

**STATE OF NEW HAMPSHIRE  
ADJUTANT GENERAL'S DEPARTMENT  
REVENUES COLLECTED AND EXPENDITURES PAID**

**FINANCIAL AND COMPLIANCE  
AUDIT REPORT  
FOR THE NINE MONTHS ENDED MARCH 31, 2007**



**STATE OF NEW HAMPSHIRE  
 ADJUTANT GENERAL’S DEPARTMENT  
 REVENUES COLLECTED AND EXPENDITURES PAID**

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**STATE OF NEW HAMPSHIRE  
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REVENUES COLLECTED AND EXPENDITURES PAID**

**Reporting Entity And Scope**

The reporting entity and scope of this audit and audit report are the revenues collected and expenditures paid - General Fund and Capital Projects Fund of the New Hampshire Adjutant General's Department for the nine months ended March 31, 2007.

The following report describes the financial activity of the Adjutant General's Department, as it existed during the period under audit. Auditee responses were prepared by the Adjutant General's Department.

**Organization**

The Adjutant General's Department (Department) was established pursuant to RSA 110-B. While this statute became effective on August 22, 1981, the position of Adjutant General has been in existence since 1895. The Adjutant General serves as the Governor's military chief of staff and is the executive head of the Department. He is appointed by the Governor and serves in office until the age of 65.

The Adjutant General's Department is comprised of three entities: Army National Guard, Air National Guard, and State Business Administration. Army National Guard units are assigned to 17 State armories located throughout the State, the State Military Reservation in Concord, the Army Aviation Support Facility in Concord and the Training Site in Center Strafford. The Air National Guard units of the 157<sup>th</sup> Air Refueling Wing and the 133<sup>rd</sup> Air Refueling Squadron are assigned to Pease Air National Guard Base in Newington. Both the Army and Air National Guard units are managed by the Joint Force Headquarters located at the State Military Reservation in Concord. The Veterans Cemetery is located on 104 acres in Boscawen.

**Responsibilities**

The mission of the Department at the state level is to provide the State and its political subdivisions with operationally ready units and personnel to protect life and property and to preserve the internal security of the state when ordered by the Governor and to provide and maintain a dignified final resting place to honor all veterans and eligible dependents which expresses the State's gratitude for their service to the country.

The Department is responsible for the State Militia, which is comprised of the Army and Air National Guards, the State Guard (inactive) and the Unorganized Militia (inactive). The New Hampshire National Guard assists in time of natural disaster, during civil unrest, or search and rescue operations. The Department administers statutorily mandated programs such as the National Guard Scholarship Fund, military awards and decorations, and military records. The Adjutant General's Department is also responsible for the operations of the State Veterans Cemetery in Boscawen. At the federal level, the Department is charged with providing the United States Army and Air Force with operationally ready units and personnel in support of the

Total Force, and for war or national emergency as ordered by the President; or upon declaration of war by the Congress.

At March 31, 2007 the Department had 131 full-time State employees and eight part-time State employees.

The Adjutant General is also responsible for 1,675 federal employees associated with the Army National Guard and 929 federal employees associated with the Air National Guard. These soldiers are employed by the federal government and are officers or enlisted personnel in the New Hampshire National Guard.

## **Funding**

The financial activity of the Adjutant General's Department is accounted for in the General Fund and the Capital Projects Fund of the State of New Hampshire.

The following table summarizes the revenues collected and expenditures paid during the nine months ended March 31, 2007 for the Adjutant General's Department.

**Adjutant General's Department  
Summary Of Revenues Collected And Expenditures Paid  
For The Nine Months Ended March 31, 2007**

	<b>General Fund</b>	<b>Capital Projects Fund</b>	<b>Total</b>
Total Revenues Collected	\$ 7,842,830	\$ 7,822,808	\$ 15,665,638
Total Expenditures Paid	<u>9,841,858</u>	<u>8,711,281</u>	<u>18,553,139</u>
<b>Excess (Deficiency) Of Revenues Collected Over (Under) Expenditures Paid</b>	<u>\$ (1,999,028)</u>	<u>\$ (888,473)</u>	<u>\$ (2,887,501)</u>

## **Prior Audit**

The most recent prior financial and compliance audit of the Adjutant General's Department was for the nine months ended March 31, 1999. The appendix to this report on page 41 contains a summary of the current status of the observations contained in that report. Copies of the prior audit report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

## **Audit Objectives And Scope**

The primary objective of our audit is to express an opinion on the fairness of the presentation of the financial statement of the Adjutant General's Department for the nine months ended March 31, 2007. As part of obtaining reasonable assurance about whether the financial statement is free of material misstatement, we considered the effectiveness of the internal controls in place over the Department and tested compliance with certain provisions of applicable State and federal

laws and regulations related to the Department. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Revenue Collected,
- Expenditures Paid, and
- Capital Assets.

Our reports on internal control over financial reporting and on compliance and other matters and on management issues, the related observations and recommendations, our independent auditor's report, and the financial statement of the Adjutant General's Department are contained in the report that follows.

## **Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters**

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying Statement Of Revenues Collected And Expenditures Paid - General Fund And Capital Projects Fund of the Adjutant General's Department for the nine months ended March 31, 2007 and have issued our report thereon dated September 24, 2007. We conducted our audit in accordance with 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.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Adjutant General's Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Adjutant General's Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in Observations No.1 through No. 4 to be significant deficiencies in internal control over financial reporting.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Adjutant General's Department's financial statement is free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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*. However, we noted certain immaterial instances of noncompliance which are described in Observations No. 5 through No. 9.

The Adjutant General's Department's response is included with each observation in this report. We did not audit the Adjutant General's Department's responses and, accordingly, we express no opinion on them.

We noted certain other management issues, which are described in Observations No. 10 through No. 12 that we reported to the management of the Adjutant General's Department in a separate letter dated September 24, 2007.

This report is intended solely for the information and use of the management of the Adjutant General's Department, others within the Adjutant General's Department, and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.

Office Of Legislative Budget Assistant

September 24, 2007

**Internal Control Comments**  
**Significant Deficiencies**

**Observation No. 1: The Department Should Seek Federal Reimbursement For All Allowable Costs Including Workers' And Unemployment Compensation Costs**

*Observation:*

The Department does not seek federal reimbursement for workers' and unemployment compensation expenses for its employees in federally funded positions. The Department reported it was not aware these costs were reimbursable.

Per the National Guard Military Operation and Maintenance Master Cooperative Agreement Article III, Section 305.c, "The costs of compensation for personnel services, including the cost of fringe benefits, including, but not limited to, the costs of workmen's compensation, unemployment compensation, State sponsored life and health insurance, and retirement benefits shall be allowable in the amount determined in accordance with the procedures set forth in NGR 5-1/ANGI 63-101."

As of March 31, 2007, 95 of the Department's 131 State employees were either fully or partially federally funded. While the Department requested and received federal participation in funding employee fringe benefits such as retirement benefits and life and health insurances, it did not request and therefore did not receive federal participation in funding workers' and unemployment compensation benefits for those federally funded positions.

The total workers' compensation expense paid by the Department during the nine months ended March 31, 2007 was \$13,411. Most of this expense was paid on behalf of employees in federally funded positions and therefore was eligible for federal participation. According to the Department's business office, at least \$250,000 of these benefits paid during the period July 1, 2000 through March 31, 2007 appears eligible for federal reimbursement; however, federal reimbursement has not been requested for these amounts.

*Recommendation:*

The Department should diligently review the Cooperative Agreements and their appendices, NGR 5-1/ANGI 63-101, and OMB Circular A-87 to ensure they are recovering all allowable costs from the federal government.

The Department should review with its federal partners the possibility of recovering previously unrequested federal participation in funding workers' and unemployment compensation benefits for federally funded State employees.

*Auditee Response:*

We Concur.

Per New Hampshire RSA 21-I:24, II-III (Authority for payment of workers' compensation for State employees) "... If the injured claimant was employed in a department or agency which has received a legislative appropriation for this purpose, the commissioner of administrative services shall charge said sum or sums to the legislative appropriation. ... If federal regulations prohibit the direct assessment of payments made pursuant to RSA 21-I:24, I from otherwise applicable federal funds, said payments shall be a charge against the general fund in the first instance, but the commissioner of administrative services shall seek recovery of these payments in such amount and under such conditions as the federal regulations applicable to each affected agency may prescribe."

Per the above RSA, our workers' compensation charges are processed by the Department of Administrative Services (DAS) and charged to a universal general fund account within our agency budget that is set up for this sole purpose. The employee funding source has never been questioned and all charges are paid from this universal general fund as required by the RSA noted above. We have been told by Administrative Services that this is the same for other State agencies as well.

We have never been notified by DAS that they were seeking recovery of these workers' compensation payments as noted above, nor that we should seek reimbursement from the federal government. We believe that there may be a specific reason as to why this has never occurred and are hesitant to speculate further. We have always been told by DAS that workers' compensation expenses are a "State obligation" (General Fund expense).

We will again request assistance from DAS to effect these reimbursements.

*Comment From The Department Of Administrative Services:*

The Department of Administrative Services in consultation with the Division of Risk Management understands that reimbursement for workers' compensation and unemployment compensation are at the discretion of the federal program, depending on the definition of allowable cost within the appendices of the individual program. Each federal program, within the Cooperative Agreements and their appendices, are subject to a case-by-case review as to which costs are allowable and reimbursable.

**Observation No. 2: Policies And Procedures For Kelly Days Should Be Formalized**

*Observation:*

The Department's use of "Kelly Days" as a variant of compensatory time for firefighters has not been incorporated into statute, administrative rule, the Collective Bargaining Agreement, or formal Department policies.

Department firefighters work a schedule of 24 hours on and 48 hours off and are paid based on an average of 53 hours per week. Kelly hours accumulate when a firefighter's schedule causes him or her to work more than 212 hours in a 28-day period. Scheduled hours worked beyond 212 hours are "banked" until a full shift of time has accumulated (24 hours). When a firefighter accumulates 24 hours, a "Kelly Day" or a paid 24-hour shift off is granted. Firefighters use an internal tracking system at Pease Air National Guard Base (Pease) to account for the accrual and use of Kelly Days. The accrual and use of Kelly Days is not reported to the Department's business office or recorded in the State's payroll system (GHRIS).

The Department employs 32 firefighters at Pease. Firefighters, as classified State employees, are entitled to overtime, holiday pay, and leave time in accordance with the State's Collective Bargaining Agreement (CBA). As such, firefighters also earn overtime and compensatory time for hours worked over their normally scheduled shifts in addition to Kelly Days earned for scheduled work beyond 53 hours per week. The concept and practice of using Kelly Days to account for scheduled time worked over a normal workweek is common in the firefighting community, but is not formally described by the Department.

In our prior financial and compliance audit of the Department for the nine months ended March 31, 1999, we recommended the Department request the Department of Administrative Services' Division of Personnel to establish written policies and procedures for Kelly Days, and if deemed appropriate, to include a provision for Kelly Days in the CBA.

Subsequent to our 1999 audit, the Department obtained a letter from a Director of Personnel describing Kelly Days as "a tradition with the fire service for years," which "can/must continue until there is a specific written agreement or other legitimate act to discontinue the practice." However, no State personnel rules were developed regarding the establishment, approval, use, or tracking of Kelly Days.

*Recommendation:*

All State payroll practices should be established by formal process including statute, rule, Collective Bargaining Agreement, or formal policy and procedure, including the Department's use of Kelly Days to provide firefighter employees compensatory time off for scheduled hours worked in excess of the paid workweek. Payroll practices should not rely principally upon historical or common industry practice without formal vetting and acceptance. Employees and management should be protected from foreseeable disagreement resulting from informal understandings and changing points of view.

The Department's business office should take an active role in monitoring the accrual and use of Kelly Days to ensure that Kelly Days are used as intended.

*Auditee Response:*

We Do Not Concur.

The Business Office cannot effectively monitor Kelly Days as efficiently as the Pease Fire Chief is already doing. An extensive and immediate knowledge of the firefighters schedules, shifts, and activities is required for this program to work effectively.

Kelly Days are unique to the field of fire service and are unique within State government to the Adjutant General's Department. Kelly Days are an effective management tool that can reduce the amount of overtime/compensatory time that can be accrued by the firefighters. Kelly Days are not a liability to this agency or the State of New Hampshire, as upon termination of employment, the number of Kelly Days remaining to the employee's credit shall lapse. A senior member of the State negotiating committee was asked again by our agency Administrator on July 27, 2007 if this practice should be added to the Collective Bargaining Agreement (CBA) and/or Division of Personnel Rules. The negotiator stated, as he has in the past, that Kelly Days are unique to the Adjutant General's Department and should not be included in either the CBA or Division of Personnel Rules. The Pease Fire Department has an in-house policy which governs these Kelly Days. As far as the Business Office taking a more active role in the accounting of Kelly Days, this is not feasible as the Department has looked into the possibility of tracking Kelly Days in the GHRS system, and it will not work based on the set up of GHRS and the complicated way that Kelly Days are accrued. The Kelly Days are tracked very carefully at the Pease Fire Department as each senior officer (three Assistant Chiefs) tracks their own shift's time and work schedules, which includes the Kelly Days. These officers monitor the Kelly Days extremely carefully, as do the Deputy Fire Chief and Fire Chief. The Department is comfortable with the thorough recordkeeping method used to track all time at the Pease Fire Department as the Fire Chief and Deputy Fire Chief take such an active role in monitoring all time and schedules. It is also important to note that in State fiscal year 2007, the cost for overtime paid for the Pease Fire Department was \$137,000. If the Kelly Days system was not being utilized, the overtime cost would have been an additional \$132,000 that the National Guard Bureau would not authorize reimbursement for.

The existing in-house policy of the Pease Fire Department will be authorized and established by the Adjutant General as a formal Department policy for the firefighters.

*Comment From The Department Of Administrative Services:*

The Department of Administrative Services, in consultation with the Director of the Division of Personnel feels that, given the unique nature of the practice as it relates to this specific group of employees in the Adjutant General's Department, the topic [Kelly Days] should be included in the sub unit agreement currently being negotiated and memorialized in the 2007-2009 Collective Bargaining Agreement.

### **Observation No. 3: Risk Assessment Practices Should Be Formalized And Documented For The Department's Business Office Functions**

*Observation:*

While the Department does perform several activities related to managing risks faced by its business office operations, the risk assessment and related decision making that led the

Department to perform those particular activities were ad-hoc activities and not a formal risk control process.

Risk management is a continuous and cyclical process that should be integral to management's operations review and decision processes. Risk may be external, operational, or informational and can be defined as the threat that an event or action will adversely affect an entity's ability to achieve its objectives, including the risk of fraud. Risk management includes the phases of identification and assessment of risks, determination of needs, implementation of policies and procedures, ensuring awareness, and monitoring and evaluation. The identification and assessment phase is an especially essential component of the risk management cycle because it is the foundation for the other risk management phases. Risk assessments provide decision makers with information needed to understand factors that can negatively impact operations and outcomes and make informed judgments regarding what actions are needed to reduce risk.

Effective risk assessment practices generally include processes for:

- Identifying threats that could adversely affect critical operations and assets.
- Estimating the likelihood that such threats will materialize based on historical information and judgment of knowledgeable individuals.
- Identifying and ranking the value, sensitivity, and criticality of the operations and assets that could be affected should a threat materialize in order to determine which operations and assets are most important.
- Estimating, for the critical and sensitive assets and operations, the potential losses or damage that could occur if a threat materializes, including recovery costs.
- Identifying cost-effective actions to mitigate or reduce the risk. These actions can include implementing new organizational policies and procedures as well as technical or physical controls.
- Documenting the results and developing an action plan.

While identifying, assessing, and reacting to risks on an ad-hoc basis is an important management function, a formal proactive approach to risk management can provide increased efficiency and effectiveness to operations by helping to anticipate and react to risks where appropriate to avoid or minimize harm to operations. Documenting risk assessment activities is critical to a formal control process to ensure that management and employees are aware of and respond to management's control concerns and the Department's control environments.

*Recommendation:*

The Department should adopt a formal risk assessment component to its business office control system. The risk assessment process implemented by the Department should include formal policies and procedures that outline steps that promote management's continuous consciousness of risks faced by the business office and management's documented evaluation and reaction to that risk. Documentation should include the risk assessment elements bulleted above. Documenting the risk assessments will provide a written record and facilitate the Department's responses to risks identified.

Since risks and threats change over time, it is important the Department periodically reassesses risks and reconsiders the appropriateness and effectiveness of policies and controls selected to manage risks.

*Auditee Response:*

We Concur.

The Department has many policies and procedures in place for evaluating and assessing risks, including the following:

- *New Hampshire National Guard Cooperative Agreement Standard Operating Procedures* - This document was created by the United States Property and Fiscal Officer (USPFO) and State Business Office to ensure compliance and control over our Cooperative Agreements. This document is necessary to provide specific guidance and responsibilities for all involved with the New Hampshire National Guard Cooperative Agreements and Appendices. This document prescribes duties and responsibilities for all Cooperative Agreements and Appendices, including the Master Cooperative Agreement (MCA). This document includes a “Management Controls Checklist”, which is to be reviewed at least quarterly by each Program Director for their particular Appendix. The USPFO and the Administrator can require that this checklist be reviewed more frequently if they see fit. This Standard Operating Procedure (SOP) is governed by the Cooperative Agreement Council, who meets quarterly and reviews this SOP; making recommended changes in accordance with NGR 5-1 and applicable State laws and rules. The Administrator reviews the checklist quarterly to determine if there any issues on a “Department-wide” scale that need addressing and coordinates with the USPFO. From these reviews, changes to internal policies have resulted.
- *State of New Hampshire – Internal Controls Tool Kit*
- *State of New Hampshire Department of Administrative Services Fraud Prevention Policies and Procedures*
- *State of New Hampshire – Department of Administrative Services Internal Controls Guide* - This guide is used as the main internal audit tool and reviewed quarterly by the Administrator who goes through this guide and “audits” the agency. The most recent reviews were completed on January 16, 2007, April 17, 2007, and July 7, 2007. These reviews are part of the Department’s regular management control process and have raised some internal control concerns, for example, within the Facilities Office. These issues have been addressed and the Facilities Office is proactively addressing these concerns.

As a result of these regular reviews and concerns of the Accountant and Administrator, the Business Office developed the following guidelines/policies which have become an integral part of its business operations:

- *Adjutant General’s Department – Fraud Reporting and Prevention Policy* – This policy is given to every State employee in the agency. Supervisors are reminded on a regular basis to review this policy with their staff.
- *The Adjutant General’s Department Travel Guidelines* – This policy was developed after a review of travel issues within the agency.

- *The Adjutant General's Department State Purchasing/Contracting Guidelines* – This document was created by the Business Office to assist in purchasing goods and services.
- *Purchasing/Contracting Flowcharts* – One chart outlines the steps used in the process of purchasing goods and the other details the steps to be taken in the procurement of services.

In addition to the above noted risk assessment and internal controls tools, the Business Office also works closely with the USPFO, the USPFO-Internal Review Office, and the New Hampshire National Guard Judge Advocate (JAG) Office. Together, we are continually reviewing internal controls, policies, procedures and regulations which we all can benefit from to make our unique State-federal agency the best it can be.

#### **Observation No. 4: The Department Should Coordinate With The National Guard Bureau To Ensure Timely Federal Reimbursements**

##### *Observation:*

The Department is not collecting federal reimbursements within the timeframe established by agreement between the Department and the National Guard Bureau, a federal entity.

The New Hampshire National Guard Cooperative Agreement Standard Operating Procedures, Chapter 6.6, (d), provides for reimbursement to the State within ten business days after the federal program managers receive a reimbursement request and supporting invoice. The ten-day requirement is consistent with the Treasury-State Agreement between the U.S. Department of Treasury and the State Treasury in accordance with the Cash Management Improvement Act of 1990 (P.L. 101-453), as amended.

In reviewing the intervals between the dates federal reimbursements were requested and the federal funds were received, we noted that for 23 of 42 (55%) requests tested, the intervals were greater than ten business days and were as many as 27 business days after the request for reimbursement was made.

##### *Recommendation:*

The Department should coordinate its efforts with the appropriate level at the National Guard Bureau to ensure federal reimbursements are made within the ten-day timeframe established by agreement between the Department and the National Guard Bureau.

##### *Auditee Response:*

We Concur.

This issue is of great concern of our agency and we have worked extremely hard over the past year to remedy this situation. Unfortunately, the final step in the reimbursement process (the actual payment to the State) is out of our control and we can't dictate when the federal reimbursing agency makes these actual payments to the State Treasury. These untimely reimbursements are due to problems within the Defense Finance and Accounting Service (DFAS), a third party who reimburses the State on behalf of the National Guard. The United



States Property and Fiscal Officer (USPFO) for the New Hampshire National Guard has met with DFAS and they are aware that we are not satisfied with the length of time these reimbursements are taking. We have also recently met with the New Hampshire Chief Deputy State Treasurer to discuss our concerns with the present 10-day reimbursement requirement and the difficulties that the third party is having in making this timeline. During this meeting, the USPFO pointed out that on a national level, the allowable time period for these reimbursements to states is 15 days. It was also noted at this meeting that our ten appendices (grants) are hard coded to one Catalog of Federal Domestic Assistance (CFDA) number in the State Integrated Financial System (IFS). The "billing" (reimbursement request) is prepared and sent out for federal reimbursement when our general expenditures reach \$300,000 in the State IFS system - which is approximately every 30 days. Each of the reimbursements to the individual appendices may come in to the State Treasury on different days, but because the IFS system only allows for one CFDA number to be recognized, the receipts are not recorded until all of the reimbursements for each appendix (grant) for that billing period are received at State Treasury. Our meeting with the Chief Deputy State Treasurer was very productive and we hope to extend the reimbursement timeline from ten to fifteen days.

## Federal Compliance

### **Observation No. 5: The Department Should Ensure All Subject Contracts Comply With Federal Suspension And Debarment Provisions**

*Observation:*

The Department did not consistently verify whether parties to whom it awarded federally funded contracts equal to, or greater than, \$25,000 were not suspended or debarred from federal contracts. The Master Cooperative Agreements (MCAs) between the Department and federal government include a requirement for compliance with the suspension and debarment provisions codified in federal regulation 32 CFR Part 25.

Federal regulation, 32 CFR Part 25, prohibits the Department from contracting with parties that are suspended or debarred or whose principals are suspended or debarred. The regulation applies to procurement contracts for goods and services equal to or in excess of \$25,000 and requires the Department obtain verification that the intended contractor is not suspended or debarred.

According to 32 CFR Part 25.300, the acceptable suspension and debarment verification methods are:

1. Checking the Excluded Parties Listing System (EPLS),
2. Obtaining a certification from the respective party, or
3. Adding a clause or condition to the contract.

Department personnel reported suspension and debarment clauses were added to certain contracts.

The Department of Administrative Services (DAS) provides procurement services to the Department. According to DAS personnel, past procurement services did not consistently include verification that contracting parties were not suspended or debarred by the federal government; however, as of May 31, 2007, procurement services were to consistently include checking intended contractors for suspension or debarment.

Compliance with the MCAs' suspension and debarment provisions is the responsibility of the Department. The provision of procurement services by DAS does not relieve the Department of its responsibility to ensure compliance with the suspension and debarment requirements cited in the Department's agreements with the federal government. While the audit tests revealed no cases of the Department contracting with suspended or debarred parties, inconsistent attention to the suspension and debarment provisions exposes the Department to the risk of contracting with a suspended or debarred party and losing the federal funding participation for services provided by that contracting party.

A similar comment was issued during the prior audit of the Department for the nine months ended March 31, 1999.

*Recommendation:*

The Department should consistently incorporate one or more of the acceptable methods to ensure that it contracts with parties that are neither suspended nor debarred by the federal government. In cases where the Department chooses to utilize the DAS to check for contractor suspension and debarment status, the Department should establish how the results of the DAS' suspension and debarment verification would be reported and certified to the Department to ensure the Department's continued compliance with the suspension and debarment provisions.

*Auditee Response:*

We Concur.

As required by law, all of our construction projects greater than \$25,000 are planned, designed and managed through the Department of Administrative Services - Bureau of Public Works (BPW). BPW is responsible for all phases of construction project management. Part of BPW's project administration includes checking for debarred vendors. Debarment is investigated by BPW's contracts section at the time of contract bidding and BPW will not contract with any vendor that is debarred or on the "blacklist". We are comfortable with BPW's process and trust that their construction management is more than satisfying the debarment check; we do not see why we should duplicate their good work.

We were unaware that there was a requirement to check for debarment for all federally funded contracts over \$25,000. We thought that only construction contracts over \$100,000 were applicable to this rule. We will be happy to check our non-construction contracts over \$25,000 for debarment. Neither the Department of Administrative Services or the Attorney General's Office are aware of any certification or form that we should be completing to prove that debarment was checked.

We will add a line to our contracting checklist to document our review of contractor suspension and debarment status.

**Observation No. 6: Timing Of Requests For Federal Reimbursements Should Be In Accordance With Cooperative Agreements**

*Observation:*

The Department did not consistently request federal reimbursements in the timeframe provided by the Master Cooperative and the Military Construction Cooperative Agreements between the Department and the National Guard Bureau intended to expedite the federal reimbursement of the State's General Fund.

The Department's practice is to request federal reimbursement when \$300,000 in federal reimbursable general expenditures have accumulated since the last request. According to Department personnel, the \$300,000 threshold was established through past meetings with the State Treasury, the United States Property and Fiscal Officer (USPFO), the U.S. Department of Treasury, and the Department. Apparently, the understanding at the time of those discussions

was the \$300,000 threshold would result in requests for federal reimbursement at least monthly, in compliance with the Cooperative Agreements.

During the nine months ended March 31, 2007, the Department collected approximately \$7.7 million of federal funds from federal operating grants in seven draws, for an average of \$1.1 million per draw. During the same period the Department collected \$7.8 million of federal funds from federal construction grants, making six draws of funds. Full compliance with the Cooperative Agreements would have resulted in nine requests under each agreement and would have expedited the federal reimbursement of the State's General Fund.

*Recommendation:*

The Department should establish procedures to ensure federal reimbursement is requested at least monthly in accordance with the minimum requirement established in the Cooperative Agreements. As part of this effort, the Department may need to request an adjustment to the threshold in the CMIA system to initiate the drawing of federal funds on a more frequent basis that will allow the Department to both meet the Cooperative Agreement requirement and minimize the cash-flow costs to the State.

*Auditee Response:*

We Concur.

The meeting with the above noted parties resulted in an agreement between all that our requests for federal reimbursement would be generated when the CMIA [Cash Management Improvement Act subsystem in the State's accounting system (NHIFS)] threshold of \$300,000 for general expenditures, excluding payroll and benefits, was reached - which is approximately monthly. Once a CMIA threshold is established, it cannot be randomly changed and reimbursements cannot be requested simply by a certain date. This is why there were seven requests for reimbursement under the Master Cooperative Agreement (MCA) in a nine-month period; our reimbursement requests are based on the CMIA threshold, not a specific date. There were only six reimbursement requests for reimbursement under the Military Construction Cooperative Agreement (MCCA) as there wasn't financial activity in every month of the audit period for this agreement due to the construction schedules. Our requests for reimbursement must be done by either the CMIA threshold method or by a specific date. Due to the amount of total federal funds being managed by our Department, and after recently meeting with the State Treasury, we realize that we may need to change our CMIA threshold amount. We are planning on meeting with Treasury again to discuss our options regarding this threshold amount among other federal draw issues. We also eagerly anticipate that the new ERP [State accounting and reporting system] will be able to help with these types of issues.

## State Compliance

### **Observation No. 7: The Department Should Seek Governor And Council Approval For Cemetery Regulations, Including Fees For Interment**

#### *Observation:*

The Department made changes to its fee schedule and practice of charging non-New Hampshire Veterans for interment at the New Hampshire Veterans Cemetery (Cemetery) without the approval of the Governor and Council.

RSA 110-B:78 requires the Adjutant General to adopt regulations for the Cemetery, subject to the approval of Governor and Council, including regulations establishing fees for interment. Governor and Council most recently approved the Adjutant General's rules and regulations for the cemetery, along with a referenced fee schedule, on March 14, 2001.

According to the Cemetery's rules, regulations, and fee schedule, dated March 2001, a fee is to be charged for the interment of non-resident veterans. The scheduled fee for interment of a non-resident veteran is \$350.

The New Hampshire Veterans Cemetery has discontinued charging the fee for non-New Hampshire Veterans and has updated the fee schedule referenced in its rules without submitting the change to the Governor and Council for approval.

The Department is currently in the process of making other changes to the New Hampshire Veterans Cemetery's rules and regulations.

A similar comment was issued during the prior audit of the Department for the nine months ended March 31, 1999.

#### *Recommendation:*

In accordance with RSA 110-B:78, the Department should seek Governor and Council approval for changes to its regulations, including fees for interment. The Department should submit all proposed changes to its practice, or fees, to Governor and Council for approval prior to effecting any changes.

#### *Auditee Response:*

We Concur.

A new fee schedule was submitted to and approved by the Governor and Executive Council on August 22, 2007, item #33.

## **Observation No. 8: Service Award Administrative Rules Should Be Adopted**

### *Observation:*

The Department has not adopted administrative rules, pursuant to RSA 541-A, Administrative Procedure Act, for service awards. Service awards are medals, medallions, or certificates displaying an inscription stating the award is a “New Hampshire Award for Service,” the name of the war in which the recipient served and the beginning and ending dates of the war.

Per RSA 115-A:26, effective July 1, 2004, the Adjutant General shall adopt rules, pursuant to RSA 541-A, relative to:

- I. The dates for the 2-year application time period for each war for which a service award may be awarded under the law;
- II. Application forms and procedures for any person eligible for a service award; and
- III. Any other matter deemed necessary by the adjutant general relative to the design, manufacture, production, or distribution of service awards under this subdivision.

### *Recommendation:*

The Department should adopt administrative rules relative to service awards as required by RSA 115-A:26.

### *Auditee Response:*

We Concur.

The Adjutant General is working with the Legislature to revise and refine this law in order to make it possible for the Department to execute.

## **Observation No. 9: Statements Of Financial Interests Should Be Filed Timely**

### *Observation:*

Two of the five members of the Department’s Scholarship Fund Committee (Committee) were late in filing a statement of financial interests required by RSA 15-A. Three members failed to file the required disclosures.

RSA 15-A:3, III requires, “Every person appointed by the governor, governor and council, president of the senate, or the speaker of the house of representatives to any board, commission, committee, board of directors, authority, or equivalent state entity whether regulatory, advisory, or administrative in nature” to file a statement of financial interests. According to RSA 15-A:6, subject persons are required to file the statement of financial interests on an annual basis no later than the third Friday in January or within 14 days of assuming the office.

A similar comment was issued during the prior audit of the Department for the nine months ended March 31, 1999.

*Recommendation:*

The Department should establish procedures to ensure all Committee members submit statements of financial interests by the required filing date, in accordance with RSA 15-A.

*Auditee Response:*

We Concur.

The members of the Scholarship Committee will be reminded again of this requirement, and if they fail to comply with the terms of RSA 15-A:6, they will not be allowed to serve on the Scholarship Committee.

## **Auditor's Report On Management Issues**

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying Statement Of Revenues Collected And Expenditures Paid – General Fund And Capital Projects Fund of the New Hampshire Adjutant General's Department for the nine months ended March 31, 2007, and have issued our report thereon dated September 24, 2007.

We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

In planning and performing our audit of the Statement Of Revenues Collected And Expenditures Paid – General Fund and Capital Projects Fund of the Adjutant General's Department for the nine months ended March 31, 2007, we noted issues related to the operation of the Adjutant General's Department that merit management consideration but do not meet the definition of a significant deficiency as defined by the American Institute of Certified Public Accountants, and were not issues of noncompliance with laws, rules, regulations, and contracts.

Those issues that we believe are worthy of management consideration but do not meet the criteria of significant deficiencies or noncompliance or other matters are included in Observations No. 10 through No. 12 of this report.

This auditor's report on management issues is intended solely for the information of the management of the Adjutant General's Department, others within the Adjutant General's Department, and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.

Office Of Legislative Budget Assistant

September 24, 2007



## Management Issues Comments

### **Observation No. 10: Relationship With New Hampshire State Veterans Cemetery Association Should Be Reviewed**

*Observation:*

The Department's relationship with the New Hampshire State Veterans Cemetery Association (Association), a not-for-profit organization, should be reviewed and clarified. The Department provides services to the Association without a memorandum of understanding, potentially exposing the Department to additional and unnecessary risks.

The Department is responsible for the administration, operation, and maintenance of the New Hampshire Veterans Cemetery (Cemetery) and is authorized to accept gifts pursuant to RSA 110-B:75. Department employees manage Cemetery operations. While the Department has the authority to directly accept donations for the Cemetery, the Department's Cemetery website and literature directs donors to send donations to the Association's post office box.

Department employees perform certain administrative duties for the Association. Those duties include accepting donations made to the Association, gathering the mail from the Association's post office box, opening the Association's mail, preparing the bank deposits for the donations received, depositing the donations in the Association's bank account, and preparing thank you letters to donors. The thank you letters are drafted by the Department and forwarded to the Association president for signature and mailing. Disbursements from the Association account are under the control of the Cemetery Association Board of Directors and are based on Department requests. Department employees' formal job descriptions include providing administrative support to the Association.

According to Department personnel, the Association was established to encourage donations to the Cemetery based on the assumption a donation to the Association would provide the donor with a larger tax deduction compared to a donation made directly to the Cemetery, a State entity. A limited review of charitable contribution deductions under the federal tax code and a July 2007 auditor inquiry of the Internal Revenue Service revealed a donor would receive a 100% tax deduction if donating directly to the Cemetery as long as the donation was not tied to a specific purpose.

We question the appropriateness of Department employees performing duties for a non-State entity. In addition, the Department may be exposing the State to additional and unnecessary risks by providing these services to the Association.

*Recommendation:*

The Department should consult the Attorney General's Office regarding the appropriateness and the potential liabilities related to State employees performing duties for a non-State entity. If the Department's services to the Association are found to be appropriate and of acceptable risk, a formal memorandum of understanding between the Department and the Association should be established with assistance from, and approval by, the Attorney General's Office.

*Auditee Response:*

We Concur.

The New Hampshire State Veterans Cemetery belonged to two different State agencies before it was assigned to the Adjutant General's Department. We gained the Cemetery in 1997 along with a very small operating and maintenance budget. The Deputy Adjutant General at the time had a very ambitious vision of what the Cemetery should become and the small budget that was appropriated to the Cemetery was insufficient to accomplish these goals. The New Hampshire State Veterans Cemetery Association (NHSVCA) was then created at the request of the Department to specifically streamline the initial administrative burden placed on this agency and to provide a tax deductible avenue for those wishing to support the Cemetery. The NHSVCA has been able to raise thousands of dollars through donations to construct a beautiful memorial walkway and history walkway.

The NHSVCA Board of Directors accepts and reviews requests made to Board by the Adjutant General. These requests are discussed at Board Meetings and voted on by Board members. The NHSVCA has supported requests such as computer services, uniforms and flags. These requested items and services are expenses that are considered to be over and above the state operating budget, but essential to the operation of the Cemetery. Every item and service received from the NHSVCA is accepted through the Governor and Council process.

Three administrative positions at the Veterans Cemetery have an accountability noted in their Supplemental Job Descriptions (SJD) which call for administrative support to the NHSVCA. The New Hampshire Division of Personnel has approved these three SJD's. These administrative positions spend less than 30 minutes a week on average supporting the NHSVCA with light clerical work. Part of the coordination with the NHSVCA and the Cemetery administration includes assuring that every item that is donated to the cemetery by the NHSVCA is submitted to Governor and Council for approval.

It should be noted that not all donations go to the NHSVCA. Over \$10,000 has been donated directly to the Cemetery and deposited into the proper State account. These donations are also accounted for through Governor and Council process.

The Cemetery's web page is also donated and no general funds are used to support this. It is paid for and maintained by the NHSVCA. The donation link/button on the website is there for citizens who want to buy a brick and support the memorial walkway. Many citizens simply want to support the Cemetery with a cash donation and claim that tax deductible benefit.

We are currently drafting a Memorandum of Understanding between the Adjutant General and the NHSVCA and will seek assistance from the Attorney General on the proper content of this document. We will also request the Attorney General's opinion of the appropriateness and the potential liabilities related to State employees performing duties for a non-State entity.

## **Observation No. 11: The Department Should Establish Policies And Procedures To Safeguard And Preserve Historical Artifacts**

### *Observation:*

The Department has custody of valuable historical artifacts including civil war cannons, statues, medals, flags, and photographs. The Department has not established formal controls to protect and preserve these artifacts from theft, misplacement, decay, or accidental destruction or plans for the future use of these artifacts.

One Department employee is singly responsible for the custody and accounting of these artifacts and no periodic physical inventory is performed. A lack of segregation of duties for the custody and accounting functions increases the risk that errors or frauds may not be detected. The lack of physical inventories also increases the risk that errors or frauds may not be detected.

### *Recommendation:*

The Department should establish formal controls for the safeguarding and preservation of the historical artifacts in its custody as well as a plan for the future use and display of the artifacts. The Department's controls should include proper segregation of the custody and accounting functions, periodic physical inventories, preservation efforts, and plans for future use. The Department should consider consulting with the Department of Cultural Resources for guidance on the preservation and protection of historical artifacts.

### *Auditee Response:*

We Concur.

The Department does have a recorded inventory (by location) of historic items and artifacts. These items are recorded on "NHNG Form 2062". A representative from the State Business Office (Program Assistant) checks these inventories once a year along with the military officer in charge of each armory. We do agree that these inventories could be better recorded in some type of database and we will begin using this format to augment the current method of recording. The Program Assistant also works with the New Hampshire National Guard Historian who is a resource in the area of military history and artifacts. We also refer to Army Regulation #870-20, *Army Museums, Historical Artifacts and Art* and Army Regulation #870-5, *Military History, Responsibilities, Policies and Procedures*. While broad in their context, these regulations prescribe the Department of the Army policy governing the collection, preservation, storage and accountability of historical artifacts. We have consulted with the Department of Cultural Resources in the past, and we were told by this agency that there is no unified statewide process to record historical items. We will establish an in-house procedure to track these historic items.

## **Observation No. 12: Controls Over Consumable Inventories Should Be Improved**

### *Observation:*

The Department has not adequately segregated duties over its consumable inventories. Inadequate segregation of duties increases the risk that errors and fraud may not be detected.

During the nine months ended March 31, 2007, approximately \$22,000 of consumable inventory was purchased and used. The reported consumable inventory balance at March 31, 2007 was approximately \$18,000.

The following control weakness was noted.

One employee is responsible for: receiving, storing, and issuing consumables; all record keeping; performing the annual physical inventory; and resolving discrepancies between the physical count and the consumable inventory records. No mitigating controls were identified to offset the risk posed by the lack of segregation of duties noted.

A similar comment was issued during the prior audit of the Department for the nine months ended March 31, 1999.

### *Recommendation:*

The Department should improve controls over its consumable inventory including segregating incompatible duties within its consumable inventory function to reduce the risk of delayed detection of errors or fraud and increase control over its consumable inventory.

The Department should consider the necessity of maintaining a consumable inventory when most items in inventory are readily available in nearby outlets.

### *Auditee Response:*

We Concur.

The Facilities Manager will segregate these duties among the State Maintenance/Facilities staff.

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## **Independent Auditor's Report**

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying Statement Of Revenues Collected And Expenditures Paid – General Fund and Capital Projects Fund of the New Hampshire Adjutant General’s Department for the nine months ended March 31, 2007. This financial statement is the responsibility of the Adjutant General’s Department’s management. Our responsibility is to express opinions on this financial statement based on our audit.

We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Adjutant General’s Department’s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statement only presents the revenues collected and expenditures paid by the Adjutant General’s Department. Accordingly, this financial statement does not purport to, and does not, constitute a complete financial presentation of either the Adjutant General’s Department or the State of New Hampshire in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, this financial statement is prepared on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues collected and expenditures paid – General Fund and Capital Projects Fund by the

Adjutant General's Department for the nine months ended March 31, 2007 on the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming opinions on the Statement Of Revenues Collected And Expenditures Paid – General Fund and Capital Projects Fund of the New Hampshire Adjutant General's Department. The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement, except for the Prior Period Disbursements, Total Disbursements, and Unexpended amounts as listed in the Schedule Of Budget And Disbursements – Capital Projects Fund. In our opinion, except for the financial information described in the preceding sentence, the supplementary schedules are fairly stated, in all material respects, in relation to the financial statement taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 24, 2007 on our consideration of the Adjutant General's Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, grants, agreements, and regulations, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

September 24, 2007

Office Of Legislative Budget Assistant

**STATE OF NEW HAMPSHIRE  
ADJUTANT GENERAL'S DEPARTMENT**

**STATEMENT OF REVENUES COLLECTED AND EXPENDITURES PAID  
GENERAL FUND AND CAPITAL PROJECTS FUND  
FOR THE NINE MONTHS ENDED MARCH 31, 2007**

	<b>General Fund</b>	<b>Capital Projects Fund</b>	<b>Total</b>
<b><u>Revenues Collected</u></b>			
Federal Operating Grants	\$ 7,721,883	\$ 7,822,808	\$ 15,544,691
Armory Rentals	86,955	-0-	86,955
Non-Veterans Burial Fees	26,650	-0-	26,650
Other	7,342	-0-	7,342
<b>Total Revenues Collected</b>	<b><u>7,842,830</u></b>	<b><u>7,822,808</u></b>	<b><u>15,665,638</u></b>
<b><u>Expenditures Paid</u></b>			
Salaries And Benefits	5,687,321	-0-	5,687,321
Utilities	1,899,474	-0-	1,899,474
Maintenance And Repair	818,830	-0-	818,830
Security Services	403,069	-0-	403,069
Rents And Leases	398,035	-0-	398,035
Environmental Activities	201,465	-0-	201,465
Current Expense	181,573	-0-	181,573
Design Fees	107,944	-0-	107,944
Other	98,499	82,632	181,131
Travel	45,648	-0-	45,648
Joint Force Headquarters-Concord	-0-	8,322,748	8,322,748
Armory Renovations	-0-	305,901	305,901
<b>Total Expenditures Paid</b>	<b><u>\$ 9,841,858</u></b>	<b><u>\$ 8,711,281</u></b>	<b><u>\$ 18,553,139</u></b>
<b>Excess (Deficiency) Of Revenues</b>			
<b>Collected Over (Under)</b>			
<b>Expenditures Paid</b>	<b><u>\$(1,999,028)</u></b>	<b><u>\$ (888,473)</u></b>	<b><u>\$ (2,887,501)</u></b>

The accompanying note is an integral part of this financial statement.



**STATE OF NEW HAMPSHIRE  
ADJUTANT GENERAL'S DEPARTMENT  
REVENUES COLLECTED AND EXPENDITURES PAID**

**NOTE TO THE FINANCIAL STATEMENT  
FOR THE NINE MONTHS ENDED MARCH 31, 2007**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Financial Reporting Entity**

The Adjutant General's Department (Department) is an organization of the primary government of the State of New Hampshire. The accompanying financial statement reports certain financial activity of the Department.

The revenues and expenditures of the Adjutant General's Department are accounted for and reported in the General and Capital Projects Funds in the State of New Hampshire's Comprehensive Annual Financial Report (CAFR).

**B. Basis Of Presentation – Fund Accounting**

The State of New Hampshire and the Adjutant General's Department use funds to report on their financial position and the results of their operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

*Governmental Fund Types*

General Fund

The General Fund accounts for all financial transactions not specifically accounted for in any other fund. By law, and with certain exceptions, all revenues of governmental funds are paid daily into the State Treasury. All such revenues, other than certain designated revenues, are credited to the General Fund. Annual expenditures that are not allocated by law to other funds are charged to the General Fund.

Capital Projects Fund

The Capital Projects Fund is used to account for certain capital improvement appropriations which are or will be primarily funded by the issuance of state bonds or notes, other than bonds and notes for highway or turnpike purposes, or by the application of certain federal matching grants.

**C. Measurement Focus And Basis Of Accounting**

The accompanying Statement Of Revenues Collected And Expenditures Paid – General Fund And Capital Projects Fund for the nine months ended March 31, 2007 was prepared using the cash basis of accounting.

Financial statements prepared on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, may differ from presentation under accounting principles generally accepted in the United States of America since certain revenues are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligations are incurred. Accordingly, the accompanying financial statement is not intended to present the Adjutant General's Department's results of operations in conformity with accounting principles generally accepted in the United States of America.

**STATE OF NEW HAMPSHIRE  
ADJUTANT GENERAL'S DEPARTMENT  
REVENUES COLLECTED AND EXPENDITURES PAID**

**BUDGET TO ACTUAL SCHEDULE - CASH BASIS – GENERAL FUND  
FOR THE NINE MONTHS ENDED MARCH 31, 2007**

	<b>Original Operating Budget</b>	<b>Actual</b>	<b>Favorable (Unfavorable) Variance</b>
<b><u>Revenues Collected</u></b>			
Federal Operating Grants	\$ 12,420,221	\$ 7,721,883	\$ (4,698,338)
Armory Rentals	69,401	86,955	17,554
Non-Veterans Burial Fees	11,200	26,650	15,450
Other	-0-	7,342	7,342
<b>Total Revenues Collected</b>	<b><u>\$ 12,500,822</u></b>	<b><u>\$ 7,842,830</u></b>	<b><u>\$ (4,657,992)</u></b>
<b><u>Expenditures Paid</u></b>			
Salaries And Benefits	\$ 7,475,120	\$ 5,687,321	\$ 1,787,799
Utilities	2,403,550	1,899,474	504,076
Maintenance And Repair	2,334,571	818,830	1,515,741
Security Services	757,000	403,069	353,931
Rents And Leases	805,854	398,035	407,819
Environmental Activities	700,000	201,465	498,535
Current Expense	465,626	181,573	284,053
Design Fees (Note 2)	55,935	107,944	(52,009)
Other	247,498	98,499	148,999
Travel	75,652	45,648	30,004
<b>Total Expenditures Paid</b>	<b><u>\$ 15,320,806</u></b>	<b><u>\$ 9,841,858</u></b>	<b><u>\$ 5,478,948</u></b>
<b>Excess (Deficiency) Of Revenues Collected Over (Under) Expenditures Paid</b>	<b><u>\$ (2,819,984)</u></b>	<b><u>\$ (1,999,028)</u></b>	<b><u>\$ 820,956</u></b>

The accompanying notes are an integral part of this financial schedule.

## **Notes To The Budget To Actual Schedule - Cash Basis - General Fund For The Nine Months Ended March 31, 2007**

### **Note 1 - General Budget Policies**

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature for adoption. This budget, which includes annual budgets for each year of the biennium, consists of three parts: Part I is the Governor's program for meeting all expenditure needs as well as estimating revenues to be received. There is no constitutional or statutory requirement that the Governor propose, or the Legislature adopt, a budget that does not resort to borrowing. Part II is a detailed breakdown of the budget at the department level for appropriations to meet the expenditure needs of the government. Part III consists of draft appropriation bills for the appropriations made in the proposed budget.

The operating budget is prepared principally on a modified cash basis and adopted for the governmental and proprietary fund types with the exception of the Capital Projects Fund.

The New Hampshire biennial budget is composed of the initial operating budget, supplemented by additional appropriations. These additional appropriations and estimated revenues from various sources are authorized by Governor and Council action, annual session laws, and existing statutes which require appropriations under certain circumstances.

The budget, as reported in the Budget To Actual Schedule, reports the initial operating budget for fiscal year 2007 as passed by the Legislature in Chapter 176, Laws of 2005.

Budgetary control is at the department level. All departments are authorized to transfer appropriations within their departments with the prior approval of the Joint Legislative Fiscal Committee and the Governor and Council. Additional fiscal control procedures are maintained by both the Executive and Legislative Branches of government. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State's financial system. The Legislative Branch, represented by the Joint Legislative Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

Unexpended balances of appropriations at year-end will lapse to undesignated fund balance and be available for future appropriations unless they have been encumbered or are legally defined as non-lapsing accounts.

#### *Variances - Favorable/(Unfavorable)*

The variance column on the Budget To Actual Schedule – Cash Basis highlights differences between the original operating budget for fiscal year 2007 and the actual revenues collected and expenditures paid through the nine months ended March 31, 2007. Actual revenues exceeding budget or actual expenditures being less than budget generate a favorable variance. Actual revenues being less than budget or actual expenditures exceeding budget cause an unfavorable variance. Unfavorable variances are expected for revenues and favorable variances are expected

for expenditures when comparing nine months of actual revenues collected and expenditures paid to an annual budget.

**Note 2 – Unfavorable Variance Explanation For Design Fees**

The unfavorable variance between budget and actual for design fees expenditures paid is the result of expenditures paid during the nine months ending March 31, 2007 for the designing of the Joint Force Headquarters (STARC Armory), which were originally budgeted in prior fiscal years. The budgeted appropriations for some expenditures paid during the nine months ended March 31, 2007 were carried forward from prior fiscal years. As mentioned in Note 1, the budget presented in the Budget To Actual Schedule reports the initial operating budget for fiscal year 2007 and does not include supplemented additional appropriations and balances brought forward from prior years.

**STATE OF NEW HAMPSHIRE  
 ADJUTANT GENERAL'S DEPARTMENT  
 REVENUES COLLECTED AND EXPENDITURES PAID**

**SCHEDULE OF BUDGET AND DISBURSEMENTS  
 CAPITAL PROJECTS FUND  
 FOR THE NINE MONTHS ENDED MARCH 31, 2007**

<u>Chapter Law, Program</u>	<u>Budget</u>	<u>Audit Period Disbursements</u>
Chapter 202:1, I,C, Laws 2001		
Army Aviation Support Facility Construction	\$ 30,600,000	\$ 64,419
Chapter 240:1, I,A, Laws 2003		
Armory Renovations, Disposals, or Land Acquisition (see Note 1)	1,800,000	18,213
Chapter 240:1, I,B, Laws 2003		
STARC Armory - Concord (see Note 2)	14,570,895	8,322,748
Chapter 240:1, I,D, Laws 2003		
Joint Service Training Facility Design	3,388,700	-0-
Chapter 259:1, I,A, Laws 2005		
Armory Renovations	1,500,000	305,901
Chapter 259:1, I,B, Laws 2005		
Armory Kitchen Expansion	2,300,000	-0-
Chapter 259:1, I,C, Laws 2005		
Re-Roofing Buildings F & L	305,000	-0-
	<u>\$ 54,464,595</u>	<u>\$8,711,281</u>

The accompanying notes are an integral part of this financial schedule.

	<b>Unaudited</b>		
<b><u>Prior Period Disbursements</u></b>	<b><u>Total Disbursements</u></b>	<b><u>Unexpended</u></b>	<b><u>Federal Participation</u></b>
\$ 20,899,582	\$ 20,964,001	\$ 9,635,999	100%
282,152	300,365	1,499,635	0%
4,264,559	12,587,307	1,983,588	85%
-0-	-0-	3,388,700	100%
-0-	305,901	1,194,099	0%
-0-	-0-	2,300,000	75%
-0-	-0-	305,000	13%
<b><u>\$ 25,446,293</u></b>	<b><u>\$ 34,157,574</u></b>	<b><u>\$ 20,307,021</u></b>	

## **Notes To The Schedule Of Budget And Disbursements - Capital Projects Fund For The Nine Months Ended March 31, 2007**

### **Note 1 - Armory Renovations**

This project was established by Chapter 240:1, I-A, Laws of 2003 with an appropriation of \$300,000. Subsequent amendment by Chapter 272:2, A, Laws of 2006 increased the appropriation to \$1,800,000 and expanded the project to also include disposals, and land acquisitions.

### **Note 2 - STARC Armory (Joint Force Headquarters) - Concord**

This project was established by Chapter 240:1, I-B, Laws of 2003 with an appropriation of \$9,033,100. Subsequent amendment by Chapter 259:14, Laws of 2005 increased the appropriation to \$14,570,895. Further subsequent amendment by Chapter 272:2, B, Laws of 2006 erroneously decreased the appropriation to \$9,033,100. Chapter 4:1, Laws of 2007, effective April 20, 2007 corrected and amended the erroneous appropriation decrease from the 2006 legislative session and increased the appropriation to \$16,469,504. Federal participation on the STARC Armory-Concord also increased as identified in Chapter 4:1, Laws of 2007 to \$15,653,598, or 95%.

### **Note 3 - Capital Budget**

Prior to May 2004 capital projects appropriations lapsed at the end of the biennium unless extended in the subsequent capital budget. Chapter 138, Laws of 2004 changed the two-year capital budget by establishing a six-year capital budget and amending sections of RSA 9. RSA 9:18 provides that all unexpended portions of capital appropriations made by the six-year capital budget are to lapse at the end of six-years from the date the appropriation took effect. However, legislative practice has been to continue extending the lapse dates for all approved projects through the subsequent biennium. During the 2005 legislative session each of the projects initially budgeted in a previous biennium was extended through the June 30, 2007.



**STATE OF NEW HAMPSHIRE  
 ADJUTANT GENERAL'S DEPARTMENT  
 REVENUES COLLECTED AND EXPENDITURES PAID**

**SCHEDULE OF CAPITAL ASSETS  
 FOR THE NINE MONTHS ENDED MARCH 31, 2007**

<u>CAPITAL ASSETS</u>	Beginning Balance	Increases	Decreases	Ending Balance
<b>Capital Assets Not Depreciated:</b>				
Land And Land Improvements	\$ 842,058	\$ -0-	\$ -0-	\$ 842,058
Construction In Progress	4,264,559	9,283,097	-0-	13,547,656
<b>Total Capital Assets Not Depreciated</b>	<b>5,106,617</b>	<b>9,283,097</b>	<b>-0-</b>	<b>14,389,714</b>
<b>Other Capital Assets:</b>				
Equipment	456,134	122,485	-0-	578,619
Buildings And Building Improvements	58,806,297	-0-	-0-	58,806,297
Land Improvements	2,357,288	-0-	-0-	2,357,288
<b>Total Other Assets</b>	<b>61,619,719</b>	<b>122,485</b>	<b>-0-</b>	<b>61,742,204</b>
<b>Less Accumulated Depreciation For:</b>				
Equipment	383,801	58,777	-0-	442,578
Buildings And Building Improvements	30,140,386	945,870	-0-	31,086,256
Land Improvements	1,361,908	81,050	-0-	1,442,958
<b>Total Accumulated Depreciation</b>	<b>31,886,095</b>	<b>1,085,697</b>	<b>-0-</b>	<b>32,971,792</b>
<b>Other Capital Assets, Net</b>	<b>29,733,624</b>	<b>(963,212)</b>	<b>-0-</b>	<b>28,770,412</b>
<b>Total Capital Assets, Net</b>	<b>\$ 34,840,241</b>	<b>\$ 8,319,885</b>	<b>\$ -0-</b>	<b>\$ 43,160,126</b>

The accompanying note is an integral part of this financial schedule.

**Note To The Schedule Of Capital Assets  
For The Nine Months Ended March 31, 2007**

**Capital Assets**

Capital assets, which include property, plant, and equipment assets, are reported by the State in its Comprehensive Annual Financial Report in the government-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

Equipment is capitalized when the cost of the individual items exceeds \$10,000 and all other capital assets are capitalized when the cost of individual items or projects exceeds \$100,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are depreciated using the straight-line method over the following useful lives:

Equipment	5 years
Land Improvements	20 years
Building Improvements	20 years
Buildings	40 years

**STATE OF NEW HAMPSHIRE  
 ADJUTANT GENERAL'S DEPARTMENT  
 REVENUES COLLECTED AND EXPENDITURES PAID**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS  
 FOR THE NINE MONTHS ENDED MARCH 31, 2007**

<u>Federal Catalog Number</u>	<u>Federal Grantor/Federal Program</u>	<u>Expenditures</u>
	<u>Department Of Defense</u>	
12.400	Military Construction	\$ 8,495,111
12.401	National Guard Military Operations And Maintenance (O&M) Projects	7,454,339
	<u>Department Of Veterans Affairs</u>	
64.101	Burial Expenses Allowance For Veterans	<u>71,550</u>
	<b>Total Federal Assistance</b>	<b><u>\$ 16,021,000</u></b>

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## APPENDIX - CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of September 24, 2007, of the current status of the observations contained in the audit report of the Adjutant General's Department for the nine months ended March 31, 1999. A copy of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

	<u>Status</u>		
<b><i>Internal Control Comments</i></b>			
<i>Reportable Conditions</i>			
1. Documentation To Support Real Property Valuations Should Be Improved	●	●	○
2. Controls In The Cash Receipt Process Need Improvement	●	●	●
3. Consumable Inventory Process Should Be Strengthened <i>(See Current Observation No. 12)</i>	●	○	○
4. Deficiencies In Accounting For Equipment Inventory Should Be Corrected	●	●	●
<b><i>State Compliance Comments</i></b>			
5. Written Policies And Procedures Needed For Kelly Days <i>(See Current Observation No. 2)</i>	●	○	○
6. Armory Administrative Rules Should Be Adopted	●	●	●
7. Veterans Cemetery Fee Schedule Should Be Completed <i>(See Current Observation No. 7)</i>	●	●	●
8. Clarification Needed For Purpose Of Veterans Cemetery Council	●	●	●
9. Statements Of Financial Interest Should Be Filed <i>(See Current Observation No. 9)</i>	○	○	○
<b><i>Federal Compliance Comments</i></b>			
10. Suspension And Debarment Procedures For Federally Funded Construction Contracts Should Be Implemented <i>(See Current Observation No. 5)</i>	●	●	○
<b><i>Management Issues Comments</i></b>			
11. Strategic Business Plan Should Be Developed	●	●	○

<u>Status Key</u>	●	●	●	<u>Count</u>
Fully Resolved	●	●	●	5
Substantially Resolved	●	●	○	3
Partially Resolved	●	○	○	2
Unresolved	○	○	○	1

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