

**STATE OF NEW HAMPSHIRE  
LIQUOR COMMISSION**

**AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 1998**

**STATE OF NEW HAMPSHIRE  
LIQUOR COMMISSION**

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## **STATE OF NEW HAMPSHIRE LIQUOR COMMISSION**

### **Reporting Entity**

Chapter 99, NH Laws of 1933, established the New Hampshire Liquor Commission (the Commission). Currently, State liquor laws are codified in RSAs 175 through 180 and cover the establishment of the Commission, liquor store operations, liquor licenses and fees, beverage distributor contracts, and enforcement. The three member Commission is appointed by the Governor with the consent of the council. Commissioners are appointed to six-year terms, with no more than two commissioners belonging to the same political party. Pursuant to RSA 176:3, the Commission's primary duties are to optimize profitability, maintain proper controls, assume responsibility for effective and efficient operations, and provide service to customers.

### **Organization And Responsibilities**

The Commission was reorganized into three bureaus, pursuant to Chapter 106, Laws of 1996, effective July 1, 1996.

(1) The Bureau of Enforcement and Licensing is responsible for:

- enforcing alcoholic beverage laws,
- enforcing the new Youth Access to Tobacco law,
- handling all liquor license applications,
- recommending fines, revocations, and suspensions of licenses to the Commission, and
- collecting additional fees on alcoholic beverages sold by wholesale distributors and beverage manufacturers.

(2) The Bureau of Marketing and Sales is responsible for:

- marketing the products of the Commission through various programs such as the Wine & Food program and the Wine & Dine program,
- developing merchandising materials to promote products in the retail stores, and
- purchasing, warehousing, and transporting liquor within the State.

(3) The Bureau of Administrative Services is responsible for:

- accounting,
- financial management,
- data processing,
- management information systems,
- human resources, and
- contracting.

The Chief of Enforcement and Licensing, the Administrator of Marketing and Sales, and the Administrator of Administrative Services report to the Commission. The Commission employs 311 full-time classified employees and 450 part-time employees throughout its Concord headquarters, warehouse, and 73 retail stores.

## **Revenues**

The majority of the Commission's revenue is generated by the sale of spirits and wine through its 73 retail stores and direct sale of products to licensees. The graph on the top of page 3 illustrates the distribution of gross operating revenue into retail, on-premise (e.g. restaurants), and off-premise (e.g. grocery stores) licensee sales for fiscal years 1994 through 1998. Gross operating revenue, from all sources, was approximately \$255.6 million in fiscal year 1998. This represents an increase of \$14.5 million from fiscal year 1997. The increase is primarily due to a growth in wine sales. The graph at the bottom of page 3 depicts the increase in gross spirits and wine sales for fiscal years 1994 through 1998. It also shows the increasing proportion of wine sales to total sales over the period.

In addition to liquor sales, the Commission collects license fees for the manufacturing, sale, transportation, or warehousing of alcoholic beverages. License and investigation fees were approximately \$2.8 million for fiscal year 1998. The Commission collects a tax on beer sold by wholesale distributors and beverage manufacturers. Total beer taxes collected equaled approximately \$11.4 million for fiscal year 1998.

## **Expenses**

The Commission's operating expenses were approximately \$20.9 million for fiscal year 1998. Salaries and benefits accounted for approximately 72% of operating expenses. The graph on page 4 illustrates the breakdown of total operating expenses by function. In addition, the Commission spent approximately \$183 million for liquor stock purchases during fiscal year 1998.

## **Prior Audits**

The status of the audit findings from the 1994 performance audit of the New Hampshire State Liquor Commission, dated July 1994, is summarized in Appendix A to this report beginning on page 43. We have also provided a status of the audit findings from the 1989 financial audit of the Commission in Appendix B beginning on page 47.

Copies of the prior audit reports can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, New Hampshire 03301 or by visiting our web site at [www.state.nh.us/lba](http://www.state.nh.us/lba).

## **Audit Objectives And Scope**

The primary objective of our audit is to express an opinion on the fairness of the presentation of the financial statements. As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, we considered the effectiveness of the internal controls in place at the Commission and tested the Commission's compliance with certain provisions of applicable state laws, regulations, and contracts. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Internal controls,
- Revenues,
- Expenditures,
- Accounts receivable and payable,
- Inventory,
- Cash,
- Fixed assets, and
- State compliance.

Our reports on compliance and on internal control over financial reporting, management issues, the related observations and recommendations, our independent auditor's report, and the financial statements of the Liquor Commission, as of and for the year ended June 30, 1998, are contained in the report that follows.

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## **Auditor's Report On Compliance And On Internal Control Over Financial Reporting**

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying financial statements of the New Hampshire Liquor Commission as of and for the year ended June 30, 1998, and have issued our report thereon dated December 30, 1998, which was qualified because insufficient audit evidence exists to support the Liquor Commission's disclosures with respect to the year 2000 issue. Except as discussed in the preceding sentence, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Liquor Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance which are described in observations No. 3 and No. 4 of this report.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Liquor Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described observations No. 1 and 2 of this report.



A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions referred to above is a material weakness.

This report is intended for the information of the management of the Liquor Commission and the Fiscal Committee of the General Court. However, this report, upon its acceptance by the Fiscal Committee of the General Court, is a matter of public record and its distribution is not limited.

*Office of Legislative Budget Assistant*  
Office Of Legislative Budget Assistant

December 30, 1998

**Internal Control Comments**  
**Reportable Conditions**

**Observation No. 1: Fixed Asset Accounting Issues**

*Background:*

As of June 30, 1998 the Liquor Commission reported net fixed assets of \$12.5 million. This represents the net value of the equipment located throughout the 73 stores, land and buildings, the Concord headquarters and warehouse, and various leasehold improvements.

*Observation:*

The Liquor Commission has no written policies and procedures concerning the capitalization and depreciation of fixed assets. It uses the Department of Administrative Services' (DAS) *Fixed Asset Policies and Procedures Manual* as a basis for capitalization, even though the manual specifically states that it is not intended to provide guidance for proprietary funds such as the Liquor Fund. As a result of the Commission's lack of policies, we noted the following problems:

- The Commission's informal policy is to capitalize all expenditures funded by the Capital Projects Fund regardless of the nature of the expenditure. The Commission does not analyze the type of expenditure to determine whether capitalization is appropriate (i.e. maintenance versus improvement) nor has it set a minimum threshold for capitalization.
- We tested 25 assets classified as land, building, building improvements, or leasehold improvements and found that the documentation to support real property purchased prior to 1990 was not retained. Of the 25 assets tested, 14 (56%) did not have supporting documentation. Real property acquired after 1990 appears to have adequate supporting documentation on file.
- During our testing, we noted certain equipment items were listed on the inventory as having a location "999". Location 999 indicates that the item could be located in any of the 73 liquor stores, Commission headquarters, or the warehouse making it difficult to track and identify these items. A further analysis of the Commission's equipment listing revealed a total of 384 items (11%) of the equipment inventory were designated as location 999.
- We noted several items totaling \$984,645 on the equipment inventory database that are not actual fixed assets. These items include software development and training fees, and items titled "Change for System Error" and "One Time Charge". These items were capitalized in 1990 and relate to items or systems that the Commission no longer owns or uses. These fully depreciated items should be removed from the equipment inventory balance.

## **Reportable Conditions (Continued)**

### **Observation No. 1: Fixed Asset Accounting Issues (Continued)**

#### *Observation (Continued):*

- The Commission has two leases; the Unisys computer system and the Masterpiece accounting software system; both of which should be accounted for as capital leases and carried as fixed assets. The Commission has inappropriately accounted for these two leases by capitalizing each monthly payment rather than capitalizing the net present values at the lease inception. This recording error understates the value of the equipment, the related liability and depreciation. Additionally, since the Commission is capitalizing each payment, it is also erroneously assigning a six year life to each lease payment, thus creating the situation of having an asset and depreciating that asset up to six years after the actual asset is disposed.

Similar problems were noted in our 1989 financial audit of the Commission.

#### *Recommendation:*

We recommend the Commission prepare written policies and procedures for the accounting and capitalization of fixed assets. The Commission must improve its record retention and documentation for fixed assets. Documentation that should be maintained includes contracts, deeds, invoices, payment vouchers, appraisals, or any relevant documentation that supports the cost of the asset. Such documentation should be maintained until the asset is disposed of. If the actual documents are no longer available, the Commission should use a reasonable method of estimating historical cost and document how these estimates were derived.

#### *Auditee Response:*

Concur. The Commission recognizes the need to create a formal written policy for the capitalization of fixed assets (land and buildings) in accordance with GAAP. The Commission will create and implement agency policies in order to maintain accurate records. The Commission will make every effort to research and obtain documentation to verify the cost of assets currently being listed. The Commission will establish internal control procedures to assure that proper records are maintained for all agency fixed assets. We expect to implement these new policies and procedures by October 31, 1999.

Further, the Commission recognizes that the fixed asset inventory and accountability is not adequate. The Commission will create a formal written policy for the capitalization of equipment in accordance with GAAP. It will address agency policies such as depreciation, recording, and removal of assets in order to maintain accurate records. The Commission

## **Reportable Conditions (Continued)**

### **Observation No. 1: Fixed Asset Accounting Issues (Continued)**

#### *Auditee Response (Continued):*

will establish a capitalization dollar threshold with assistance from DAS. The Commission will establish internal control procedures to track and record accurate locations of all agency fixed assets. We will have updated policies and procedures in place by October 31, 1999. Finally, the Commission will adjust the accounting records to accurately reflect the capitalization of capital leases. The Commission will ask for assistance from DAS and Financial Reporting to assist in the correction of the accounting records. With this assistance, policies and procedures will be established to eliminate further errors.

### **Observation No. 2: Controls Over Cash And Bank Accounts**

#### *Observation:*

The Commission has 77 bank accounts, which include 73 store depository accounts, three credit card deposit accounts, and one revolving account for maintaining change and petty cash accounts at headquarters and the stores. During fiscal year 1998, approximately \$250 million was processed through the accounts and as of June 30, 1998 these accounts held a total of \$1,125,000. The commissioners are the only signatories on these accounts. Because of the inherent risk associated with cash and the high volume of cash activity processed by the Commission, strong internal controls are necessary. We noted the following weaknesses in internal controls related to cash and bank accounts.

#### **A. Lack Of Documentation Supporting The Authority To Open Bank Accounts**

Pursuant to the Manual of Procedures N.H. Admin Rules, Adm 311.03 (expired), the Governor and Council (G&C) must approve the opening of all bank accounts. We noted that the Commission has retained G&C approval documentation on only 17 of the 77 accounts. The remaining 60 accounts (78%) were not supported by documentation granting the authority to open the accounts.

#### **B. Unauthorized Signers For Liquor Accounts**

Signature cards were requested from banking establishments for each of the 77 accounts. Of the 77 accounts, the banks could not provide signature cards for six accounts. Of the remaining 71 accounts whose signature cards were provided, 10 cards listed former commissioners and two cards listed unauthorized signers such as a store manager, employees, and a senior account technician.

## **Reportable Conditions (Continued)**

### **Observation No. 2: Controls Over Cash And Bank Accounts (Continued)**

*Observation (Continued):*

#### **C. Withholding Of Cash From Daily Deposits**

In our testing of cash at the liquor stores, we noted that stores periodically withhold cash from nightly deposits to temporarily increase the amount of cash-on-hand at the store. Per conversations with store managers this is done primarily to ensure that a store has sufficient cash available for change over a weekend. In our cash counts at the Hooksett - North store we found that it withheld \$2,000 from a daily deposit for this reason. We question the propriety of withholding \$2,000 from the deposit for the change fund as Hooksett - North has a \$5,000 change fund, one of only six stores with a high change fund balance. We also noted that the Commission does not monitor the frequency of this action to determine if certain stores are abusing this policy.

#### **D. Sunshine Funds**

During a cash count at the Portsmouth store we noted a checkbook in the store's safe maintained for a store employees' Sunshine Fund. The purpose of the fund was to purchase flowers, greeting cards, etc, for employees that may have had a recent death or sickness in the family. Per review of the bank statement the name on this account was "Store #38 Sunshine Fund New Hampshire State Liquor Store" and the store managers and area supervisor had signatory authority.

While we do not take issue with the maintenance of an employees' Sunshine Fund, the bank account should not be under the name of the Liquor Commission. A checking account in the name of the Liquor Commission heightens the risk that store receipts could be misdirected into the account, enabling a possible theft of funds.

#### **E. Credit Card Bank Account Reconciliations**

Monthly bank reconciliations are a required procedure to determine the validity of activity reported both on the books and by the bank. A proper monthly bank reconciliation should explain all differences between the book balance and the bank balance at the reconciliation date.

The Commission bank statement reconciliations of the three credit card accounts are not true bank-to-book reconciliations. The reconciliation is done on a form called "Bank Statement Reconciliation to Accounts Receivable Activity." This form is prepared for each of the three accounts and is divided into two separate reconciliations - Bank Reconciliation and A/R Activity Reconciliation. Essentially the "Bank Reconciliation" portion of the form reconciles the figures from the bank statement to itself. The "A/R Activity" portion reconciles the book balance to itself. There is no comparison and reconciliation of the bank statement balance to the book balance.

## **Reportable Conditions (Continued)**

### **Observation No. 2: Controls Over Cash And Bank Accounts (Continued)**

#### *Recommendation:*

We recommend the following:

- A. The Commission should maintain documentation supporting the authority to open all bank accounts held by the Commission.
- B. The Commission should update all signature cards of banking institutions whose current signers are not the current commissioners.
- C. While we understand that the Commission allows stores to withhold cash from deposits, it should establish monitoring procedures over the frequency of this action to determine whether certain stores are abusing this privilege.
- D. The Commission should establish policies and procedures regarding the use of Sunshine Funds at the stores, including control over the name of the accounts. The Commission should make certain that the account is not using the State's federal tax number.
- E. The Commission should change its current process of monthly credit card bank reconciliations. The new process should account for adjusting entries such as outstanding transfers to treasury and deposits-in-transit and should accurately reconcile the bank statement ending balance to the Commission's monthly book balance.

#### *Auditee Response:*

- A. Concur. The Commission currently maintains the G&C approvals for authorization of opening bank accounts. The Commission will make an effort to research documents prior to 1990 to obtain the authorization if they exist. In the event documentation is unavailable, the Commission will submit a re-authorization letter to Governor & Council to establish authority.
- B. Concur. The Commission will have on file no later than June 30, 1999 updated signature cards for the current Commissioners. The Commission will keep copies of the signature card and letter sent to each banking institution. However, please note that the Commission will have no guarantee that the banking institutions will correct their records and keep the signature cards at branch locations and not corporate offices. Financial management policies require updated signatures whenever the composition of the Commission changes.

**Reportable Conditions (Continued)**

**Observation No. 2: Controls Over Cash And Bank Accounts (Continued)**

*Auditee Response (Continued):*

- C. Concur. The Commission's Financial Management Section has created and implemented an internal control policy that notifies Store Operations the next business day that a store has withheld additional cash funds from deposit to increase the Store's change fund. It has also been suggested to Store Operations that a review of current change fund balances at all stores be reviewed, and if necessary ask for an increase through Governor & Council to adequately fund the stores.
- D. Concur. The Commission will create and adopt policies and procedures regarding the use of sunshine funds at liquor stores and expects to have those procedures in place by June 30, 1999.
- E. Concur. The Commission has changed the credit card reconciliation form as of February 1, 1999 to allow the Commission to reconcile the Bank Statement Ending Balance to the Commission's monthly book balance per the LBA's request and format. The Commission will use this updated form to reconcile the Bank Statement Ending Balances for FY 1999.

**Compliance Comments**  
**State Compliance**

**Observation No. 3: Preferential Treatment Of Local Liquor Manufacturer**

*Observation:*

In a 1994 performance audit of the Liquor Commission, issued by the Office of Legislative Budget Assistant, we cited the Commission for giving preferential treatment to a local liquor manufacturer by not charging it bailment and warehouse fees as it does to other manufacturers and distributors. At the time total unbilled charges equaled \$345,781. Since that time, additional unbilled bailment and warehouse fees amount to \$568,654, increasing the total unbilled to \$914,435. It was also noted in the 1994 performance report that the Commission had not promulgated administrative rules for the Concord bailment warehouse, including bailment fees.

The Commission, in its response to the 1994 performance audit report, disagreed with our observation stating that the treatment accorded the local manufacturer was not preferential. However, the Commission went on to state that it would "...adopt a written policy concerning bailment and bailment charges and apply the policy equally to all manufacturers." The Attorney General's Office in its response to the observation also stated that the Commission "... should adopt a written policy concerning bailment charges and apply the policy equally to all manufacturers."

To date, the Commission still has not adopted administrative rules or any other written policy regarding bailment and it continues to exempt the local manufacturer from the bailment fees it charges other manufacturers.

Additionally, since the Commission has not adopted administrative rules regarding bailment charges, it may not have the legal authority to charge bailment fees. RSA 541-A:22 states that "No agency rule is valid or effective against any person or party, nor may it be enforced by the state for any purpose, until it has been filed as required in this chapter." During fiscal year 1998, the Commission received \$951,000 in bailment fees.

*Recommendation:*

We strongly recommend the Commission work with the Attorney General's Office and the Joint Legislative Committee on Administrative Rules to finally resolve this issue.

*Auditee Response:*

Commissioner Anthony C. Maiola abstained from consideration of this item. A consensus of the remaining commissioners was not achieved. The Chairman, John W. Byrne, wishes to



**State Compliance (Continued)**

**Observation No. 3: Preferential Treatment Of Local Liquor Manufacturer  
(Continued)**

*Auditee Response (Continued):*

be recorded as concurring with the recommendation and will continue to work with the Commission to change the current procedure concerning bailment to local manufacturers.

The Commission will work with the NH Attorney General's Office and the Joint Legislative Committee on Administrative Rules to resolve this issue.

Commissioner Miriam Luce's response is as follows:

Concur, in part. While it is appropriate to adopt administrative rules regarding bailment charges to remove any doubt about the legitimacy of doing so, I'm opposed to charging bailment to the only New Hampshire liquor manufacturer. Unless we mandated otherwise, the manufacturer in question could choose to keep his product in his warehouse and to even ship directly to our retail stores. The logistical complexities and additional operating costs to the Commission would more than wipe out any gains from bailment income.

On the other hand, if we did mandate the in-house manufacturer to pay for the use of one of the bailment warehouses, the additional costs would most likely be borne not by the manufacturer, but by our customers. This would erode the Commission's low price niche, particularly since the products in question tend to be at the price-sensitive low end of the market.

The best way for this situation to be handled would be to write the in-state manufacturer's exception to the rules promulgated for our bailment income.

## **State Compliance (Continued)**

### **Observation No. 4: Noncompliance With Certain State Statutes**

#### *Observation:*

During our testing of the Liquor Commission's compliance with state laws applicable to its operations, we noted the following issues:

#### **A. Lack Of A Formal Written Store Plan For Retail Liquor Stores**

RSA 177:3 requires the Commission to develop and maintain a formal written store plan for its retail liquor stores establishing goals and policies related to the number, size and staffing patterns of state operated liquor stores to ensure efficient and effective operation of the state store system. The Commission has a three-year business plan that provides some of the required information, however, it did not provide the following information as required by RSA 177:3:

- Operational definition of a marginal store and identification of such stores.
- The optimum size, location, and staffing patterns of stores, and the formula for determining appropriate rental payments for leased stores.

#### **B. Capital Budget Project Status Reports Not Filed**

RSA 17-J:4 requires each agency with capital budget projects to submit a status report on the projects every 60 days to the Capital Budget Overview Committee. Even though the Commission had various capital projects ongoing during fiscal year 1998, it did not prepare or submit any status reports to the Capital Budget Overview Committee as required by RSA 17-J:4.

#### **C. Brand Codes Not Listed On Vendor Invoices**

RSA 179:38 requires that the State of New Hampshire brand code numbers be listed on invoices that are submitted to the Commission for payment of liquor or wine purchases. We noted that 3 of 25 (12%) vendor invoices tested did not list the brand code numbers for all items listed on the invoices as required by RSA 179:38.

#### *Recommendation:*

The Liquor Commission should take steps to ensure compliance with the issues noted above.

**State Compliance (Continued)**

**Observation No. 4: Noncompliance With Certain State Statutes (Continued)**

*Auditee Response:*

A. Concur. Store Operations has been directed to correct the deficiencies noted here. The Commission expects to complete these corrections and have policies in place by October 31, 1999.

B. Concur. The Commission has already re-initiated the submission of status reports on all ongoing capital projects every sixty days to the Capital Budget Overview Committee.

C. Concur. We have already taken steps to insure that brand code numbers for all items appear on all invoices as required by RSA 179:38.

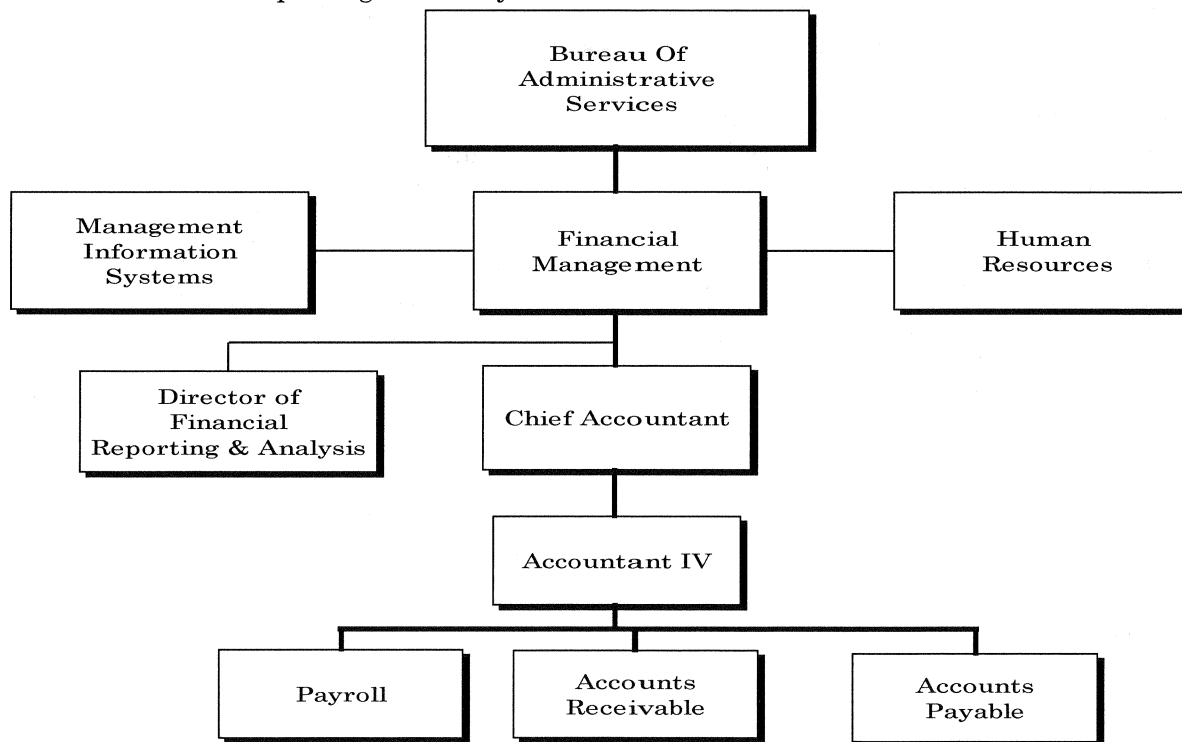
## Management Issues Comments

### Observation No. 5: Reorganization Of The Financial Management Section

*Observation:*

Pursuant to Chapter 106, Laws of 1996, the Liquor Commission underwent reorganization, reducing the number of separate bureaus from seven to three. As a result of this reorganization, a chief of administrative services was hired to oversee the functions of financial management, management information systems and human resources, which formerly were separate bureaus.

The job descriptions of the two key positions in the financial management section, the director of financial reporting and analysis and the chief accountant were not amended at the time of the reorganization. This has caused confusion and inefficiency in the operation of the Commission's financial management function, as is demonstrated and further exacerbated by other weaknesses noted in Observations No. 1, 6, and 7 in this report. The job descriptions as currently written no longer support the organizational structure. The chief accountant has been given many of the duties that were the responsibility of the director of the former bureau of financial reporting, leaving unclear the current duties of the director of financial reporting and analysis. For example, the director of financial reporting and analysis no longer "supervises the detailed financial administration of the agency..." as specified in the job description. The chief accountant performs those duties as shown by the organization chart below as well as the majority of other functions in the current job description of the director of financial reporting and analysis.



Source: NH Liquor Commission

## **Auditor's Report On Management Issues**

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying financial statements of the New Hampshire Liquor Commission as of and for the year ended June 30, 1998 and have issued our report thereon dated December 30, 1998, which was qualified because insufficient audit evidence exists to support the Liquor Commission's disclosures with respect to the year 2000 issue. Except as discussed in the preceding sentence, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing our audit of the financial statements of the Liquor Commission as of and for the year ended June 30, 1998, we noted certain issues related to the operation of the Commission that merit management consideration but do not meet the definition of a reportable condition as defined by the American Institute of Certified Public Accountants, and were not issues of noncompliance with laws, rules, or regulations.

Those issues that we believe are worthy of management consideration but do not meet the criteria of reportable internal control or compliance conditions are described in observations No. 5 through No. 8 of this report.

This report is intended for the information of the management of the Liquor Commission and the Fiscal Committee of the General Court. However, this report, upon its acceptance by the Fiscal Committee, is a matter of public record and its distribution is not limited.

*Office of Legislative Budget Assistant*  
Office Of Legislative Budget Assistant

December 30, 1998

## **Management Issues (Continued)**

### **Observation No. 6: Preparation Of Liquor Fund Financial Statements**

#### *Observation:*

The Liquor Commission prepares annual financial statements that are submitted to the Department of Administrative Services (DAS), presumably for use as a starting point in creating financial statements in accordance with generally accepted accounting principles (GAAP) for the State's Comprehensive Annual Financial Report (CAFR).

We found, however, that Administrative Services prepares the financial statements of the Liquor Fund from information available in the State's accounting system, not from information provided by the Commission. Adjustments are then made by DAS to the Liquor Fund financial statements as prepared for the State CAFR. The Liquor Commission is not made aware, nor do they inquire about, the adjustments to the financial statements. We noted unexplained variances of \$2.2 million in the beginning and ending fund balances as reported by the Liquor Commission and the Department of Administrative Services. Neither the Commission nor Administrative Services can explain the variances.

#### *Recommendation:*

The Financial Management Section should work closely with the Department of Administrative Services to gain a complete understanding of the procedures employed during the creation of the Liquor Fund financial statements, including all adjustments made. The variances should be reconciled as soon as identified.

#### *Auditee Response:*

Concur. The Commission will work with the DAS to improve financial reporting functions. The Commission, with the assistance of DAS, will work towards reconciling internal statements with budgetary statements to eliminate the current fund variance balance. With DAS's guidance, the Commission will book adjusting entries as necessary to the Commission general ledger system.

**Management Issues (Continued)**

**Observation No. 5: Reorganization Of The Financial Management Section  
(Continued)**

*Observation (Continued):*

The reorganization of the Liquor Commission brought about clear lines of authority at the top levels, however, there has not been follow through with the responsibilities in the financial management section, leading to inefficiencies as management attempts to define the roles of its employees in the organization.

*Recommendation:*

The Liquor Commission should complete its reorganization by clearly defining the roles and responsibilities of the employees of its financial management section to eliminate inefficiencies. Weaknesses identified in Observations No. 1, 6, and 7 should be considered when defining the roles and responsibilities of the key financial management employees.

*Auditee Response:*

Concur. The Commission has been conducting a thorough review of functions, duties and responsibilities throughout this Bureau to include the Financial Management Section. We have already effected substantial changes to work flow and responsibilities and intend to continue that process. We acknowledge your observations regarding inefficiencies and will pursue internal discussions regarding what organizational changes would best serve the Commission.

Commissioner Miriam Luce does not concur with this response.

## **Management Issues (Continued)**

### **Observation No. 7: Masterpiece General Ledger Software**

#### *Observation:*

The Liquor Commission's general ledger system, Masterpiece, is an integrated accounting package which contains general ledger, accounts payable, accounts receivable, and fixed assets sub-systems. This system continues to operate on the Commission's new updated computer operating system. During our audit, we noted that the Commission was not utilizing the Masterpiece system to its full potential. Specifically, we noted the following:

- The Commission does not use Masterpiece to generate a full monthly trial balance. The Chief Accountant has not had the time to be trained and utilize all the report writing capabilities, therefore the full potential of the software has been unrealized. Due to personnel changes no one has obtained a working knowledge of the system's report writing capabilities. As a result, the generation of financial statements by the Chief Accountant is time consuming and cumbersome. One of the Chief Accountant's responsibilities is preparation of the annual financial statements which would be facilitated if a complete trial balance were generated from the system.
- Masterpiece was put into service July 1995 and is being purchased through a 5 1/2 year lease ending January 2000. Total lease payments will equal \$179,355. The Commission is already researching the purchase of another general ledger system before it is finished purchasing this system.

#### *Recommendation:*

Before the Commission makes the decision to replace the Masterpiece system, it should attempt to utilize Masterpiece to its fullest extent. This will involve training current staff in all of Masterpiece's functions including the report writing function. This may increase the efficiency of financial statement preparation.

#### *Auditee Response:*

Concur. The Commission will attempt to obtain adequate training funds to enable the Financial Management Section to become more proficient with the current accounting software in use. However, the goal of the Financial Management Section is to have a fully integrated financial package that will enable the payroll module to be included with the other functions; accounts receivable, accounts payable, general ledger and fixed assets. This would be more efficient and effective for the division.



## Management Issues (Continued)

### **Observation No. 8: Year 2000 Compliance**

#### *Observation:*

The year 2000 (Y2K) issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that make operations beyond the year 1999 troublesome. For many years, programmers eliminated the first two digits from a year when writing programs. For example, programmers would designate January 1, 1965 as "01/01/65" instead of "01/01/1965." On January 1, 2000 at 12:01 a.m., the internal clock in computers and other equipment will roll over from "12/31/99" to "01/01/00." Unfortunately, many programs (if not corrected) will not be able to distinguish between the year 2000 and the year 1900. This confusion may cause programs to process data inaccurately or stop processing altogether.

It is incumbent upon management to determine the scope of the Y2K issue on the operations of the organization and to plan and take steps to make systems and other equipment year 2000 compliant, as well as develop contingency plans to ensure smooth operations through the turn of the century.

While the Commission is addressing the Y2K issue as noted below, it has not yet developed any contingency plans should any of its internal or vendor systems fail. Failure to have contingency plans in place could have severe implications on continued operations.

In meeting this responsibility, the Liquor Commission reports that:

- Key business functions have been identified, and the systems that support these functions have been inventoried and analyzed.
- The internal systems deemed most critical to the Commission's continued operations are the Liquor Inventory Distribution System and Warehouse Inventory Management System. Both are currently in the correction phase, with completion anticipated by July 1999.
- The Commission has not received written assurances from their significant external vendors (Law Warehouse, liquor and credit card vendors, and financial institutions), however, a standardized letter and questionnaire has been drafted and is being remitted to each of the above vendors, asking for information and assurances relative to the year 2000.
- All desktops, operating systems, and application suites which are not Y2K compliant will be replaced by July 1999.

**Management Issues (Continued)**

**Observation No. 8: Year 2000 Compliance (Continued)**

*Recommendation:*

The Commission should continue to be aware of the Y2K issue and the implications it has on continued operations, as well as monitor and test the compliance of its systems and those of the Commission's vendors, service providers and other organizations that the Commission relies upon to ensure that the Commission's operations will not be disrupted by the Y2K issue. In addition to bringing its essential systems into compliance or replacing these systems, the Commission should develop contingency plans to minimize or eliminate any disruption of services caused by either the Commission's systems or outside systems that prove to be non-compliant.

*Auditee Response:*

Concur.

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## **Independent Auditor's Report**

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying financial statements of the New Hampshire Liquor Commission, as of and for the year ended June 30, 1998. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosures of certain matters regarding the year 2000 issue. The New Hampshire Liquor Commission has included such disclosures in Note 8. Because of the unprecedented nature of the year 2000 issue, its effects and success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the Commission's disclosures with respect to the year 2000 issue made in Note 8. Further, we do not provide assurance that the Commission is or will be year 2000 ready, that the Commission's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Commission does business will be year 2000 ready.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, the financial statements referred to above present fairly, in all material respects, the financial position of the New Hampshire Liquor Commission as of June 30, 1998, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 1998 on our consideration of the Liquor Commission's internal controls over financial reporting and our test of its compliance with certain provisions of laws, regulations, and contracts.

*Office of Legislative Budget Assistant*  
Office Of Legislative Budget Assistant

December 30, 1998

STATE OF NEW HAMPSHIRE  
LIQUOR COMMISSION

BALANCE SHEET  
AS OF JUNE 30, 1998

**ASSETS**

**Current Assets:**

Cash and Cash Equivalents	\$ 2,500,675
Accounts Receivable	2,943,241
Inventories	<u>20,183,905</u>
Total Current Assets	25,627,821

**Fixed Assets:**

Land	2,054,581
Land Improvements	624,798
Buildings	13,037,322
Leasehold Improvements	1,203,129
Equipment	7,567,827
Less: Allowance for Depreciation	<u>(12,012,572)</u>
Net Fixed Assets	<u>12,475,085</u>

**Total Assets** \$ 38,102,906

**LIABILITIES AND FUND EQUITY**

**Current Liabilities:**

Accounts Payable	\$ 18,617,182
Accrued Payroll	961,619
Deferred Revenue	1,677,515
Due to Other Funds	<u>1,993,920</u>
Total Current Liabilities	23,250,236

**Noncurrent Liabilities:**

Compensated Absences Payable	<u>2,377,585</u>
Total Noncurrent Liabilities	2,377,585

**Fund Equity:**

Contribution From General Fund	<u>12,475,085</u>
Total Fund Equity	<u>12,475,085</u>

**Total Liabilities And Fund Equity** \$ 38,102,906

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW HAMPSHIRE  
LIQUOR COMMISSION**

**STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN RETAINED EARNINGS  
FOR THE YEAR ENDED JUNE 30, 1998**

<b>OPERATING REVENUES:</b>	
Sales	\$ 255,586,791
Less: Discounts	<u>(2,083,483)</u>
Total Sales	253,503,308
Less: Bank and Credit Card Fees	<u>(1,550,805)</u>
Net Sales	<u>251,952,503</u>
 <b>COST OF SALES:</b>	
Beginning Inventory	16,650,531
Purchases	183,267,502
Shipping and Handling	1,223,701
Less: Ending Inventory	<u>(20,183,905)</u>
<b>Total Cost of Sales</b>	<u>180,957,829</u>
 <b>Gross Profit from Sales</b>	 70,994,674
 <b>OPERATING EXPENSES:</b>	
Salaries and Benefits	15,086,256
Rent	1,288,701
Current Expenses	1,356,039
Depreciation	815,085
Miscellaneous	837,324
Advertising	742,287
Repairs	588,168
Indirect Costs	<u>222,872</u>
<b>Total Operating Expenses</b>	<u>20,936,732</u>
<b>Operating Income</b>	<u>50,057,942</u>
 <b>NON-OPERATING REVENUES:</b>	
Beer Taxes	11,441,494
Liquor Licenses and Investigation Fees	2,830,814
Warehouse Bailment	951,006
Depreciation	815,085
Other Income	<u>727,793</u>
<b>Total Non-operating Revenues</b>	<u>16,766,192</u>
<b>Income Before Operating Transfers</b>	66,824,134
 <b>OPERATING TRANSFERS:</b>	
To General Fund	<u>66,824,134</u>
 <b>Net Income</b>	 -0-
Retained Earnings - July 1, 1997	<u>-0-</u>
<b>Retained Earnings - June 30, 1998</b>	<u>\$ -0-</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW HAMPSHIRE  
LIQUOR COMMISSION**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 1998**

<b>Cash Flows From Operating Activities:</b>	
Operating Income	\$ 50,057,942
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	815,085
<i>Change in Operating Assets and Liabilities:</i>	
(Increase) Decrease in Receivables	(446,183)
(Increase) Decrease in Inventories	(3,533,344)
Increase (Decrease) in Accounts Payable	2,947,431
Increase (Decrease) in Accrual Payroll	137,681
Increase (Decrease) in Compensated Absences	371,520
Increase (Decrease) in Deferred Revenue	40,742
Contributions from Other Funds	<u>68,450</u>
Net Cash Provided By Operating Activities	50,459,324
<b>Cash Flows From Noncapital Financing Activities:</b>	
Transfers to Other Funds	(65,266,738)
Proceeds from the Collection of Beer Tax	11,441,494
Proceeds from the Collection of Liquor Licenses	<u>2,830,814</u>
Net Cash Used For Noncapital Financing Activities	(50,994,430)
<b>Cash Flows From Capital And Related Financing Activities:</b>	
Acquisition, Disposal, and Construction of Capital	(883,563)
<b>Cash Flows From Investing Activities:</b>	
Other Income	<u>2,493,884</u>
Net Increase (Decrease) In Cash And Cash Equivalents	1,075,215
Cash and Cash Equivalents - July 1, 1997	<u>1,425,460</u>
<b>Cash and Cash Equivalents - June 30, 1998</b>	<u><u>\$ 2,500,675</u></u>

The accompanying notes are an integral part of these financial statements.



STATE OF NEW HAMPSHIRE  
LIQUOR COMMISSION

STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL – BUDGETARY BASIS  
CAPITAL PROJECTS FUNDS  
FOR THE YEAR ENDED JUNE 30, 1998

	Capital Projects Fund		
	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
<b>Total Revenues</b>	\$ -0-	\$ -0-	\$ -0-
<b>Expenditures:</b>			
Point of Sale Registers	2,485,000	-0-	2,485,000
Hampton South Restrooms	400,000	362,304	37,696
Warehouse Repairs	150,000	-0-	150,000
Other Capital Improvements	<u>138,924</u>	<u>45,486</u>	<u>93,438</u>
<b>Total Expenditures</b>	<u>3,173,924</u>	<u>407,790</u>	<u>2,766,134</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	<u>\$ (3,173,924)</u>	<u>\$ (407,790)</u>	<u>\$ (2,766,134)</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW HAMPSHIRE  
LIQUOR COMMISSION**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 1998**

**Note 1 – Reporting Entity**

Chapter 99, NH Laws of 1933, codified as RSAs 175 through 180, established the New Hampshire State Liquor Commission (the Commission). The three member Commission is appointed by the Governor with the consent of the council. Commissioners serve six year terms and no more than two commissioners may belong to the same political party. The Commission's primary duties are to optimize profitability, maintain proper controls, assume responsibility for effective and efficient operation, and provide service to customers. The Commission is organized into three divisions: (1) Bureau of Enforcement and Licensing, (2) Bureau of Marketing and Sales, and (3) Bureau of Administrative Services.

In addition to liquor sales, the Commission collects license fees for the manufacturing, sale, transportation, or warehousing of alcoholic beverages. The Commission also collects a tax on beer sold by wholesale distributors and beverage manufacturers.

In conjunction with the sale of liquor, the Commission also controls the responsible use and sale of alcoholic beverages, oversees and enforces the new Youth Access to Tobacco law, educates consumers about various wines through the Wine & Food Program, and continues to expand in-store merchandising and promotions in its 73 retail stores throughout the State.

For financial reporting purposes, the New Hampshire State Liquor Commission is considered a department of the State of New Hampshire. The Commission's financial statements include all spirits and wine sales and license fees activity in a separate enterprise fund and do not include any activity related to any other state agency or fund. The financial statements represent revenues and expenditures for the year ended June 30, 1998.

**Note 2 – Summary Of Significant Accounting Policies**

*Measurement Focus, Basis Of Accounting And Basis Of Presentation*

In accordance with Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB), the Commission accounts for its operations as a single enterprise fund which uses the accrual basis of accounting. Under this basis, revenues are recognized when earned and expenses are recognized when the related liability is incurred. The measurement focus of this fund is a determination of net profit from operations, which includes an accounting for all costs allocations, including depreciation, associated with the fund.

## **Note 2 – Summary Of Significant Accounting Policies (Continued)**

The Commission applies applicable pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989, unless those pronouncements conflict with or contradict the pronouncements of the Governmental Accounting Standards Board.

### *Assets, Liabilities And Fund Equity*

Cash Equivalents: Cash equivalents are investments with a maturity date of three months or less from the date of purchase. The Commission does not have any cash equivalents.

Accounts Receivable: Receivables are reported at their gross value and consist of amounts due from wholesale distributors and beverage manufacturers for taxes on the sale of alcoholic beverages, and from on-premise and off-premise licensees for stock purchased on 15 day credit. Tax payments are due ten days after the close of each tax month.

Consumable Inventory: Inventory is valued at weighted average cost using the first-in first-out method. The Commission maintains the salable liquor inventory at the Concord Warehouse, the LAW Warehouse in Nashua, NH, and at the local stores throughout the State.

Fixed Assets: Fixed assets, including equipment and real property, are recorded at historical cost. Accumulated depreciation is determined by depreciating the cost of the assets over their estimated useful lives on a straight-line basis. Any income derived from surplus property sales is recorded in the Liquor Fund. Losses on the disposal of surplus equipment are recorded at the time of disposal.

Accounts Payable: The accounts payable at June 30, 1998 include expenditures for purchases of liquor inventory and liquor freight.

Accrued Payroll: The accrued payroll at June 30, 1998 represents payroll and related benefit costs incurred June 5<sup>th</sup> through June 30<sup>th</sup> and paid in July 1998.

Deferred Revenue: The Commission issues annual licenses to entities involved in the sale, transportation, warehousing, or manufacturing of alcoholic beverages. These licenses are generally effective for a twelve month period and expire on the last day of the birth month of the licensee or the last day of the month of incorporation or organization. The deferred revenue reported by the Commission at June 30, 1998, represents the prorated portion of licensee revenue collected by the Commission that had not been earned at June 30.

Due To Other Funds: The State's General Fund provides the working capital of the Commission. The amount reported as Due to Other Funds represents the working capital provided to the Commission from the General Fund at June 30, 1998.

## **Note 2 – Summary Of Significant Accounting Policies (Continued)**

Compensated Absences Payable: The Commission employs 311 full-time classified employees and three unclassified employees. Classified employees of the Commission accrue annual, bonus, compensatory and sick leave at various rates within the limits prescribed by the collective bargaining agreement. In conformity with GASB Statement No. 16, the Commission accrues all types of leave benefits as earned by its classified employees. The liability is calculated using the current hourly rates of pay for each individual employee.

The three unclassified employees do not accrue annual, bonus, compensatory or sick leave. These employees receive termination pay equal to 3 days' salary for each year of employment as prescribed by RSA 94:9 for retirement, resignation, death or termination. The liability for termination pay is calculated using the current rate of pay for each unclassified employee.

Fund Equity: The fixed assets of the Commission are contributed by the State's General Fund to the Liquor Fund. To recognize that the Commission's fixed assets were contributed by the General Fund, the amount equal to fixed assets, net of accumulated depreciation, is recorded as Fund Equity.

### *Sales And Expenses*

Operating Revenues: The Commission controls the distribution of alcoholic beverages in the State through retail and wholesale sales from the 73 retail stores located throughout the state, wholesale sales from the Commission and bailment warehouses located in Concord and Nashua, New Hampshire, respectively, and through regulated direct deliveries of product from vendors to licensees. For fiscal year 1998, the net sales of the Commission were \$251,952,503.

Cost Of Sales: The cost of sales includes the cost of products sold plus the cost of transporting the products purchased to the warehouses and retail stores. For fiscal year 1998, the cost of sales of the Commission was \$180,957,829.

Operating Expenses: This amount represents those expenses indirectly related to the purchase, sale, transportation, and warehousing of liquor inventory. These expenses consist mainly of employees' salaries and benefits and rent. Operating expenses were \$20,936,732 for fiscal year 1998.

Non-Operating Revenues: This amount represents income received from private distributors and retailers for permits and licenses to sell alcoholic beverages, an additional fee on alcoholic beverages sold by wholesale distributors and beverage manufacturers, and warehouse bailment. Non-operating revenues were \$16,766,192 for fiscal year 1998.

### Note 3 – Cash And Cash Equivalents

The Commission's cash and cash equivalents as reported on the balance sheet consist of the following:

	<b>Book Balance</b>
	<b>June 30, 1998</b>
Cash	\$ 1,375,369
Cash in Banks (carrying value)	1,020,616
Petty Cash & Change Fund	104,690
Cash Equivalents	0
<b><i>Total Cash and Cash Equivalents</i></b>	<b><u>\$ 2,500,675</u></b>

The Commission maintains demand deposit accounts at commercial banks throughout the State. The bank balance of these cash accounts at June 30, 1998 was \$1,089,471. The difference between the carrying value and bank balances for these accounts is the result of deposits-in-transit. Of this balance, \$375,519 was covered by FDIC insurance. The remaining balance was uninsured and uncollateralized as defined by the Governmental Accounting Standards Board. The Commission did not have any cash equivalents as of June 30, 1998.

	<b>June 30, 1998</b>
Amount Insured by FDIC	\$ 375,519
Uncollateralized	713,952
<b><i>Total Bank Balance</i></b>	<b><u>\$ 1,089,471</u></b>

#### Note 4 – Fixed Assets

A summary of fixed asset balances, which include the 10 State-owned stores, the Concord warehouse and headquarters, at June 30 is presented below:

Cost:	Beginning Balance at 7/1/97	Additions	Deletions	Ending Balance at 6/30/98
Land	\$ 2,054,581	\$ 0	\$ 0	\$ 2,054,581
Land Improvements	599,348	25,450	0	624,798
Buildings	12,647,691	389,631	0	13,037,322
Leasehold Improvements	1,234,882	23,283	55,036	1,203,129
Equipment & Furniture	7,859,811	402,000	1,091,300	7,170,511
Vehicles	334,697	93,493	30,874	397,316
<b>Total Fixed Assets</b>	<b>\$ 24,731,010</b>	<b>\$ 933,857</b>	<b>\$ 1,177,210</b>	<b>\$ 24,487,657</b>
Less: Accumulated Depreciation				12,012,572
<b>Net Fixed Assets</b>				<b>\$ 12,475,085</b>

#### Note 5 – Leases

##### Operating Leases

Of the 73 stores operated by the Commission, 63 are in leased space. The Commission leases approximately 207,989 square feet of space throughout the state for 44 of its retail stores under set term leases. The leases vary in term with all the leases expiring by the end of fiscal year 2003. Total costs for such leases were \$927,158 for fiscal year 1998. The Commission also leases approximately 84,553 square feet of space throughout the state for 19 of its retail stores where the Commission is a tenant-at-will. Total fiscal year 1998 lease payments for these leases were \$380,489. The future minimum lease payments for all the leases are as follows:

Fiscal Year	Set Term Leases	Tenants At-Will	Total Future Minimum Lease Payments
1999	\$ 792,016	\$ 380,489	\$ 1,172,505
2000	658,934	380,489	1,039,423
2001	447,566	380,489	828,055
2002	314,723	380,489	695,212
2003	165,871	380,489	546,360
<b>Total</b>	<b>\$ 2,379,110</b>	<b>\$ 1,902,445</b>	<b>\$ 4,281,555</b>

**Note 5 – Leases (Continued)**

*Capital Leases*

The Commission entered into a lease agreement for the installation and lease of Unisys computer equipment and a lease agreement for the upgrading of the Masterpiece accounting software system. The Unisys lease is for the period July 1, 1995 to December 31, 1999. The Masterpiece lease is for the period February 1, 1995 to January 30, 2000. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded as fixed assets.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 1998 are as follows:

<u>For Fiscal Year Ending 6/30</u>	<u>Minimum Lease Payments</u>	
	<u>Unisys</u>	<u>Masterpiece</u>
1999	\$ 166,369	\$ 32,610
2000	83,184	16,305
Total Future Minimum Lease Payments	\$ 249,553	\$ 48,915
Less: Amount Representing Interest	<u>33,555</u>	<u>0</u>
Present Value of Net Future Minimum Lease Payments	<u>\$ 215,998</u>	<u>\$ 48,915</u>

**Note 6 – General Budgetary Policies And Procedures**

The statutes of the State of New Hampshire require the Governor to submit a biennial operating budget to the Legislature. This budget, which includes annual budgets for each year of the biennium, consists of three parts: Part I is the Governor’s program for meeting all expenditure needs as well as estimating revenues to be received. There is no constitutional or statutory requirement that the Governor propose or the Legislature adopt a budget that does not resort to borrowing. Part II is a detailed breakdown of the budget at the department level for appropriations to meet the expenditure needs of the government. Part III consists of draft appropriation bills for the appropriations made in the proposed budget.

The operating budget is prepared principally on a cash basis and adopted for the governmental and proprietary fund types with the exception of the Capital Projects Fund. The Capital Projects Fund budget represents appropriations for individual projects, which while intended to be expended over a biennium, may extend over several fiscal years when extended by legislation.

## **Note 6 – General Budgetary Policies And Procedures (Continued)**

The New Hampshire biennial budget is composed of the initial operating budget and supplemented by additional appropriations. These additional appropriations and estimated revenues from various sources are authorized by Governor and Council action, annual session laws, and existing statutes which require appropriations under certain circumstances. The final budgeted amount includes the initial operating budget plus supplemental appropriation warrants, balances brought forward, and transfers.

Unexpended balances of appropriations at year end will lapse to undesignated fund balance and be available for future appropriations unless they have been encumbered or are legally defined as non-lapsing accounts. Capital Projects Fund appropriations are scheduled to lapse two years from the date appropriated unless extended or designated as non-lapsing by law.

The legal level of budgetary control is at the department level. All departments are authorized to transfer appropriations within their departments with the prior approval of the Joint Legislative Fiscal Committee and the Governor and Council. Additional fiscal control procedures are maintained by both the executive and legislative branches of government. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State's financial operations, needs, and resources, and to maintain an integrated financial accounting system. The Legislative Branch, represented by the Joint Legislative Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

A Statement Of Revenue And Expenditures – Budget And Actual – Budgetary Basis – Capital Projects Funds is presented on page 32.

## **Note 7 – Employee Benefit Plans**

### *Retirement Plan*

The Liquor Commission, as an organization of the State government, participates in the New Hampshire Retirement System (the Plan). The Plan is a defined benefit plan and covers substantially all full-time employees of the Commission. The Plan qualifies as a tax-exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. RSA 100-A established the Plan and the contribution requirements. The Plan, which is a cost-sharing multiple-employer Public Employees Retirement System (PERS), is divided into two membership groups. Group I consists of employees and teachers. Group II consists of firefighters and police officers.



## Note 7 – Employee Benefit Plans (Continued)

Group I - Members contributing through age 60 qualify for a normal service retirement allowance based on years of creditable service. The yearly pension amount is  $1/60$  (1.67%) of average final compensation (AFC), multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. At age 65, the yearly pension amount is recalculated at  $1/66$  (1.5%) of AFC multiplied by years of creditable service. Members in service with ten or more years of creditable service who are between ages 50 and 60 are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service. In addition, any Group I member who has completed at least 20 years of creditable service that, when combined with his or her age equals at least 70, is entitled to retire and have benefits commence immediately at a reduced service retirement allowance.

Group II - After attaining the age of 45, members with 20 years of creditable service qualify to receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members in service at age 60 qualify to receive a prorated retirement allowance.

Members of both groups are entitled to disability allowances and also death benefit allowances subject to various requirements and rates based on AFC or earnable compensation. Liquor enforcement officers are members of Group II, all other covered Commission employees are members of Group I.

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During fiscal year 1998, Group I and II members were required to contribute 5% and 9.3%, respectively, of gross earnings.

The Commission contributes an amount required to meet Plan costs which is determined by a biennial actuarial valuation by the Plan's actuary and is expressed as a percentage of gross payroll. The Commission's payments for normal contribution costs for fiscal year 1998 amounted to 3.86% and 5.22% of the covered payroll for its Group I employees and Group II law enforcement officers, respectively. For fiscal year 1998, this totaled \$390,147. For fiscal years 1997 and 1996, the contributions amounts for Group I and Group II combined, were \$292,461 and \$296,421, respectively, which were equal to the required contributions for those years.

The Plan does not make separate measurements of assets and pension benefit obligation for individual employers. The New Hampshire Retirement System Comprehensive Annual Financial Report contains detailed information regarding the Plan as a whole, including information on payroll, contributions, actuarial assumptions and funding method, pension benefit obligation, and ten year historical trend data. The New Hampshire Retirement System operates on a fiscal year ending June 30.

## **Note 7 – Employee Benefit Plans (Continued)**

### *Deferred Compensation Plan*

The Commission, as an organization of State government, offers its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan permits them to defer a portion of their salaries until future years. The deferred compensation is not available for withdrawal to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the Plan, all property rights purchased with those amounts, and all income attributable to those amounts, property or rights, are (until paid or made available to the employees or other beneficiaries) solely the property and rights of the State (without being restricted to the provisions of benefits under the Plan), subject only to the claims of the State's general creditors. Participants' rights under the Plan are equal to those of general creditors of the State in an amount equal to the fair market value of the deferred account for each participant.

### *Post-Employment Healthcare Benefits*

In addition to the benefits described above, the Commission, as an organization of State government, provides post-employment health care benefits in accordance with RSA 21-I:30 to all retired employees and their spouses on a non-contributory basis, as authorized by state statute.

During fiscal year 1998, the State paid for the full cost of health insurance premiums for the Commission's retired employees and spouses on a pay-as-you-go basis. The cost of the health insurance for the Commission's employees and spouses is a budgeted amount and is paid from an appropriation made to the administrative organization of the New Hampshire Retirement System. A post-retirement medical plan operated by the New Hampshire Retirement System contributes a subsidy toward the cost of post-retirement health insurance premiums for certain Commission Group II retirees. Accordingly, the cost of health insurance benefits for the retired employees and spouses is not included in the Commission's financial statements.

## **Note 8 – Year 2000 Compliance (Unaudited)**

Year 2000 data processing compliance issues have affected virtually every business including the Commission's. Many computer programs have been written using two digits rather than four to define the applicable year. Any computer programs that have time-sensitive software may recognize a date using "00" as the year 1900 instead of the year 2000.

The Commission maintains various computerized systems that are subject to Year 2000 data processing compliance issues. The Mapper System and NISYS have been deemed

**Note 8 – Year 2000 Compliance (Unaudited) (Continued)**

the most critical to continued operations and are maintained by the Commission. According to the Commission, the Mapper System is currently Year 2000 compliant with minor issues which it expects to be resolved by July 1999. The UNISYS operating system is Year 2000 compliant, as any updates required for compliance, per the vendor, have been received and installed. The other in-house data processing systems, for which the Commission is directly responsible, are currently Year 2000 compliant and not at risk.

The data processing systems, for which vendors are responsible, are in various stages of completion. In December 1998, the Commission filed a required status update with the New Hampshire Division of Information Technology Management. The plan included identification of the project phase completed and the remaining steps towards compliance. As of December 30, 1998, 16% of the Commission’s computerized systems are Year 2000 compliant. The remaining systems are in various stages of completion as follows:

<b>Stage</b>	<b>Description</b>	<b>% Complete</b>
Awareness	Establish Budget and Project Plan	0%
Assessment	Identification of Systems and Components	0%
Remediation	Changes to Systems and Equipment	74%
Validation / Testing	Validates and Tests Changes	10%

The Commission has set a goal of July 1999 for full compliance of all internal systems and will continue to monitor the progress of each stage. Although the Commission is highly confident that all internal systems will be compliant by the set goal date, there is no guarantee that all systems will in fact be compliant.

## APPENDIX A

### Current Status Of Prior Performance Audit Findings

The following is a summary of the status, as of December 30, 1998, of the observations contained in the performance audit report of the Liquor Commission, dated July 1994. A copy of the prior audit report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord NH 03301-4906. The table below represents the Liquor Commission's status of the observations and has not been verified by this Office. Where we have, in the course of our financial audit, determined that we do not concur with the Commission's status we have noted our disagreement.

<u>Observation #</u>	<u>Title Of Observation</u>	<u>Status</u>
1	The SLC Should Be Headed By A Single Commissioner	○ ○ ○
2	The Marketing And Sales Functions Should Be Reorganized	● ● ●
3	Administrative Functions Should Be Reorganized	● ● ●
4	The Supervisor/Manager System Should Be Replaced	● ● ●
5	Enforcement And Regulation Division Assistant Chiefs Should Not Have Caseloads	● ● ●
6	The Administrative Assistant Chief Position Is Unnecessary	● ● ●
7	The Senior Liquor Investigator Labor Grade Is Not Needed	● ● ●
8	Market Planning Process Should Be Improved	● ● ●
9	Advertising Budget Should Be Reviewed	● ● ●
10	Store Staffing Should Be Reviewed	● ● ●
11	SLC Should Assess Costs And Benefits Of A One-Warehouse Operation And Put License For Privately-Owned Warehouse Out To Bid	● ● ●
12	Safety Factors Account For The Majority Of Workers' Compensation Claims In The SLC Warehouse	● ● ○
13	Analytical Capabilities For Marketing And Sales Function Should Be Improved	● ● ●
14	MIS Support For Stores Should Be Improved	● ● ○
15	Accounting Software Needs Upgrading	● ● ●

**APPENDIX A (Continued)**

**Current Status Of Prior Performance Audit Findings (Continued)**

<u>Observation #</u>	<u>Title Of Observation</u>	<u>Status</u>		
16	In-Service Training Improvements Needed	●	●	●
17	SLC Employee Not Evaluated Annually As Required	●	●	●
18	Employees Working Outside Of Own Division Without Division Of Personnel Approval	●	●	●
19	SLC Should Analyze The Effectiveness Of A Two Year Renewal Cycle For Most Liquor Licenses	●	●	●
20	Material Support For Home Offices Of Liquor Investigators Should Be Increased	●	●	●
21	Advertising Contract Used For Non-Advertising Purposes	●	●	●
22	No-Bid Contract Inappropriately Awarded To MIS Director	●	●	●
23	Conflict Of Interest For MIS Director In Accepting Shelf Management Contract	●	●	●
24	Ownership Of Intellectual Property In Question	●	●	●
25	Breach Of Advertising Contract Terms And Conditions	●	●	●
26	Noncompliance With State Purchasing Requirements	●	●	●
27	Noncompliance With State Laws Regarding Temporary And Part-Time Employees	●	●	●
28	Abuse Of State Laws Regarding Appointments To The Classified State Service By Liquor Commissioners	●	●	●
29	Preferential Treatment Of Local Liquor Manufacturer <i>(See current year observation No. 3)</i>	○	○	○
30	Insufficient Compliance With Store Operations Manual	●	●	●
31	Policies And Procedures Needed For Deposit Withholdings	●	●	●
32	Security Of State Liquor And Wine Outlet Stores May Be Insufficient	●	●	○
33	Insufficient Security For Concord Warehouse	●	●	●

**APPENDIX A (Continued)**

**Current Status Of Prior Performance Audit Findings (Continued)**

<u>Observation #</u>	<u>Title Of Observation</u>	<u>Status</u>		
34	Insufficient Supervisory Review In Concord Warehouse	●	●	●
35	Financial Management Policies And Procedures Insufficiently Documented	●	●	●
36	Insufficient Supervisory Review	●	●	●
37	Inappropriate Use Of Petty Cash And Change Fund	●	●	●
38	Insufficient Security For Cash And Checks	●	●	●
39	Disposition Of Printer Purchased Through Shelf Management Contract Is Questionable	●	●	●
40	Insufficient Management Information Systems Policies And Oversight	●	●	●
41	Insufficient Supervision Of Inventory Tracking Procedures	●	○	○
42	Inadequate Procedures For Processing License Fees And Fines	●	●	●
43	Enforcement And Regulation Division Licensee Records Are Neither Secure Nor Complete	●	●	○
44	Additional Administrative Rules Should Be Promulgated	●	●	●
45	Cooperative Advertising	●	●	●
46	Clarification Of RSA 175:4, Advertising	●	●	●

<u>Status Key:</u>		<u>Observations</u>	
		<u>By Status</u>	<u>By Percent</u>
Fully Resolved	● ● ●	39	85%
Substantially Resolved	● ● ○	4	9%
Partially Resolved	● ○ ○	1	2%
Unresolved	○ ○ ○	2	4%
Totals		46	100%

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## APPENDIX B

### Current Status Of Prior Financial Audit Findings

The following is a summary of the status, as of December 30, 1998, of the observations contained in the financial audit report of the Liquor Commission for the year ended June 30, 1989. A copy of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House, Room 102, Concord, N.H. 03301-4906.

<u>Observation #</u>	<u>Title Of Observation</u>	<u>Status</u>		
<b>Material Weakness</b>				
1	Support For The Reported Cost Of Real Property And Equipment <i>(See current year observation No. 1)</i>	●	○	○
<b>Reportable Conditions</b>				
2	Fixed Asset Accounting <i>(See current year observation No. 1)</i>	○	○	○
3	Ownership Of Land In Hooksett, New Hampshire <i>(See current year observation No. 1)</i>	○	○	○
4	Reported Equipment Balances	●	●	●
5	Fixed Assets With A Cost Under \$100 <i>(See current year observation No. 1)</i>	○	○	○
6	Fixed Asset Disposals	●	●	●
7	Restrictive Endorsements On Checks	●	●	●
8	Beer Tax Audits	●	●	●
9	Signature Cards For SLC Depository Accounts <i>(See current year observation No. 2)</i>	●	○	○
10	Basis Of Reporting <i>(See current year observation No. 6)</i>	●	○	○
11	Accounts Payable	●	●	●
12	Bank Reconciliations <i>(See current year observation No. 2)</i>	●	●	○
13	Lease Payments For Liquor Stores	●	●	●

(Continued)



**APPENDIX B (Continued)**

**Current Status Of Prior Financial Audit Findings (Continued)**

<u>Observation #</u>	<u>Title Of Observation</u>	<u>Status</u>		
<b>State Compliance</b>				
14	Identification Of State-Owned Equipment	●	●	●
15	Receiving Reports For Equipment	●	●	●
16	Stores Maintaining On-Premise Licensee Documentation	●	●	●
17	Required Supporting Documentation For Licensee Applicants	●	●	●
18	Capital Budget Project Status Reports <i>(See current year observation No. 4)</i>	○	○	○
19	Annual Statement Of Operations	●	●	●

<u>Status Key:</u>				<u>Observations</u>	
	●	●	○	<u>By Status</u>	<u>By Percent</u>
Fully Resolved	●	●	●	11	58%
Substantially Resolved	●	●	○	1	5%
Partially Resolved	●	○	○	3	16%
Unresolved	○	○	○	4	21%
Totals				19	100%