

**STATE OF NEW HAMPSHIRE  
INTERNAL CONTROL REVIEW**

**ESTABLISHMENT AND MAINTENANCE  
OF VENDOR ACCOUNTS  
SEPTEMBER 2023**





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### *To The Fiscal Committee Of The General Court:*

This report presents the results of our assessment of the internal controls in place over the State of New Hampshire's (State) process to establish and maintain vendor accounts during the nine months ended March 31, 2022.

We conducted our work in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The purpose of this audit was to determine whether the controls in place for establishing and maintaining State vendor accounts were properly designed, implemented, and operating effectively.

The Department of Administrative Services, State Treasury, and the Administrative Office of the Courts provided auditee responses which are included with each finding in this report. We did not audit the responses provided by these State agencies.

*Office of Legislative Budget Assistant*

Office Of Legislative Budget Assistant

September 2023

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INTERNAL CONTROL REVIEW  
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\* Comment suggests legislative action may be required.

**ABBREVIATIONS USED**

ACH	Automated Clearing House
DCA	Data Control Administration
Department	Department of Administrative Services
DHHS	Department of Health and Human Services
DPSS	Division of Procurement and Support Services
G&C	Governor & Council
IRS	Internal Revenue Service
JMS	Juror Management System
MOP	Manual of Procedures
NHFirst	New Hampshire State Government Accounting and Financial Reporting System
TIN	Tax Identification Number
Treasury	New Hampshire State Treasury

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**EXECUTIVE SUMMARY**

The State's internal controls were ineffectually designed, implemented, and operated to provide reasonable assurance the control objectives for the establishment and maintenance of vendor accounts would be achieved.

During the audit, we found:

- The State lacks an online self-service vendor portal. The current manual process for onboarding and updating vendor data relies mainly on data entry performed by State personnel and is inefficient and prone to errors.
- The Department does not have a formal risk assessment process to identify, analyze, and respond to risks.
- Policies and procedures were not sufficiently developed to allow succinct communication for properly establishing and maintaining vendor accounts statewide. Policies and procedures did not effectively address the following:
  - the identification and assignment of vendors to the proper vendor class and income code when new accounts are created;
  - guidance and training to State agency personnel;
  - required documentation necessary to create and activate a vendor account for each vendor type and class;
  - maintenance, retention, and security over source documents; and
  - when to inactivate vendor accounts.
- The lack of a review and approval control procedure for establishing new, and changing existing, vendor accounts resulted in:
  - errors in vendor information (i.e., vendor name, address, email address);
  - incorrectly categorized vendors by class;
  - duplicate vendor accounts;
  - missing information; and
  - incorrect reporting of vendor income to vendors and the Internal Revenue Service.
- The State was not in compliance with certain federal laws, State statutes, administrative rules, and the Department's Manual of Procedures.
- System access was not effectively segregated.

As noted in the observations contained in this report, significant weaknesses existed in all the generally accepted components of internal control including control environment, risk assessment, control activities, information and communication, and monitoring. As a result, the State could not

be certain that intended controls were in place, consistently operating, and relevant to the risks associated with the establishment and maintenance of vendor accounts. While certain issues noted during the audit impacted the data integrity of the State's vendor Master File, we did not find any instances of fraud during the nine months ended March 31, 2022.

**STATE OF NEW HAMPSHIRE**  
**INTERNAL CONTROL REVIEW**  
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**BACKGROUND**

The Department of Administrative Services (Department) has primary responsibility for the administration and management of establishing and maintaining vendor accounts in the State's NHFirst vendor Master File. However, responsibility for establishing and maintaining effective internal controls over financial reporting and compliance with laws, administrative rules, regulations, contracts, and grant agreements is shared between the Department and other State agencies.

The State's integrated financial accounting and reporting system, NHFirst, is the primary system used to establish and maintain vendor accounts. Vendor accounts are established and maintained in NHFirst tables, known as the vendor Master File, which allows the State to make payments to vendors through NHFirst. The vendor Master File contains key information, such as vendor name, address, contact information, tax identification, and reporting information. For audit purposes, vendors were defined as all entities or individuals that will, or may, receive payment from the State processed through NHFirst, including businesses providing products or services to the State, grantees, employees (non-payroll) reimbursed for travel or training, Medicaid or Medicare providers, jurors and witnesses, abandoned property claimants, taxpayers, and governmental entities. Twenty vendor classes were established in the NHFirst vendor Master File to categorize vendors by type. Some vendor classes were restricted to specific State agencies. It is essential to effectively maintain the vendor Master File to avoid unauthorized or inappropriate activity, prevent duplicate payments, reduce the risks of fraud or errors, and promote efficiencies.

According to NHFirst data, there were 44,717 new vendors established in NHFirst in various vendor classes. Three vendor classes - PSG, INT, and WCE - were not used during the period as described in the vendor class descriptions on pages 4 and 5.

Vendors interested in providing services or commodities to the State are required to furnish an Alternate W-9 Application Form and a Form W-9 *Request For Taxpayer Identification Number and Certification* in accordance with Administrative Rule Adm 603, Vendor Code Number Requirements. Vendor accounts are mainly created by the Department of Administrative Services, Division of Procurement and Support Services' Data Control Administration (DCA); however certain State agencies may also create vendor accounts. Vendor information is keyed into NHFirst or may be input into subsystems that interface with NHFirst. Vendors use Form W-9 to provide their Taxpayer Identification Number (TIN), which is required for the State to file an information return (i.e., Forms 1099) with the Internal Revenue Service (IRS). The Department compiles information from NHFirst to report vendor income annually to the vendor and the IRS for tax reporting purposes. The IRS may assess penalties if the State fails to include all the information required to be reported, or reports inaccurate information, on a Form 1099.

Vendor payments are generally issued by check through the New Hampshire State Treasury (Treasury). Vendors interested in receiving electronic payments through the Automated Clearing House (ACH) in the form of direct deposits may submit an ACH Enrollment Form notarized to

*Background*

the Treasury. Once the ACH Enrollment Form is received by Treasury and all required information is verified, the vendor is setup in NHFirst to receive electronic payments.

The table below provides a summary, as of March 31, 2022, of the status of each vendor class including the number of vendors created in each class during the nine months ended March 31, 2022:

Vendor Class	Vendor Status			Totals	Vendors Created During Audit Period
	Active	Inactive	"D" Status		
<b>CRT</b>	11,182	-	-	11,182	8,302
<b>DOT</b>	793	-	-	793	59
<b>EDU</b>	7,769	47	-	7,816	33
<b>EMP</b>	43,914	2,744	2	46,660	1,563
<b>GHR</b>	290	4	-	294	1
<b>GRT</b>	13,791	1	-	13,792	158
<b>HHS</b>	1,329	13	-	1,342	155
<b>INT</b>	-	-	-	-	-
<b>JCS</b>	305	7	-	312	12
<b>LIQ</b>	345	15	1	361	5
<b>MMS</b>	43,927	14	4	43,945	948
<b>NHA</b>	74	30	1	105	-
<b>ONE</b>	1,358	835,062	72	836,492	8,088
<b>PSG</b>	-	242	-	242	-
<b>PUR</b>	60,249	5,440	184	65,873	2,214
<b>REV</b>	29,932	-	-	29,932	17,064
<b>RRP</b>	18,379	5,186	-	23,565	6,115
<b>TUE</b>	11	7	-	18	-
<b>UCC</b>	237	-	-	237	-
<b>WCE</b>	-	-	-	-	-
<b>Totals</b>	<b>233,885</b>	<b>848,812</b>	<b>264</b>	<b>1,082,961</b>	<b>44,717</b>

**Vendor Class Descriptions:**

- CRT** - Used by the Judicial Branch for jurors and paid witnesses. Jurors and witnesses are uploaded from the Juror Management System (JMS) into NHFirst to create a vendor account.
- DOT** - Used by the Department of Transportation for contemplated award contracts approved by Governor & Council for specific highway projects.
- EDU** - Used by the Department of Education's Bureau of Vocational Rehabilitation to purchase products (e.g., eyeglasses, hearing aids, for visual/audio impaired) on behalf of individuals that meet specific criteria.
- EMP** - Used to pay State employees for reimbursement of travel or training.

- GHR** - Used by the Department of Administrative Services Bureau of Accounts for specific types of payments (e.g., death benefits, health benefits, etc.).
- GRT** - Used primarily by the Department of Energy for grant payments (i.e., solar rebate grants, COVID grants, etc.).
- HHS** - Used by the Department of Administrative Services and the Department of Health and Human Services (DHHS) to generate Forms 1099 for individuals or entities that received \$600 or more in total payments processed through DHHS' subsystems for the calendar year.
- INT** - Created for Department of Administrative Services to interface files but has never been used for creation or maintenance of vendor accounts.
- JCS** - Used for sealed court case payments. Vendor accounts are created upon court order by a judge and request of the NH Judicial Council.
- LIQ** - Used by the Liquor Commission for vendors that sell liquor products to the Liquor Commission.
- MMS** - Used by DHHS to pay providers of Medicaid and Medicare. Vendors are created initially in DHHS's Medicaid Management Information System and are uploaded into NHFirst.
- NHA** - Used by State agencies to make inter-governmental payments.
- ONE** - Used by a small number of agencies to make one-time vendor payments. Primarily used by the State Treasury's Abandoned Property Division to make abandoned property claims payments.
- PSG** - Created for Postsecondary Education grants but has not been used since 2010. All vendors have been inactivated.
- PUR** - Used by all State agencies and branches for purchases of services and commodities, not associated with other vendor classes.
- REV** - Used by the Department of Revenue Administration for issuance of State tax refunds from overpayment of taxes.
- RRP** - Used by all State agencies to issue refunds and reimbursements.
- TUE** - Used by State Treasury for Unique Endowment for State grant payments.
- UCC** - Used by Secretary of State for Uniform Commercial Code payments for election grants to municipalities.
- WCE** - Created for Department of Labor's workers' compensation program but has never been used.

**Vendor Status Descriptions:**

**Active** - Purchases and payments can be made to active vendors.

**“D” Status** - Payments can be made to vendors, but no purchases can be made from the vendor.

**Inactive** - Vendor is not available to State agencies for making purchases or payments.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

### Audit Objectives

1. Assess the State's internal controls over the establishment and maintenance of vendor accounts, including control environment, risk assessment, control activities, information and communication, and monitoring by assessing the adequacy of the State's policies and procedures related to establishing and maintaining vendor accounts.
2. Assess the adequacy of the design of internal controls over the establishment and maintenance of vendor accounts, including vendor validation, setup, modification, and maintenance processes.
3. Assess the establishment and implementation of internal controls as designed.
4. Assess the operation of the internal controls, including:
  - Functional compliance with written policies and procedures, laws, and rules related to the establishment of new vendor accounts and the ongoing maintenance required for those accounts within the NHFirst vendor Master File.
  - Functional compliance with stated (but not necessarily documented) policies and procedures related to the establishment of new vendor accounts and the ongoing maintenance required for those accounts within the NHFirst vendor Master File.
  - Adequacy of segregation of duties and responsibilities for controls related to the establishment and maintenance of vendor accounts.

### Audit Scope

The scope of our audit included a review of the internal controls over the establishment and maintenance of the State's vendor accounts including vendor validation, setup, modification, and maintenance processes within the NHFirst vendor Master File. The scope of our audit did not include a review of the internal controls over the State's processing of vendor payments unless such controls were integrated in the process of establishing a vendor account. Certain vendors are created to allow them to offer commodities or services to the State, while other vendors may be created specifically for the purpose of making a payment to the individual or entity.

The audit period was July 1, 2021 through March 31, 2022.

### Audit Methodology

1. Interviewed Department and other State agencies' personnel.
2. Reviewed Department and other agencies' documentation, including:
  - Policies and procedures; and

*Objectives, Scope, And Methodology*

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- Documentation of systems, applications, forms and instructions, and other relevant information.
3. Reviewed laws, rules, regulations, and policies and procedures related to establishing and maintaining State vendor accounts, including:
    - State statutes;
    - Federal laws and regulations;
    - New Hampshire administrative rules;
    - Department's Manual of Procedures;
    - State-wide policies and procedures; and
    - Agency-based policies and procedures.
  4. Observed the establishment and maintenance of vendor account processes.
  5. Reviewed the design and operation of controls through tests of transactions and review and evaluation of supporting documentation.
  6. Performed analyses of NHFirst vendor account data.

**PRIOR AUDIT**

There are no prior audits that specifically addressed internal controls over the State's establishment and maintenance of vendor accounts.



## *FINDINGS AND RECOMMENDATIONS*

### **Observation No. 1**

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#### **The Department Should Prioritize The Development Of A Self-Service Vendor Portal**

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The State does not have a fully developed self-service vendor portal to allow its vendors providing services and commodities (PUR vendors) to have a secure option to register their vendor information and update it as needed.

Vendors cannot log in to maintain their own vendor accounts and ensure their information is complete, accurate, and timely updated.

The Department of Administrative Services (Department), Division of Procurement and Support Services (DPSS), Data Control Administration (DCA), oversees the process for establishing and maintaining vendor accounts in the State's accounting system, NHFirst. The current manual process relies mostly on data entry performed by State personnel and is inefficient, and prone to errors. Additionally, setting up vendors for electronic payments through the Automated Clearing House (ACH) involves another manual process for both the vendor and State Treasury requiring several mailings and the vendor's signature to be notarized. As of March 31, 2022, there were approximately 11,700 active vendors setup by State Treasury to process ACH payments.

Review of vendor management systems of other New England states revealed New Hampshire will soon be the only state that does not offer a self-service vendor option.

Implementing a self-service vendor portal would streamline the vendor onboarding process and enable vendors to electronically provide and update the information required. The self-service portal would significantly reduce the Department's burden of inputting data and ensuring its accuracy, placing most of that responsibility on the vendor, and allowing DCA staff time to focus on other important tasks, such as the auditing and maintenance of vendor accounts.

#### **Recommendation:**

**We recommend the Department implement a plan to develop a secure self-service vendor portal that allows its vendors to register, create a vendor account, provide documentation as required, and update information as needed.**

#### *Department of Administrative Services Response:*

*The Department concurs. DPSS has implemented plans to complete a hybrid upgrade of existing system infrastructure by fiscal year 2025 under the existing Enterprise Resource Planning (ERP) system provided through Infor.*

## **Observation No. 2**

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### **Formal Risk Assessment Process Should Be Established**

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The Department does not have a formal risk assessment process in place to identify risks to its operations, including risks associated with establishing and maintaining the State's vendor Master File and related accounts.

The Department reports risks are identified and responded to through an informal process on an as needed basis. A formalized risk assessment process may have assisted the Department in detecting and responding to many of the weaknesses addressed in the observations contained in this report.

Management's assessment of and response to risks facing an organization is an integral component of internal control. The purpose of an entity's risk assessment effort is to identify, analyze, and respond to risks, including the potential risk of errors or fraud, that could affect the entity's ability to achieve its objectives. An effective and documented risk assessment process is a core element of management's planning activities and is an ongoing process.

A formal and well-planned risk assessment process increases the likelihood that the appropriate balance between the costs and benefits of implementing controls can be understood and become the basis for controls put into operation. As risks change over time due to changes in processes, information technology, and environment, controls intended to mitigate risk may become inefficient and ineffective. Without ongoing risk assessment processes, the identification and response to risk often occurs in a reactive mode, after a risk has been realized and a loss incurred.

#### **Recommendation:**

##### **We recommend the Department:**

- **Establish and document a formal risk assessment process for recognizing, evaluating, and responding to risks that impact its operations. In the performance of its risk assessment relative to the establishment and maintenance of vendor accounts, the Department should consider the risks related to the creation and maintenance of each vendor class.**
- **Regularly review internal controls for indicators of risk exposure and establish mitigating controls to address those risks. Department employees with areas of related expertise and knowledge of State operations should participate in the review to ensure that 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.**

#### **Department of Administrative Services Response:**

*The Department concurs. While a formal risk assessment has not been documented, the Division of Accounting Services has recognized the need for higher scrutiny of vendor setup, specifically in order to maintain tax compliance. Several risk factors have been identified based on previous IRS*

*audits, and the Accounting Services' Appropriations Unit has enhanced our oversight procedures. However, there remains a need to balance this oversight with the need for individual agencies to maintain flexibility as it pertains to their operations and management of their vendors. Accounting Services will work to formalize our risk assessment over statewide vendor management through the use of our Internal Control/Risk Assessment toolkit.*

### **Observation No. 3**

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#### **Policies And Procedures Should Be Developed For The Establishment And Maintenance Of Vendor Accounts**

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The Department has not developed effective policies and procedures to allow for the proper establishment and maintenance of vendor accounts.

While the Department is the State agency responsible for managing the NHFirst vendor accounts, it does not maintain exclusive control over the establishment and maintenance of vendor accounts statewide. Certain State agencies can also establish new vendor accounts or make changes to vendor account information. The State uses 17 vendor classes based on the type of vendor and purpose of payment. While there are separate vendor classes available, the Department has not established formal policies and procedures to aid staff in the identification and assignment of vendors to the proper vendor class when new accounts are created. Additionally, guidance and training to State agency personnel on appropriate vendor class assignment has been insufficient, resulting in vendors being placed into the wrong vendor class.

Auditors noted the following weaknesses in internal control over vendor accounts during the nine months ended March 31, 2022:

1. Twenty-five (25) out of a sample of 75 new PUR (purchasing) vendors established in NHFirst were not assigned to the correct vendor class. Sixteen (16) vendors should have been assigned to the GRT (grant) vendor class and nine (9) vendors should have been assigned to the RRP (refund and reimbursement payment) vendor class.

The establishment of vendors in the incorrect vendor class resulted in the vendors being coded with incorrect income codes in NHFirst. As described in Observation No. 5, vendors coded with incorrect income codes resulted in inaccurate tax reporting to the vendor and the Internal Revenue Service which increases the risk of fines being imposed on the State for noncompliance with federal tax law.

2. An analysis for duplicate accounts revealed 147 duplicate active PUR vendor accounts increasing the risk for duplicate payments, other errors, or fraud.

Policies and procedures over the establishment and maintenance of vendor accounts are crucial for ensuring the integrity of vendor information maintained in the State's vendor Master File.

**Recommendation:**

**We recommend the Department:**

- **Develop policies and procedures to ensure that personnel responsible for the establishment and maintenance of vendor accounts have proper guidance to assist in the performance of their job responsibilities. The responsible employees should have a proper understanding of vendor classes, income codes, and other procedures for establishing or editing vendor accounts.**
- **Regularly communicate its policies and procedures to all agency employees with vendor establishment and vendor payment processing responsibilities, including new employees to ensure consistency in their application.**
- **Resolve the improper account classification, income coding, and duplicate account errors noted in NHFirst to ensure accuracy in the State's vendor account recording process and proper reporting to the Internal Revenue Service.**

*Department of Administrative Services Response:*

*The Department concurs. DPSS plans a complete and comprehensive audit throughout the upload process of current vendor accounts into the NHFirst self-service portal. This shall be complete prior to implementation in fiscal year 2025.*

**Observation No. 4**

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**Formal Policies And Procedures Should Be Established Over The Creation Of JCS Vendor Class Accounts**

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The Department has established JCS vendor class accounts in NHFirst without maintaining formal requests, court orders, and without formal policies and procedures over the process.

The JCS vendor class was established to conceal sealed payment transactions authorized by the courts and requested by the New Hampshire Judicial Council. Vendor payments are sealed when a State of New Hampshire judge concludes that, for the benefit and protection of those involved in a case, the information should be kept private, or sealed, rather than made available to the public. When requested, to remain confidential upon receipt of a court order, vendors are typically inactivated in the original vendor class, and an account is created in the JCS vendor class. No other agency can view the information under this class and the transactions are not reported on the State's TransparentNH website.

As of March 31, 2022, there were 305 active JCS vendor class accounts, of which 12 were created during the nine months ended March 31, 2022. A sample of five new JCS vendor accounts created during the review period revealed the Department created the accounts without maintaining on file a court order or a formal request from the Judicial Council.

**Recommendation:**

**The Department should establish formal policies and procedures over the creation of JCS vendor accounts in NHFirst to include maintaining the request from the Judicial Council and the court order to seal vendor transactions, and an independent review and approval procedure to ensure information input into NHFirst is accurate prior to a vendor being established or updated.**

*Department of Administrative Services Response:*

*The Department concurs. Certain aspects of vendor establishment and related 1099 reporting requirements are outlined in both the Manual of Procedures (MOP), as well as Department policies. However, over time these have become out of date and incomplete. The Department will include this vendor class in a comprehensive revision to existing policies, to be completed during fiscal year 2024.*

**Observation No. 5**

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**Review And Approval Control For Creation Of And Changes To Vendor Accounts Should Be Established**

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The establishment of new, and changes to existing, vendor accounts in NHFirst are performed without a formal review and approval control procedure.

As of March 31, 2022, there were approximately 234,000 active vendor accounts in NHFirst of which nearly 45,000 accounts were established during the nine months ended March 31, 2022. The absence of an independent review and approval procedure for the establishment of, and changes to existing, NHFirst vendor account information increases the risk that errors or fraud could occur without being detected and corrected. The lack of oversight also increases the risk of noncompliance with Internal Revenue Service (IRS) income reporting requirements.

The following errors identified by the auditors may have been prevented or detected if a formal review and approval control procedure in NHFirst had been in place:

<b>Audit Procedure</b>	<b>Error Description</b>	<b># of Errors</b>	<b># of Items Tested</b>
Review of Employees and Vendors with Same Addresses	Vendor was duplicated as a result of the agency uploading vendor information twice into NHFirst	2	25
Review for Duplicate Vendors	Vendor was duplicated in NHFirst in error as agency did not check to see if the vendor already existed	3	25
Purchasing (PUR) Vendor Establishment Test	Vendor was input in an incorrect vendor class	25	75

Audit Procedure	Error Description	# of Errors	# of Items Tested
Test of Reporting Forms 1099	The income reported on the Forms 1099 to the IRS were for the incorrect amount, or no income was reported as required	14	34

**Recommendation:**

We recommend the Department establish a review and approval control procedure for the establishment of new, and changes to existing, NHFirst vendor account information to help prevent errors or fraud from occurring without detection and correction. The procedures for input and approval should be properly segregated to ensure the personnel approving new vendor accounts or changes to existing accounts are independent of the personnel who originally input the information into NHFirst.

*Department of Administrative Services Response:*

*The Department concurs and as noted in Observation No. 4, will include an assessment of appropriate review and approval controls in a comprehensive revision to existing policies, to be completed during fiscal year 2024.*

**Observation No. 6**

**Onboarding Of Commodities Or Services Vendors Should Be Performed In Compliance With Administrative Rule**

The Department does not require vendors seeking to provide commodities or services to the State to submit all required information in accordance with administrative rules.

Administrative rule Adm 603.02 states, “Application Procedure for Bidders, Other Purchasing Vendors or Prospective Bidders or Other Purchasing Vendors Seeking to Obtain a Vendor Code Number. (a) To apply for a vendor code number under this part, a bidder, a prospective bidder, an other purchasing vendor, or a prospective other purchasing vendor shall submit to the division: (1) A fully executed vendor code number W-9 application form; and (2) A fully executed W-9 form [federal form known as a “*Request for Taxpayer Identification Number and Certification* ”].”

Auditors noted noncompliance with NH administrative rule Adm 603.02 for vendor accounts established in the PUR (purchasing) vendor class during the nine months ended March 31, 2022. Of the fifty (50) PUR vendors tested that were required to file certain W-9 documents, the Department was unable to provide the auditors with:

- Forty-four (44) Form W-9, *Request for Taxpayer Identification Number and Certification Forms*
- Five (5) Alternate W-9 Application Forms

Additionally, auditors noted the Department’s W-9 application forms made available to prospective vendors to complete do not include all the information required by NH administrative rule Adm 603.02 (b) as shown below:

Adm 603.02 (b) Reference	Description of Excluded Information on Forms	A) Alternate W-9 Application	B) Electronic Alternate W-9 Application
(2)	Toll free number	X	X
(9)	Vendor's incorporated state	X	X
(10)	If vendor's principal place of business is in New Hampshire	X	X
(11)	Whether vendor is registered with NH Secretary of State as a NH business	X	✓
(12)	Whether vendor is registered with NH Secretary of State as an out-of-state business to do business in NH	X	✓
(13)	If vendor is in good standing with the NH Office of the Secretary of State	X	X
(14) g.	An "other form of organization" type is missing as an option for vendor selection	X	X
(17)	Identification of the commodities or services which vendor proposes to provide to the state	X	X
(18)	Any special instructions, explanations, international phone numbers, or comments which the vendor wishes to provide	X	✓
(19) a.	The person submitting the form is duly authorized to do so on behalf of the vendor	X	X
(19) c.	The applicant certifies to the foregoing subject to penalty of perjury under the laws of the United States and subject to the applicable penalties of RSA 641:1 through 3	X	X
(19) d.	The applicant acknowledges that, pursuant to RSA 641:3, knowingly making a false representation on the application form is punishable as a crime	X	X

X – Item required per administrative rule Adm 603.02 (b) is excluded from the subject form.

✓ – Item appropriately included on form.

Non-compliance with administrative rules has resulted in vendors being activated in the NHFirst State accounting system without being properly vetted, which increases the risk that the State could procure services or commodities with an ineligible vendor and make inappropriate payments to that vendor.

**Recommendation:**

**We recommend the Department:**

- **Enforce vendor compliance with NH administrative rule Adm 603.02 by ensuring that all required information is received before a vendor account is established and activated.**
- **Review NH administrative rule Adm 603.02 and assess whether the required vendor information listed in the rule properly aligns with the State’s current need for the**

**information. Changes to information needs should be addressed by seeking an amendment to the administrative rules.**

- **Update application forms to ensure that all information requested is in compliance with NH administrative rule Adm 603.02.**

*Department of Administrative Services Response:*

*The Department concurs. The compliance of the Vendor Application Alternate W-9 with Administrative Rule 603.02 was resolved on July 20, 2023 with the incorporation of forms into the rules amended and approved by the Joint Legislative Committee on Administrative Rules. This change established a clear workflow requiring W-9 documents as a part of vendor account set up.*

**Observation No. 7**

**The Department Should Establish Controls For Reporting Vendor Income In Accordance With Federal Law**

Vendor income is not reported completely and accurately in accordance with federal law.

The Internal Revenue Service (IRS) Form 1099 documents different types of payments made by entities that are reportable as income to the payee. The payer fills out the Form 1099 with the appropriate details and sends copies to the payee and the IRS, reporting payments made during the tax year. NHFirst tracks vendors that are required to be provided with an IRS Form 1099 based on specific income classification (i.e., services, commodities, etc.), amount, and type of entity (i.e., sole-proprietor, partnership, limited-liability company, corporation, non-profit, etc.). Income codes allow NHFirst to properly segregate and accumulate reportable income by type on Form 1099.

It is the responsibility of the paying organizations to have an effective system of controls in place to ensure that Form 1099 information, reporting of payments made to vendors, is reported completely and accurately.

Auditors reviewed 34 vendors' payments made during calendar year 2021 for compliance with Form 1099 reporting requirements, as described under federal 26 U.S. Code § 6041. The results are noted below:

	<b>Incorrect Amount of Income Reported</b>	<b>Reportable Income Not Reported</b>	<b>Non-Reportable Income Reported</b>	<b>Reportable Income Correctly Reported</b>	<b>Non-Reportable Income Correctly Not Reported</b>	<b>Total</b>
<b># of Test Selections</b>	7	4	2	11	10	34



**Recommendation:**

The Department should establish controls over the Form 1099 vendor income reporting process to ensure compliance with federal tax requirements. In particular, the following steps should be taken:

- Regularly scrutinize data inputs in NHFirst for accuracy and to ensure the correct income codes are used;
- Train State personnel responsible for vendor accounts to ensure familiarity with federal reporting requirements; and
- Establish a threshold for monitoring by management, and adequately monitor, to ensure the income of vendors receiving the largest dollars from the State have been accurately reported on Form 1099.

*Department of Administrative Services Response:*

*The Department concurs in part. The Division of Accounting Services performs extensive analysis and review to minimize errors in annual tax reporting. However, under our current decentralized environment, improper tax coding is not being detected at the onset of vendor establishment, causing errors in output. The Division of Accounting Services will conduct an assessment during fiscal year 2024 to make recommendations for an improved workflow design, with the goal of instituting a mechanism requiring final approval of vendor tax coding to take place within the Division of Accounting Services.*

**Observation No. 8**

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**Strengthen Controls And Improve Guidance To Agencies On Contract And Documentation Requirements**

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Monitoring controls have not been established to ensure that State agencies are complying with all vendor establishment and maintenance requirements, including securing necessary vendor documentation, and ensuring that contracts and Governor and Executive Council approval are obtained when required.

In accordance with the State's *Manual of Procedures* (MOP), section 150, Governor and Executive Council Actions, subsection V.A.3., approval of the Governor and Executive Council (G&C) is required for any executive branch agency to enter into service contracts in the amount of \$10,000 or more covering any type of service. The \$10,000 threshold is cumulative by vendor for the fiscal year. Incorporated by reference into MOP 150, subsection IV, is the Department's Administrative Handbook, Procurement Process for Service Contracts, which requires a Form P-37 contract checklist be completed to ensure vendors submit the following information to the State: bid transmittal letter; Secretary of State's Office Certificate of Good Standing, Certificate of Vote/Authority; Certificate of Insurance, Bond/Security and Power of Attorney if required by the contract; proof of compliance with or exemption from workers' compensation insurance; business

associate agreement, if applicable; amongst other items that are part of contract procurement. Agencies are to retain in their possession a fully executed complete copy of the contract with the related checklist for the duration of the agreement.

While certain state statutes, including but not limited to RSA 21-I:18 and RSA 4:9-n, II., exempt applicable agencies or specific purchases from the State procurement process identified in RSA 21-I, the vendors procured through these exemptions should provide similar information as those vendors procured through RSA 21-I:18 to ensure that the State has all necessary information on file to protect the State from harm and liability.

Testing of vendors established in the PUR vendor class identified nine (9) vendors with payments of \$10,000 or more. Vendor payments of \$10,000 or more generally require a contract, G&C approval, and additional documentation. Testing revealed the following:

- Three (3) vendors did not have a contract and other documentation required of contracted vendors and did not receive approval by G&C.
- Two (2) vendors did not have a contract, but had written agreements, with the State and, as a result, did not have a completed Form P-37 contract checklist completed by the responsible State agency, or other documentation on file required of contracted vendors. G&C authorized the State agency to enter into written agreements with the vendors to provide winter maintenance and other services.
- Two (2) vendors did not have a contract, Form P-37 contract checklist, or other documents on file required of contracted vendors. The State agencies who made purchases with these vendors were exempted from RSA 21-I, state procurement requirements, and therefore no G&C approval was required.
- Two (2) vendors had contracts and Form P-37 contract checklists, but the checklists were incomplete as they were missing the bid transmittal letters and were not signed off on indicating they had been reviewed and were complete.

**Recommendation:**

**We recommend the Department:**

- **Continue to provide State agencies with guidance and training for establishing a new vendor, including when vendors require a State contract, documentation to be obtained from the vendor, and the retention policy for those documents. This will help ensure compliance with MOP 150.**
- **Issue formal guidance to State agencies that are exempt from RSA 21-I regarding vendor information to be obtained and maintained for consistency with all other State vendors.**
- **Establish monitoring controls to ensure that State agencies are complying with all vendor establishment and maintenance requirements, including securing necessary vendor documentation, and ensuring that contracts and G&C approval are obtained when required.**

Department of Administrative Services Response:

*The Department concurs. The Department has jointly hosted “Contracts Training” sessions with the Department of Justice as refresher training for agencies, covering contracting and G&C requirements as outlined in the Administrative Handbook. In addition, the Department uses NHFirst reports to informally monitor agency compliance with the MOP. With the upcoming transition to the Cloudsuite Financials ERP system, the Department intends to take full advantage of integrated reporting and monitoring tools, including the use of new Supply Management functionality.*

*The Department will conduct additional state agency training to include the establishment of vendors and additional monitoring controls once we have completed our update of Department policies and procedures. We expect this training to take place during fiscal year 2025. As part of our policy update, the Department will seek guidance from the Department of Justice to enhance formal guidance for agencies exempt from RSA 21-I.*

**Observation No. 9**

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**Unused Vendor Accounts Should Be Inactivated Timely In NHFirst**

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Vendor accounts are not inactivated timely. The Department does not maintain policies and procedures to describe the specific criteria to be utilized by vendor maintenance personnel to inactivate vendor classes in NHFirst, resulting in vendor accounts not being inactivated timely.

The State uses 17 vendor classes based on type of vendor and purpose of payment. A vendor must be in an active status for State personnel to process payments to that vendor in NHFirst. Additionally, a PUR (purchasing) vendor must be in an active status to receive requests for bid and proposal solicitations.

As of March 31, 2022, there were approximately 234,000 active vendors in NHFirst. Auditors conducted an evaluation of active vendor accounts in NHFirst by vendor class and noted approximately 143,000 vendors that are dormant, not having received payment from the State in more than two years. These dormant vendor accounts could essentially be inactivated as supported by information in the table below:

*Findings And Recommendations*

Vendor Class	Active Vendors	# of Vendors Receiving Payments From the State in the Two Years Ended 3/31/22	# of Vendors Not Receiving Payment From the State in the Two Years Ended 3/31/22
CRT	11,182	11,182	- (2)
DOT	793	124	669 (1)
EDU	7,769	686	7,083 (1)
EMP	43,914	4,604	39,310 (3)
GHR	290	64	226 (1)
GRT	13,791	12,606	1,185 (4)
HHS	1,329	393	936 (1)
JCS	305	95	210 (1)
LIQ	345	180	165 (1)
MMS	43,927	3,220	40,707 (1)
NHA	74	50	24 (1)
ONE	1,358	1,304	54 (5)
PUR	60,249	14,604	45,645 (1)
REV	29,932	27,801	2,131 (6)
RRP	18,379	13,836	4,543 (7)
TUE	11	10	1 (1)
UCC	237	236	1 (1)
Totals	233,885	90,995	142,890

(1) - DOT, EDU, GHR, HHS, JCS, LIQ, MMS, NHA, PUR, TUE, and UCC vendor classes are used by multiple State agencies for a variety of reasons. Inactivation of unused account should occur in a reasonable timeframe, or immediately if no future business with the vendor is anticipated.

(2) - CRT vendor class is used for jurors and witnesses receiving payments for court services. CRT vendor accounts should be inactivated immediately upon conclusion of court services.

(3) - EMP vendor class is used for reimbursements to State employees for travel, training courses, etc. EMP vendor accounts should be inactivated upon employee termination.

(4) - GRT vendor class is used for grantees receiving grant payments. GRT vendor accounts should be inactivated once grant is paid in full.

(5) - ONE vendor class is used for one-time payments, primarily for abandoned property claims. ONE vendor accounts should be inactivated after issuance of one-time payment.

(6) - REV vendor class is used for taxpayers receiving tax refunds from the Department of Revenue Administration (DRA). REV vendor accounts should be inactivated after refund payment has been issued.

(7) - RRP vendor class is used for vendors receiving reimbursements or refunds (non-DRA) that is non-taxable income. Vendor accounts should be inactivated after payment has been issued unless additional payments in near future are anticipated.

**Recommendation:**

**We recommend the Department:**

- **Establish policies and procedures requiring the timely inactivation of vendor accounts that will likely have no future activity. The policies should include**

**consideration of the purpose of each vendor class type, purpose for the inactivation, timing of the inactivation, and identification of the parties responsible for processing and approving the account inactivation.**

- **Use a data field in the NHFirst vendor Master File other than vendor “status” to allow PUR interested vendors the opportunity to receive notifications of bid and proposal solicitations.**
- **In conjunction with applicable agencies, do a thorough review to inactivate any unnecessary vendor accounts. Inactivation of vendor accounts in agency subsystems should concurrently result in the inactivation of the vendor in NHFirst.**

Department of Administrative Services Response:

*The Department concurs. The Department understands this is a significant number of dormant vendors. We will work towards policy development of thresholds to inactivate and clean up our current list. We will work with Infor to identify ways of automating inactive vendors or develop a consistent method of auditing this during fiscal year 2025.*

**Observation No. 10**

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**System Access Controls Should Be Strengthened**

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System access permissions are not effectively segregated for certain employees who have authority to create or edit vendor accounts in the system and are in supervisory positions with the ability to approve vendor payments in the system.

Auditors noted the following instances where access permissions for establishing and maintaining vendor accounts appear excessive and could be strengthened:

- A review of NHFirst employee access permissions identified 25 employees statewide who have the authority to approve vendor payments, create new vendor accounts, and make changes to existing accounts. Additionally, two employees have permissions in NHFirst to make changes to bank account information and approve vendor payments, increasing the risk that vendor payments could be misdirected without detection.
- Employees with access to the Judicial Branch’s Juror Management System (JMS) have the authority to change juror and witness vendor accounts in the JMS, which are uploaded to change vendor accounts in NHFirst without a secondary review or approval to ensure vendor juror information is accurate. While the JMS has an audit log to identify when and who input data into the system, the audit log is not periodically reviewed or reconciled to the jurors and witnesses providing services to ensure no juror or witness accounts were established erroneously or fraudulently.

While the vendor payment process in NHFirst requires at least two separate employees, one to input payments and another to approve payments, the employee with approval authority generally

has supervisory responsibilities and could direct the subordinate employee to process an improper payment, without the subordinate employee's knowledge. Segregating the duties of employees who have vendor establishment and maintenance authority from those employees who have vendor payment approval authority strengthens internal controls over the vendor payment process.

Employees with incompatible or unnecessary access increase the risks that errors or fraud could occur and not be detected.

**Recommendation:**

**We recommend the Department:**

- **Establish policies and procedures to properly restrict NHFirst user access permissions to ensure users with the ability to create or make changes to vendor accounts are not also authorized to approve vendor payments. Similarly, NHFirst users with permissions to approve vendor payments should not also have permissions to add or make changes to bank account information. These policies and procedures should also apply to employees with vendor account responsibilities in State agency subsystems where vendor information is periodically uploaded to the NHFirst vendor Master File.**
- **Establish mitigating controls for instances where NHFirst and JMS system access levels cannot be restricted. This could include a secondary review and approval function, or periodic review of transactions processed by employees performing incompatible duties.**
- **Periodically review access permissions to ensure they are appropriate based on the users' responsibilities and needs.**

*Department of Administrative Services Response:*

*In regards to NHFirst, the Department concurs. While we take full advantage of automated system security that prevents incompatible roles by the same user, we will conduct a review of security roles within supervisory reporting lines to ensure there is a valid business reason for any duties seemingly incompatible and document the compensating controls for these situations. We expect this review to occur within fiscal year 2024.*

*Judicial Branch Response:*

*We concur with the findings and recommendations of the LBA Audit Division. The Judicial Branch will work with the Department of Administrative Services to efficiently implement a process reform to add additional controls to the creation and maintenance of vendor accounts that are uploaded from the JMS to NHFirst.*

**Observation No. 11**

**Corrections To Vendor Information Should Be Performed Efficiently And Effectively**

Corrections to vendor information in NHFirst have not been performed efficiently and effectively.

When NHFirst was implemented in 2009, there were approximately 28,000 vendor accounts transferred from the previous system to the new system. Many of the vendor data fields were not correctly transferred into NHFirst. Additionally, other errors have occurred from manual input of vendor information into NHFirst. The lack of data validation upon system implementation, and the lack of a review and approval control over data input has jeopardized some of the integrity and reliability of the data in NHFirst's vendor Master File. Over the last 14 years, the Department's Data Control Administration (DCA) has and continues to search for errors and correct them when time permits.

As reported in Observation No. 9, there are a significant number of dormant vendor accounts that should be inactivated. The DCA's process for research and correction of errors is not an efficient or effective use of time as it includes inactive vendor accounts and dormant accounts that should be inactivated.

As of March 31, 2022, there were approximately 1.1 million vendor accounts in NHFirst, including 850,000 inactivated and 250,000 activated vendor accounts.

**Recommendation:**

**We recommend the Department:**

- **Establish criteria for inactivating dormant vendor accounts. Once the criteria are established, dormant accounts meeting the criteria should be inactivated in a timely manner.**
- **Identify active vendor accounts needing correction and establish a plan for processing those corrections in a timely manner to enhance the data integrity and reliability of the State's vendor accounts.**

*Department of Administrative Services Response:*

*The Department concurs. As noted in Observation No. 9, the Department will work towards policy development and an audit method to include dormant accounts, duplicate vendors, and data corrections. With the upcoming transition to the Cloudsuite Financials ERP system, the Department intends to take full advantage of enhanced functionality and monitoring tools to assist with vendor management.*

**Observation No. 12**

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**The Department Should Periodically Ensure Vendors Are Not Federally Debarred**

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The Department does not have a process in place to periodically check new and existing vendors for federal debarment and, as such, the Department's public listing of debarred vendors maintained on their website is not current and cannot be relied upon.

In accordance with RSA 21-I:11-c, I (a): "No individual or business entity shall be awarded a bid, proposal, or quotation issued by the division of procurement and support services if that individual or entity, or any of its subsidiaries, affiliates, or principal officers... (4) Is currently debarred from performing work on any project of the federal government or the government of any state". Additionally, RSA 21-I:11-c, II states: "The division of procurement and support services shall maintain a list of individuals or entities which it believes to be precluded from submitting bids, proposals, or quotations, under paragraph I, which it shall post on its public website. Such individuals or entities shall be debarred from submitting bids, quotations, or proposals to the division."

The federal debarment listing is reviewed as part of the Department's Division of Procurement and Support Services (DPSS) contract checklist for prospective contracted vendors, but no such review is performed for prospective non-contracted vendors and there is no periodic review afterwards for any State vendors.

Auditors performed a review of the federal debarment listing published on the website sam.gov and identified three (3) New Hampshire vendors on the listing that were in an active status in NHFirst's vendor Master File. Although no payments were issued to these vendors during the nine months ended March 31, 2022, State agencies can make purchases from, and issue payments to, vendors in an active status increasing the risk that the State could do business with a debarred vendor. State agencies cannot make purchases from, or issue payments to, vendors who are in an inactive status.

The DPSS's listing of debarred vendors maintained on their website, as required by statute, has not been revised since October 28, 2020 and does not list any vendors as being debarred.

**Recommendation:**

**We recommend the Department:**

- **Perform procedures during and after vendor establishment to ensure vendors are not federally debarred.**
- **Inactivate vendor accounts in NHFirst for any entities included on the federal debarment listing to reduce the risk of payments being made to, or business being conducted with, a debarred vendor.**
- **Update, and keep current, the debarment listing maintained on the Department's website to include federally debarred vendors as required by statute.**



Department of Administrative Services Response:

*The Department concurs. DPSS shall review and maintain posting responsibility consistent with DOJ guidance regarding debarred vendors.*

**Observation No. 13**

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**Vendor Electronic Payment Enrollment Process Should Be Performed More Timely**

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The process for enrolling vendors to accept electronic payments in the State's system is inefficient.

The New Hampshire State Treasury (Treasury) manages the electronic payment process for all State of New Hampshire vendors receiving payments via the State's accounts payable system. Electronic payments are made by direct deposit to the vendors' bank accounts. According to the Treasury website, "The [ACH (Automated Clearing House) enrollment] process typically takes two to three weeks from the time Treasury receives the form [ACH Enrollment Form] until direct deposit is activated." ACH payments are a more secure method of receiving payment in comparison to receiving a paper check. ACH payments must pass through a clearinghouse that enforces strict regulations when money is transferred directly between accounts.

Auditors reviewed a sample of ACH Enrollment Forms for 25 vendors that were setup for electronic payments during the nine months ended March 31, 2022. Results of the review indicated that eight (8) of 25, or 32%, of the ACH Enrollment Forms were processed between 2-4 months following the date with which the completed ACH Enrollment Form was received by Treasury, well after the typical two-to-three-week time frame noted on the Treasury website.

According to the Treasury, one Treasury employee has permissions in NHFirst to change the vendor payment option from check to ACH electronic payment causing processing delays during absences and periods of significant workload.

**Recommendation:**

**Treasury should work with the Department of Administrative Services to determine if a more efficient and secure vendor electronic payment enrollment process can be developed using a self-service vendor portal. This service could shift the burden onto the vendors, thereby requiring vendors to add or make changes to their own banking information. Changes could take effect immediately upon input into the portal eliminating the current, manual processes performed by Treasury personnel.**

**If a secure self-service vendor portal is not an option, then the State Treasury should consider the possibility of granting permissions to a second Treasury employee, who is independent of the vendor payment process, that could expedite the vendor electronic payment enrollment process.**

Department of Administrative Services Response:

*The Department concurs and will work with the Treasury Department to evaluate potential self-service options. With the upcoming transition to the Cloudsuite Financials ERP system, the Department intends to take full advantage of enhanced functionality that may be available to assist with ACH enrollment and vendor management.*

State Treasury Response:

*We concur. Automating the ACH enrollment process would be an ideal solution for the State. The process for enrolling vendors to receive electronic payments from the State is manual and therefore, not optimal. However, due to the fact that this area is highly susceptible to fraud, there has been the need to be methodical and to add layers to the process. The Treasury has encountered multiple instances of vendor impersonation whereby impostors submit fraudulent documentation to receive electronic payments from the State. Preventing these fraud attempts can be stressful for employees and it requires multiple reviews. Over the years, the Treasury has sought and reviewed multiple options either in collaboration with the Department of Administrative Services or through our banking partners, but unfortunately, no solution has been found to date. The Treasury will continue to pursue solutions to address this area of concern, particularly, the Treasury will review potential options that might be available as part of the Enterprise Resource Planning (ERP) upgrade.*

*The Treasury also concurs with the auditors regarding the timeliness of the vendor ACH enrollment process. To date, the Treasury has corrected the backlog and is reviewing options to add efficiencies to the current manual process.*

**Observation No. 14**

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**Formal Report From Advisory Committee On State Procurement Should Be Obtained**

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The Department has not received or requested any formal reports from the Advisory Committee on State Procurement pursuant to statute.

RSA 21-I:14-d, V, states, “Beginning November 1, 2016, and each November 1 thereafter, the committee [Advisory Committee on State Procurement] shall report its findings and any recommendations for proposed legislation to the commissioner of the department of administrative services, the speaker of the house of representatives, the president of the senate, the house clerk, the senate clerk, the governor, and the state library.”

The Advisory Committee on State Procurement has worked with the Department to address procurement issues mainly through oral discussions; however, no formal reports have been made available to the Department, nor have the findings and recommendations been presented in accordance with statute, except for one formal report dated 2016 that was filed with the State Library.

Informal documentation of Committee findings and recommendations on procurement or vendor related issues results in a lack of transparency and may result in findings and recommendations not being carried out by the State as the Legislature and Committee intended.

**Recommendation:**

**We recommend the Department work with the Advisory Committee on State Procurement to address procurement and associated vendor issues. A formal report of all findings and recommendations for proposed legislation should be requested from the Committee annually.**

*Department of Administrative Services Response:*

*We concur. The Department is available to meet with the Committee at the call of the Chair.*

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