STATE OF NEW HAMPSHIRE
LIQUOR COMMISSION

MANAGEMENT LETTER
FOR THE FISCAL YEAR ENDED JUNE 30, 2024

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To The Fiscal Committee Of The General Court:

We have audited the financial statements of the New Hampshire Liquor Commission as of and for the fiscal year ended June 30, 2024 and have issued our report thereon dated March 14, 2025.

This management letter, a byproduct of the audit of the New Hampshire Liquor Commission for the fiscal year ended June 30, 2024, contains our Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*, and related audit findings. The current status of prior audit findings, beginning on page 29, provides a summary of the status of observations presented in the fiscal year 2023 and fiscal year 2022 New Hampshire Liquor Commission management letters.

The New Hampshire Liquor Commission's fiscal year 2024 Annual Comprehensive Financial Report can be accessed online at: https://gc.nh.gov/lba/auditreports/financialreports.aspx

Office of Legislative Budget Assistant

Office of Legislative Budget Assistant

March 14, 2025

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STATE OF NEW HAMPSHIRE
LIQUOR COMMISSION
2024 MANAGEMENT LETTER

TABLE OF CONTENTS

INFORMATION TECHNOLOGY

ABBREVIATIONS USED

CAM	Common Area Maintenance
Commission	New Hampshire Liquor Commission
DAS	Department of Administrative Services
DoIT	Department of Information Technology
ERP	Enterprise Resource Planning
GASB	Governmental Accounting Standards Board
ISO	International Organization for Standardization
IT	Information Technology
MAPPER	Former front and back office, point-of-sale information system
MLO	My License Online
NextGen	New Enterprise Resource Planning system, including point-of-sale, E-commerce, warehouse, and back office financial systems
NH FIRST	New Hampshire State Government Accounting and Financial Reporting System
NHLC	New Hampshire Liquor Commission
NIST	National Institute of Standards and Technology
SOC	System and Organization Controls
SP	Special Publication

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Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the New Hampshire Liquor Commission which comprise the Statement of Net Position as of June 30, 2024 and the related Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows for the fiscal year then ended, and the related notes to the financial statements, which collectively comprise the New Hampshire Liquor Commission's basic financial statements, and have issued our report thereon dated March 14, 2025.

Report On Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the New Hampshire Liquor Commission's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the New Hampshire Liquor Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the New Hampshire Liquor Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in Observations No. 1 and No. 2 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Observations No. 3 through No. 13 to be significant deficiencies.

Report On Compliance And Other Matters

As part of obtaining reasonable assurance about whether the New Hampshire Liquor Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

New Hampshire Liquor Commission's Responses To Findings

Government Auditing Standards requires the auditor to perform limited procedures on the New Hampshire Liquor Commission's response to the findings identified in our audit and described in the accompanying observations. The New Hampshire Liquor Commission's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose Of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the New Hampshire Liquor Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the New Hampshire Liquor Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Office of Legislative Budget Assistant

Office of Legislative Budget Assistant

March 14, 2025

RECOMMENDATION SUMMARY

Observation Number	Page	Legislative Action May Be Required	Recommendations	Agency Response
1	6	No	Expand understanding of the NextGen system. Create a data dictionary for NextGen. Develop and document policies and procedures, and institute controls over transaction processes.	Concur
2	8	No	Establish and document a formal risk assessment process for identifying, analyzing, and responding to risks, especially risks related to the implementation of the NextGen system. Regularly review financial and operational activities for indicators of risk exposure and establish and monitor controls to address those risks.	Concur
3	10	No	Implement an effective reconciliation of NextGen accounts to NH FIRST. The reconciliation should be completed timely by an employee independent of the recording process, be comprehensive and include investigation and resolution of significant discrepancies, and be reviewed and approved by management. Communicate difficulties in performing reconciliations to the Department of Administrative Services and seek their guidance.	Concur
4	11	No	Strengthen the daily cash receipt control process by establishing policies and procedures, and maintaining documentation to provide evidence of the daily reconciliation of cash receipts and recorded revenues to the bank deposits. Investigate discrepancies and make corrections timely.	Concur
5	12	No	Maintain detailed subsidiary ledgers to support accounts receivable and payable balances. Periodically reconcile the ledgers to the NH FIRST general ledger	Concur

Observation Number	Page	Legislative Action May Be Required	Recommendations	Agency Response
			account balances to ensure accurate financial reporting.	
6	13	No	Develop policies and procedures for determining whether a system and organization controls (SOC) report is needed from service providers. Include a provision requiring a SOC report in future service contracts, and amend existing contracts, if needed.	Do Not Concur
7	16	No	Develop an internal audit function, supported by a charter, that is designed to help improve financial accounting, reporting, and compliance activities. The internal auditor should not be responsible for performing operational activities. The internal audit function should include a systematic, disciplined approach towards assessing, identifying, and reporting on issues and it should make recommendations to address noted problem areas.	Concur
8	18	No	Establish an effective review process to properly account for and report leases in accordance with GASB Statement No. 87. Common area maintenance costs and other non-component costs should be expensed and excluded from the lease liability and lease asset calculation.	Concur
9	19	No	Develop policies and procedures for estimating breakage for gift cards sold that were never redeemed. Report and distribute to the State Treasury's Abandoned Property Division gift card balances exceeding $250 that are more than five years old, in accordance with RSA 471-C.	Concur
10	21	No	Develop a comprehensive Information Technology (IT) risk assessment. Develop a disaster recovery plan to address backup and recovery procedures in case of an IT interruption and ensure the business continuity plan is periodically reviewed and kept current.	Concur

Observation Number	Page	Legislative Action May Be Required	Recommendations	Agency Response
			Review security controls and develop a security management plan for the NextGen system. Develop an incident response plan for the NextGen system.	
11	23	No	Develop baseline configurations for the NextGen system and ensure each new baseline is reviewed and approved by management before being placed into production. Address the risk of delaying implementation of a workflow process in the NextGen system. Establish workflow as soon as possible to ensure a proper segregation of duties in transaction processing functions.	Concur
12	25	No	Eliminate excess user accounts with system administrator privileges and regularly audit a list of users classified as system administrators. Ensure system administrator accounts are used only for duties that require escalated privileges.	Concur
13	27	No	Establish a proper segregation of duties between the development and production environments in the NextGen system. Revoke developer access to the production environment. Responsibility for promoting new or revised programming should be performed by someone who has no access to the development environment.	Concur

INTERNAL CONTROL COMMENTS

MATERIAL WEAKNESSES

Observation No. 1

System Of Internal Controls Over NextGen Must Be Strengthened

The Liquor Commission did not effectively execute the implementation of a new computer system – the NextGen system – that replaced its legacy MAPPER system and integrated its point-of-sale, supply chain management, and financial activities.

When the NextGen system went live on March 29, 2024, internal controls over the system had not been fully designed, developed, documented, or understood, which contributed to the material weaknesses and many significant deficiencies identified in this report. The processes expected to be performed by the system, including the design of internal controls and the production and availability of effective management reports and data, were not adequately planned nor tested prior to being placed into operation.

The Commission generates $766 million in annual sales, manages 65 stores, and maintains $77 million in product inventory. The Commission lacked a fundamental understanding of transaction processing and report writing when the NextGen system was implemented. As a result, the Commission was unable to reconcile certain balances and transactions recorded in NextGen to NH FIRST, the State's book of record used to support the Commission's financial statements. In addition to the issues raised in the Information Technology section of this report, we identified the following deficiencies during the audit that collectively represent a material weakness in the Commission's system of internal controls over the NextGen system:

- No data dictionary was developed to map out data and describe the information available to users of the system.
- Key sales, purchasing, accounts payable, and accounts receivable controls were not fully developed or operational.
- Phantom purchasing transactions totaling approximately $31 million were automatically posted from NextGen to NH FIRST during the last quarter of the fiscal year. This continued into fiscal year 2025 and the Commission was unable to determine the cause.
- Multiple unreliable reports and data sets were provided to the auditors, resulting in delays and additional audit costs. The Commission did not have an efficient and effective method for extracting data from NextGen or producing useful management reports. Reliable system data and reporting are essential for the following critical functions:
    - monitoring financial accounting and reporting activities,
    - periodically reconciling Commission records to State records,
    - reporting to decision-makers, and
    - auditing purposes.
- The Commission was unable to perform timely and useful reconciliations between NextGen and NH FIRST in accordance with an agreement entered into with the State's Department of Administrative Services, as described in Observation No. 3.

The Commission had difficulty providing answers to auditor questions regarding the system functionality and transaction processing due to a lack of sufficient documentation and system knowledge. Auditable financial statements could not be produced by the Commission for fiscal year 2024 until late October 2024 and transactional data could not be produced until November 2024 for audit purposes. Because the system was new and adjustments were frequently made to transactions processed during the audit period, there was an increased risk of material misstatements in the Commission's financial statements.

Recommendation:

We recommend the Liquor Commission:

- **expand its understanding of the NextGen system, including knowledge of how the system processes transactions, where the transactions reside, and how management reports and data can be obtained timely;**
- **create a data dictionary for NextGen system data to describe the data elements, fields, and tables, including the associations between tables to help users better understand system information;**
- **develop and document policies and procedures, and institute key controls for all transaction processes to protect against threats, vulnerabilities, and operational failures;**
- **investigate the cause of the NextGen system's automatic posting of phantom transactions to NH FIRST and take immediate steps to resolve the posting issue; and**
- **reconcile NextGen system accounts to NH FIRST on a monthly basis to ensure all transactions in both systems are properly recorded.**

Auditee Response:

We concur.

Since the NextGen system went live on March 29, 2024, Commission employees and management have continued to strengthen their understanding of the NextGen system in the areas of how transactions process, where transactions reside, and how management reports and data can be accessed. To demonstrate this and further build on and expand knowledge throughout the Commission, a concerted effort is being made in documenting policies and procedures and instituting key controls for all transaction processes to protect against threats, vulnerabilities, and operational failures. We do want to recognize that while this is in process, it takes time and resources.

In addition to process documentation, the Commission will develop a data dictionary for key NextGen system data to help users better understand system information.

Material Weaknesses ———————————————————————————

The phantom transactions in NH FIRST are related to our Bailment Purchases Orders for purchasing wine and liquor. The transactions were identified and brought forward by the NHLC. While the transactions appeared limited as to the number and amount, the process is being monitored as a definitive cause is yet to be identified.

The process for reconciling NextGen system accounts to NH FIRST on a monthly basis is being built. Reconciliation of NH FIRST accounts was performed on a regular, routine basis before Go Live. The complete change created by Go Live has created operational demands and the related demand for shared resources. Reconciliation between D365 NextGen and NH FIRST did take place for the year-end June 30, 2024 date and will be performed again. A regular, routine reconciliation will be reinstituted beyond a year-end date as resources allow.

Also see our response to Observation No. 3.

Observation No. 2

Risk Assessment Process Should Be Performed

The Liquor Commission does not have a formal risk assessment process in place for its financial accounting and information technology functions.

According to the Commission, a formal risk assessment was not performed during fiscal year 2024. A formalized risk assessment process may have assisted the Commission in detecting and responding to many of the weaknesses and risks noted in this report.

Management's assessment of and response to risks facing an organization is an integral component of an effective system of internal control. A risk assessment includes a process for formally identifying, analyzing, and responding to risks that could prevent an organization from achieving its objectives, including risks of errors or fraud, or other issues such as the risks related to implementing a new enterprise resource planning (ERP) system, like the NextGen system.

A prerequisite to an effective risk assessment is the establishment of objectives, and the identification of risks that may put the achievement of those objectives in jeopardy. A well-documented risk assessment process is the core element of management's planning activities and is an ongoing process. A risk assessment is crucial before implementing a new ERP system because it identifies potential vulnerabilities and threats, allowing for proactive mitigation measures and improved system security. Due to changes in processes, information technology, and the Commission's environment, risks may also change over time, and the controls intended to mitigate those risks may become inefficient and ineffective. Without ongoing risk assessment processes, the identification and response to risk often occurs in a reactive mode.

Similar comments were reported in the Liquor Commission's Management Letters for 2020 and 2022.

Recommendation:

We recommend the Liquor Commission:

- **establish and document a formal risk assessment process for identifying, analyzing, and responding to risks, especially risks related to the implementation of the NextGen system that could affect its ability to achieve its financial accounting and information technology objectives; and**

- **regularly review financial and operational activities for indicators of risk exposure and establish and monitor controls to address those risks. A periodic, documented review of the risk assessment by management should be incorporated into the process.**

Auditee Response:

We concur.

Although a formal risk assessment was not performed during fiscal year 2024, in November 2024, the Commission issued a Liquor Commission Risk Assessment Policy, establishing the requirement that a formal risk assessment be conducted on an annual basis. In addition to this Commission Policy, a supplemental Risk Assessment Standard Operating Procedure was issued to establish the risk assessment procedure, consistent with industry standards. In January 2025, the Commission kicked off a formal Commission-wide Risk Assessment that included all three divisions, with divisions further broken down into 11 business units. In May 2025, a formal Risk Assessment Report for fiscal year 2025 was issued.

Observation No. 3

Monthly Reconciliation Between NextGen And NH FIRST Accounts Should Be Performed

The Liquor Commission did not perform monthly reconciliations of its NextGen system accounts to the corresponding NH FIRST State accounting system general ledger accounts for the months of April and May 2024, resulting in increased risk that errors or fraud may not be timely detected and corrected.

On January 16, 2024, the Commission entered into an agreement with the State's Department of Administrative Services (DAS) to perform a reconciliation between their NextGen system accounts and NH FIRST general ledger accounts at least monthly to ensure all financial data is properly recorded in both systems.

The Commission implemented its NextGen cloud-based enterprise resource planning system on March 29, 2024, to support its finance, retail, trade and logistics, and warehousing operations. The system's general ledger accounts were designed to mirror those used by the Commission in NH FIRST, the State's system of record, to support the Commission's financial statements. Some financial transactions, such as sales, receivables, and cost of sales transactions, are initiated in NextGen while others, such as payroll transactions, are initiated in NH FIRST.

The Commission attempted to perform the agreed-upon monthly reconciliations but was unable to complete them due to a lack of understanding of transactional processes, unexplained variances, and time constraints. The only reconciliation completed by the Commission during the last quarter of the fiscal year was for the month of June 2024.

Recommendation:

We recommend the Liquor Commission implement an effective process for reconciling its NextGen system accounts to NH FIRST. The reconciliations should:

- **be completed timely by an employee independent of the recording processes in both systems;**
- **be comprehensive and include investigations into significant discrepancies, causes for the discrepancies, and corrective actions necessary to resolve such discrepancies from future occurrences; and**
- **include a management review and approval of the reconciliations to ensure they were completed timely, accurately, and all significant variances were appropriately investigated and resolved.**

The Commission should communicate difficulties encountered in performing the reconciliations to DAS and seek their guidance on how to best resolve noted issues.

Auditee Response:

We concur.

The size and complexity of the NextGen integration created a drain on resources to be able to completely replicate prior processes immediately. Procedures are being developed to institute reconciliation processes as existed with the previous system including timely completion, discrepancy investigation, and management review.

Observation No. 4

Daily Cash Receipt Control Process Should Be Strengthened

The daily cash receipt control process implemented by the Liquor Commission for the NextGen system was not effectively designed, as the control did not include evidence of the daily reconciliation of cash receipts to bank deposits.

The Commission did not develop policies and procedures to effectively account for its daily cash receipts using the NextGen system. The Commission receives payments daily from the sale of liquor products, beer tax, licenses, permits, lottery sales, administrative fines, and other miscellaneous revenues. The new daily cash receipt procedures were not supported by policies describing the following:

- recording of revenues in the NextGen system;
- performing bank deposits at headquarters, retail stores, or the bank via the credit card processor; and
- reconciling cash receipts recorded in the NextGen system to bank deposits daily.

Verifying daily cash receipts to recorded revenues and corresponding bank deposits, and documenting those reconciliation procedures, is crucial for maintaining accurate financial records and preventing or detecting potential errors and fraud. These control activities ensure all receipts are properly accounted for, establish an essential audit trail, and help to facilitate accurate financial reporting.

Recommendation:

We recommend the Liquor Commission strengthen its daily cash receipt control process by establishing policies and procedures, and maintaining documentation to provide evidence for its daily reconciliation of cash receipts and recorded revenues to the corresponding bank deposits. Discrepancies should be investigated in a timely manner to identify the cause and ensure corrections are made timely.

Auditee Response:

We concur.

Significant Deficiencies

The third-party cash reconciliation software solution provided with NextGen did not work at Go Live and the NHLC (New Hampshire Liquor Commission) had to spend significant time building an in-house process to replace the planned system process. The new solution has been implemented with policies and procedures being written to reflect the alternate process.

Observation No. 5

Support For Accounts Receivable And Payable Balances Should Be Maintained And Balances Should Be Periodically Reconciled

The Liquor Commission does not maintain subsidiary ledgers, or other detailed support, for its Division of Enforcement and Licensing (Division) receivable accounts in the NextGen system or periodically reconcile accounts receivable and payable balances recorded in the system to the corresponding account balances in NH FIRST.

We noted the following errors during our review of the Commission's accounts receivable and payable balances:

- The Division's beer tax receivable totaling $1.3 million at June 30, 2023 remained unchanged at June 30, 2024. The receivable balance was not updated to reflect changes in account activity occurring during fiscal year 2024 and the balance was not supported by a list of licensees that owed beer taxes to the Commission at June 30, 2024. Auditors determined the June 30, 2024 receivable balance in NH FIRST was overstated by $200,000.

- The June 30, 2024 accounts payable balance in NH FIRST included six duplicate invoices totaling $1.5 million, resulting in an overstatement to the accounts payable balance.

Timely and accurate information supporting an entity's financial statements, and a strong system of internal controls, requires that customer ledgers, or other detailed subsidiary ledgers, be maintained and reconciled to total balances reported at year end. Subsidiary ledgers are helpful for locating errors in individual accounts and providing a clear and organized way to monitor transactions and manage accounts, thereby enhancing the accuracy of the financial reporting process.

Recommendation:

We recommend the Liquor Commission:

- **maintain subsidiary ledgers, or other detailed support, for its Division of Enforcement and Licensing accounts receivables in the NextGen system; and**

- **periodically reconcile accounts receivable and payable balances recorded in the NextGen system to the corresponding account balances in NH FIRST to ensure accurate financial reporting.**

Auditee Response:

We concur.

The primary software utilized by the Division of Enforcement does not integrate into the NextGen system, nor did it integrate into the prior system. The lack of integration is a limitation with the third-party licensing software, MLO (My License Online), provided to the NHLC through the State of New Hampshire contract. The NHLC is in the process of finalizing a contract to replace the current licensing system.

Accounts receivable and accounts payable sections have established a process for performing monthly reconciliations starting with FY 2026 transactions. The six invoices mentioned were included on two reconciliations. The monthly reconciliation process will include a review for duplicate accruals.

Observation No. 6

Policies And Procedures Should Be Established For Determining Need For System And Organization Controls Reports

The Liquor Commission lacked policies and procedures for determining whether a system and organization controls (SOC) report is needed from its service providers.

A SOC report is an assessment performed by an independent Certified Public Accounting (CPA) firm of a service provider's internal controls and assertions. It can provide user entities, such as the Commission, with important information about the design and operating effectiveness of a service organization's internal controls over their IT systems and data, such as controls over financial reporting (SOC 1) or controls unrelated to financial reporting like controls over the security, availability, processing integrity, confidentiality, and privacy of customer data (SOC 2). Both SOC 1 and SOC 2 each have Type 1 and Type 2 report options. Type 1 addresses control design at a point in time, while Type 2 addresses control effectiveness over a period of time.

The Commission uses many third-party service organizations for its retail business operations and enforcement activities. Services, which are procured through Commission contracts or statewide contracts, include:

- online ordering system;
- online licensing system;
- maintenance and support of point-of-sale systems;
- cloud-based technology;
- credit card services;
- gift card system; and
- warehousing, transportation, and delivery of products.

The Liquor Commission did not perform a review to determine whether a SOC report was necessary to assist the Commission in identifying whether or not risks or control gaps existed at the organizations providing services to the Commission. This type of review is a critical part of assessing business risks and helps to ensure a strong system of internal controls. Additionally, the Commission's service contracts did not include a provision requiring SOC reports to be provided on an annual basis.

Management is responsible for establishing and maintaining a system of internal controls. Effective internal controls are critical for an entity to help ensure operational efficiency, compliance with laws and regulations, accurate financial reporting, the prevention and timely detection of errors and fraud, and the safeguarding of assets. When an entity relies on services provided by an outside organization, management is responsible for understanding how those services are provided, identifying risks or control gaps at the service organization, and implementing the necessary compensating controls to mitigate the risk exposure.

Recommendation:

To reduce risks associated with outsourcing retail business operations and enforcement activities to third-party service providers, we recommend the Liquor Commission develop policies and procedures for determining whether a SOC report is needed from current and prospective service providers. If the need for a SOC report is present, the Liquor Commission should include a provision requiring a SOC report in all new service contracts.

For services used by the Liquor Commission that are procured through the State's Department of Administrative Services (DAS) via statewide contracts, if the need for a SOC report is present, the Commission should work with DAS to ensure future contracts include a provision requiring a SOC report.

We also recommend the Liquor Commission consider amending existing contracts to include a SOC report requirement, if appropriate.

Liquor Commission Response:

We do not concur.

The Statewide Risk Management for Commercial Software Procurements: Software as a Service (SaaS), Infrastructure as a Service (IaaS), and Platform as a Service (PaaS) Policy, published by DoIT, outlines all roles, responsibilities, and steps needed to gauge a vendor's security compliance. The procedure follows the applicable NIST 800-53 control families. None of these policies, procedures, or practices require a SOC 1 or SOC 2 report.

NHLC recognizes the need to have a vendor management process that identifies and mitigates risk. We do not agree that policies and procedures are needed for determining whether a SOC report is needed from prospective service providers.

There are a variety of industry accepted approaches and certifications for assessing a service provider's security compliance standing, and SOC compliance is only one of them. Other methods include, but are not limited to, FedRAMP, StateRAMP, FISMA, ISO 27001, and IT Questionnaires.

Furthermore, the DoIT RFP template was recently amended to include language that supports a SOC report is a preference, not a requirement. The RFP template states:

"It is preferred the service provider's relevant Data Center(s) are certified to the Federal Information Security Management Act (FISMA) level 3 ATO4 and/or Federal Risk and Authorization Management Program (FedRAMP) CSP5, and have independent annual SOC 2 Type 2 audits performed."

The expectation is that all RFP proposals will be evaluated on this criterion but not be eliminated if a bidding organization is not compliant.

It is also important to note that several of the contracts referenced are Statewide contracts, such as the online licensing system, cloud-based technology, credit card services, and gift card system. These Statewide contracts are managed by DAS, not NHLC. NHLC has no control over the contract requirements set for these vendors.

Requiring annual SOC reports from service providers will ultimately add additional cost to the State for no benefit that NHLC or DoIT can perceive. Regarding the NHLC contracts referenced, many of these service providers have told NHLC they do not take part in providing annual SOC reports due to the time and expense incurred in doing so. As an agency we are striving to be as fiscally responsible as possible, especially in a time when budget constraints are impacting many agencies. Contract amendments to require annual SOC reports will very likely require a pricing adjustment in conjunction, resulting in an increase in contract costs to the State.

Additionally, regarding the recommendation to amend existing contracts to require an annual SOC report, contracts cannot be changed unilaterally after they are complete and in place.

NHLC is aware of and will continue to uphold our responsibility for establishing and maintaining a system of internal controls for our service providers.

Department of Administrative Services Response:

The Department of Administrative Services concurs. The Department will work with the Commission to identify relevant statewide contracts and the potential need to include a provision requiring a SOC report in future contracts.

LBA Rejoinder: The audit recommendation does not suggest the Liquor Commission obtain a SOC report from all of its vendors. Rather, it recommends the Commission perform a review to determine if SOC reports should be obtained from current and prospective third-party service providers to reduce risks associated with outsourcing business operations and enforcement activities.

While we agree that SOC compliance for service vendors is not required by State policy, it should be noted the State has taken steps to prioritize security, confidentiality, and privacy of customer data by including consideration of SOC reports in its Requests for Proposal (RFP) for numerous statewide IT systems and services projects conducted in coordination with the State's Department of Information Technology. Certain statewide RFPs seeking procurement of IT services state, "[I]t is preferred the service provider's relevant Data Center(s) are certified to the Federal Information Security Management Act (FISMA) level 3 ATO4 and/or Federal Risk and Authorization Management Program (FedRAMP) CSP5 and have independent annual SOC 2 Type 2 audits performed".

Some State agencies have also voluntarily taken steps to require SOC reports be provided on an annual basis as a condition of doing business with a vendor. Agencies who are actively involved in managing financial reporting risks, as well as prioritizing the protection of customer data, are more likely to do business with a vendor who is willing to substantiate their claims of accuracy and completeness (SOC 1), and data security (SOC 2) by providing an annual SOC report.

Given the significance of liquor sales revenue to the State and the increasing complexity of the Commission's financial operations due to the implementation of the new NextGen system, we urge the Commission to determine the costs and benefits of ruling out the need for SOC report reviews as an appropriate risk mitigation option.

The Liquor Commission is not prevented from amending existing contract provisions if there is compliance with legal requirements, documentation of the changes, and mutual consent.

Observation No. 7

Internal Audit Function And Charter Should Be Developed

An internal audit function and charter has not been developed at the Liquor Commission to effectively monitor controls, identify risks, and ensure that management's objectives are being carried out.

The Commission has, within its Division of Administration, an inventory control unit – often referred to as internal audit – responsible for monitoring inventory controls and performing reviews of retail stores for compliance with cash receipt policies and procedures. The procedures performed by the inventory control unit are limited and are not considered to be internal audit responsibilities in the traditional sense.

An internal audit charter is a formal document defining the internal audit function's purpose, authority, and responsibilities within an organization. The charter is key for establishing the internal audit function's mandate, independence, and objectivity in performing its duties; and it should outline the internal audit function's commitment to standards, scope of services, and reporting relationships.

Internal auditors are generally not limited in their access to organization records, personnel, and their scope of work. Internal audit responsibilities may include, but are not limited to, the following:

- *Internal Control*: Assessing the adequacy and effectiveness of internal controls.
- *Risk Management*: Ensuring risk management processes are routinely performed and are effective, and significant risks are identified and managed.
- *Financial and Operational Information*: Ensuring financial and operational information is available, accurate, reliable, and timely.
- *Compliance*: Ensuring employees are aware of and compliant with the laws, rules, policies, and procedures affecting their work.
- *Ethics and Values*: Promoting ethics and values within the organization and ensuring the control environment promotes the same.
- *Fraud Prevention and Detection*: Conducting fraud risk assessments, and monitoring for unusual patterns or transactions, and providing insights for the implementation of anti-fraud tools and training.
- *Safeguarding of Assets*: Ensuring organizational assets are adequately protected.
- *Economical and Efficient Use of Resources*: Evaluating the efficiency and effectiveness of the organization's use of resources.
- *Achievement of Objectives*: Assessing the accomplishments of established objectives and goals for operations and programs.
- *Aiding External Auditors*: Providing liaison services to external auditors.

According to the Institute of Internal Auditors, internal auditing can help an organization "accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." Internal auditors should not be responsible for the execution of an entity's operational activities as independence and objectivity are essential to the work they perform, and they should report to top management. Internal auditors typically issue reports at the end of each audit summarizing their findings, recommendations, and any responses or action plans from management.

The Commission hired a Senior Management Analyst on June 2, 2023, who was intended to serve as the Commission's internal auditor. As of the date of this report, the Senior Management Analyst had not performed any internal audit responsibilities for the Commission due to the reassignment of duties related to the implementation of the new NextGen system.

Similar comments were reported in the Liquor Commission's Management Letters for 2019 and 2022. Several findings in this Management Letter may have been identified and resolved if the Commission's internal audit function had been developed.

Recommendation:

We recommend the Liquor Commission develop an internal audit function in accordance with professional standards, that is supported by a charter and designed to help improve the Commission's financial accounting, reporting, and compliance activities.

Significant Deficiencies ——————————————————————

The Commission's internal auditor should not be responsible for performing the Commission's operational activities. The internal audit function should include a systematic, disciplined approach towards assessing, identifying, and reporting on issues and challenges facing the Commission and make recommendations to address noted problem areas.

Auditee Response:

We concur.

An internal audit charter will help support our internal audit functions by documenting how internal audit operates at the Commission. An internal audit charter document will be created to outline, at a minimum, the internal audit's purpose within the Commission, authority, responsibility, and position within the Commission.

As previously noted in past auditee responses, the Senior Management Analyst hired to serve as the Commission's internal auditor was embedded in the NextGen project to gain an understanding of the systems and procedures of the Commission. They were embedded in the project through the end of fiscal year 2024. Since July 2024, significant progress has been made in several of the internal audit responsibilities noted in this observation.

The Senior Management Analyst reports to top management and is not responsible for performing operational activities. A formal Commission-wide risk assessment has been performed (see auditee response to Observation No. 2 for more details on risk assessment). Through this process, internal controls were documented. These controls can now be assessed for adequacy and effectiveness. Additionally, the Commission is in the final stages of issuing an updated Strategic Plan that will outline Commission objectives, which will then be able to be assessed.

An internal audit framework has been developed, and the first audit was completed in May 2025, with a formal internal audit report issued and delivered to management that makes recommendations.

Additionally, the Senior Management Analyst provided liaison services throughout this fiscal year 2024 audit as it pertained to IT audit requests.

Observation No. 8

Accounting And Reporting Of Leases Should Be Improved

The Liquor Commission does not have an effective review process to ensure the lease liability and related lease assets included in its financial statements and notes are complete, accurate, and reported in accordance with Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and a lease asset at the commencement of the lease term. The lease liability and assets are to be measured at the present value of payments expected to be made during the lease term, excluding common area maintenance (CAM) costs or pro-rata shares of the lessor's real estate taxes or insurance, as these expenses are not typically financed when purchasing an asset and, instead, are expensed by the lessee as incurred.

The Commission maintains a spreadsheet for each of its 40 building leases that computes each lease liability and related lease asset. The Commission improperly included CAM and other non-component costs in their calculation of the lease liability and lease assets for 11 of the 40 leases (28 percent) included in its financial statements and notes. The information in each spreadsheet was not effectively reviewed by the Commission to ensure only the appropriate cost components were included in the calculations of the lease liability and lease assets.

The Commission's lack of effective review resulted in overstatements of the lease liability, lease asset, and accumulated amortization totaling $2.8 million, $4.7 million, and $2 million, respectively. The Commission reported it did not correct the errors in its fiscal year 2024 financial statements and notes due to time constraints.

Recommendation:

We recommend the Liquor Commission establish an effective review process to properly account for and report leases in its financial statements and notes in accordance with GASB Statement No. 87. Common area maintenance costs and other non-component costs, such as the landlord's real estate taxes and insurance, should be expensed and excluded from the calculation of the lease liability and lease assets.

Auditee Response:

We concur.

The lease process is being reviewed to determine what changes need to be made to accommodate for the new accounting pronouncements. This is especially true regarding older leases dating back 15 years or more. The lease process is being revamped and will include capital lease requirements separating additional rent from common area and other reimbursable costs.

Observation No. 9

Policies And Procedures Should Be Established For Gift Card Breakage

The Liquor Commission does not have policies and procedures in place for estimating gift card breakage and reporting unused gift cards exceeding a certain threshold to the State Treasury's Abandoned Property Division, as required by statute.

Breakage refers to the portion of gift cards sold that are never redeemed, often because the cards are lost or forgotten. When purchased, gift cards are recorded by the Commission as a liability and, when redeemed, the gift cards are recognized as revenues. If a reduction is not made for the estimated breakage, the liability is overstated and revenue is understated in an organization's financial statements.

RSA 471-C:16 establishes a threshold of $250 or less whereby gift certificates and store credits, also known as intangible property, shall not be property presumed abandoned and shall not be subject to the provisions of the State Treasury's unclaimed and abandoned property program outlined in RSA 471-C. Intangible property of more than $250 that has remained unclaimed by the owner for more than five years after it became payable or distributable is presumed abandoned pursuant to RSA 471-C:2, and should be paid or distributed to the State Treasury's Abandoned Property Division.

During fiscal year 2024, the Commission issued approximately $35.7 million in gift cards and, as of June 30, 2024, the Commission's gift card system reported a balance of $2.7 million for unused gift cards.

On June 30, 2024, the Commission reported the balance of gift cards outstanding for more than five years was $677,000 and those outstanding for more than five years with a balance of more than $250 each (requiring distribution to the State Treasury's Abandoned Property Division) was $19,751.

Recommendation:

We recommend the Liquor Commission:

- **develop policies and procedures for estimating breakage for gift cards sold that were never redeemed, and**
- **report and distribute to the State Treasury's Abandoned Property Division gift card balances exceeding $250 that are more than five years old, in accordance with RSA 471-C.**

Auditee Response:

We concur.

The Commission will establish procedures for handling gift card breakage and are in the process of analyzing the current gift card liability to determine the cards that should be distributed to the State Treasury's Abandoned Property. Policies and procedures that comply with New Hampshire Abandoned Property laws are being developed for tracking unredeemed gift cards.

INFORMATION TECHNOLOGY

Observation No. 10

NextGen System Foundational Documents Should Be Developed

NextGen is the name given to the Microsoft Dynamics 365 cloud-based enterprise resource planning system used by the Commission to support its finance, retail, trade and logistics, and warehousing needs. The system was designed to mirror the NH FIRST account structure. Although the NextGen system went live on March 29, 2024, the Commission lacked several foundational documents that are necessary to efficiently and effectively support operations and minimize risks of disruption in operations, including:

- Information technology (IT) risk assessment (as reported in Observation No. 2);
- Disaster recovery and business continuity of operations plans;
- Security management plan; and
- Incident response plan.

Risk Assessment
A formal risk assessment identifies and evaluates risks facing an organization as it seeks to achieve its objectives. Although the Commission provided evidence of high-level risks identified for the Dynamics 365 project in its Executive Steering Committee reports, those risks fell short of a comprehensive risk inventory for the information system itself. For example, the Executive Steering Committee report dated January 20, 2022 identified "[c]oncerns around system security" as a risk and listed the following as a "Description & Mitigation Strategy":

"Further discussions and planning needed to determine how best to address concerns within the constraints of the [vendor] contract or through a third-party audit."

The report does not articulate in detail what specific risks were identified, prioritize risks as compared to other risks, or specify what controls should be implemented to mitigate the risks[1].

A risk assessment provides the basis for developing *appropriate risk responses such as the selection of appropriate controls in an information system.* [emphasis added] An IT risk assessment evaluates the threats and vulnerabilities to an organization's information technology including unauthorized access, use, disclosure, disruption, modification, or destruction of an information system; the information it processes, stores, or transmits; or any related information. A risk assessment is recommended by the National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 5, and required by the DoIT's *Risk Assessment and Practices Policy*. According to section 3 of the DoIT's policy, the purpose of risk assessments for major systems is to:

[1] We would not expect to see specific security risks or controls in a public document. However, it does not appear there is an underlying risk assessment documenting such risks or controls.

"...*identify, quantify, and prioritize risks* against operational and control objectives and to design, implement, and exercise controls that provide reasonable assurance that security objectives will be met, and that risk will be mitigated and managed to an acceptable level." [emphasis added]

A risk assessment is also necessary to form effective disaster recovery and business continuity plans.

In developing NextGen, the Liquor Commission took on a complex, multi-year project with innovative technology. The project involved several different vendors over time. It appears the focus was on making the system operational and required plans were supplanted in favor of developing the system. This approach increased the risk of successful project outcomes and put ongoing liquor operations in jeopardy. Although user and regression testing occurred prior to going live on March 29, 2024, the Commission took a significant risk that the system would work as anticipated when the system was implemented without these plans in place.

Disaster Recovery And Business Continuity Plans

A disaster recovery plan addresses backup and recovery procedures in case of an IT interruption and a business continuity of operations plan minimizes the impact on operations from business interruptions. The Commission did not have a disaster recovery plan in place during the audit period. Although a business continuity of operations plan was completed by the Commission in September 2024, it was not in place during the audit period.

Security Management Plan

A security management plan is a written document that provides an overview of the security requirements for an information system and describes controls in place or planned for meeting those requirements. NIST SP 800-53, Revision 5 recommends, and the DoIT's *Risk Assessment and Practices Policy* requires, a complete system security plan "prior to production implementation of new major systems and applications or general support systems." A security management plan was not in place during the audit period.

Incident Response Plan

An incident response plan is a written document that provides a coordinated approach to incidents that threaten confidentiality, integrity, or availability of information or an information system. NIST SP 800-53, Revision 5 recommends, and DoIT policies require an incident response plan. The DoIT's *Significant Cybersecurity Incidents Policy* requires all Executive Branch agencies to, "define the approach to significant cybersecurity incidents." An incident response plan was not in place during the audit period.

Recommendation:

We recommend the Liquor Commission:

- **develop a comprehensive IT risk assessment in accordance with the DoIT *Risk Assessment and Practices Policy,***

- **develop a disaster recovery plan to address backup and recovery procedures in case of an information technology interruption and ensure the business continuity plan completed in September 2024 is periodically reviewed and kept current,**

- **review security controls and develop a security management plan for the NextGen system in accordance with the DoIT *Risk Assessment and Practices Policy*, and**

- **develop an incident response plan for the NextGen system in accordance with the DoIT *Significant Cybersecurity Incidents Policy*.**

Auditee Response:

We concur.

Although an IT risk assessment was not performed during fiscal year 2024, the Commission performed a formal Commission-wide risk assessment for fiscal year 2025, which included an IT risk assessment. (See auditee response to Observation 2 for more details on risk assessment).

The Commission will develop a disaster recovery plan to address backup and recovery procedures. This plan will coincide with the Commission's Continuity of Operations Plan, which will remain current with periodic reviews and updates.

The Commission will collaborate with DoIT to document controls and safeguards implemented in the D365 NextGen system in a System Security Plan (SSP), in accordance with the DoIT Risk Assessment Practices Policy.

In accordance with the State of New Hampshire Cyber Incidents Response Plan (CIRP), which replaces the former DoIT Significant Cybersecurity Incidents Policy, the Commission will develop, where needed, agency specific cyber incident response plans and procedures that support the CIRP.

Observation No. 11

NextGen Configuration Baselines Should Be Developed

The Liquor Commission did not establish a formal, documented baseline configuration for its NextGen system.

According to the Department of Information Technology (DoIT):

> A baseline configuration is a group of settings placed on a system before it is approved for production. Established baseline configurations ensure changes to information systems are executed consistently in the production environment. Baseline configurations serve as a basis for future builds, releases, or changes to systems and include Security and Privacy control implementations, operational

procedures, information about system components, network topology, and logical placement of components in the system architecture.

The DoIT *Configuration Management Policy* requires all agencies to "develop, document, maintain, and apply baseline security configurations to ensure information resources introduced into the production environment are configured consistently and meet applicable statutory, regulatory, policy, and contractual compliance requirements for all Agency owned or managed information systems." Baseline configurations are also a recommended practice according to the National Institute of Standards and Technology Special Publication 800-53, Revision 5.

When auditors inquired about a documented baseline configuration and configuration management plan, the Commission noted the process to configure NextGen was done collaboratively between the project super users, the vendor, and Commission leadership. According to the Commission, configurations were set in a test environment and once validated and accepted in user testing, changes were promoted…by the vendor. Configurations were tested in a final end-to-end user acceptance testing process prior to go-live and configurations…were promoted to production once testing results were approved by the Commission. A baseline configuration was not formally documented or formally reviewed to ensure the information resources introduced into the production environment were configured consistently and met applicable requirements.

Additionally, prior to the NextGen system going live on March 29, 2024, the Commission had not developed workflow rules to prevent an employee from independently performing the incompatible duties of initiating, approving, and posting a transaction. Default user roles did not prohibit an employee from initiating, approving, or posting a transaction increasing the risk of errors or fraud in the financial accounting and reporting process. According to Commission management, additional steps, referred to as "workflow", had not been set up prior to the March 29, 2024 go-live date of the new system to prevent a user from performing incompatible duties related to transaction processing. Workflow allows the definition of conditions to be placed on who, when, and under what circumstances a user can initiate, approve, or post a transaction. As of March 14, 2025, the Commission had not yet used workflows in the NextGen system due to other tasks taking higher priority.

Without baseline configurations, management cannot efficiently and effectively approve fundamental software settings to ensure security and privacy controls are in place and cannot ensure changes to the system are consistently applied.

Recommendation:

We recommend the Liquor Commission and the DoIT develop baseline configurations for the NextGen system in accordance with the DoIT *Configuration Management Policy* and ensure each new baseline is reviewed and approved by management before being placed into production.

We also recommend Commission management address the risk of delaying implementation of a workflow process in the NextGen system. Workflow should be established as soon as possible to ensure a proper segregation of duties in transaction processing functions and reduce the opportunity for fraud.

Liquor Commission Response:

We concur.

The Commission will work with DoIT to develop a Baseline Configuration Management plan for the D365 NextGen system.

The Accounts Payable system has had workflow function in place since Go Live of the NextGen system.

The General Ledger workflow process function was established March 26, 2025, to prevent a user from both input and approval of journal entries.

The Accounts Receivable area has not been updated for the workflow process as the posting of payments requires a user to both process and post payments. Accounts receivable operated in this manner before Go Live in the prior system and remained the same process after Go Live with NextGen.

Department of Information Technology (DoIT) Response:

DoIT concurs.

DoIT will work with the Commission to develop a Baseline Configuration Management plan for the D365 NextGen system.

Observation No. 12

Excess NextGen System Administrator Accounts Should Be Deleted

The Liquor Commission did not take steps to restrict and control the allocation and use of privileged user accounts for the NextGen system, contrary to the DoIT's *Information Assets – Access Control Policy (Policy)*. According to the *Policy:*

> A privileged account is generally defined as a System Administrator account. Privileged accounts have more elevated permissions than non-privileged User accounts. Examples of privileged accounts include those that have root access, System Administrator access, and accounts associated with database ownership, and network device management.

Five Commission users with system administrator-level privileges had more than one system administrator account in the NextGen system. One user had three accounts – all with system administrator-level privileges.

A common IT practice for system administrators is to have two user accounts. One account has system administrator-level permissions to be able to access all areas of the application and data when needed, and the other is to perform everyday tasks, such as accessing email, that do not require such unlimited access. Creating separate administrator accounts can reduce the risk of credential theft and other types of attacks. This practice of having two separate accounts also makes it easier for management to review the actions of system administrators and make changes as needed.

The DoIT's *Information Assets – Access Control Policy* states, in part, the following:

- Agencies shall restrict and control the allocation and use of privileged user accounts.
- Privileged accounts shall be limited to the minimum number required for successful management and operation of the agency information systems.
- The allocation of privileged access shall be provided on a "need-to-use" and/or "need-to-know" basis (privileges should correspond to the minimum amount of privilege necessary for an individual User's proper job function/duties/requirements and not necessarily their job title).
- Privileged access shall be used only for duties that require escalated privileges.
- Privileged access shall be audited and continuously logged.

The Commission reported the excess accounts were the result of system development over the course of many years with several vendors and environments. Maintaining extra accounts with unlimited access privileges weakens information system security.

Recommendation:

We recommend the Liquor Commission eliminate excess user accounts with system administrator privileges. We also recommend the Commission regularly audit a list of users classified as system administrators in accordance with the DoIT's *Information Assets – Access Control Policy* and ensure system administrator accounts are used only for duties that require escalated privileges.

Auditee Response:

We concur.

The Commission has performed a thorough review of D365 NextGen system users with administrator level, and role adjustments have been made to limit privileged access to the minimum number required for successful management and operations of the system. System processes are identity driven and the remaining "excessive accounts" will be replaced with service accounts in a phased approach. Additionally, a process will be established for regular review of system administrator accounts to ensure accounts are assigned properly and only being used for duties that require escalated privileges.

Observation No. 13

Revoke Developer Access To NextGen Production Environment

Developers with privileged, system administrator-level permissions in the Liquor Commission's NextGen system had access to production applications and data, contrary to recognized industry standards which require a proper segregation of duties between development and production environments.

The International Organization for Standardization (ISO) 27002 Control 8.31 emphasizes the importance of separating development, test, and production environments to prevent security risks, such as data exposure or unauthorized access. ISO Control 8.31 enables organizations to maintain confidentiality, integrity, and availability of sensitive information assets by segregating developing, testing, and production environments through appropriate procedures, controls, and policies. Failure to properly segregate development, test, and production environments may result in loss of confidentiality, integrity, and availability of information assets.

According to the Commission, developers were granted access to NextGen's production system, including the data to support the system, as needed. These extra permissions allowed developers to make changes to application code and configurations in the live production environment. Without a proper segregation of duties, developers could have unknowingly or maliciously introduced changes to the NextGen system threatening the confidentiality, integrity, and availability of the Commission's information assets.

Recommendation:

We recommend the Liquor Commission establish a proper segregation of duties between the development and production environments in the NextGen system. Developer access to the production environment should be revoked to help prevent security risks, such as data exposure or unauthorized access. Responsibility for promoting new or revised programming should be performed by someone who has no access to the development environment.

Auditee Response:

We concur.

The Commission's process to deploy code to the production environment has a segregation of duties between the developer of the code, the individual doing code review, and the individual promoting the code, in that these are 3 separate individuals. We will review access that developers have to determine if access should be revoked. However, due to the small staff size that the Commission has to support the software, there is a need to have key individuals with access to both.

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CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary of the status, as of March 14, 2025, of the observations contained in the New Hampshire Liquor Commission's Management Letters for the fiscal years ended June 30, 2023 and 2022. Those reports can be accessed at, and printed from, the Office of Legislative Budget Assistant website: https://www.gencourt.state.nh.us/lba/auditreports/financialreports.aspx

2023 Audit Comments
Internal Control Comments

Status

Significant Deficiencies

2023-1 **System Data Should Be Secured From Unauthorized Changes And Data Input** ● ○

Consider and respond to existing risks posed by the lack of sufficient controls over data integrity in the MAPPER legacy information system. Ensure the NextGen system has the appropriate controls in place to ensure data validation, completeness, and accuracy. Ensure appropriate controls are developed for programming changes made to the NextGen system. Timely notify and bill off-premise licensees that received the incorrect discounts. (See current Observation No.1, No 12, and No. 13)

2023-2 **Controls Over Receipt And Inspection Of Goods Should Be Improved** ● ●

Strengthen controls over the receipt and payment of goods by establishing policies and procedures for the key roles of purchasing, receiving, inspecting, and authorizing payments in the expenditure process; ensuring all items received are physically inspected upon receipt and properly accounted for; reviewing payment terms and conditions on all significant contracts; and ensuring all equipment items of $250 or more are properly identified with an identification tag and recorded on the Commission's equipment listing. Additionally, the Commission should perform a thorough physical inventory of equipment annually; and identify, investigate, and resolve differences between the physical count of equipment and the Commission's records.

2023-3 **Establish Formal Policies And Procedures Over Supplier Price Changes And Discounts** ● ●

Establish formal policies and procedures for the request, input, review, and approval of product price changes, and depletion allowances that require a Commission match; review and bring to the Commissioners' attention any product price changes and depletion allowance offers requiring a match that were not formally reviewed and approved; and design formal procedures for the authorization and approval of product price changes and depletion allowance matches that could be incorporated into the NextGen system upon implementation.

Status

2023-4 **Disaster Recovery Plan Should Be Developed And Risk Assessment Finalized** ● ○

Develop a disaster recovery plan, which should be periodically tested, reviewed, and updated, as needed. Continue to establish a formal risk assessment process, supported by written policies and procedures for identifying, monitoring, and responding to risks. (See current Observations No. 2 and No. 10)

2023-5 **Backups Should Be Tested Periodically** ● ●

Coordinate with the Department of Information Technology to adhere to the Statewide Information Security Manual and test backup processes at least annually and document the results.

2022 Audit Comments
Internal Control Comments

Significant Deficiencies

2022-1 **Ongoing Delays To Replace Legacy Computer System Poses Significant Risks** ● ●

Consider and respond to risks posed by reliance on limited retired staff resources with the knowledge to support its legacy system while continued delays and other issues are resolved with implementation of the NextGen system. Seek additional resources to fulfill information technology needs and ensure that the Commission is receiving and acting upon the best available advice in the implementation of the NextGen system. Commission management should ensure individuals with knowledge and experience in the industry are involved at all levels, and appropriate consideration is given to alternatives in the implementation that are the most responsive to the State's and Commission's structure and needs. If it is determined the implementation of the entirety of the Enterprise Resource Planning project is not feasible, the Commission may consider implementing certain segments of the NextGen system.

2022-2 **Formal Risk Assessment Procedures Should Continue To Be Developed** ● ○

Continue to develop formal and documented risk assessment procedures for recognizing, evaluating, and responding to risks that could affect the Commission's 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 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. (See current Observations No. 2 and No. 10)

		Status
2022-3	**Internal Audit Function Should Be Established** *The Commission should 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. (See current Observation No. 7).*	● ○

Compliance Comment

State Compliance

2022-4	**Transfers To The Alcohol Abuse Prevention And Treatment Fund Should Be In Accordance With Statute** *The Commission should comply with RSA 176:16, III in the computation of its transfer to the Alcohol Abuse Prevention and Treatment Fund (AAPTF). If the AAPTF needs funding at the beginning of the fiscal year, 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.*	● ●

Status Key	**Status**	**Count**
Resolved	● ●	5
Remediation In Process (Action beyond meeting and discussion)	● ○	4
Unresolved	○ ○	0

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