

**STATE OF NEW HAMPSHIRE  
LIQUOR COMMISSION**

**MANAGEMENT LETTER  
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**





MICHAEL W. KANE, MPA  
Legislative Budget Assistant  
(603) 271-3161

CHRISTOPHER M. SHEA, MPA  
Deputy Legislative Budget Assistant  
(603) 271-3161

## State of New Hampshire

OFFICE OF LEGISLATIVE BUDGET ASSISTANT  
State House, Room 102  
Concord, New Hampshire 03301

STEPHEN C. SMITH, CPA  
Director, Audit Division  
(603) 271-2785

### *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, 2021 and have issued our report thereon dated December 17, 2021.

This management letter, a byproduct of the audit of the New Hampshire Liquor Commission for the fiscal year ended June 30, 2021, contains our auditor's report on internal control over financial reporting and on compliance and other matters and related audit findings. The appendix to this letter, beginning on page 5, provides a summary of the status of observations presented in the fiscal year 2020 and fiscal year 2019 Liquor Commission management letters.

The New Hampshire Liquor Commission's fiscal year 2021 Annual Comprehensive Financial Report can also be accessed online at:

[http://www.gencourt.state.nh.us/lba/AuditReports/FinancialReports/pdf/Liquor\\_2021\\_ACFR.pdf](http://www.gencourt.state.nh.us/lba/AuditReports/FinancialReports/pdf/Liquor_2021_ACFR.pdf)

*Office of Legislative Budget Assistant*

Office Of Legislative Budget Assistant

December 17, 2021

**THIS PAGE INTENTIONALLY LEFT BLANK**

**TABLE OF CONTENTS**

	<u>PAGE</u>
<b>TRANSMITTAL LETTER</b> .....	i
<b>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 <i>GOVERNMENT AUDITING STANDARDS</i></b> .....	1
<b><i>INTERNAL CONTROL COMMENT*</i></b> <b><i>SIGNIFICANT DEFICIENCY</i></b>	
Observation No. 1: Establish Formal Policies And Procedures Over Adjustments Made To System Accounting Records .....	3
<b><i>APPENDIX - CURRENT STATUS OF PRIOR AUDIT FINDINGS</i></b> .....	5

---

\* This comment does not suggest legislative action may be required.

**STATE OF NEW HAMPSHIRE  
LIQUOR COMMISSION  
2021 MANAGEMENT LETTER**

---

**ABBREVIATIONS USED**

ACFR	Annual Comprehensive Financial Report
Commission	New Hampshire Liquor Commission
GASB	Governmental Accounting Standards Board
MAPPER	Current front and back office, point of sale information system
LIDS	Liquor Inventory Distribution System
NHFirst	New Hampshire State Government Accounting System



MICHAEL W. KANE, MPA  
Legislative Budget Assistant  
(603) 271-3161

## State of New Hampshire

OFFICE OF LEGISLATIVE BUDGET ASSISTANT  
State House, Room 102  
Concord, New Hampshire 03301

CHRISTOPHER M. SHEA, MPA  
Deputy Legislative Budget Assistant  
(603) 271-3161

STEPHEN C. SMITH, CPA  
Director, Audit Division  
(603) 271-2785

### **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, 2021 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 Commission's basic financial statements, and have issued our report thereon dated December 17, 2021.

#### **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be

material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in Observation No. 1, that we consider to be a significant deficiency.

### **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, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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

The Commission's response to the finding identified in our audit is included with the reported finding. The Commission's response is not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Office Of Legislative Budget Assistant

December 17, 2021



*INTERNAL CONTROL COMMENT*  
*SIGNIFICANT DEFICIENCY*

**Observation No. 1**

---

---

**Establish Formal Policies And Procedures Over Adjustments Made To System Accounting Records**

---

---

The Commission does not have formal policies and procedures in place to adequately document and support changes made to its Liquor Inventory Distribution System (LIDS) component of MAPPER to correct for posting errors that occur and are automatically uploaded to the general ledger, NHFirst.

The following errors occurred during fiscal year 2021 requiring the Commission to perform two significant adjustments to correct the system accounting records.

1. A \$48 million posting error in MAPPER and NHFirst caused by a licensee erroneously inputting bottle quantity instead of pallet quantity into the on-line ordering system for a product typically ordered by the pallet.
2. A \$1.4 million posting error in MAPPER and NHFirst caused by selling product that had not yet been received into LIDS.

The errors noted above were detected and corrected after the overnight upload of MAPPER to NHFirst.

Auditor review of the correcting entries to adjust system accounting records revealed a lack of documentation detailing the cause of the errors, the corrections made to support the adjustments, as well as lack of evidence that management reviewed and approved the adjustments to ensure they were performed accurately.

The absence of formal policies and procedures for adjusting system accounting records increases the risk that unauthorized changes, or incorrect changes, could occur without management's awareness. A documented review and approval procedure would help to ensure the accuracy in processing adjustments and establish accountability for corrections made.

**Recommendation:**

**We recommend the Commission establish formal policies and procedures for adjusting system accounting records. Policies and procedures should detail the processes to be performed, who performs each process, and adequately documents the error and corrective actions. All adjustments should be reviewed and approved by an appropriate level of management independent of the posting and correction process.**

*Significant Deficiency*

---

*Auditee Response:*

*We concur, The Commission is in the process of establishing formal policies and procedures for adjusting system accounting records.*

*On January 25<sup>th</sup> an initial meeting was held to discuss and outline the processes to determine the most efficient and effective way to track and document the different types of adjustments.*

*Adjustments are currently being tracked and documented using a MAPPER rid, a dedicated email account and the IT helpdesk ticket tracking systems.*

*We are in the process of writing the procedure and expect to have it completed by the end of March.*

## APPENDIX

### CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary of the status, as of December 17, 2021, of the observations contained in the New Hampshire Liquor Commission's Management Letters for the fiscal years ended June 30, 2020 and 2019. 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)

#### Status

#### *2020 Audit Comments* *Internal Control Comments*

##### Material Weakness

- |        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |   |   |
|--------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|
| 2020-1 | <b>Implement And Staff A Financial Accounting And Reporting Structure Appropriate For The Commission's Size And Complexity</b><br><i>Establish a senior-level management unclassified position such as a Director of Finance responsible for heading the Commission's financial accounting and reporting activities. Continue efforts to establish written policies and procedures for all significant financial accounting and reporting activities, including high-level financial statement processes in order to support the responsibilities of key employees, and to provide for continuity of operations in the event of employee turnover.</i> | ● | ○ |
|--------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|

##### Significant Deficiencies

- |        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |   |   |
|--------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|
| 2020-2 | <b>Seek Additional Resources To Fulfill Information Technology Needs</b><br><i>Seek additional resources to fulfill information technology needs including the remaining development, deployment, and maintenance of the NextGen information technology system to ensure a smooth transition from the legacy system. The Commission should ensure that the additional staff resources have the appropriate qualifications and experience to reduce the risks of further business interruptions.</i> | ● | ○ |
| 2020-3 | <b>Re-Establish A Formal Risk Assessment Process</b><br><i>Re-establish a formal and documented risk assessment process for recognizing, evaluating, and responding to risks that could affect the ability to achieve its financial accounting and reporting objectives. The process should include an information technology security risk assessment component to ensure the Commission's information systems are adequately protected.</i>                                                       | ● | ○ |

		<u>Status</u>	
2020-4	<p><b>Capitalized Costs Should Be Properly Evaluated For Impairment Under GASB Statement No. 42</b></p> <p><i>Coordinate with the vendor to help determine what capitalized assets continue to have service utility in accordance with guidelines provided in GASB Statement No. 42. A formal evaluation should be completed to support the assessment of the capitalized assets, including support for the reduction in the carrying value of those assets determined to be impaired.</i></p>	●	●
2020-5	<p><b>Liquor Stock Payables Reconciliation Control Should Be Improved</b></p> <p><i>Continue to develop formal policies and procedures for the performance of complete and accurate monthly reconciliations of all applicable MAPPER activity to NHFirst. Periodic and timely reconciliations should be performed by someone knowledgeable of the activity, but independent of the recording and posting processes. The reconciliations should be reviewed and approved by management to ensure timely and accurate performance.</i></p>	●	●
2020-6	<p><b>Procedures To Ensure Complete Reporting Of Capital Assets Should Be Strengthened</b></p> <p><i>Strengthen procedures to ensure all charges, including those that are incurred in the Capital Projects Fund and Liquor Fund accounts, are appropriately identified and reported as capital assets.</i></p>	●	●

Status

**2019 Audit Comments**  
**Internal Control Comments**

Significant Deficiencies

2019-1	<p><b>Implement And Staff A Financial Accounting And Reporting Structure Appropriate For The Commission’s Size And Complexity</b> <i>Enhance financial accounting with additional staff having financial accounting and reporting expertise appropriate for the scope and complexity of operations, and establish comprehensive policies and procedures for critical financial activities and consider compiling and reporting a more complete set of periodic financial statements.</i></p>	●	○
2019-2	<p><b>Implement Independent Timely Monitoring Of Project Deliverables And Preventative Controls To Aid In Completion Of New Information System</b> <i>Implement independent, timely monitoring of project deliverables and preventative controls to help ensure the successful completion of the NextGen IT project.</i></p>	●	○
2019-3	<p><b>Internal Audit Function Should Be Developed</b> <i>Develop internal audit function and work towards the implementation of leading internal audit industry practices.</i></p>	●	○
2019-4	<p><b>Controls Over Issuance Of Promotional Cards Should Be Improved</b> <i>Develop automated controls within the point of sale system to limit the number and amount of promotional cards issued to retail customers according to total dollars spent on product purchases, and establish policies and procedures over the issuance and safeguards of promotional cards.</i></p>	●	●
2019-5	<p><b>Reconciliation Procedures Should Be Developed And Improved</b> <i>Develop formal policies and procedures over reconciliation processes. Periodic and timely reconciliations should be performed for all significant accounts where activities are recorded in separate systems. Reconciliations should be reviewed and approved by management.</i></p>	●	●
2019-6	<p><b>Complete Account Activity Should Be Maintained In The State’s Accounting System</b> <i>Coordinate with the Department of Administrative Services to obtain access to the Multi-Ledger module in NHFirst in order to properly record and account for all financial activities</i></p>	●	●

		<u>Status</u>	
2019-7	<p><b>Capitalized Costs Should Be Properly Evaluated For Impairment Under GASB 42</b>  <i>Determine what capitalized assets continue to have utility in accordance with guidelines provided in GASB Statement No. 42. A formal evaluation should be completed to support the assessment of the capitalized assets, including support for the reduction in the carrying value of those assets determined to be impaired.</i></p>	●	●
2019-8	<p><b>Non-GAAP Inventory Adjustment Should Be Discontinued</b>  <i>Implement policies and procedures to ensure inventory is valued in accordance with the provisions of GASB Statement No. 62.</i></p>	●	●
2019-9	<p><b>Centralize Cash Receipt Procedures</b>  <i>Centralize the cash receipt process to eliminate the handling of cash, checks, and credit card payments at multiple locations within headquarters.</i></p>	●	○
2019-10	<p><b>Develop And Provide An Electronic Beer Tax Filing System</b>  <i>Continue efforts to develop and implement an electronic beer tax filing system as part of the NextGen IT project.</i></p>	●	○

**Compliance Comments**

State Compliance

2019-11	<p><b>Adopt Administrative Rules Required By Statute</b>  <i>Adopt administrative rules required by statute. If the required rules are not necessary, request an appropriate revision to the statute.</i></p>	●	●
2019-12	<p><b>Impose Late Or Nonpayment Requirements</b>  <i>Impose the late and nonpayment requirements identified in Administrative Rule Liq 904. If the requirements of Liq 904 are not practical seek an appropriate revision to the rule.</i></p>	●	●

Status Key

	<u>Status</u>	<u>Count</u>
Resolved	● ●	10
Remediation In Process (Action beyond meeting and discussion)	● ○	8
Unresolved	○ ○	0