LBA Financial Audit Report Summary:

Liquor Commission Audit Report for the Fiscal Year Ended June 30, 1998

The governing statutes of the New Hampshire Liquor Commission (the Commission) are codified in RSAs 175 through 180 and cover the establishment of the Commission, liquor store operations, liquor licenses and fees, beverage distributor contracts, and enforcement. The three member Commission is appointed by the Governor with the consent of the council. Commissioners are appointed to six-year terms, with no more than two commissioners belonging to the same political party. Pursuant to RSA 176:3, the Commission's primary duties are to optimize profitability, maintain proper controls, assume responsibility for effective and efficient operations, and provide service to customers.

The Commission is organized into three bureaus; Enforcement and Licensing, Marketing and Sales, and Administrative Services. The heads of each bureau report to the Commission. The Commission employs 311 full-time classified employees and 450 part-time employees throughout its Concord headquarters, warehouse, and 73 retail stores.

The majority of the Commission's revenue is generated by the sale of spirits and wine through its 73 retail stores and direct sale of products to licensees. Gross operating revenue, from all sources, was approximately $255.6 million in fiscal year 1998. This represents an increase of $14.5 million from fiscal year 1997. The increase is primarily due to a growth in wine sales which increased by from $95 million to $107 million (11% increase) as opposed to the 2% increase in spirit sales.

In addition to liquor sales, the Commission collects license fees for the manufacturing, sale, transportation, or warehousing of alcoholic beverages. License and investigation fees were approximately $2.8 million for fiscal year 1998. The Commission collects a tax on beer sold by wholesale distributors and beverage manufacturers. Total beer taxes collected equaled approximately $11.4 million for fiscal year 1998. Net income generated by the Commission is remitted to the State's General Fund. For fiscal year 1998, the Commission's net income equaled $66.8 million.

We audited the Commission for the fiscal year ended June 30, 1998 and rendered our opinion on its financial statements which was qualified for year 2000 disclosures. Our report also contained the auditor's report on compliance and on internal control over financial reporting and an auditor's report on management issues. The report contains eight observations, of which two relate to internal control issues, two relate to compliance issues and four involve management issues.

The first internal control issue dealt with the Commission's lack of fixed asset capitalization and depreciation policies and procedures. We also noted that the Commission was not retaining adequate documentation for its depository bank accounts, monitoring the stores withholding of funds from daily deposits, and improper reconciliation of credit card accounts.

The state compliance issues dealt with preferential treatment of local liquor manufacturer and noncompliance with certain state statutes.

The management issues dealt with the lack of completion of the reorganization of the financial management section of the Commission which led to various inefficiencies in the financial management operations and contributed to other observations noted in the report. We also noted that the Commission was not reconciling its Liquor Fund financial statements to those of the Department of Administrative Services and as a result there was an unexplained $2.2 million variance between the Liquor Fund balances reported by both agencies. The Commission has yet to fully learn and utilize the capabilities of its general ledger software system, purchased in 1995, which has led to inefficiencies in the preparation of monthly financial statements. Our last management issue comment dealt with the Commission's year 2000 readiness and its lack of contingency plan development.