

<b>Agency Name</b>	Liquor Commission
<b>Audit Name</b>	Liquor Commission 2019 Management Letter
<b>Audit Period</b>	FY 2019
<b>Status Report Date</b>	October 2022

Summary of Audit Observations/Findings					
Number	Observation Title	Status [place X in status column]			
		Unresolved	Partially Resolved	Substantially Resolved	Fully Resolved
1	Implement And Staff A Financial Accounting And Reporting Structure Appropriate For The Commission's Size And Complexity				X
2	Implement Independent Timely Monitoring of Project Deliverables and Preventive Controls to Aid in Completion of New Information System			X	
3	Internal Audit Function Should Be Developed		X		
4	Controls Over Issuance of Promotional Cars Should Be Improved				X
5	Reconciliations Procedures Should Be Developed and Improved				X
6	Complete Account Activity Should Be Maintained in the State's Accounting System				X
7	Capitalized Costs Should Be Properly Evaluated for Impairment Under GASB 42				X
8	Non-GAAP Inventory Adjustment Should Be Discontinued				X
9	Centralize Cash Receipt Procedures				X
10	Develop and Provide an Electronic Beer Tax Filing System		X		
11	Adopt Administrative Rules Required By Statute				X
12	Impose Late or Nonpayment Requirements				X

**Observation 1:** Implement and Staff A Financial Accounting And Reporting Structure Appropriate For The Commission's Size And Complexity

**Summary of Finding:** The Commission faces the following challenges: staffing of its financial reporting section and continued reliance on a single employee, the Chief Financial Officer; completing the task of establishing comprehensive and documented policies and procedure for all critical financial accounting and reporting; and standardizing a process for compiling financial statements for audit.

**Current Status:** Fully Resolved

Now that the Commission has a new Comptroller in place, the focus has been on writing policies and procedures for all significant financial accounting and reporting activities and to continue to build the processes that facilitate the annual compilation of the financial statements.

Recently created a Comptroller of Systems and Operations position, the person in the Finance Administrator position was selected for the position and the Finance Associate was selected for the Finance Administrator position leaving the Finance Associate position open for recruitment.

**Observation 2:** Implement Independent Timely Monitoring of Project Deliverables and Preventive Controls to Aid in Completion of New Information System

**Summary of Finding:** The Commission should implement independent, timely monitoring of project deliverables and preventative controls to help ensure the successful completion of the project. Important critical success factors may include a robust issue management process, clear succession planning to address the loss of experienced resources during the project, escalation and resolution mechanism, continuous risk assessment, and the hiring of business expertise in contract management.

**Current Status:** Substantially Resolved

Both the eCommerce and ERP components of the NextGen project are well underway. On June 24, 2020, the Governor and Council approved the NHLC's contract with Blue Horseshoe (since acquired by Accenture) for the implementation of its D365-based ERP system, which will integrate and support the full breadth of the NHLC's operations and replace its aging legacy system. Following implementation, Accenture will provide the NHLC with ongoing support and maintenance through 2033.

Additionally, on February 5, 2020, the Governor and Executive Council approved the NHLC's contract with Evenica to develop, deploy and support the NHLC's B2B and B2C eCommerce environments, which are each components of the NHLC's larger NextGen project that will integrate the NHLC's business processes, from the retail stores and warehouse through back office financials and payroll, creating a unified system. Through the completion of these eCommerce environments, the NHLC will acquire the capability to enable customers to complete online orders with direct-to-consumer shipping within New Hampshire. It will also afford the NHLC's licensees the ability to manage their accounts online and provide wine and spirits brokers with online inventory management and enhanced reporting tools.

Since the D365 project is information technology-based and heavily integrated with the State of New Hampshire's NH FIRST financial system, both the DoIT and the Department of Administrative Services (DAS) are substantially involved in the project. For these reasons, the three agencies (NHLC, DoIT, and DAS), as well as the Department of Safety (DOS), formed an Executive Committee to oversee the implementation of the NHLC's new ERP system. The Executive Committee meets regularly to evaluate project progress and make decisions regarding implementation.

Finally, the Commission's project management team, in conjunction with Accenture and Evenica, actively monitors, tests and manages all aspects of the project on a daily basis, including scope, planning parameters, issues, risks, performance and quality. As stated in its response to the management letter and provided in detail above, the Commission intends to continue to manage the project with its in-house team, which includes the guidance from the Executive Committee and our business partners.

**Observation 3: Internal Audit Function Should Be Developed**

**Summary of Finding:** The internal audit function at the Commission has not been developed to effectively monitor controls, identify risks, or ensure that management's objectives are being carried out. The Commission's internal audit function does not appear to perform duties consistent with internal audit in the traditional sense, but rather performs tasks typically assigned to agency accounting staff. The Commission's internal auditors currently perform duties that are related to standard operating procedures or control activities, including the review and approval of refunds and investigating and reconciling daily purchase orders for discrepancies. The Commission should develop its internal audit function and work towards the implementation of leading internal audit industry practices.

**Current Status:** Partially Resolved

The Commission is nearing completion of developing its risk management program and process for evaluating performance. An internal audit position is assisting with this process and will assist with training and developing a written plan for each functional area of the Commission. Once in place, this position will conduct internal audits in addition to acting as a consultant to help improve controls and processes.

In June of 2022, the Director of Administration (Rose Wiant) and the Senior Management Analyst (Kali Coleman) left the Commission. On September 21, 2022, James Vara was confirmed by the Governor and Executive Council as the new Director of Administration. Based on the recent administrative changes, the Commission continues to review and evaluate the Internal Audit functions and the Senior Management Analyst role/position.

**Observation 4: Controls Over Issuance of Promotional Cards Should Be Improved**

**Summary of Finding:** The Commission has not reviewed or expanded its policies and procedures or implemented automated controls for issuing promotional cards. During promotional periods, retail

customers are issued \$25 promotional cards for each \$150 spent on product purchases at a NHLC retail store.

The Commission should develop automated controls within its 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. The Commission should establish policies and procedures over the issuance and safeguards of promotional cards.

**Current Status:** Fully Resolved

The Commission does not intend to run a promo card campaign in the remaining months of this fiscal year.

The NextGen point-of-sale will incorporate controls to mitigate the risk of error or fraud by displaying the amount of promotional dollars to be issued to the customer for the transaction. The actual details of how the control will work are currently in development.

In the event that a promo card campaign launches prior to implementing the NextGen ERP system, the Commission will evaluate how to add controls to address the risks identified.

**Observation 5:** Reconciliation Procedures Should Be Developed and Improved

**Summary of Finding:** The Commission should develop formal reconciliation policies and procedures across general ledger accounts for MLO licensing receipts, gift cards and promotional cards, and accounts payable between MAPPER and NHFirst.

**Current Status:** Fully Resolved

The Commission has documented and implemented a monthly process to reconcile liquor payables, gift cards and MLO to NH First.

**Observation 6:** Complete Account Activity Should Be Maintained in the State's Accounting System

**Summary of Finding:** The Commission does not fully account for all its financial accounting activities in the state accounting system, NHFirst, increasing the risk that certain financial activity may be inaccurate, inadvertently altered, lost, or excluded in the financial reporting process.

The Commission should 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 its financial activities. Journal entries should be detailed rather than summarized to provide transparency.

**Current Status:** Fully Resolved

For the fiscal year ending June 30, 2020, the Commission utilized NHFirst Multi-Ledger for all year-end entries and has fully accounted for all its financial accounting activities in the state accounting system.

**Observation 7:** Capitalized Costs Should Be Properly Evaluated for Impairment Under GASB 42

**Summary of Finding:** The Commission has not thoroughly reviewed the NextGen software work in process capitalized costs for impairment. Once the Commission has obtained a vendor to continue with the development and implementation of the NextGen IT project, it should coordinate with the vendor to help determine what capitalized assets continue to have utility in accordance with guidelines provided in GASB 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.

**Current Status:** Fully Resolved

Effective June 24, 2020, the Commission entered into a contract with a new vendor to complete development and deploy the new ERP system. Throughout system development, the vendor reviewed and tested work done by the previous vendor. Based on the new vendor's assessment which identified and determined the value of any impaired capitalized assets the Commission posted a write-off as part of the FY2021 financial statements.

**Observation 8:** Non-GAAP Inventory Adjustment Should Be Discontinued

**Summary of Finding:** The Commission has not implemented policies and procedures to ensure that its liquor inventory is valued in accordance with Generally Accepted Accounting Principles (GAAP). The Commission should implement policies and procedures to ensure inventory is valued in accordance with GAAP and only write down inventory in compliance with the provisions of GASB Statement No. 62.

**Current Status:** Fully Resolved

The Commission inventory is valued in accordance with Generally Accepted Accounting Principles (GAAP) in compliance with the provisions of GASB Statement No. 62.

**Observation 9:** Centralize Cash Receipt Procedures

**Summary of Finding:** The Commission could benefit from centralizing its cash receipt procedures at headquarters. The Commission's business office at headquarters collects payments from vendors for price reduction allowances and from licensees who purchase liquor products on credit. The Commission's Division of Enforcement and Licensing, also located at headquarters, collects beer, wine, and liquor tax receipts, in addition to license and permit fees, fines, and other miscellaneous revenues. From an internal control perspective, the collection and recording of cash receipts should be centralized

to increase efficiencies and provide for the consistent application of controls around recording, posting and deposits.

**Current Status:** Resolved

The Division of Enforcement and Licensing has developed a policy and procedure to centralize the function of processing payments from licensees, direct shippers, and manufacturers. After payments are processed through MLO, they are delivered to Accounts Receivable for posting and depositing.

The Division has successfully recruited personnel to take over the payment processing function for all Division receipts.

**Observation 10:** Develop and Provide an Electronic Beer Tax Filing System

**Summary of Finding:** Payers of the State's beer tax file monthly paper-based tax returns, often with up to seven supporting schedules. The use of paper-based returns and supporting schedules appears inefficient for the taxpayer to prepare and file and inefficient for Commission staff to process, review, and audit. The paper-based returns do not allow the Commission to efficiently use computer assisted techniques to check for completeness, consistency, and accuracy of the returns and to efficiently use the submitted data for monitoring of tax compliance.

The Commission should continue in its efforts to develop and implement an electronic beer tax filing system as part of the NexGen IT project. At a minimum, the Commission should consider converting the current paper based forms to spreadsheets that can be electronically submitted to improve efficiency and facilitate the recalculation of the returns.

**Current Status:** Partially Resolved

The Business-to-Business functionality of eCommerce component of the NextGen project will include an electronic beer tax filing solution for New Hampshire wholesale distributors and manufacturers.

**Observation 11:** Adopt Administrative Rules Required By Statute

**Summary of Finding:** The Commission should adopt administrative rules required by RSA 178:28, I and V. If the Commission determines the required rules are not necessary for the operation of the Commission, the Commission should request an appropriate revision to the statute.

**Current Status:** Fully Resolved

Administrative Rules regarding discounts and sales to licensees have been adopted in accordance with RSA 178:28, I and V.

**Observation 12:** Impose Late or Nonpayment Requirements

**Summary of Finding:** The Liquor Commission has not complied with the requirements of Administrative Rule Liq 904 *Late/Non Payment* for vendors and licensees who fail to make timely payments of amounts due to the Commission. The Commission should impose the late and nonpayment requirements identified in Administrative Rule Liq 904. If the Commission determines that the requirements of Administrative Rule Liq 904 are not practical, then it should seek an appropriate revision to the Rule.

**Current Status:** Fully Resolved

The Commission has revised Administrative Rule Liq 904.