

**STATE OF NEW HAMPSHIRE  
LIQUOR COMMISSION**

**MANAGEMENT LETTER  
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**





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### *To The Fiscal Committee Of The General Court:*

We have audited the financial statements of the New Hampshire Liquor Commission as of and for the fiscal year ended June 30, 2023 and have issued our report thereon dated December 18, 2023.

This management letter, a byproduct of the audit of the New Hampshire Liquor Commission for the fiscal year ended June 30, 2023, contains our Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*, and related audit findings. The current status of prior audit findings, beginning on page 11, provides a summary of the status of observations presented in the fiscal year 2022 and fiscal year 2021 New Hampshire Liquor Commission management letters.

The New Hampshire Liquor Commission's fiscal year 2023 Annual Comprehensive Financial Report can be accessed online at: <https://www.gencourt.state.nh.us/lba/auditreports/financialreports.aspx>

*Office of Legislative Budget Assistant*

Office of Legislative Budget Assistant

December 18, 2023

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**STATE OF NEW HAMPSHIRE  
LIQUOR COMMISSION  
2023 MANAGEMENT LETTER**

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\* No comments suggest legislative action may be required.

**ABBREVIATIONS USED**

AAPTF	Alcohol Abuse Prevention and Treatment Fund
Commission	New Hampshire Liquor Commission
Commissioners	Consists of the Chairman and a Deputy Commissioner
DMMW	Division of Marketing, Merchandising, and Warehousing
ERM	Enterprise Resource Management
MAPPER	Current front and back-office, point-of-sale information system
NextGen	New Enterprise Resource Planning system, including point-of-sale, E-commerce, warehouses, and back office financial systems
SISM	State Information Security Manual



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

*To The Fiscal Committee Of The General Court:*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the New Hampshire Liquor Commission which comprise the Statement of Net Position as of June 30, 2023 and the related Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows for the fiscal year then ended, and the related notes to the financial statements, which collectively comprise the New Hampshire Liquor Commission's basic financial statements, and have issued our report thereon dated December 18, 2023.

#### **Report On Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the New Hampshire Liquor Commission's internal control over financial reporting (internal control) as a basis for designing 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 New Hampshire Liquor Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the New Hampshire Liquor Commission's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in Observations No. 1 through No. 5, that we consider to be significant deficiencies.

### **Report On Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the New Hampshire Liquor Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, and contracts, noncompliance with which could have a direct and material effect on the financial statements. 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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **New Hampshire Liquor Commission's Responses To Findings**

*Government Auditing Standards* require the auditor to perform limited procedures on the New Hampshire Liquor Commission's responses to the findings identified in our audit and described in the accompanying observations. The New Hampshire Liquor Commission's responses to the findings identified in our audit are included with each reported finding. The New Hampshire Liquor Commission's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose Of This Report**

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



Office of Legislative Budget Assistant

December 18, 2023



*INTERNAL CONTROL COMMENTS*  
*SIGNIFICANT DEFICIENCIES*

**Observation No. 1**

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**System Data Should Be Secured From Unauthorized Changes And Data Input**

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The inventory, purchasing, sales, and other financial operations of the Liquor Commission (Commission) are at risk while the Commission continues to use its 36-year-old legacy information system, MAPPER, until the new system, NextGen, is implemented.

Unauthorized Changes To System Data

Unintentional changes made to a MAPPER data table used for tracking off-premises licensees' purchases by entity resulted in over applied off-premises licensee discounts. The Commission reports the over applied discounts affected 26 entities totaling \$878,000, during the period of March 2023 through August 2023. During a system administrator's review of the data table in August 2023, it was discovered entity numbers were accidentally changed to individual license numbers resulting in entities receiving a higher discount than allowed. The Commission reported it will invoice the entities to recoup the over applied discounts but, as of the date of this report, no notification or invoices have been sent to the affected licensees.

RSA 178:28, V, requires that discounts for off-premises retail license holders (grocery and drug stores) with annual wine purchases under \$350,000 receive a discount of 20 percent less than the regular price at the warehouse. The discount provision is calculated based on an entity's purchases, not the licensee's purchases. Entities with multiple places of business, such as chain stores, require a separate license for each venue. For example, a chain of grocery stores, as a single entity, receives a 20 percent discount on cumulative purchases under \$350,000, then the discount is reduced to 15 percent, for purchases of \$350,000 or more.

Significance Of Controls Over Data And System Integrity

Information system controls help to ensure businesses operate efficiently, effectively, accurately, and as intended. These controls maintain data integrity from initial data input and throughout the life cycle. Controls such as review and approval of data inputs (i.e., process flow), system edit checks (that require consistency on type and length of data fields), and audit logs (showing time stamp data to identify who, when, and what was input into the system) help ensure data is input and maintained properly within a system. Controls over programming changes help ensure that planned changes are implemented properly, and include documenting, testing, reviewing, and approving the changes prior to implementation.

**Recommendation:**

**The Commission should:**

- Consider and respond to existing risks posed by the lack of sufficient controls over data integrity in the MAPPER legacy information system while continued delays and other issues are resolved with the implementation of the NextGen system;
- Ensure the NextGen system has the appropriate controls in place to ensure data validation, completeness, and accuracy. Controls should include edit checks and other data validation procedures to prevent or timely detect unauthorized and inaccurate changes to system data;
- Ensure appropriate controls are developed for programming changes made to the NextGen system. Change controls should include documenting, testing, and adequate review and approval prior to being deployed. Review and approval controls should be performed by someone knowledgeable and independent of the change process; and
- Timely notify and bill off-premises licensees that received the incorrect discounts.

Auditee Response:

*We concur. The MAPPER legacy system has greater control risks since it is a 36-year-old system. The Commission has controls in place based on the limitations of the system, such as limiting access to critical data. Required work was being performed for data migration from the existing system to help ensure the new system, NextGen, would be accurate. When the Commission discovered the error, it was noted that it was a mistake that caused the issue and not the bypassing of controls. The Commission is aware that there are risks involved with developing a new Enterprise Resource Planning system. The risks associated with new system development are weighed by the Commission against not accepting the risk. The new system, NextGen, is expected to reduce overall systematic risk over the long term.*

*We further concur that notification and invoicing should be more timely and are in the process of completing notification and invoicing.*

**Observation No. 2**

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**Controls Over Receipt And Inspection Of Goods Should Be Improved**

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The Commission lacks appropriate controls over the receipt and inspection of goods to ensure all items have been received and accounted for prior to payment.

During fiscal year 2023, the Commission made a \$266,000 reduction to its reported capital assets upon discovering that equipment purchased and recorded in fiscal year 2017 was never received. The equipment items missing, 202 uninterruptible power supply units, were purchased from a former vendor responsible for implementing the NextGen information system. The purchased items were believed to have been included on a shrink-wrapped pallet along with other information technology equipment that was stored, until fiscal year 2023, when the items were needed for the deployment of the NextGen system.

The missing items were not detected when the order was received in 2017, as the pallet was not unwrapped, and the equipment items were not reconciled to the accompanying order and packing slip prior to making payment to the vendor. The items were also not identified as missing during the Commission's performance of their annual physical equipment inventories required by State policy. During fiscal year 2020, the Commission entered into a Settlement Agreement and Mutual Release with the vendor ending their contract and now has no recourse available to recoup payment for the missing equipment.

**Recommendation:**

**The Commission should strengthen controls over the receipt and payment of goods by:**

- **Establishing policies and procedures for the key roles of purchasing, receiving, inspecting, and authorizing payments in the expenditure process;**
- **Ensuring all items received by the Commission are physically inspected upon receipt and properly accounted for via the completion of a Receiving and Inspection Report by the employee responsible for receipt and inspection of the goods. Any items ordered that were not received should be properly documented;**
- **Reviewing payment terms and conditions on all significant contracts to ensure staff involved in the process are appropriately informed of the payment requirements; and**
- **Ensuring all equipment items of \$250 or more are properly identified with an identification tag and recorded on the Commission's equipment listing in accordance with State policy.**

**Additionally, the Commission should:**

- **Perform a thorough physical inventory of equipment annually to detect any items on the list that are missing, or that may not have been received; and**
- **Identify, investigate, and resolve differences between the physical count of equipment and the Commission's records in a timely manner.**

**Auditee Response:**

*We concur.*

*Procedures are currently being codified to change the receipting of physical goods. Changes are expected to be put in place during the first quarter of calendar year 2024. All changes will be reviewed with affected personnel and that includes training for both receiving and physical inventory.*

*The Commission would also like to note that, since 2017, there have been a number of improvements to the procedures and controls associated with fixed assets specifically, and purchases in general. These improvements start at the beginning of the fixed asset process in having all purchases properly authorized. A software called Management Tracking System (MTS)*

*was implemented to document purchase requests and approvals and to track purchases through receiving goods and approval for payment. Accounting and tracking of fixed assets have also been developed since 2017 to better integrate the payment process through to the reporting, tracking, and physical inventory counting to integrate processes.*

### **Observation No. 3**

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#### **Establish Formal Policies And Procedures Over Supplier Price Changes And Discounts**

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The Commission has not established formal policies and procedures for the approval of suppliers' price changes on products purchased by the Commission, or for the Commission's matching of supplier discounts on products being sold.

Product price changes and depletion allowance matches have been made without authorization of the Commissioners.

##### Product Price Changes

Commission procedures allow product suppliers to request price changes quarterly. The suppliers access the Commission's Electronic Proposal Submission System (System) to request product price changes. A "Cost Comparison" spreadsheet is generated by the Commission's Division of Marketing, Merchandising, and Warehousing (DMMW) to show the changes in the Commission's product costs for the upcoming quarter. All quarterly product price changes approved by the Director of DMMW are sent to the Commissioners for final approval. Approval of price changes are recorded in the Commissioners' meeting minutes.

Product price changes occurring during the second quarter of fiscal year 2023 (October 2022 – December 2022) were not reported on a "Cost Comparison" spreadsheet or provided to the Commissioners for their review and approval.

##### Depletion Allowance Matches

Periodically, suppliers offer discounts to be passed on to the customer, and often request the Commission to match, equally or a portion of, their discount. These discounts, known as depletion allowances, are applied to each bottle sold during a promotional period. Depletion allowances require approval of the marketing specialist, and the Commissioners if a match is requested. Two out of 27 depletion allowances tested with matches had no evidence of the Commissioners' approvals.

According to Commission personnel, turnover in the DMMW resulted in the approval oversights noted above. Lack of formally documented policies and procedures covering price changes and depletion allowances increases the risk that unauthorized price changes or depletion allowance matches could be erroneously or fraudulently input into the System without detection.

**Recommendation:**

**The Commission should:**

- **Establish formal policies and procedures for the request, input, review, and approval of product price changes, and depletion allowances that require a Commission match;**
- **Review periodic reports of product price changes and depletion allowance offers that require a match to ensure they were formally reviewed and approved by the Commissioners. Any products or discount offers that were not formally reviewed and approved by the Commissioners should be brought to the Commissioners' attention and investigated for propriety; and**
- **Design formal procedures for the authorization and approval of product price changes and depletion allowance matches that could be incorporated into the NextGen system upon implementation.**

*Auditee Response:*

*We concur.*

*The above instances were reviewed and found to be isolated.*

*It is important to note the Director of Marketing and the Spirits buyer that were in place at the time of these incidences are no longer with the Commission. The buyer neglected to run them through the proper process, which is to include them on the Commission meeting agenda for Commission approval as he had done in the past.*

*System change control processes and procedures are being developed to prevent this, or other system changes, from taking place without proper authorization. The system change control process is expected to take effect late in the fourth quarter of fiscal year 2024, which includes review processes to allow for detection of issues. The system change control process will also require reporting of findings directly to the Commissioners.*

*The Commission would also like to note that the decision to implement a new system, NextGen, was made in part to mitigate issues such as this. While controls and safeguards exist in the current system, there are limitations in reporting and review.*

**Observation No. 4**

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**Disaster Recovery Plan Should Be Developed And Risk Assessment Finalized**

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The Commission has not prepared and implemented a disaster recovery plan for its financial and information technology operations. The lack of a disaster recovery plan places the controlled and efficient operations of the Commission at risk if a disaster or other disruption occur.

A disaster recovery plan consists of information technology and planned procedures designed to prevent or minimize data loss and disruption in operations resulting from catastrophic events. A plan for backup and restoration of electronic information is essential as the impact of data loss or corruption from hardware failure, human error, hacking, or malware could be significant.

While disasters are often thought of in terms of fires and floods destroying facilities or information systems, disaster recovery plans also consider the risk of and recovery from other incidents such as the loss, release, or corruption of confidential information housed in information systems or the unexpected unavailability of critical vendors, or key employees.

Without proper planning, the Commission is at an increased risk of data loss, financial loss, unnecessary operating delays, or inability to serve constituents and customers if an incident were to occur. Also, integral to the implementation of a disaster recovery plan is the establishment and operation of risk assessment policies and procedures that formalize an entity's risk assessment process, which provides for continuous consideration of risks faced by an entity.

**Recommendation:**

**The Commission should:**

- **Develop a disaster recovery plan, which should be periodically tested, reviewed, and updated as needed. The plan should be readily accessible to stakeholders responsible for its implementation. Additionally, employees should be trained in the proper implementation of the plan to minimize the disruption in operations if an unplanned event were to occur; and**
- **Continue to establish a formal risk assessment process, supported by written policies and procedures for identifying, monitoring, and responding to risks that could affect its ability to achieve its objectives, as recommended in the Commission's fiscal year 2022 Management Letter.**

*Auditee Response:*

*We concur.*

*The Commission has disaster recovery plans in place for operational areas which include plans for finance and data systems. Disaster recovery plans for these areas will be expanded to identify critical elements and testing plans developed.*

*We also concur with continuing the further establishment of a formal risk assessment process. As stated in the Fiscal Year 2022 Management Letter:*

*"It is still the Commission's view that much of the continued development of ERM is contingent on NextGen implementation for this to be effective and efficient. As referenced in Observation No. 1, the Commission's legacy system is in the process of being replaced. It continues to be impractical to invest large amounts of staff time and resources to implementing an ERM program under a system that is planned for obsolescence. The Commission believes it is more responsible*

*to build and analyze a risk review system on the new system that will impact the core of the Commission's operations and finances moving forward."*

*The Commission is continuing in regard of the comments made last year in that the Senior Management Analyst assigned to the development of the risk assessment process is embedded in the NextGen project to gain an understanding of the systems and procedures of the Commission to be able to properly analyze and build a risk assessment system.*

## **Observation No. 5**

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### **Backups Should Be Tested Periodically**

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The Commission does not perform periodic tests of its systems' backups to ensure that data can be recovered timely and completely in the event of a loss of system data.

The Department of Information Technology's Statewide Information Security Manual (SISM), Backup section, requires that users (State agencies) test backup information at least annually to verify media reliability and information integrity, and document the results of the backup tests. The SISM further requires the results of the backup tests to be documented.

Neglecting to test data backups increases the risk that backup data may be incomplete, corrupted, or otherwise unavailable during a situation where the recovery of data from the backup files is warranted and could result in loss of critical operational and financial data.

#### **Recommendation:**

**The Commission should coordinate with the Department of Information Technology to adhere to the SISM and test backup processes at least annually and document the results. Deficiencies identified during testing should be remediated immediately to reduce the risk of loss of critical information.**

#### **Auditee Response:**

*We concur.*

*We agree with regard to a documented test plan. The backup and testing are under the control of the Department of Information Technology embedded in the Commission.*

*We are aware that current operations require data be pulled from backup sources several times during the year. No deficiencies on pulling data from backup sources have been discovered.*

*The Commission's change to a new system, NextGen, will help mitigate issues associated with backup and testing. The new system, NextGen, is based on cloud service whereby the vendor*

*Significant Deficiencies*

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*providing the cloud service is contractually obligated to provide backup and restoration services of Commission data.*

*The Commission will coordinate with the Department of Information Technology to ensure that appropriate data is available from the cloud and that it is tested at least annually with documented results.*



## CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary of the status, as of December 18, 2023, of the observations contained in the New Hampshire Liquor Commission's Management Letters for the fiscal years ended June 30, 2022 and 2021. Those reports can be accessed at, and printed from, the Office of Legislative Budget Assistant website: [www.gencourt.state.nh.us/lba/auditreports/financialreports.aspx](http://www.gencourt.state.nh.us/lba/auditreports/financialreports.aspx)

### *2022 Audit Comments* *Internal Control Comments*

	<u>Status</u>
<p><u>Significant Deficiencies</u></p> <p>2022-1 <b>Ongoing Delays To Replace Legacy Computer System Poses Significant Risks</b></p> <p><i>Consider and respond to risks posed by reliance on limited retired staff resources with the knowledge to support its legacy system while continued delays and other issues are resolved with implementation of the NextGen system. Seek additional resources to fulfill information technology needs and ensure that it is receiving and acting upon the best available advice in the implementation of the NextGen system. Commission management should ensure individuals with knowledge and experience in the industry are involved at all levels, and appropriate consideration is given to alternatives in the implementation that are the most responsive to the State's and Commission's structure and needs. If it is determined the implementation of the entirety of the Enterprise Resource Planning project is not feasible, the Commission may consider implementing certain segments of the NextGen system. (See current Observation No. 1)</i></p>	● ○
<p>2022-2 <b>Formal Risk Assessment Procedures Should Continue To Be Developed</b></p> <p><i>Continue to develop formal and documented risk assessment procedures for recognizing, evaluating, and responding to risks that could affect the Commission's ability to achieve its financial accounting and reporting, information technology, and overall business operation objectives. Risks identified should be analyzed to determine whether current internal controls mitigate risk to a level desired by management or if further actions are required in response to risks. Commission employees with specific areas of expertise should participate in the review to ensure details of operations that may not be obvious to management are appropriately considered. A periodic, documented review of the risk assessment by management should be incorporated into the process. (See current Observation No. 4)</i></p>	● ○

Status

- 2022-3 **Internal Audit Function Should Be Established** ● ○  
*The Commission should revamp its current internal audit roles and work towards the implementation of a traditional internal audit function that performs audits and focuses on risk mitigation and strengthening internal controls for the organization. The internal audit function should include a formalized process, including planned procedures, the reporting of weaknesses in internal control and noncompliance, and recommendations to address the deficiencies noted. Internal auditors should have the appropriate training, education, and professional background to perform internal audit activities.*

Compliance Comment

State Compliance

- 2022-4 **Transfers To The Alcohol Abuse Prevention And Treatment Fund Should Be In Accordance With Statute** ● ●  
*The Commission should comply with RSA 176:16, III in the computation of its transfer to the Alcohol, Abuse, Prevention, and Treatment Fund (AAPTF). If the AAPTF needs funding at the beginning of the fiscal year, the Commission should consider performing the initial transfer to the AAPTF based on an estimate, and a final accounting transaction be performed once the previous fiscal year's audited gross profits from sale of liquor becomes available.*

*2021 Audit Comment  
 Internal Control Comment*

Significant Deficiencies

- 2021-1 **Establish Formal Policies And Procedures Over Adjustments Made To System Accounting Records** ● ●  
*Formal policies and procedures for adjusting system accounting records should be established, including detailing the processes to be performed, who performs each process, and adequately documenting the errors and corrective actions. All adjustments should be reviewed and approved by an appropriate level of management independent of the posting and correction process.*

Status Key

	<u>Status</u>	<u>Count</u>
Resolved	● ●	2
Remediation In Process (Action beyond meeting and discussion)	● ○	3
Unresolved	○ ○	0