

**STATE OF NEW HAMPSHIRE
LIQUOR COMMISSION**

**MANAGEMENT LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**



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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, 2017 and have issued our report thereon dated December 19, 2017.

This management letter, a byproduct of the audit of the New Hampshire Liquor Commission for the fiscal year ended June 30, 2017, contains our auditor's report on internal control over financial reporting and on compliance and other matters and related audit findings. The appendix, on page 7, provides a summary of the status of observations presented in the fiscal year 2016 management letter of the Liquor Commission.

The New Hampshire Liquor Commission's fiscal year 2017 Comprehensive Annual Financial Report can be accessed online at:

http://www.gencourt.state.nh.us/LBA/AuditReports/FinancialReports/pdf/Liquor_2017_CAFR.pdf

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

December 19, 2017

**STATE OF NEW HAMPSHIRE
LIQUOR COMMISSION
2017 MANAGEMENT LETTER**

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* No audit comments suggest legislative action may be required.

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



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

To The Fiscal Committee Of The General Court:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the New Hampshire Liquor Commission (Commission) which comprise the Statement of Net Position as of June 30, 2017 and the Statements of Revenues, Expenses and Changes in Net Position and Cash Flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated December 19, 2017.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented,

or detected and corrected on a timely basis. We consider the deficiency described in Observation No. 1 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Observations No. 2 and No. 3 to be significant deficiencies.

Compliance And Other Matters

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

Liquor Commission's Responses To Findings

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

Purpose Of This Report

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



Office Of Legislative Budget Assistant

December 19, 2017

Internal Control Comments
Material Weakness

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

Observation:

Management letters from fiscal years 2013 through 2016 reported material weaknesses in the Commission's core financial accounting and reporting resources. The audit comments recommended the Commission enhance its operations by employing additional staff that have financial accounting and reporting expertise appropriate for the scope and complexity of the Commission's operations. In prior years, the weaknesses in the Commission's core financial accounting and reporting resources contributed to delays in the Commission meeting financial reporting deadlines.

While the Commission was able to meet its fiscal year 2017 financial reporting deadlines with the assistance of contracted accounting expertise, the Commission's weakness in its in-house core financial accounting and reporting resources continued through the date of this report as evidenced by a key Commission finance employee continuing to work an amount of overtime¹ that is highly unusual for State employees in similar classified positions. The Commission's weakness in accounting and financial reporting was exacerbated when the Commission's comptroller left employment shortly after the end of fiscal year 2017.

Also included in prior year comments was the recommendation for the Commission to establish comprehensive and documented policies and procedures for all critical financial accounting and reporting activities, in order to support the responsibilities and activities of key employees.

The Commission made significant progress in its effort to establish policies and procedures for all critical financial activities during fiscal year 2017, however certain significant financial accounting and reporting activities remain unaddressed.

Recommendations:

1. As recommended since fiscal year 2013, the Commission should enhance its financial accounting staff with additional staff having financial accounting and reporting expertise appropriate for the scope and complexity of the Commission's operations. While additional financial-analyst level staff may also be needed, the Commission needs staff that has higher-level experience in managing and performing complex financial accounting and reporting activities.
2. The Commission should continue with its recent success in establishing comprehensive and documented policies and procedures for all critical financial accounting and reporting activities in order to support the responsibilities and activities of key employees. All financial

¹ One key Commission finance employee worked in excess of 350 hours (over \$16,000) in "straight" overtime pay during fiscal year 2017.

transactions should be sufficiently supported and documented to allow for an understanding of the transactions, both for the current accounting and reporting period, and for effects on future accounting periods.

3. The Commission should consider whether compiling and reporting a more complete set of periodic interim financial statements would be beneficial, both to provide better current operating information to management and also to more regularly and timely address issues that have regularly proven to be financial statement challenges, such as accruals.

Auditee Response:

Concur.

The Commission currently has a number of open finance positions in various stages of the recruiting process. We are focusing on three positions that will help fulfill the Commission's need for managing and performing complex financial accounting and reporting activities. The positions are Comptroller, Accountant II and Administrator II of Financial Reporting. Filling these positions will provide the resources needed to add more interim reports and to continue building on documenting processes, policies and procedures.

Significant Deficiencies

Observation No. 2: Review Availability Of Information Technology Project Cost Data

Observation:

As currently configured, the Department of Information Technology's (DoIT) timekeeping system does not identify hours worked and costs incurred in sufficient detail to allow the Commission to determine the amounts of IT staff time and expense incurred in the development of the Commission's new \$30 million IT system. As a result, the Commission is not able to capitalize the cost of DoIT employee hours into the cost of developing and implementing the new IT system, contrary to State capital asset policies.

The Commission reported that it was unsure how many of the Commission-assigned DoIT employees worked on the new IT system and further reported that the cost of measuring the hours worked on the system by those DoIT employees would be challenging and may outweigh the benefit of obtaining that information.

Recommendation:

The Commission should review with DoIT the potential for including additional job numbers in the DoIT timekeeping system that would allow the Commission to determine the hours and cost of DoIT efforts on Commission IT projects. In addition to allowing the Commission to better understand, and thereby manage, its costs of operations, the Commission could use the information to accurately capitalize the costs of developing and implementing the new IT system.

Auditee Response:

Concur.

The Commission concurs that it is important to capitalize these expenses. The Commission has asked DoIT to create a new job number that will be used to track DoIT hours worked on the current project. Going forward the Commission will utilize this tracking to capitalize the costs associated with any other project that arises.

Observation No. 3: Resolve Budgetary Retained Earnings Balance

Observation:

Since at least fiscal year 2014, the Commission's budgetary accounts have included a "retained earnings" balance of approximately \$3.2 million at each fiscal year end. While the Commission annually records budgetary transactions to maintain, and report this balance at the end of each

fiscal year, the Commission could not explain the source or continued appropriateness of the reported balance.

Recommendation:

The Commission should request the assistance of the Department of Administrative Services in performing a review of the Commission's and State's accounting records to identify the source of the reported retained earnings balance, and to determine whether the continued reporting of a retained earnings balance is appropriate in the Commission's budgetary accounts.

Auditee Response:

Concur.

The Commission and the Department of Administrative Services are currently reviewing the source of the balance in the account to determine the appropriate action.

APPENDIX

Current Status Of Prior Audit Findings

The following is a summary of the status, as of December 19, 2017 of the observations contained in the New Hampshire Liquor Commission Management Letter for the fiscal year ended June 30, 2016. That report can be accessed at, and printed from, the Office of Legislative Budget Assistant website: www.gencourt.state.nh.us/LBA/AuditReports/FinancialReports/pdf/Liquor_2016_ML.pdf

<i>Internal Control Comments</i>	<u>Status</u>		
<i>Material Weakness</i>			
1. Strengthen Core Financial Accounting And Reporting Resources (<i>See Current Observation No. 1</i>)	●	○	○
<i>Significant Deficiencies</i>			
2. Receive And Act Upon The Best Available Advice In The Planning, Development, And Implementation Of New Information System	●	●	○
3. Enact Chip-Card Point Of Sales Devices As Soon As Practical To Minimize Losses	●	●	●
4. Establish Controls To Regularly Monitor And Reconcile The Cash Balances In The Liquor Fund	●	○	○
5. Review Annual Physical Inventory Process	●	●	●
6. Improve Control Over The Recording And Reporting Of Capital Assets	●	○	○
7. Resolve Issues Causing Difficulties In Processing Accounts Receivable	●	●	●
8. Expand Policies And Procedures And Consistently Perform Intended Refund Controls	●	○	○
9. Review And Expand Accounts Payable Policies And Procedures	●	●	○
10. Support And Perform Key Reconciliation Controls	●	●	●
11. Establish Policies And Procedures For The Routine Review Of The Accuracy Of Vendor Invoicing And Commission Payments	●	●	●
12. Develop And Provide An Electronic Beer Tax Filing System	●	○	○
13. Physical Access to IT Computer Room Should Be Periodically Reviewed	●	●	●
14. Continue Effort To Efficiently Document Store Lease Information	●	●	●

<u>Status Key</u>	<u>Count</u>
Fully Resolved	● ● ● 7
Substantially Resolved	● ● ○ 2
Partially Resolved	● ○ ○ 5
Unresolved	○ ○ ○ 0

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