

LBA Performance Audit Report Summary:

State Liquor Commission Performance Audit Report - July 1994

The New Hampshire State Liquor Commission (SLC) is charged with: (1) optimizing profitability, (2) maintaining proper controls, (3) effective and efficient operation, and (4) providing service to customers. Seven division directors report directly to the three commissioners, as there is no level of management between commissioners and divisions. The SLC employs 305 full-time classified employees plus the three commissioners in its Concord headquarters, warehouse, and 68 stores.

Net profits from sales of alcoholic beverages were \$40.4 million on sales of \$208.7 million in FY 1994. We noted an upward trend (32.0 percent increase overall) in net profits for the six-year period from FY 1988 through FY 1993. However, the rate of increase took a downward turn in FY 1992. This downward trend continued through FY 1994. We also noted that income from fees, taxes, and other sources during the same time period increased 19.1 percent overall from \$13.9 million in FY 1988 to \$16.5 million in FY 1994.

The audit report describes and analyzes the SLC's organizational structure, its management practices and reporting relationships, the sufficiency of the management control structure to ensure efficient operations and minimize the potential for waste, fraud and abuse, the operational efficiency and economy of the warehouse and transportation system, and whether the marketing and merchandising operations efficiently and effectively fulfill the statutory responsibility to optimize the profitability of the SLC.

We noted 46 observations and recommendations regarding the SLC. Seven of these address the agency's organizational structure, 13 concern management functions, and 26 deal with management controls.

Nine of the management control observations address possibly fraudulent actions concerning the SLC advertising contract, personnel actions, and State purchasing rules, as well as abuse in the form of unauthorized preferential treatment of a New Hampshire-based liquor manufacturer. These nine observations were forwarded to the attorney general for investigation. The attorney general reported agreement with our observations.

We observed numerous inadequacies and inefficiencies in the SLC organizational structure, beginning with the three-member Commission, but also including the sales-related divisions, administrative support, and enforcement functions. As a result of our observations, we recommend reorganizing the SLC. We believe the three-member SLC structure has outlived its usefulness and stands in the way of a more efficient, effective, and economical organization with streamlined and professional management. In addition, the organization of the marketing and sales structures we observed was less efficient than necessary and impeded the SLC's ability to further maximize sales revenue. Finally, the organizational structure of the SLC's administrative

units did not provide optimum support and functioning. The current structure is cumbersome, contains unusual reporting relationships and systemic operational inefficiencies.

Problems with the SLC's fractionalized organizational structure translate into management problems in key functions. Areas of concern include planning in the marketing and sales function, warehouse safety, MIS planning and support, human resources including staff training, and others. These problems serve to weaken SLC operations, negatively impact efficiency and effectiveness, and diminish the SLC's ability to optimize profits and contribute to State revenues.

We determined the SLC's management control structure needed improvements to ensure efficient operations and minimize the potential for fraud and abuse. As previously noted, we reviewed possibly fraudulent actions concerning the advertising contract, personnel actions, and State purchasing rules, as well as abuse in the form of unauthorized preferential treatment of a New Hampshire-based liquor manufacturer.

We also observed numerous control problems within the administrative support functions concerning accounting and MIS. Store operations should update its policies and procedures and review security procedures in retail locations, while warehouse operations need additional controls for inventory and security. Improvements in file security and documentation of significant processes are needed in enforcement and regulation. Additional administrative rules should be promulgated regarding the bailment warehouse, assessing fines and suspending licenses, and authority to make special exceptions to SLC rules. Finally, some advertising practices may be out of compliance with State and federal laws.