

Agency Name	Liquor Commission
Audit Name	Liquor Commission 2019 Management Letter
Audit Period	FY 2019
Status Report Date	July 2020

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 Cards 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: The Commission recently received approval from the State Division of Personnel to establish a new comptroller of operations position and to reclassify another position to establish an administrator to oversee budget, inventory, and the ERP system. These changes will create greater separation of responsibilities, build redundancy in critical operations, and alleviate the reliance on a single individual.

The Commission continues its effort to document policies and procedures for the critical financial accounting and reporting activities and for compiling financial statements.

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: The eCommerce portion of the NextGen project is well underway by means of a contract approved by the Governor and Executive Council on February 5, 2020. The Commission's project management team monitors, tests and manages all aspects of the project on a daily basis, including scope, planning parameters, issues, risks, performance and quality.

Effective June 24, 2020, the Commission entered into a contract for the ERP system. The contract provides for a comprehensive and robust project management paradigm, which includes continuous assessment of project progress, risks and issues.

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: As part of the finance restructure, the Commission will separate the functions of inventory control and internal audit. The Commission will review and develop the internal audit process to effectively monitor controls and identify risks.

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: The new ERP system being developed will incorporate automated controls for issuing and redeeming promotional cards. The Commission is in the processes of developing policies and procedures over the issuance and safeguards of promotional cards.

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: 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: In January 2020, the Commission was provided access to the Multi-Ledger module in NHFirst and intends to use the module for FY2020 year-end entries.

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

Summary of Finding: The Commission has not thoroughly reviewed the NexGen software work in process capitalized costs for impairment. Once the Commission has obtained a vendor to continue with the development and implementation of the NexGen 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: Effective June 24, 2020, the Commission entered into a contract with a new vendor to complete development and deploy the new ERP system. The Commission will work with the vendor to determine the value of capitalized assets.

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: The Commission is developing procedures to ensure inventory is valued in accordance with GAAP and will write down inventory 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: The Commission is currently reviewing procedures at Headquarters for receiving cash, check or credit card payments from vendors and licensees to determine the most efficient means of receiving and processing such 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: 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: Resolved. The Commission is in the process of reviewing and revising its rules.

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: Commission will seek an appropriate revision of the Administrative Rule to reflect the practice.