

# **LBA Performance Audit Report Summary:**

New Hampshire Liquor Commission – April 2009

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The purpose of this audit was to assess whether the New Hampshire Liquor Commission (Commission) organized and managed its operations to maximize income to the General Fund. We focused on the efficiency and effectiveness of the three commissioner organizational structure; product pricing, purchasing, and fees; and the efficiency of warehousing and distribution operations. The audit period includes State fiscal years (SFY) 2007 and 2008.

The Commission is responsible for optimizing profitability, maintaining proper controls, assuming responsibility for effective and efficient operations, and providing service to its customers. During the audit period, it carried out these responsibilities by selling wine and spirits at 77 State-operated retail stores, wholesaling wine and spirits to on- and off-premises licensees, regulating 4,495 licensees, and enforcing all State liquor laws and regulations

## ***Results in Brief***

We found the Commission is not organized and, in some cases, is not managed to fully maximize income to the General Fund. The Commission needs to operate more like a business, ensuring its current purchasing and pricing practices align with its business strategies to fully optimize profitability, increase operational efficiency, and enhance management controls.

We found the three-member management structure is not cost effective, impedes efficient and timely decision-making, and should be replaced by a single chief executive with oversight provided by a part-time board.

We found several weaknesses hindering the Commission's optimization of profits, including the lack of marketing and store plans outlining the Commission's long-term market goals supported by effective purchasing practices, pricing strategies, floor space planning, and a more selective product introduction process. Additionally, the Commission's direct shipper program lacks adequate controls to ensure efficient and effective operations. We found establishing a permit fee, developing a computer application to automate processes, imposing stricter fines and penalties, and analyzing products shipped into the State would enable the program to operate more efficiently and effectively.

We found the Commission could improve efficiency by consolidating the two warehouses into one warehouse. Also, the Commission is dependent on a single contractor for product storage, transportation, and the on-line licensee ordering system, leaving it vulnerable to a single point of failure. We found the Commission may be able to reduce its warehouse space needs by reviewing its requirement that all suppliers maintain a minimum of 30-day supply of products in the warehouses.

Our audit presents 20 observations and recommendations to assist the Commission in optimizing profits, enhancing controls, and improving operational efficiency. Five recommendations may require legislative action. Our recommendations include: replacing the three full-time Commissioners with one full-time chief executive with a part-time oversight board; closing and consolidating some stores; establishing a comprehensive marketing plan; establishing retail prices independent of suppliers; negotiating purchase prices paid for wine and spirits; establishing criteria for selecting products to test market; developing procedures to better control the direct shipper program; consolidating warehouses; and conducting a thorough review of required bailment levels.