an appropriate change to the statutes which require the rules.

Auditee Response:

Concur. The Division of Enforcement & Licensing has written rules for the enforcement and regulation of RSA 178: 28 I, and V. The rule making process will begin upon the chairman approving these rules.

The Division of Marketing, Merchandising and Warehousing will draft administrative rules to comply with RSA 178:28 and will submit complete these rules by the end of calendar year 2014.

APPENDIX

Current Status Of Prior Audit Findings

The following is a summary of the status, as of December 20, 2013, of the observations contained in the financial audit of the New Hampshire Liquor Commission for the fiscal year ended June 30, 2006. 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/Liquor2006ML_full.pdf

		Status		
Internal Control Comments				
Significant Deficiencies				
1.	Formal Risk Assessment Policies And Procedures Should Be Established *(See Current Observation No. 2)*	●	○	○
2.	Formal Fraud Risk Mitigation Efforts Should Be Developed And Implemented *(See Current Observation No. 3)*	●	○	○
3.	Comprehensive Administrative Policies And Procedures Should Be Developed For The Bureau Of Enforcement Support Staff	●	●	●
4.	Segregation Of Duties Controls Should Be Implemented Over Processing Of Beer Tax Revenues	●	●	●
5.	Controls Over Direct Shipment Sales Should Be Improved	●	●	●
6.	Accounts Payable Should Be More Closely Monitored	●	●	●
7.	Effective Payroll Monitoring Controls Should Be Established *(See Current Observation No. 9)*	●	○	○
8.	Controls Should Be Improved Over Output From Commission Information Systems	●	●	●
9.	Controls Should Be Established/Strengthened Over The Processing And Recording Of Purchase Discount Transactions	●	●	●
10.	Security Over Credit Card Data Should Be Improved	●	●	●
11.	Store Lease Documents Should Be Clarified	●	●	●
12.	Continued Appropriateness Of Standard Mark-Up Percentages Should Be Reviewed	●	●	●
State Compliance Comments				
13.	Policies And Procedures Should Be Established Describing The Commission's Inspection Program For License Renewals	●	●	●
14.	Current Exemption From Bailment Fees Granted To Vendor Should Be Reviewed	●	●	○
15.	Formal Written Store Plan For The Retail Stores Should Be Developed *(See Current Observation No. 11)*	●	○	○
16.	Expired Rules Should Be Readopted If Still Considered Operational	●	●	●

Status Key				**Count**
Fully Resolved	●	●	●	11
Substantially Resolved	●	●	○	1
Partially Resolved	●	○	○	4
Unresolved	○	○	○	0

THIS PAGE INTENTIONALLY LEFT BLANK