Agency Name	Liquor Commission
Audit Name	Liquor Commission 2022 Management Letter
Audit Period	FY 2022
Status Report Date	June 2023

Summary of Audit Observations/Findings					
Number	**Observation Title**	**Status** [place X in status column]			
		Unresolved	**Partially Resolved**	**Substantially Resolved**	**Fully Resolved**
1	Ongoing Delays To Replace Legacy Computer System Poses Significant Risks			X	
2	Formal Risk Assessment Procedures Should Continue To Be Developed			X	
3	Internal Audit Function Should Be Established		X		
4	Transfers To The Alcohol Abuse Prevention And Treatment Fund Should Be In Accordance With Statute				X

Observation 1: Ongoing Delays To Replace Legacy Computer System Poses Significant Risks

Summary of Finding: The Commission’s implementation of its NextGen system to replace its legacy system (MAPPER) has not been timely, resulting in a strain on staff resources, increased project costs, and an increased risk to operations.

Current Status: Substantially Resolved

It is anticipated that the NextGen system will be operational in the first quarter of 2024, with a targeted start date in February 2024. The project is currently 87% complete.

On May 31, 2023, the Governor and Executive Council approved amendments for Accenture, LLP and Evenica Corp. Accenture, who was initially approved by Governor and Executive Council on June 24, 2020, is providing support for the Commission’s implementation Microsoft Dynamic 365 (D365) solution. The contact was extended twelve months by adding “Additional Cutover Support” and additional support for end-user testing, Microsoft updates, and additional training.

The Evenica contract was extended to complete the deployment of the NHLC’s Business to Business (B2B) and Division of Enforcement, Licensing and Education eCommerce initiatives; to continue support and maintenance of the Commission’s Business to Consumer eCommerce initiative; and to provide post-go-live support for the NHLC’s B2B and Division of Enforcement, Licensing and Education eCommerce initiatives.

The Accenture and Evenica amendment were integral in supporting the Commission's efforts to have a go-live date in February 2024.

While many of the initial delays were ameliorated, it is important to point out specific reasons for the delays, which include the following:

- The Covid-19 pandemic slowed the program--the Commission pivoted to curbside delivery;

- Microsoft's mandatory updates to its D365 platform continue to negatively impact testing. As Microsoft releases new updates, the updates often result in the need for unexpected changes to be made to the D365 project. Additionally, test cycles in early 2023 uncovered integration issues with the NHLC's warehouse and e-commerce systems, some of which were also attributable to the Microsoft updates. Microsoft has made an executive commitment to the NHLC to provide more resources to support the NHLC during version updates and is working with NHLC and DoIT to vigorously address these issues;

- NHFIRST undergoes pre-planned "blackouts" throughout the year;

- The need to avoid the project going live in a high-volume sales months for NHLC; and

- Limited technical resources due to staffing shortages for NHLC, DoIT, the Department of Administrative Services ("DAS"), and the project's integration partners.

Finally, the Commission recognizes the need for the NextGen project to go-live; however, the Commission cannot put revenue at risk, and must ensure that project meets the needs of Commission, consumers, and business partners.

Observation 2: Formal Risk Assessment Procedures Should Continue To Be Developed

Summary of Finding: The Commission should continue to develop formal and documented risk assessment procedures for recognizing, evaluating, and responding to risks that could affect its ability to achieve its financial accounting and reporting, information technology, and overall business operation objectives. Risks identified should be analyzed to determine whether current internal controls mitigate risk to a level desired by management or if further actions are required in response to risks. Commission employees with specific areas of expertise should participate in the review to ensure details of operations that may not be obvious to management are appropriately considered.

A periodic, documented review of the risk assessment by management should be incorporated into the process.

Current Status: Substantially Resolved

The Commission recently filled the position responsible for overseeing the Enterprise Risk Management (ERM) program that was started in the fiscal year 2021 and delayed in fiscal year 2022 due to key positions becoming vacant.

The Commission is focused on the continued development of ERM, however, it is still the Commission's view that much of the development is contingent on the new operating system being brought into operation for this to be effective and efficient. As noted above, the Commission's legacy system is in the process of being replaced. It did not make sense, and still does not, to invest large amounts of staff time and resources to implementing the ERM program under a system that is planned for obsolescence. The m Commission believes it is more logical to build and analyze a risk review system on the new system that will impact the core of the Commission's operations and finances moving forward.

Observation 3: Internal Audit Function Should Be Established

Summary of Finding: We recommend the Commission revamp its current internal audit roles and work towards the implementation of a traditional internal audit function that performs audits and focuses on risk mitigation and strengthening internal controls for the organization. The internal audit function should include a formalized process, including planned procedures, the reporting of weaknesses in internal control and noncompliance, and recommendations to address the deficiencies noted. Internal auditors should have the appropriate training, education, and professional background to perform internal audit activities.

Current Status: Partially Resolved

The Commission requested two new positions in the fiscal year 2024/2025 budget—an internal auditor II and an accountant II. The new positions will help further segregate duties and allow the Commission to revamp existing internal audit function.

Observation 4: Transfers To The Alcohol Abuse Prevention And Treatment Fund Should Be In Accordance With Statute

Summary of Finding: We recommend the Commission comply with RSA 176:16, III in its computation of its transfer to the AAPTF. If the AAPTF is in need of funds at the beginning of the fiscal year than the Commission should consider performing the initial transfer to the AAPTF based on an estimate, and a final accounting transaction be performed once the previous fiscal year's audited gross profits from sale of liquor becomes available.

If the Commission believes its current practice of using audited gross profit from two fiscal years prior is a better alternative to determine its transfer, it should seek statutory revision.

Current Status: Fully Resolved

The Commission requested a statutory revision, and there is currently revised language in HB2 to clarify the transfer requirements as outlined below.

471 Liquor Commission Funds; Alcohol Abuse Prevention and Treatment Fund. Amend RSA 176:16, III to read as follows:

III. Five percent of the ~~[previous]~~ ***preceding*** fiscal year gross profits derived by the commission from the sale of liquor shall be deposited into the alcohol abuse prevention and treatment fund established by RSA 176-A:1. For the purpose of this section, gross profit shall be defined as total operating revenue minus the cost of sales and services as presented in the state of New Hampshire ***annual*** comprehensive ~~[annual]~~ financial report, statement of revenues, expenses, and changes in net position for proprietary funds. ***Such deposit shall be processed in 2 installments as follows:***

(a) The commission shall process the initial deposit on or before August 1st of the ensuing fiscal year. Such deposit shall be calculated based on an estimate of the preceding fiscal year gross profit derived by the commission from the sale of liquor.

(b) Upon issuance of the audited annual comprehensive financial report pursuant to RSA 21-I:8, II(a), the commission shall process a second and final deposit or adjustment.

(c) If the amount of the initial deposit exceeds the final amount calculated based on the audited annual comprehensive financial report pursuant to RSA 21-I:8, II(a), the comptroller shall transfer the excess amount from the alcohol abuse prevention and treatment fund established by RSA 176-A:1 to the liquor fund.