STATE OF NEW HAMPSHIRE
DEPARTMENT OF ADMINISTRATIVE SERVICES

FINANCIAL AND COMPLIANCE
AUDIT REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2003

STATE OF NEW HAMPSHIRE
DEPARTMENT OF ADMINISTRATIVE SERVICES

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STATE OF NEW HAMPSHIRE
DEPARTMENT OF ADMINISTRATIVE SERVICES

Reporting Entity And Scope

The reporting entity and scope of this audit and audit report is the New Hampshire Department of Administrative Services for the fiscal year ended June 30, 2003.

The following report describes the financial activity of the Department of Administrative Services as it existed during the period under audit. Unless otherwise indicated, reference to the Department or DAS refers to the Department of Administrative Services.

Subsequent to the end of the audit period, the Bureau of Emergency Communications, administratively attached to the Department was transferred to the New Hampshire Department of Safety. Auditee responses to observations in this report related to the Bureau of Emergency Communications were prepared by the Department of Safety and are labeled as such. The Department of Administrative Services prepared all other auditee responses in this report.

Organization

The Department of Administrative Services was established effective July 1, 1983 by RSA 21-I:1 under the direction of a Commissioner. RSA 21-I:4 established the Financial Data Management, State Budget, Internal Audit, Operational Analysis, and Cost Containment Units within the Office of the Commissioner. RSA 21-I:8 established the Division of Accounting Services, RSA 21-I:11 established the Division of Plant and Property Management, and RSA 21-I:42 established the Division of Personnel.

At June 30, 2003, the Department employed 378 full-time and 84 part-time employees.

Responsibilities

The Department of Administrative Services provides a wide variety of services to a number of different customers. Services include: financial, human resource management, information technology management, State intranet (SunSpot), purchasing, facilities/communications management, risk management, and printing and graphic services. These services are provided to the following customers: the Governor, executive branch/State employees, legislative branch, judicial branch, general public, and local governments.

The Commissioner's Office oversees the Department in meeting the needs of State Government and facilitates both access and information availability to the Department's constituencies. The Department's Business Office, Administrative Services Data Center, Court Facilities and Cost Containment, Governor and Council Closing Dates, Hay Report, Monthly Revenue Reports, and Employee Phone Directory are also found here.

The Budget Office provides fiscal, budget, and administrative assistance and oversight to all State agencies to ensure compliance with statutes, administrative rules, and Federal laws and regulations, as required for each individual agency.

Court Facilities provides and maintains suitable court facilities for the conduct of all State court sessions held within each judicial district and county.

Financial Data Management (FDM) supports the financial management and human resource management needs of the State. Its goals are to work with its customers to define and efficiently develop those financial management capabilities required to meet business objectives, and provide coordination of all internal department financial information in order to assure the availability, compatibility, continuity, and integrity of such information. In addition, FDM develops and coordinates the Department's Internet/Intranet activity.

The Office of Cost Containment is responsible for all functions and duties regarding payment, recoupment, and monitoring of indigent defense funds and recoupment of guardian ad litem funds.

The Office of Volunteerism is responsible for growing the assets of citizen involvement in community service and volunteerism throughout the State.

The Bureau of Risk Management is responsible for identifying loss exposure for all State real and personal property and for personal injury, and developing and operating risk reduction programs.

The Division of Accounting Services administers an integrated system of governmental cost accounting and financial reporting, which accurately and systematically accounts for all revenues, receipts, resources, and property of the State and each agency. This section includes the Bureau of Accounting and the Bureau of Financial Reporting, which does a variety of periodic reporting.

The Division of Personnel is the central human resource authority for all State executive branch agencies with responsibility for recruitment, position classification and compensation, testing, employee and management training, employee performance evaluations, personnel rules development and implementation, record keeping, employee benefits, labor contract negotiation and administration, and coordination of the process for resolving employee disputes.

The Division of Plant and Property Management is comprised of the following sections:

The Bureau of General Services provides services in three main areas: general maintenance of State owned office buildings, telecommunications, and the Interstate Vending Program. The Bureau of General Services maintains twenty-two State owned facilities totaling 1.2 million square feet of general office space. The goal of the Bureau is to provide support services to State agencies and maintain State owned buildings in a proper and cost effective manner. This is accomplished with a blend of in-house and contracted personnel and services. The Telecommunications section provides telephone service to over 7,200 telephone (Centrex) lines. The goal of Telecommunications is to take advantage of new technology and competition to improve the level of service to State agencies and reduce the cost of voice and data services. The Interstate Vending Program was established in 1988 to provide refreshments to the visiting public and revenue in the form of commissions to the State’s General Fund.

The Bureau of Graphic Services provides or procures high quality, efficient and timely photocopying, printing, and print related services and materials to State agencies.

The Bureau of Planning and Management provides services to State agencies in space planning and management of operating leases.

The Bureau of Purchase and Property is responsible for purchasing all materials, equipment, supplies, and services for all departments and agencies of the State including contracting for the purchase or rental of data processing equipment and contracting for the purchase of electric power supply and services, including the Plant and Property Warehouse, State and Federal Surplus Property, and Federal Food Distribution.

The Department of Administrative Services is responsible for leading the State's Enterprise Resource Planning (ERP) Project. An ERP system is a set of software products that can be used to integrate a wide range of business functions across an organization. The current aging State systems including the State accounting system, NHIFS, and the State payroll system, GHRS, will be replaced with the implementation of the new system procured through the ERP Project. The schedule for the new ERP system plans the implementation of the basic financial accounting functionality of the ERP software by the fall of fiscal year 2006, with the other components of the ERP system being implemented by the end of fiscal year 2007.

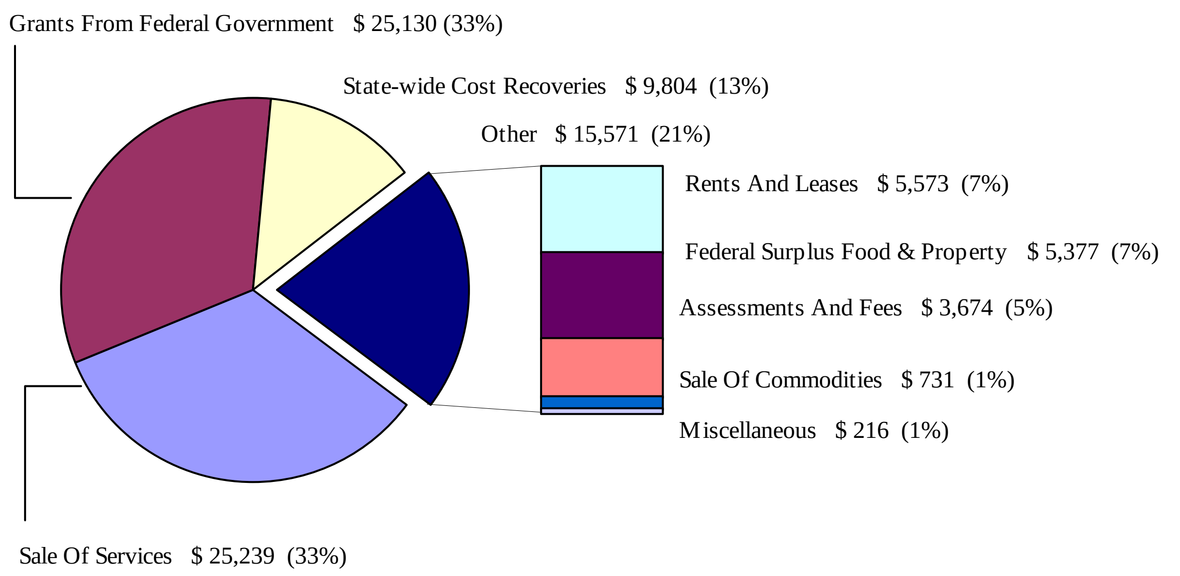
Funding

The financial activity of the Department of Administrative Services is accounted for in the General and Capital Projects Funds of the State of New Hampshire. A summary of the Department's General Fund revenues and expenditures for the fiscal year ended June 30, 2003 is shown in the schedule below and is shown graphically on the following page.

Summary Of Revenues And Expenditures
Fiscal Year Ended June 30, 2003
(expressed in thousands)

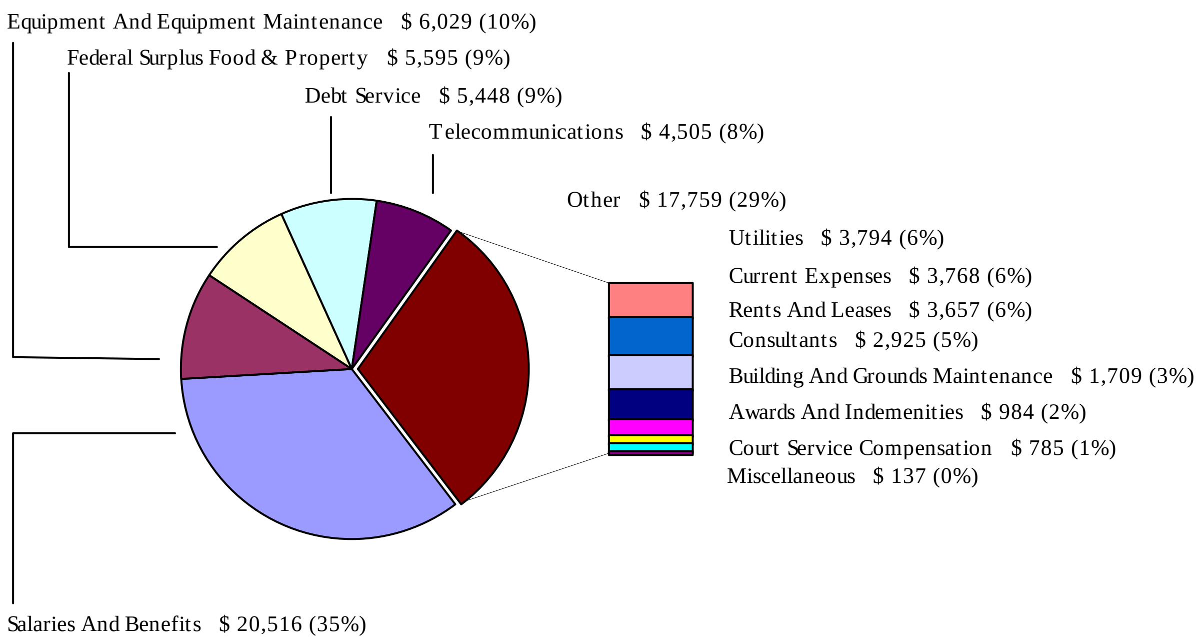
	General Fund	Capital Projects Fund	Total All Governmental Funds
Total Revenues	$ 75,744	$ -0-	$ 75,744
Total Expenditures	$ 59,852	$ 20,125	$ 79,977
Excess (Deficiency) Of Revenues Over (Under) Expenditures	$ 15,892	$ (20,125)	$ (4,233)

DEPARTMENT OF ADMINISTRATIVE SERVICES
FISCAL YEAR 2003 - REVENUES
GENERAL FUND
(Amounts Expressed In Thousands)



TOTAL REVENUES $ 75,744

DEPARTMENT OF ADMINISTRATIVE SERVICES
FISCAL YEAR 2003 - EXPENDITURES
GENERAL FUND
(Amounts Expressed In Thousands)



TOTAL EXPENDITURES $ 59,852

Prior Audit

The most recent prior financial and compliance audit of the Department of Administrative Services was for the fiscal year ended June 30, 1993. The appendix to this report on page 71 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 statements of the Department of Administrative Services for the fiscal year ended June 30, 2003. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we considered the effectiveness of the internal controls in place at the Department of Administrative Services and tested the Department's compliance with certain provisions of applicable State laws, rules, and contracts. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Revenues and appropriations,
- Expenditures and encumbrances, and
- Real property and equipment.

Our reports on compliance and on internal control over financial reporting, and on management issues, the related observations and recommendations, our independent auditor's report, and the financial statements of the Department of Administrative Services are contained in the report that follows.

Auditor's Report On Compliance And On Internal Control Over Financial Reporting

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the New Hampshire Department of Administrative Services for the fiscal year ended June 30, 2003, as listed in the table of contents, and have issued our report thereon dated August 5, 2004, which was qualified with respect to the lack of presentation of the financial position of the Department of Administrative Services in the government-wide and fund financial statements. We conducted our audit in accordance with audit 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.

Compliance

As part of obtaining reasonable assurance about whether the Department of Administrative Services' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, and contracts, 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 that are required to be reported under *Government Auditing Standards*. However, we noted immaterial instances of noncompliance which are described in Observations No. 25 through No. 33 of this report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department of Administrative Services' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department of Administrative Services' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Observations No. 1 through No. 24 of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions noted above is a material weakness.

This auditor's report on compliance and on internal control over financial reporting is intended solely for the information and use of the management of the Department of Administrative Services 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
Office Of Legislative Budget Assistant

August 5, 2004

Internal Control Comments
Reportable Conditions

Observation No. 1: The Department Should Establish Formal Risk Assessment Policies And Procedures

Observation:

The Department does not have formal risk assessment policies and procedures in place for recognizing and responding to risks potentially affecting Department and other State operations.

The Department performs a number of varied functions as part of ongoing agency operations and also as an administrative service center for other organizations of State government. For example, as well as being responsible for processing payroll for its own employees, the Department also is intimately involved in the payroll processes of essentially all other State government organizations that rely on the Department's Personnel Division, payroll accounting systems (GHRS), payroll auditors, etc. Other State organizations rely on the Department's involvement in these processes as part of their organization's control processes.

The Department does not have formal policies and procedures in place for periodically reviewing Department and other State operations for risks that could jeopardize the State's ability to continue to function as management intends. Currently, when risks are identified, the Department may assign its internal audit function to review the area to make recommendations for improvements; however, there are no formal policies and procedures to continuously review operations for risks. A lack of understanding of risks generally pushes an entity toward a reactive mode when significant risks are realized/occur. A reactive mode may compromise the efficiency and effectiveness of a response due to the lack of prior identification and understanding of the risks and ramifications.

Management's assessment of risks facing the organization is an integral component of internal control. The purpose of an entity's risk assessment is to identify, analyze, and where appropriate respond to risks and thereby manage risks that could affect the entity's ability to reach its objectives. Effective risk assessment practices should be a core element of management's planning activities. Risk assessment should be an ongoing activity.

An entity faces many risks. Risk can be defined as, the threat that an event or action will adversely affect an entity's ability to achieve its objectives. Risk can be classified in many ways. For example:

External risks - threats from broad factors external to the entity including changes in the political arena, statutes and rules, and funding availability.
Operational risks - threats from ineffective or inefficient processes for acquiring and providing goods and services, as well as loss of physical, financial, or information assets.
Information risks - threats from the use of poor quality information for operational, financial, or strategic decision-making within the entity and providing misleading information to others.

A continuous review of Department processes and activities using a risk-based mindset would promote effective planning and assist in resource allocation decision-making. Risks identified should be analyzed to determine whether current internal controls mitigate risk to a level desired by management or whether other actions are required in response to the risk.

Recommendation:

The Department should formalize its risk assessment process. A formal risk assessment process is a necessary tool the Department needs to assist in the effective management of risks. Identifying risks significant to the Department and other State operations that it is involved with and strategies to mitigate those risks should enhance the effectiveness of the Department's planning and resource allocation processes and the Department's and State government's control processes.

Auditee Response:

We concur. Even though Administrative Services has addressed risk assessment for specific functional areas, we recognize the need to adopt a formal comprehensive review on a statewide basis. As resources continue to tighten, it is even more important that all of the auditing that is done across state government is as efficient and coordinated as possible. However, given the complexity of the projects that Administrative Services has assumed such as Enterprise Resource Planning and Self Insurance, we have difficulty committing the staff to a specific timetable when this assessment can be completed.

The Department will prepare a project plan including the identification of the necessary resources that would be required to accomplish this task. This planning effort will be coordinated by my Internal Audit staff and will include input from each of the functional areas. Further, the LBA will be requested to provide assistance to provide input from their perspective.

Observation No. 2: Formal Fraud Prevention, Deterrence, And Detection Program Should Be Established

Observation:

The Department has not established a formal fraud prevention, deterrence, and detection program.

Fraud encompasses an array of irregularities and illegal acts characterized by intentional deception. Persons outside or inside the organization can perpetrate it for the benefit or to the detriment of the organization. Fraud runs the spectrum from minor employee theft and unproductive behavior to misappropriation of assets, fraudulent financial reporting, and intentional noncompliance with a law or rule leading to an undue benefit.

Management is responsible for assessing the risk of fraud and implementing measures to reduce the risks of fraud to an organization. Fraud assessment, prevention, deterrence, and detection are crucial to the controlled operations of an organization.

- Assessment is critical since risks can only be effectively managed if risks are identified. The risk of fraud can be reduced through a combination of prevention, deterrence, and detection measures.

- Prevention reduces opportunities. Preventative methods are typically part of the organization's internal control – tone at the top and control procedures. Management of an organization "sets the tone" for the whole organization by signaling that fraud will not be tolerated and establishing control procedures including, but not limited to, adequate segregation of duties and formal accounting policies and procedures intended to limit the opportunity for fraud.

- Deterrence consists of those actions taken to discourage the perpetration of fraud and limit the exposure if fraud does occur. The principal mechanism for deterring fraud is the establishment of effective controls that persuade employees that frauds will be detected and perpetrators punished. Management has the primary responsibility for establishing and maintaining these controls, which may include written codes of conduct that apply to all employees, periodic employee trainings, monitoring of employee compliance, and an effective fraud reporting mechanism.

- Detection consists of identifying indicators of fraud sufficient to warrant recommending an investigation. These indicators may arise as a result of controls established by management, tests conducted by internal auditors, and other sources both within and outside the entity. Detection can be difficult because fraud often involves concealment through falsification of documents or collusion among management, employees, or third parties. If fraud is detected, the organization should contact legal counsel. Legal counsel has the expertise to advise as to the extent of any necessary investigation.

Generally, prevention and deterrence measures are less costly in time and expense than fraud detection and investigation efforts.

Recommendation:

The Department should perform a fraud risk assessment and develop and implement a formal fraud prevention, deterrence, and detection program to help limit the Department's exposure to fraud and promote early detection of fraud that may occur. The Department should take measures to foster a high degree of control consciousness among its employees and ensure that its employees understand that adhering to controls is a primary concern of management. Fraud risk assessment and the establishment of a prevention, deterrence, and detection program are critical activities for the State. The Department, as the central service agency of the State, provides an array of resource management services to various recipients (Governor, State employees, Executive, Legislative and Judicial branches, general public, and local governments). The Department, in its key role in State government, should move forward with a fraud risk assessment and establish a program to help ensure the business of the State, as carried out by the Department, is not an environment ripe for fraud.

Given the Department's responsibility for providing common state-wide administrative policies and advice to other State agencies, and also for reviewing and auditing transactions of these other agencies, the Department should encourage, through its state-wide administrative policy efforts, all State agencies to develop similar programs.

Auditee Response:

We concur. The DAS has drafted a fraud prevention, deterrence and detection program. This draft has been forwarded to the Attorney General's office on July 19, 2004 for its review and approval. Once approved, DAS will formalize and implement the program.

Observation No. 3: Formal Fraud Reporting Policy Should Be Established

Observation:

The Department has no formal fraud reporting policy. The lack of a written policy may delay the reporting of fraudulent activity.

Management is responsible for fraud deterrence and a fraud reporting policy supports that effort. The attributes of an effective fraud reporting policy include the following.

- Policy is in writing.
- Policy describes fraudulent activities and the actions required when fraud is suspected or detected.
- Policy is communicated to all employees.
- Management obtains written assurance from each employee that the policy and related reporting mechanism is understood.
- Employee training is provided.

The effectiveness of a fraud reporting policy is enhanced when employees have a clear understanding of fraud indicators and what constitutes a fraudulent act. It is important that the reporting procedure is non-threatening for the reporter and provides for the reasonable protection of all parties.

Recommendation:

The Department should establish a formal fraud reporting policy and provide its employees with fraud awareness training. The Department should take measures to ensure that the policy facilitates and encourages reporting and protects all parties involved.

Auditee Response:

We concur. The DAS has drafted a reporting policy against fraudulent or other wrongful acts. This draft has been forwarded to the Attorney General's office on July 19, 2004 for its review and approval. Once approved, DAS will formalize the reporting policy and circulate the policy within the DAS and other State agencies to ensure that employees clearly understand their reporting responsibilities.

Observation No. 4: Unnecessary Encumbrances Should Be Liquidated In A Timely Manner

Observation:

The Department carried forward the balance remaining of an encumbrance originally established in 1993 for a Bureau of Court Facilities (BCF) project even though, if asked, the BCF would have reported that it was very unlikely further expenditures would occur against this encumbrance.

Chapter 359:1, II.B.2, Laws of 1993 appropriated $60,000 for the design of the Plaistow District Court. During the period fiscal years 2001 through 2003, one expenditure in the amount of $560 was charged against the encumbrance. At the end of fiscal year 2003, a $32,799 encumbered amount remained from the original appropriation. While the lapse end date of the appropriation, which had been extended through the end of fiscal year 2003, has not been further extended, the remaining appropriation amount is encumbered and the balance will not lapse until the encumbrance is liquidated. The Bureau of Court Facilities had not established a need for maintaining the encumbrance yet it was not liquidated during the close of fiscal year 2003. The Department's business office is responsible for liquidating unneeded encumbrances in the State's accounting system.

Part of the fiscal year 2003 State accounting closing procedures contained in the State's *Annual Closing Review* directed State agencies to review for and liquidate all encumbrances that were not anticipated to be expended during the month of June 2003 and lacked authority to be brought forward into the following fiscal year. Based on the Department's procedures outlined in the *Review*, the Department's business office should have liquidated the encumbrance.

Recommendation:

The Department should review its procedures to ensure that there is a consistent Department-wide review and determination of year-end accounting entries and adjustments. The Department's business office, as the central accounting expertise for the Department, should coordinate the review to ensure efforts between it and the Department's Bureaus and Sections are coordinated to promote the timely detection of unnecessary encumbrances.

Auditee Response:

We concur that encumbrances need to be reviewed and liquidated in a timely manner. The Department reviews encumbrances on a quarterly basis to verify open encumbrance balances are appropriate. However, in the case of capital projects, the Department of Transportation (DOT) is responsible for contract oversight through final completion. Administrative Services is responsible for processing expenditures against these encumbrances as approved by DOT. The final payment and liquidation of unexpended balance is delayed until all of the issues associated with the project are resolved.

On June 15, 2004 DOT directed the Business Office to liquidate the encumbrance in question after they had finished their research.

Observation No. 5: Controls Should Be In Place To Ensure Payments Are Proper In Amount

Observation:

Errors in lease payment calculations by the Department's Business Office went undetected for several years and resulted in Department overpayments.

Errors in lease payment calculations performed in prior fiscal years resulted in lease overpayments that continued into fiscal year 2003. Based on corrected calculations, the Department overpaid one lessor $12,140 in fiscal year 2003, having overpaid the lessor $55,335 since the lease inception, and overpaid another lessor $9,932 in fiscal year 2003, having overpaid the lessor $34,965 since the lease inception.

The Department, through its Bureau of Court Facilities, leases space for judicial/court activities at 33 different locations throughout the State. Lease agreements between the Department (lessee) and property owner (lessor), primarily county and local governments, state the amount of monthly and annual lease payments payable by the Department. Three of the 33 lease agreements in place during fiscal year 2003 included provisions for an escalator in the lease amount based on the change in the consumer price index (CPI). The Business Office is responsible for calculating changes to payment amounts in these leases. Apparently, there was insufficient oversight of lease calculations and resultant payments made by the Department's Business Office to detect and correct the errors in a timely manner.

The following errors were noted in our tests of the three leases with escalator clauses.

- For one lease tested, the Business Office applied the CPI escalator earlier than was indicated in the related lease agreement. This early CPI adjustment resulted in the Department overpaying the lessor. The total overpayment identified was a combination of the early implementation of the CPI escalator adjustment and other errors of unknown origin.

- In another of the leases with escalator clauses tested, the Department overpayed the lessor due to an error in applying the wrong CPI to one fiscal year and other errors of unknown origin.

Due to the nature of the lease calculations, errors that occur early in the lease term generally result in compounded error amounts.

Recommendation:

The Department should review for adequate controls over the calculation and payment of lease amounts. Controls including adequate segregation of duties over calculating and reviewing payment amounts should be instituted to promote the detection and correction of errors prior to making payments. Once instituted, the Department will need to monitor its control procedures over expenditures to ensure those procedures remain effective to detect payment errors prior to the actual payment being made.

Auditee Response:

We concur. The two leases cited were 10-year contracts, which originated in 1994. Once we were made aware of the overpayments, efforts to recover the overpayments were initiated by the Department. Overpayment from one of the lessors has been recovered in full while an agreement has been reached with the second lessor to reduce monthly rental payments over the remainder of the lease term to recover the full amount of the overpayment.

The Bureau of Court Facilities no longer uses the CPI as a guide for rent increases. Rents will be calculated based on actual operating costs per square foot for each facility and will remain the same for the term of the lease. Increased operating costs if any will be reflected in new or renewed leases. All new leases will be thoroughly reviewed for accuracy and approved by the Bureau of Court Facilities for payment by the Business Office. Proper lease amounts will be encumbered in the Integrated Financial System so that any potential payments beyond the encumbered amounts will be rejected by the system.

Observation No. 6: Business Office Should Establish Policies And Procedures For Reviewing Year-End Accounts Payable Accruals

Observation:

Errors in the Business Office's determination of year-end accounts payable accruals indicate the need for additional training and clear policies and procedures.

Testing of expenditures for understatement of accounts payable revealed two transactions that were not recognized as accounts payable by the Business Office even though sufficient documentation accompanied the transaction to have allowed for the proper recognition of the accrual of the transaction. Reportedly, the Business Office used improper criteria for determining whether to accrue some transactions. Apparently, on some transactions, the Business Office erroneously used the invoice date rather than the date of service as the accrual criteria.

The total effect of these two errors was to understate June 30, 2003 accounts payable and fiscal year 2003 expenditures by $64,000.

Recommendation:

The Department should establish policies and procedures to assist its Business Office in determining year-end accounts payable accruals. The policies and procedures, once established, should be used to train the Business Office personnel to properly recognize and accrue for year-end accounts payable.

Auditee Response:

We concur in part with this observation. The two instances noted by the auditors were the result of human error. The DAS does have policies and procedures in place that address the year-end closing process. These policies and procedures known as the *Annual Closing Review*, are published each year by the Department and distributed to the various State agencies, including the DAS's business office.

The *Annual Closing Review* specifically addresses accounts payable accruals and actions needed to properly account for these transactions. Business Office management will continue to stress the importance of adherence to the annual closing process requirements contained in the *Annual Closing Review.*

Observation No. 7: The Bureau Of Court Facilities Should Establish Policies And Procedures For The Reimbursement Of The Counties For Court Bailiff Costs

Observation:

The Bureau of Court Facilities (BCF) does not have policies and procedures for its reimbursement of court bailiff costs. Counties are inconsistent in the costs they submit for reimbursement and the BCF, lacking guidelines, pays the bills as submitted.

According to RSA 104:31, X, "the state [Bureau of Court Facilities] shall reimburse the sheriff's office…$65 for each full day and $35 for each half day, plus traveling expenses to attend any official business, for any person employed as a bailiff by the sheriff's office. … The state [Bureau of Court Facilities] shall reimburse the counties…for all costs associated with employing court bailiffs, if those costs are the result of job requirements imposed by federal and state governments."

The BCF has not provided guidance to the counties as to what costs are reimbursable and what documentation is required to support amounts requested for reimbursement. The result has been that counties are inconsistent in what costs they submit for reimbursement and the BCF has reimbursed the counties based on what is requested without consideration as to whether all counties are treated in a consistent manner.

For example, a selection of four payment vouchers for fiscal year 2003 reimbursements to counties revealed the following:

In addition to the $65 daily and $35 half-day rates and travel expenses provided by statute,

- One county requested and was reimbursed for FICA, workers compensation, and unemployment benefits;
- One county requested and was reimbursed for FICA and workers compensation benefits;
- One county requested and was reimbursed for FICA benefits only; and
- One county did not request reimbursement for any benefits.

In addition, the BCF is reimbursing counties at different rates for the benefits (e.g. some counties were reimbursed 7.65% for FICA, while others were reimbursed 15%).

Recommendation:

The BCF, in conjunction with the Department, should establish what court bailiff costs are to be reimbursed. Once established, the BCF should establish policies and procedures to ensure that the counties are reimbursed in compliance with the statute.

The BCF will need to inform the counties of the policies and procedures for submitting requests for reimbursement, including the documentation required from the counties to support the amounts billed.

Auditee Response:

We concur. The Department recognizes the need to clarify the specific court bailiff costs that should be reimbursed to the respective County Sheriffs' offices in addition to the fixed amounts established by statute. In March 2004, the Department requested an opinion from the Attorney General's office regarding this matter and we are currently awaiting clarification. Once the opinion is rendered, the Department will inform the counties regarding the costs to be reimbursed and will apply those policies on a consistent basis.

Observation No. 8: Formal Policies And Procedures Should Be Implemented To Establish Amounts Charged For Rent

Observation:

The Department's Bureau of Court Facilities has not established formal policies and procedures for setting lease amounts for space leased to outside parties. The Bureau reportedly bases the rent amounts on historical practice and on informal conversations with another agency that also leases space.

The Bureau of Court Facilities leases space within the State's court facilities to other governmental organizations, primarily local government attorneys. The Bureau has never had any formal process for determining the appropriateness of the rent charged. Reportedly, every couple of years, the Bureau uses the previously established cost per square foot and conversations with an employee from another agency to determine an updated cost per square foot. Because there is no basis for determining the amount the Bureau charges for rent, it is difficult to evaluate whether the Bureau is collecting a reasonable amount.

Recommendation:

The Department should have formal policies and procedures for determining the rent amount for space it leases in the State's court facilities. The practices that follow from those policies and procedures should include documentation to support the determination and approval of the amounts ultimately charged in rent.

Auditee Response:

We concur. The Bureau of Court Facilities now has written policies and procedures in place for determining rental rates for space it leases. These policies and procedures will be followed in establishing future rental rates and rent increases. Documentation supporting rental calculations will be retained.

Observation No. 9: Inventory Controls Should Be Implemented For The Electrical Shop

Observation:

The Department's Bureau of General Services does not maintain inventory control procedures over its electrical shop inventory.

The Bureau of General Services maintains an electrical shop to support its electricians who repair Department facilities. The electrical shop appears to contain a significant inventory of consumable supply items, which by their nature, would be prone to misappropriation (small items used in ordinary electrical work). The Bureau could not estimate the value of the inventory and reported that an inventory of items had never been kept.

The Department prepares an *Annual Closing Review* to guide State agencies through the State's year-end closing process. In the review document, the Department instructs agencies to take an inventory of their consumable supplies at year-end and if the value is greater than $25,000 to submit an *Annual Certified Consumable Inventory Report* (Exhibit J - A-35) to the Bureau of Financial Reporting for State financial reporting purposes.

The Bureau does not appear to be in compliance with the Department's year-end closing procedures for consumable inventory as there is no inventory taken and no determination of valuation greater or less than the reporting criteria. In addition, where policies and procedures have not been put into place to monitor assets purchased and placed into operation, assets become more prone to misappropriation without detection by management. Lack of inventory tracking can also negatively affect the efficiency and effectiveness of controlled purchasing activities.

Recommendation:

The Bureau should establish inventory controls over its electrical shop inventory. The extent of the controls enacted should be appropriately scoped to the value and activity in the supplies inventory. The Bureau will need to monitor the controls to ensure that they remain effective.

Accounting for inventory on a perpetual basis should provide the Bureau with data necessary to determine the dollar and item significance of the inventory activity and balances. The Bureau should determine the policies and procedures necessary for the maintenance of an inventory of electrical shop supplies. Once the policies and procedures have been established, management should determine the best approach for implementing them to ensure they are effective at controlling and safeguarding the inventory as intended by management. Policies and procedures placed into operation by management should be periodically monitored and should include management's determination of how often, in addition to year-end, perpetual inventory records should be reconciled to inventory on hand. Based on the year-end inventory, management should determine if there is a requirement to report its consumable inventory to the Bureau of Financial Reporting.

Auditee Response:

We concur with the observation and recommendations of the Office of Legislative Budget Assistant Audit Division. General Services has reduced the current electrical supplies inventory on hand to a value under $10,000 and discarded all obsolete materials and supplies that are past their useful life cycle.

The Bureau has established inventory controls over its electrical supplies and materials that are stored at the electrical shop on 12 Hills Ave. This will give the Bureau the opportunity to become more efficient and cost effective with its purchasing activity.

Physical controls have been implemented in the electrical shop by installing a card key access system and only those individuals that are authorized to have access to the electrical shop will be allowed in the shop. The electrical supplies/materials are further locked up in a controlled area within the electrical shop.

The Bureau has instituted a perpetual inventory process and the inventory will be reconciled on a periodic basis. Management information will be provided to determine the amount of product on hand and what the utilization of that product has been for the past year. In addition, better-cost data will allow for more competitive purchasing and appropriate costing of services to users.

Observation No. 10: White Farm Deposits Should Be Made Daily

Observation:

The Department does not perform daily deposits for White Farm receipts. The lack of daily deposits impedes cash availability to the State Treasury and increases the Department's risk of loss, theft, or misappropriation of the undeposited cash and checks.

The federal surplus property program and State surplus retail shop at White Farm typically collect more than $100 per day for various items that are sold to customers. Federal surplus property revenues for fiscal year 2003 were $124,000. State surplus retail shop revenues for fiscal year 2003 were $90,000 not including the semi-annual State auctions. According to Department personnel, deposits are made at Treasury twice per week on the days the federal surplus property warehouse and State surplus retail shop are closed. Undeposited cash receipts are stored in a safe.

RSA 6:11, II, states, "If more than $100 is in the possession of any state department or institution such funds shall be on deposit in the related department's bank account or in a treasury bank account."

Recommendation:

The Department should establish procedures to ensure that cash and checks are deposited daily to reduce the risk of loss, theft, or misappropriation; to expedite cash availability to the State Treasury; and to be in compliance with RSA 6:11, II.

Auditee Response:

We concur and understand that effective internal control measures require the timely deposit of funds. In accordance with RSA 6:11, II, deposits for more than $100 are now being made on a daily basis.

All personnel at the White Farm have been notified of this requirement, which has been in place since January 2004. Management of the Bureau of Purchase and Property will periodically check for compliance.

Observation No. 11: Mailroom Procedures Should Be Reviewed For Possible Improvements In Efficiency And Control

Observation:

The Department's mailroom relies upon inefficient recordkeeping procedures for postage billing purposes, is inconsistent in the treatment of State agencies, and may benefit from its consolidation with other State agency mailrooms and other efficiencies.

1. The mailroom's process for compiling information used in management reports of the State's monthly postage billing is inefficient, cumbersome, susceptible to errors, and is not entirely supported by documentation. The compilation process is manual and involves recording daily meter counts on a 4-column ledger sheet, manually calculating dollars of postage issued per meter per day, and manually calculating presort discounts for three of the State agencies that use their own mailrooms. Piece-count forms remitted by two of the agencies with their own mailrooms, and used by the Department's mailroom in the compilation of the postage billing, are discarded after the monthly billing is compiled, eliminating the audit trail for the amounts billed.
2. The mailroom applies a surcharge of $.05 for every piece of presort mail it processes to cover the cost of the barcoding and handling provided by the presort service vendor. All state agencies pay the $.05 surcharge with the exception of three of the four State agencies that have their own mailrooms, which pay a discounted rate of $.0425 for every piece of presort mail. A fourth State agency, the Department of Health and Human Services, which has its own mailroom, is not offered the same discount. The Department was unable to explain the disparate treatment of the State agencies with mailrooms.
3. A computerization of a revenue posting process implemented during fiscal year 2003 contained a faulty revenue distribution process resulting in the Department improperly allocating $377,891 of revenues to revenue source account 2160 (presort savings) that should have been posted to revenue source account 3523 (postage reimbursement). The faulty revenue distribution process continued into fiscal year 2004 until it was brought to the Department's attention during the course of the audit and corrected.

4. Lack of consistent State agency compliance with presort mail requirements prevents the Department from receiving additional reductions in mail costs. While the Department mailroom periodically emails and sends reminder notices to agencies regarding proper mail handling and addressing procedures, the mailroom reports that increased compliance would provide additional savings to the State.
5. While the Department reports it has considered the efficiency aspects of consolidating all State mailing services into one mailroom in the past, the Department could not demonstrate that a formal analysis has been made of this potential efficiency step, nor could the Department document whether it had considered other potential efficiency moves such as purchasing and operating its own mail barcoding machine.

Internal control systems and processes need to be monitored – a process that assesses the quality of the system's performance over time. Monitoring is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two. Activities that serve to monitor the effectiveness of internal control/processes include regular management and supervisory activities, comparisons, reconciliations, and other routine actions.

Recommendation:

The Department should review its mailroom operations with an eye toward increasing its efficiency and effectiveness. In particular:
1. The Department should automate the compilation of information used in management reports of the State's monthly postage billing to make the reporting more accurate, efficient, and therefore useful.
2. The Department should reconsider the appropriateness of providing a discounted surcharge fee to only three of the four agencies who process presort mail through their own mailrooms. The Department should support the rationale for the inconsistent treatment of the Department of Health and Human Services. Unless there is a documented reason for the disparate treatment, the Department should either offer the same discount to Health and Human Services as it offers to the other agencies or eliminate the discount for all agencies.
3. The Department should perform sufficient testing of all process changes, including computerization, to ensure that the processes operate as intended. In addition, the Department should periodically perform analytic procedures on all its accounts to determine the reasonableness of the postings to those accounts throughout the fiscal year. Posting errors should be corrected in a timely manner.
4. The Department should continue in its efforts to encourage State agencies to comply with presort requirements in order to increase savings to the State. The Department should also investigate alternative ways of communicating this information to agencies to increase compliance.
5. The Department should investigate the feasibility of consolidating all State mailing services and purchasing a barcoding machine to determine if the benefits (savings) of these actions would exceed the costs. If the Department takes steps to consolidate the State's mailing services, the discount discussed in number 2 above will no longer be necessary.

Auditee Response:

We concur. Effective December 2003, we made substantial progress by replacing our manual billing process with the new automated Postage Billing System called "PBIL". Similar to the automated telephone billing process discussed in Observation No. 15, the agencies are automatically billed for postage services, which further automates the posting of the payment and collection to the State's general ledger.

On the front-end of the process, all of the mailing equipment captures billing information, which is loaded electronically to the billing program. Further adjustments are required for bulk mailing from the Post Office. The Supervisor of the Mailing Center still logs machine counts manually to provide an overall control to verify that the electronic billing system is functioning as intended.

The Administrative Services Mail Center handles approximately 400,000 presort items and 250,000 other mail items per month. When agency mail is not properly organized, our staff is required to spend additional time and expense which slows down the process and the presort discount is not available. We have now put in a system to retain the documentation when these situations occur. DAS has taken several steps to encourage agencies to comply with the presort requirements. DAS has prepared easy to follow directions with diagrams to show exactly what steps are required. DAS will again expand its outreach efforts by targeting the agencies that have the most volume with the highest noncompliance to receive the maximum results. All agencies and mailing centers are now offered the discounts on a consistent basis.

DAS certainly supports the consolidation of the mailing operation into one location and will appropriately raise this issue again along with equipment upgrades during the next budget process.

Observation No. 12: Efforts To Improve Real Property Documentation Should Continue

Observation:

The Department's historical cost records for State properties are incomplete.

The Department reported it was responsible for more than 37 State-owned properties at June 30, 2003. These properties had a total reported historical cost of $116,692,950. The reported cost net of accumulated depreciation was $78,053,080. The Department could not provide supporting documentation or historical cost estimates for six of six older buildings judgmentally selected for testing. Complete supporting documentation for a newer building judgmentally selected for testing was available. The Department business office reported it was in the process of compiling historical cost documentation for those properties currently with incomplete cost documentation. According to the Department, resources have been applied to stay current with documenting new buildings and improvements and, as time and resources allow, the business office is working on compiling cost documentation on older buildings. According to Department records, several of its buildings are over 40 years old and would be, exclusive of newer related improvements, fully depreciated under the State's capitalization policy as documented in its *Long-Term Assets Policy and Procedures Manual*, dated March 2002.

Recommendation:

The Department should continue in its efforts to move toward complete real property records. In cases where historical cost documentation is not available, or the determination of the availability of the documentation is in significant question and would be burdensome to determine, the Department should consider using historical cost estimates. Estimates would need to be documented, including the method used to arrive at historical cost.

To help ensure the accuracy of recorded amounts going forward, criteria, in addition to that contained in the current *Long-Term Assets Policy and Procedures Manual,* should be developed to assist the Department and other State agencies, when using Department directives, to determine whether a cost should be capitalized or expensed for real property valuation purposes. Adherence to the criteria should be periodically monitored and departures from the criteria documented and evaluated relative to the impact on the accuracy of real property valuations.

Auditee Response:

We concur. During Fiscal 2002, the State issued a new manual to assist agencies in accounting for long-term assets under the new requirements of the Government Accounting Standards Board (GASB) Statement Number 34. Under GASB 34, the State is required to capitalize and depreciate long-term assets; including such items as equipment, real property, infrastructure, and computer software; and report this information in the State's Comprehensive Annual Financial Report. The new requirements had a significant impact on each agency's accounting and reporting responsibilities for long-term assets. For the fiscal year ending June 30, 2002, all agencies were required to report cost and depreciation amounts to the Department as well as maintain auditable asset and depreciation records.

In 1996 the Department of Administrative Services embarked on a major project to establish new reporting thresholds and to provide policies for agencies to follow to determine appropriate values for the State's fixed assets. This project involved all agencies and we worked with the prior external auditors to gain their acceptance and ultimately approval of the process and the recorded values. Since this effort, the State has maintained its unqualified opinion issued by the auditors. Since these baseline values were computed, we have focused our efforts on updating the records with new additions and disposals and implementing GASB 34. Further, since most of the older buildings are over 40 years old, and would be, exclusive of newer related improvements, fully depreciated under the State's capitalization policy, the net exposure to the State's balance sheet is immaterial.

Observation No. 13: Documentation Supporting The Cost Of Equipment Items Should Be Maintained

Observation:

The Department does not have a system in place to ensure compliance with Policy J of the State's *Long-Term Assets Policy and Procedures Manual*.

The State's *Long-Term Assets Policy and Procedures Manual*, issued by the Department of Administrative Services, gives agencies direction on the proper accounting and reporting of assets. Policy J of the manual requires agencies to maintain adequate documentation, such as invoices, contracts, purchase orders, etc., in permanent files to support the recorded cost of State-owned equipment. This manual directs that documentation should be maintained in a permanent file folder until the asset is disposed of.

The Department could not provide documentation fully supporting the recorded cost for two of five fiscal year 2003 equipment purchases selected for testing.

- A printer selected for testing was recorded at $36,733 but the purchase quote provided as support of the recorded cost listed the value at $46,733. Per discussion with the Department, the State received a discount of $10,000 per printer on the purchase of three printers but documentation has not been maintained to substantiate the difference between the quoted cost and the reported cost.

- A computer router with a recorded cost of $55,000 apparently is a combination of five separate but related items including a network card, encryption card, etc. The Department could provide documentation for only $15,000 of the $55,000 recorded cost.

Recommendation:

The Department should establish a system to ensure compliance with the State's *Long-Term Assets Policy and Procedures Manual* including documenting the recorded cost of fixed assets. Documentation such as invoices, contracts, deeds, purchase orders, chapter laws, appraisals, and/or methods used to estimate actual costs should be maintained by the Department to support the asset's recorded cost. According to policy, this documentation should be kept available in a permanent file until the asset is disposed of.

Auditee Response:

We concur. The Department maintains supporting documentation for all fixed asset purchases. However, they were not maintained in a centralized filing system. A permanent central file has been established to maintain documentation supporting all new purchases.

As time and resources allow, documentation for all old fixed asset purchases will be retrieved from the current files and placed in the central file to provide proper supporting documentation and ready access for previously purchased fixed assets. These documents will be retained until asset disposition.

Observation No. 14: Office Rents Should Be Adjusted For Unexpended Encumbered Amounts

Observation:

Agency rents are not adjusted to reflect reductions from planned expenditures.

The Department bills an agency renting Department-controlled office, or other space, the agency's pro-rata share of the actual costs incurred in the operation of the building. Included in the billed amounts are encumbrances, or committed expenditures, outstanding at the end of the year. The Department does not subsequently adjust rent charges for any encumbrances that are ultimately liquidated without an expenditure being made. Encumbrances billed by the Department, which are not expended in the subsequent fiscal year lapse to the General Fund resulting in an overcharge to agencies renting Department-controlled space. Encumbrances at June 30, 2002 that were billed to agencies but were liquidated without expenditures in fiscal year 2003 resulted in over collection of $40,000 of rents, which was approximately 1% of total rents collected.

Recommendation:

The Department should review its current methodology of billing agencies for rent of Department-controlled space. The Department should consider whether a subsequent review of and adjustment for unexpended encumbrances should be performed to ensure that agencies are not overcharged for rent.

Auditee Response:

We concur. Starting in fiscal year 2004, the Department has appropriately adjusted the agency billings for prior year encumbrances that did not result in expenditure.

Observation No. 15: Control Procedures Should Be Monitored For Continued Effectiveness

Observation:

The Department has not implemented control-monitoring procedures over accounts receivable. Control procedures that are not continually monitored and corrected as needed tend to become ineffective.

The New Hampshire Community Technical College (NHCTC) was provided with premium Internet services for the period May 2001 through Oct 2002 with services coordinated through the Department's Telecommunications Section (Section). The bill for this service was initially paid by the Department, which, in turn, billed the NHCTC for recovery of its payment. The NHCTC reportedly refused to pay, stating that it did not use the service. However, according to the Section, the NHCTC did not submit a *Telephone Service Request* to terminate the service and the unused service continued.

The Department has instituted a control procedure over revenue collected by the Telecommunications Section, which includes reporting to Department management all accounts which are greater than 30 days past due. The past-due status of the NHCTC account appeared monthly on the accounts receivable aging report for the period June 2001 through the end of June 2003, at which point it reported 15 months of past-due billings totaling $24,000. While the reports were made available to Department management, reportedly due to confusion over what the report indicated, no action was taken to stop the unused service and prevent further wasting of State resources. It appears that management viewed the control procedure of preparing and reporting account aging status as informational in nature and not as a tool to monitor and to promote timely corrective action on problem accounts.

The unused Internet service was ultimately terminated in December of fiscal year 2003. As of April 2004, the NHCTC still owed the Department a balance of $24,000, which either should be pursued for collection or written off by the Department as uncollectible.

Recommendation:

Department control procedures should be monitored for continued effectiveness. Managers and employees should be trained in the operation and significance of control processes. Situations that cause controls to appear to fail, or note problems in agency operations, should be addressed in a timely manner.

Auditee Response:

We concur. Management has reviewed disputed balances and has made the appropriate adjustments.

In May of 2004, the Telecommunications Unit replaced the paper based billing system with the new electronic Telephone Billing System "TBIL", which essentially eliminates the accounts receivable issue. The TBIL electronically distributes the detailed telephone bill to the agency as opposed to the previous practice of manually distributing detailed billing paper reports. The TBIL system generates a paperless payment voucher, which completes the collection process by distributing the accounting codes across all of the user agencies. This new process has resulted in printing and paper savings of over 4 boxes per month and further eliminates 80 manual payment vouchers processed per month.

Observation No. 16: Authority For Waiving Rent From Nongovernmental Organization Should Be Reviewed

Observation:

The Department provides rent-free office space to a not-for-profit organization in a Department-controlled building. The Department provided no documentation allowing for this arrangement citing historical precedent as its reason for waiving approximately $16,000 in annual rent charges.

The Department provides the Humanities Council office space, including janitorial and other services, in the Old Labor Building free of rent. This service is, according to the Department, based on a verbal agreement between the Department and the Council dating back 10-15 years. The Humanities Council is a nongovernmental, not-for-profit private entity.

The Department offered no documentation supporting its authority to provide rent-free office space to a nongovernmental organization and offered no documentation that the decision to do so was based on an approved exception from its standard policies and procedures for rental of Department-controlled properties.

Recommendation:

The Department should review its authority for waiving rent and other fees from nongovernmental tenants of its properties.

The Department should review its policies and procedures for the rental of Department-controlled properties to ensure that the policies and procedures adequately address and control the establishment of rental charges and variances from those rental policies and procedures. An appropriate level of management should be required to approve variances from the policies and procedures, and the justification supporting that approval should be documented in the Department's records.

Auditee Response:

We concur. The Humanities Council was formerly housed in the Walker Building along with the Division of Historical Resources. When the Walker Building was vacated several years ago because the building was in disrepair, Historical Resources along with the Humanities Council were relocated to available space in the Pillsbury building.

The Humanities Council has been notified that rent will be charged beginning April, 2005. In the future, reasons for alternative billing arrangements will be thoroughly documented and will receive the necessary approvals by the Commissioner.

Observation No. 17: Control Environment Should Be Strengthened In Surplus Food Distribution

Observation:

The control environment in the Surplus Food Distribution Section during fiscal year 2003 did not function as a solid foundation for the other components of internal control including risk assessment, control activities, information and communication, and monitoring. The weak control environment in the Section contributed to the number and types of audit issues and concerns noted in other observations regarding Section operations.

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include management's philosophy and operating style, the way management assigns authority and responsibility, and the way management organizes and develops its people. The control environment influences control activities, information and communication systems, and monitoring activities.

In particular, we noted that the Surplus Food Section's control environment appears to lack the human resources policies and procedures that would include providing appropriate education and training for its employees. Only limited training has been made available to employees and it appears that program requirements have been self-taught. In certain instances, employees did not perform control-related tasks as they felt it was not their responsibility. Section policies and procedures should clearly communicate employee roles and responsibilities and equip employees with the necessary tools to perform their jobs effectively and efficiently.

Recommendation:

The Department should strengthen the control environment in the Surplus Food Distribution Section to promote effective internal controls and reduce the risks of errors and fraud in the Department's financial statements. The Department should utilize the expertise of its internal audit section, business office, and federal program representatives to assist in establishing an appropriate control environment to meet the needs of the Surplus Food Distribution Section.

Auditee Response:

We concur and have taken steps to strengthen the control environment within the Federal Surplus Food Operation.

A policy and procedures manual has been established as well as control points within several of the "critical processes" of the operation. They are in the areas of "Order Management", Receiving, Warehousing, Order Fulfillment and Logistics, Invoicing and Inventory Management.

1. Order Management - There is a review process for entitlements, customer history, product availability, and current inventory levels. The goal of the organization is to order and utilize "all entitlements", and to order and utilize as much "bonus" product as can be maintained and shipped.
2. Customer Receiving, A complete re-engineering of our receiving process was developed with control logs, audits and approvals.
3. Order Fulfillment and Logistics - Standards have been developed including minimum order quantities, new route scheduling, and documentation of entitlements by customer. This is a manual process outside of MAPPER, as MAPPER cannot manage this process in spite of several IT requests for this system enhancement.
4. ALL inventory adjustments are made (with a 2 person process), one to change and one to verify. The training process has taken place.
5. In September we implemented a formal cycle count process. This has made a significant improvement with inventory storage, information for change (we have made several improvements as to where and how we store product).
6. We have just completed our physical inventory for FY 04 with an inventory accuracy of 99.99%, and a fiscal accuracy of 99.98% for the year. We were off in total by 1 case on an inventory of $438K.
7. We run a physical inventory report every day to ensure our inventory values are correct.
8. Processes have been updated and they have been placed in a policy and procedures manual. In addition, 3 personnel have been trained on this process.

The steps that have been taken have resulted in numerous positive improvements and we will continue to look at other possibilities to improve controls. For example, we are also considering installing a camera security system to monitor the warehouse physical activities.

Observation No. 18: Current And Comprehensive Policies And Procedures Manual Should Be Established For Surplus Food Distribution

Observation:

The Surplus Food Distribution Section has not effectively communicated its policies and procedures to all employees in a consistent manner. While the Section has a procedures manual, Section employees report that the manual is outdated and rarely used for guidance.

In addition to properly communicating the functioning of internal controls over financial reporting, policies and procedures manuals help to clearly outline the specific authority and responsibility of individual employees, thus providing the essential foundation needed for establishing employee accountability. Manuals also serve as a reference tool for employees seeking guidance on the proper handling of less frequently encountered transactions/situations and lessen the threat to continuity posed by employee turnover.

Recommendation:

The Surplus Food Distribution Section should establish and document an updated policies and procedures manual for Section operations. This manual should be comprehensive and kept current so that it will remain useful to employees in the normal course of performing their assigned duties. While it is recognized that preparing and maintaining a comprehensive manual is a time consuming task, a well designed and implemented manual could increase overall efficiency and effectiveness as employees become accustomed to performing their duties according to management's plans and objectives.

Auditee Response:

We concur. The Surplus Food policies and procedures manual has not been properly maintained and updated. Due to the high turnover rate in this operation, it is imperative that the policies and procedures manual be updated and maintained. A new updated policies and procedures manual is now in place and will be periodically updated as new requirements are developed.

All employees have been trained on these procedures. Management has placed an added emphasis on the need to perform work consistently and in accordance with the appropriate Federal and State procedures. Further, formal monthly meetings will be held to ensure all employees stay current with these procedures. The monthly meeting minutes will be forwarded to the Director for his review.

Observation No. 19: Control Activities Should Be Established Over Surplus Food Distribution Inventory System

Observation:

Controls over the Department's Surplus Food Distribution Section's MAPPER inventory system are weak.

The MAPPER inventory system is a computerized inventory system used by the Surplus Food Distribution Section to account for the receipt, holding, and distribution of federal surplus foods received by the Section and distributed to eligible recipients. During fiscal year 2003, $5 million of federal surplus food was processed through the MAPPER inventory system.

We noted the following weaknesses in the Surplus Food Distribution Section's operations of the MAPPER inventory system.

1. User access controls are weak. Employees share passwords and the system does not require periodic password changes. Weak access controls limit the ability to establish user accountability for transactions.
2. Users are not restricted from changing critical data. Three employees have the ability to change the per case handling fee within MAPPER. Although policy requires prior management approval for such changes, there is no control within MAPPER preventing employees from making the change without management's authorization.
3. Duties are not adequately segregated. One employee is responsible for entering food orders, receiving food orders, allocating commodities to recipients, invoicing recipients, and also making inventory adjustments in MAPPER. None of the functions performed by this employee is subject to a review and approval process. None of the data entry performed by this employee is regularly reviewed for accuracy and completeness.
4. MAPPER data and activity is not reconciled to the same information reported in the federal Electronic Commodity Ordering System (ECOS). The Surplus Food Distribution Section does not perform a reconciliation of the USDA value of food commodities received per the MAPPER inventory system to the USDA value of food commodities ordered per ECOS. Our testing noted discrepancies for four of ten orders tested (40%). The variances noted ranged from ($7,094) to $7,778. Our reconciliation of the two systems for fiscal year 2003 noted a variance of approximately $40,000 or approximately 1% of commodities ordered.
5. MAPPER user manuals are outdated (10 years or older per Surplus Food employees) and need to be revised.
6. Surplus Food employees were unable to provide certain data requested, reportedly due to limitations within MAPPER. It is unclear whether the requested data was unavailable due to limitations with MAPPER or due to employees' lack of technical expertise with the MAPPER application.

Recommendation:

The Department should improve the controls over its MAPPER inventory system. Controls should effectively limit unauthorized access to the system and changes to data, provide for reconciliations, and ensure that there is adequate documentation for and knowledge of the system to ensure that the system is operated in an efficient and effective manner. A properly controlled system will reduce the risk that management might make decisions based on inaccurate, incomplete, or inappropriate information, and will also increase efficiencies and effectiveness of operations.

Auditee Response:

1. We concur. Employee passwords will not be shared, and passwords will be changed within a 60-day window. Please note, that the MAPPER inventory system is extremely outdated, and does not prompt for password changes. There is now a log in place controlled by the

Supervisor and reviewed by the Administrator to ensure that passwords will be changed. In addition, password security procedures will be incorporated into the policies and procedures manual until such time that MAPPER has been replaced or updated to have automatic password expirations. Employees have been instructed that the sharing of passwords is prohibited.

2. We concur. Informal controls have been in place to approve any “case charges” within MAPPER for several years. However, the ability to manage this functionality is extremely difficult. On the control side, we have implemented monthly reporting of transactions for review by the Supervisor and Administrator for any changes that have not been approved.

   In addition, the Supervisor and Administrator will document all changes. There will be no approved changes without both signatures. This will also be incorporated in the procedures manual. This legacy system lacks flexibility as well as controls. The manual control process is now in place to ensure compliance with the procedure.

3. We concur. The operation has limited resources with a critical mission. The incompatible functions cited in the audit observation have been segregated between three employees. The controls are in place to ensure that in each area identified, we have a review and approval process. Effective February 26, 2004, a new receiving process, a cycle count process, as well as an inventory adjustment review and approval process have been implemented.

4. We concur. There is now a process in place to reconcile MAPPER and ECOS. However, due to a 2-3 month delay in updating ECOS, there will be a corresponding lag in the reconciliation.

5. We concur. The Surplus Food manual (as a sub-set of the master MAPPER manual that is maintained and updated by the Liquor Commission) has been updated and will be reviewed on an annual basis.

6. We concur. We will “tighten” this process up as much as possible, as there are limited resources from an “expert” view within the State of New Hampshire. Since we are utilizing a “less than desirable” system that is maintained by our Liquor Commission, we work within the constraints of the system. The need for a much more state of the art inventory system is being evaluated on a State-wide basis with the proposed ERP solution.

Observation No. 20: The Surplus Distribution Section Should Become More Proficient In The Use Of Its Computerized Inventory System

Observation:

Lack of oversight, review of data entry, and technical expertise with the operation of the computerized inventory information system has allowed errors in surplus food inventory data and underutilization of system capabilities, including available information, to remain uncorrected.

The Surplus Distribution Section operates a computerized inventory control and reporting system (MAPPER). We noted the following instances where MAPPER contained inaccurate data:

- For one of the ten food orders tested, the order was classified as an "entitlement" food item per the federal ordering system (ECOS) report and incorrectly recorded as a "bonus" food item per the MAPPER inventory system. The Section explained that apparently MAPPER is not able to track/account for changes in commodity status (i.e. bonus versus entitlement and dates of change from one status to the other). So when the federal grantor agency changed the status of the commodity from entitlement to bonus based on market conditions and the change in status was made to MAPPER, MAPPER could not accurately track the historical status of the inventory currently on hand, and listed the inventory under the changed commodity status as a bonus food item.

- The MAPPER inventory system is not capable of calculating the unit case value of food orders. The Section manually calculates the unit value which increases the risk of clerical errors in the total values of food orders in MAPPER. A Section employee keys the number of cases ordered and the USDA unit value, calculated as the total dollar value of the order per the federal ordering system (ECOS) divided by the number of cases received per shipping documents. MAPPER calculates the total cost of the entire order by extending the number of cases received by the manually calculated USDA unit value.

- In one invoice tested, the Section made a unit value calculation error amounting to approximately $1.2 million. The Section noticed the error when the customer invoice was printed and adjusted MAPPER to reflect the correct unit value.

- The Section cannot rely upon the MAPPER customer file for current information. The MAPPER customer file contains both historical and current information for each customer. The Section uses a separate worksheet for current customer information such as address, contact names, and telephone numbers, etc., because it is not apparent from the MAPPER customer file which data is current.

Information must be identified, captured, and communicated in a form that enables people to carry out their responsibilities. Information systems are an integral part of operational activities and they capture information needed in decision-making to effect proper internal controls. The quality of system-generated information affects management's ability to make appropriate decisions in managing and controlling the entity's activities. It is critical that management reports contain appropriate data to support effective control.

Recommendation:

The Section should become more proficient with their MAPPER system to ensure that it is being utilized efficiently and effectively. If it is determined that limitations in the MAPPER system prevent it from being capable of recording and reporting inventory transactions as required by the Section, alternate procedures, including controls, should be established to ensure that accurate data is captured and made available to management for managing and controlling Section activities.

Auditee Response:

We concur. The Liquor Commission owns and supports the MAPPER system. We have requested programming changes, however due to the age of the system, Liquor has determined that it is not practical to make these changes. Our hope is that the new Enterprise Resource Planning System (ERP) system will be able to accommodate our needs. In the short term, we have developed and implemented several manual controls and internal auditing procedures.

Observation No. 21: Department Business Office Should Review Annual Audit Documents Prior To Submission

Observation:

The Department Business Office has not been involved in the preparation of the *Schedule of Expenditures of Federal Awards,* which is submitted by the Surplus Food and Surplus Property Sections for inclusion in the State's *Single Audit Report*. Errors in the schedule submitted by the Sections on behalf of the Department could have been detected and corrected earlier had the Business Office taken responsibility for a review of these documents.

The Department has not instituted policies and procedures to ensure the completeness and accuracy of amounts reported on the *Schedule of Expenditures of Federal Awards*. The Surplus Food Distribution and Surplus Property Sections of the Department compile a *Schedule of Expenditures of Federal Awards* that is submitted for inclusion in the State's *Single Audit Report*. The Surplus Food and Surplus Property Sections report activity that occurred in their Sections. The Business Office reported that they "receive no federal funds" and have never been delegated the responsibility to prepare the Schedule. The Surplus Food and Surplus Property Sections unsuccessfully completed four drafts of the FY03 Schedule. Two of the three preparers of the Schedule had no prior experience in preparing a Schedule (Surplus Food employees had no experience; Surplus Property employee had extensive experience). Some of the errors we noted included the following.

1. The revenue and expenditure amounts reported for two federal programs did not agree to NHIFS and the Department was unable to explain the variances.
2. The total value of processed food (e.g. omelet) was included in the Schedule rather than just the USDA value of the raw material (e.g. eggs).
3. For two federal programs, the Department reported the entitlement amount in the federal revenue column rather than the actual amount of revenue / commodities received during the year.
4. One federal program (Summer Food Service Program) was omitted from the Schedule.
5. The Schedule did not consistently include the value of food commodities received during FY03 that were drawn down with program year 2002 monies.
6. Discrepancies were noted between the USDA value of commodities per the MAPPER inventory system vs. the USDA value of commodities per the federal Electronic Commodity Ordering System (ECOS), etc.

The problems experienced by the Sections in preparing the Schedules apparently were compounded by the lack of policies and procedures for the completion of the Schedule and employee turnover.

Recommendation:

The Business Office should be regarded as a center of accounting controls and financial reporting expertise for the Department and should assist the Sections in preparing and reviewing annual audit documents prior to submission. In addition:

1. The Department should establish written policies and procedures to ensure the completeness and accuracy of amounts reported on the *Schedule of Expenditures of Federal Awards*.
2. The Department should seek assistance from their federal program representatives when questions arise involving the preparation of the Schedule.

Auditee Response:

We concur. Four employees are now trained in the process at this time, and the process has been incorporated into the new policies and procedures manual. The organization has reviewed the process with Federal personnel to ensure the integrity of the process. No report will be distributed without the prior approval of the Administrator of the Bureau of Purchase and Property and the Department of Administrative Services Business Office.

Observation No. 22: Bureau Of Financial Reporting Should Be More Proactive In Compiling Financial Activity For The State CAFR

Observation:

The Surplus Food and Surplus Property Sections of the Department were not aware that the value of the federal surplus food and property processed through their programs needed to be reported to the Bureau of Financial Reporting (BFR) for inclusion in the State's annual financial report.

While the BFR was aware that the financial activity of the Surplus Food and Property programs needed to be accounted for as voluntary nonexchange transactions for financial reporting purposes, it did not specifically request information on the financial activity from the programs in a timely manner.

Governmental Accounting Standards Board Statement No. 33 (GASB 33), *Accounting and Financial Reporting for Nonexchange Transactions*, requires that the financial activity of nonexchange transactions be reported in a government entity's financial statements. GASB 33 categorizes the federal surplus food and property received by the State as voluntary nonexchange transactions for financial reporting purposes.

The Surplus Food Distribution Section received and distributed approximately $5 million of surplus food to eligible recipients during fiscal year 2003 and had $396,000 of federal surplus food commodities in its warehouse on June 30, 2003. The Federal Surplus Property program received approximately $377,000 and distributed approximately $495,000 of federal surplus property during fiscal year 2003 and had $113,000 of federal surplus property in its warehouse on June 30, 2003. As noted above, Surplus Food and Surplus Property were unaware that the financial activity needed to be reported to the BFR for inclusion in the State's financial report. Audit adjustments were proposed to the BFR so that the above financial activity could be considered for inclusion in the State's fiscal year 2003 financial report.

The BFR's primary method of outreach to State agencies for financial reporting guidance is the annual closing meeting and related booklet that occurs in the spring of each year. There is no mention in the meeting or booklet of the State's and agencies' requirements to report nonexchange transactions.

Recommendation:

The BFR should take advantage of the opportunity provided by the annual closing meeting and related booklet to inform State agencies of the financial reporting requirements of GASB 33. In conjunction with this effort, the BFR should also inquire of specific agencies, understood to be participants of nonexchange transactions, what their plans are for properly reporting the transactions to the BFR for inclusion in the State's financial report.

Auditee Response:

We concur. At the 2004 annual closing meeting and the related annual closing review guide, the Division of Accounting Services provided additional instructions to agencies for reporting non-exchange transactions. The Division will also take steps to follow up with specific agencies where these conditions are known to exist.

Observation No. 23: The Bureau Of Emergency Communications Should Improve Its Efforts To Identify Telecommunications Providers Subject To Enhanced 911 Surcharge

Observation:

The Bureau has not developed or implemented policies and procedures for the ongoing identification of telecommunications providers operating within the state. Without identifying all telecommunications providers, the Bureau cannot be assured it is collecting all revenue it is due.

On July 7, 2003, a communications company previously unknown to the Bureau of Emergency Communications paid the Bureau $97,912 for Enhanced 911 Surcharge Revenue covering the period January 2000 through April 2003. Prior to the company making this payment, the Bureau did not know the company was providing telecommunications services within the state that were subject to the surcharge.

The Bureau reported it had contacted the Secretary of State's Office and the Department of Revenue Administration in order to detect companies subject to the Enhanced 911 surcharge, however neither had relevant information. The Bureau also reported that, while it works with the Public Utilities Commission, the Bureau was unaware that the Commission's website included a listing of telecommunications providers eligible to operate within the state, including the above-mentioned company.

Recommendation:

The Bureau should become more active in identifying telecommunications providers operating within the state that are subject to the Enhanced 911 surcharge. As part of this effort, the Bureau should regularly inquire with the Public Utilities Commission of changes in the telecommunications providers approved to operate in the state. Other sources such as the Federal Communications Commission, similar agencies in other states, and trade organizations could also be useful sources of information to test the universe of telecommunication providers operating in the state.

Department of Safety Response:

We concur in part. The identification of new telecommunications providers consists of both wired and wireless carriers, since wired telephone communications providers must seek Public Utilities Commission (PUC) approval and wireless providers are not regulated this way.

The Bureau has requested the PUC to include us in its list of agencies for wired phone companies to formally advise when a new wired company is authorized to do business in the state. This should solve the problem as it relates to wired companies.

Finding out what wireless companies are active in the state has proven to be much more difficult, because they are unregulated by PUC and some fail to register with the Secretary of State to do business here. As stated in the LBA's observation, the Bureau sought information from the Secretary of State's office for wireless providers doing business here, but many are not registered. Our attempts to work with the Department of Revenue Administration met with no success because they felt that their confidentiality requirements prevented them from cooperating with us by notifying us of new carriers.

The LBA's recommendation that we check regularly with the Federal Communications Commission, while it sounds easy on its face, is not as simple as it appears. We have a 97- page report we would be glad to share with you, which is the most current listing of the telecommunications companies, and is dated October 22, 2003. Besides being months old, efforts to glean useful information from it are hampered by multiple layers of corporations – the "corporate veil" at its finest.

Another list that we checked, lists wireless phone companies by county. A review of that list indicates that it is also incomplete.

Our point is, it is not for lack of trying, but rather an inability to find an accurate, up-to-date source of information. We are considering requesting legislation in the 2005 legislative session to mandate that wireless companies register with us and providing a penalty if they do not. However, we will need to determine whether such legislation constitutes a violation of the Commerce Clause of the Federal Constitution, since these companies are unregulated.

We will continue our efforts to locate new telecommunications companies.

Observation No. 24: Accounts Receivable Should Be Accrued When Appropriate

Observation:

Lack of coordination and communications between the Department and its Bureau of Emergency Communications contributed to an error in the recognition of fiscal year 2003 revenues and accounts receivable at June 30, 2003.

Reportedly, the Department never considered the need for an accounts receivable accrual for the Bureau. The Bureau Director was also reportedly unaware that the Bureau should prepare an accounts receivable document as described in the State's *Annual Closing Review*. While the Bureau's business supervisor had attended the State's closing meeting where accounts receivable accruals were discussed, nothing was brought to the Director's attention regarding the need for an accounts receivable posting.

Under the modified accrual basis of accounting, a receivable and revenue are recognized when the revenue is both measurable and available. Per the State's *Annual Closing Review*, available generally means the cash will be collected within 60 days of the recognition date. The Bureau of Emergency Communications prepares a *Year-To-Date Surcharge Revenue Report*, which details surcharge revenue on an accrual basis. While the Bureau uses this report for its internal management information purposes, the Bureau does not currently identify for State reporting purposes an account receivable for the June surcharge, which is collected within the 60 day accounts receivable and revenue recognition timeframe.

It appears that the Bureau of Emergency Communications has not instituted the proper procedures for the identification of year-end accounts receivable due to the lack of understanding of State accounting policies and procedures. The net effect of not recording accounts receivable at June 30, 2002 and 2003 is an overstatement of fiscal year 2003 revenues of $212,000.

Recommendation:

The Bureau of Emergency Communications should become knowledgeable of State policies and procedures for the identification and reporting of accounts receivable. This should be done in a cooperative effort with the Bureau's business supervisor and Department's business office.

Department of Safety Response:

We concur. Over the period of our existence in several different forms, the Bureau was never informed to maintain an Accounts Receivable, and in fact was not routinely advised when monies were received until the receivable was posted to the State's Integrated Financial System. These functions are now handled by the Department of Safety's Business Office.

State Compliance Comments

Observation No. 25: Required Administrative Rules Should Be Adopted

Observation:

The Department has not adopted administrative rules required by the following statutes.

1. RSA 21-I:14 requires adoption of rules pursuant to RSA 541-A, relative to:
   - Paragraph III – standards governing State data processing facilities, including the acquisition of data processing equipment;
   - Paragraph V – standards for the provision of graphic services which will insure efficiency and high quality work;
   - Paragraph VI – standards governing the purchase and continuing ownership of graphic services equipment by agencies;
   - Paragraph VII – standards governing the allocation and use of State photocopiers by agencies;
   - Paragraph VIII – standards necessary to assure the continuation or granting of federal funds or other assistance not otherwise provided for by law;
   - Paragraph XII-a – procedures for the waiver of certain provisions of RSA 21-I relative to purchasing under RSA 21-I:18, II;
   - Paragraph XIII – management of the State employees group insurance program authorized by RSA 21-I:26 through 21-I:36;
   - Paragraph XIV – administration of retirement benefits for certain legislative and constitutional officers as provided in RSA 14:27-c; and
   - Paragraph XV – the general liability insurance provisions of standard State contracts to reflect that a contractor, which qualifies for nonprofit status under section 501(c)(3) of the Internal Revenue Code and whose annual gross amount of contract work with the state does not exceed $500,000, shall provide such insurance in amounts not less than $1,000,000 per claim or occurrence and $2,000,000 in the aggregate.

2. RSA 21-I:44-c requires adoption of rules pursuant to RSA 541-A, relative to the implementation of pre-tax salary deductions for day care and medical expenses.

3. RSA 21-I:64 requires adoption of rules pursuant to RSA 541-A, relative to recyclable materials.

4. RSA 294-E:17 through E:18 directs the Department of Administrative Services, in cooperation with the Secretary of State, to adopt standards relative to the creation, retention, acceptance, and distribution of electronic records by governmental agencies. (No statutory requirement that adoption be pursuant to RSA 541-A was noted.)

The Department reports that it plans to have most of the required rules adopted during fiscal years 2004 and 2005. Rules required by RSA 21-I:14, XV will not be written because, according to the Department, the statute provides complete coverage of any possible rule content and therefore there is no need for the rules. Again, according to the Department, there is no planned adoption date for rules required by RSA 294-E:17-18 because the content is not available.

The lack of rules required by RSA 21-I:64 and RSA 21-I:44-c was also noted as an example of unadopted rules in the fiscal year 1993 audit of the Department. The Department's response to that 1993 comment was that it would request legislation to eliminate the requirements for these rules, as the rules, in the Department's perspective, were not necessary. Currently, the requirements for these rules remain in statute.

Recommendation:

The Department should continue in its planned efforts to adopt required rules. In cases where the Department determines that rules are not necessary, it should pursue a timely change in statute to eliminate the requirement for the rules.

Auditee Response:

1. RSA 21-I:14

a) Paragraph III - Standards governing State data processing facilities.

Concur in part and do not concur in part: No rules have been adopted under this statute in view of the fact that Laws 2003, Chapter 223 (HB 663) established an Office of Information Technology within the Governor's Office. See RSA 4-D.

Functions of the former DAS Division of Information Technology were transferred to this new office and the rulemaking authority of the former Director of Information Technology Management found in RSA 21-I: 70 was repealed. Certain transfers to the new Office of Information Technology ("OIT") were to take place upon approval of the Joint Legislative Fiscal Committee and/or certification by the Commissioner of Administrative Services. See Laws 2003, Ch. 223: 16, 18. This has been an ongoing process. The OIT Chief Information Officer now approves information technology purchases over $250. See Laws 2003, Ch. 223:19. At the time of the enactment of Laws 2003, Ch. 223 (HB 663), the provision of RSA 21-I specifying that the Commissioner of Administrative Services is to adopt rules relative to "standards governing State data processing facilities, including the acquisition of data processing equipment," RSA 21-I: 14 III., was not simultaneously repealed.

The matters that this rulemaking authority relates to, however, have now been, or are expected to be, transferred to OIT. Statutory revision to reflect this change, rather than rulemaking under this authority, would therefore be in order.

b) Paragraph V, VI, Standards for the provision of graphic services and purchase and continuing ownership of graphic services equipment

Concur: The Department has begun drafting the rules and expects rules to be placed into the rules approval process in calendar year 2005.

c) Paragraph VII. – Standards governing the allocation and use of State photocopiers by agencies.

Concur: It is expected that formulation of rules will begin in calendar year 2005.

d) Paragraph VIII - Standards necessary to assure the continuation or granting of federal funds or other assistance not provided for by law.

Concur: The Department has begun drafting the rules and it is expected that they will be placed into the rules approval process in calendar year 2004.

e) Paragraph XII-a - Procedures for the waiver of certain provisions of RSA 21-I relative to purchasing under RSA 21-I:18, II.

Concur: The Department has begun drafting the rules and expects that they will be placed into the rules approval process in calendar year 2004.

f) Paragraph XIII - Management of the State employees group insurance program.

Concur: Rules will need to be drafted. However, with the Department assuming the responsibilities of managing the self-insurance program, we are unable to give a timetable as to when rules will be drafted for this function.

g) Paragraph XIV - Administration of retirement benefits for certain legislative and constitutional officers.

Concur: Rules for this section need to be drafted but content is not presently available. No date for completion of the drafting of these rules can be provided until content is available.

h) Paragraph XV - The general liability insurance provisions of standard State contracts, etc.

No rules will be written because there is no rules content, all possible content being specified in the statutory paragraph itself.

2. RSA 21-I:44-c - Pre-tax salary deductions for day care and medical expenses.

   Concur. The rulemaker is the new Director of the Division of Personnel. It is anticipated that the drafting process will begin in calendar year 2005.

3. RSA 21-I:64 - Recycling rules.

   Concur: Drafting is anticipated to begin in September 2004. Rules will likely be put into the rules approval process early in calendar year 2005.

4. RSA 294-E:17-18 - Rules pursuant to Uniform Electronic Transactions Act.

   Concur. Due to the recent creation of OIT and the related reorganization in technology planning and services, rulemaking is required to wait until operational issues and responsibilities are further defined and rules content becomes available. No date for completion of these rules has been determined.

Observation No. 26: Need For Review Of Court Facility Leases Should Be Established And Rules Appropriately Addressed

Observation:

Facility leases for the Bureau of Court Facilities do not go through the Department's Bureau of Planning and Management (BPM), contrary to administrative rules. The Bureau of Court Facilities does not have a waiver required for exemption from the relevant rules.

During fiscal year 2003, the Bureau of Court Facilities leased 33 sites for court activities. Approximately $2.8 million was paid for the use of these leased facilities during fiscal year 2003.

N.H. Admin. Rule, Adm 610.02(a) states, "An agency shall not begin any procedure for the purpose of leasing space until first contacting the bureau [of planning and management]".

N.H. Admin. Rule, Adm 610.06(a) states, "An agency shall submit a completed leasing package to the bureau for review prior to submission to governor and council."

According to item 16 of the BPM's technical assistance document (last revised 2/19/03), "The Bureau will perform an official review of the lease, attaching their "Synopsis of Lease Contract" memo addressed to the "Governor and Council". The Bureau [BPM] Administrator and the Director of Plant and Property will both sign their recommendations to this memo. The lease package will subsequently be forwarded to the appropriate Administrative Services' Business Supervisor for their final review, and inclusion on the next available "G&C" meeting agenda."

N.H. Admin. Rule, Adm 610.08 describes an administrative rule waiver procedure for agency leases.

The BPM is the Department's lease expert. The BPM's review of leases is a control procedure that helps to ensure that lease content is complete relative to requirements set forth in N.H. Admin. Rule, Adm 610. The Bureau of Court Facilities loses the value of BPM's expertise in lease arrangements and loses the benefits of the BPM's review process.

Reportedly, the practice of bypassing BPM involvement in court facility leases is longstanding and resulted from a concern that, due to the specialized nature of court facility leases, the BPM's review of those leases would not be an efficient or effective process.

Recommendation:

The Department should review N.H. Admin. Rule, Adm 610 and Department practice to determine what is in the State's best interest for efficient and effective controls covering its Bureau of Court Facilities leases.

If it is determined that leases for court facilities will continue to be arranged outside of the requirements set forth in the administrative rules, the Department should pursue revising the rules to reflect what the Department determines to be the best practice. If the process outlined in administrative rule remains appropriate, the Department should establish policies and procedures to ensure that the process is made as efficient and effective as appropriate.

Auditee Response:

We concur in part. We agree that court facility leases should be subject to review by the Bureau of Planning and Management (BPM). Since 31 out of the 33 leases involve space leased from municipalities and counties, it would not be practical or cost effective to require procurement through competitive bidding. Lease terms are negotiated with each group of county and municipal government officials for requirements that are unique to each location. Most private vendors do not have buildings suited to court activities therefore making the bid process expensive and inefficient.

DAS will seek to exempt court facility leases from competitive bid requirements by amending the DAS rules. However, to ensure that the leases conform to standards and the lease content is complete, the leases will be submitted to the BPM for its review and recommendation. As is the current practice, the Department's business supervisor will also review court facility leases prior to presenting such leases for Governor and Council approval.

Observation No. 27: The Bureau of Emergency Communications Should Periodically Review The Enhanced 911 Surcharge Amount

Observation:

The Bureau of Emergency Communications has maintained the Enhanced 911 surcharge amount at 42¢ per phone line per month since the establishment of the Bureau in 1992. There is no documentation to indicate that the surcharge amount has been reviewed for continued appropriateness since the rate was established.

RSA 106-H:9 states that surcharge amounts shall be reviewed after the budget has been approved or modified and if appropriate, new tariffs or rate schedules shall be filed with the Public Utilities Commission.

Without a documented review of the surcharge amount, including written documentation of the Bureau's analysis, it is difficult to determine if the surcharge amount is effectively recovering the cost of services provided at a rate intended by management without creating an unnecessary financial burden on the users of the service or creating an excessive available balance to be brought forward for future years.

An LBA analysis of the Bureau's revenues and expenditures for the period covering fiscal years 2001 through 2003 indicates that the Bureau has had expenditures in excess of revenues in the net amount of $778,342 during this period. However, balance forwards ranged from $1.2 to $2.1 million during the same period. (Balance forwards are comprised of encumbrances and available balances at fiscal year end.) During fiscal year 2003, the Bureau had a balance forward from fiscal year 2002 of approximately $1.2 million. At June 30, 2003, $768,590 were encumbered and the available balance was $717,368. The balance carried forward from fiscal year 2003 into fiscal year 2004 was $1,485,958.

Recommendation:

The Bureau should establish policies and procedures for periodic formal reviews of the surcharge amount. Any such review should include a consideration of the desired/intended time frame for cost recovery and the Bureau's consideration of what the desired available balance, if any, at fiscal year end should be.

The Bureau should document its periodic reviews of the surcharge amount and its analysis to provide a basis for its determination of an effective surcharge amount to recover the Bureau's cost of operations. Such review could be documented through written analysis of the Bureau's estimated cost of services to be provided, including capital outlays, funds currently available, and estimated revenue. The review should include the Bureau's determination of the needed surcharge amount, the desired balance, the basis for this need, and the intended actions to make any needed changes in the surcharge amount.

Department of Safety Response:

We concur that it would be a good policy and in line with the pricing policies that public utilities use to request their rates, for the Bureau to conduct periodic, formal reviews of the surcharge amount and to document these through written analysis, and will put such a system in effect. However, it should be noted that the E-911 commission has informally reviewed the surcharge every year, and we feel a formal, periodic review for every year since 1995 would have arrived at virtually the same conclusions.

Observation No. 28: State Contracting And Procurement Requirements Should Be Adhered To

Observation:

The Bureau of Emergency Communications has engaged a company operated by the spouse of a Bureau employee to provide training to Bureau employees. The Bureau did not solicit bids for the training services; reportedly, as the Director understood that no other entities could provide the needed training. The Bureau did not provide any documentation to support that a search for qualified vendors had been undertaken prior to the determination being made that the firm engaged was the sole qualified vendor.

According to the State's *Manual of Procedure,* (expired) and State policy reiterated on the State's website for the Executive Council, "All state departments and agencies must seek approval of both receipt and expenditures of state and federal funds, budgetary transfers within the department and all contracts with a value of $5,000 or more."

During fiscal year 2003, the Bureau incurred $9,300 of training expenses with this vendor. Over the three-year period ending June 30, 2003, the Bureau engaged this vendor to provide $26,000 of training programs. The training programs provided to the Bureau were not subject to a written contract for services and the engagement of this vendor was not submitted to Governor and Council for approval. The lack of proper contract reviews and approvals in a procurement involving an employee's family is concerning as it raises an appearance of undue advantage.

Recommendation:

The Bureau should comply with all State procurement and contracting requirements. Agreements for the procurement of services should be documented and submitted to the proper authorities for review and approval. The Bureau should be sensitive to adhering to the State's policies especially when contracting situations where appearances of undue advantage or conflicts could be raised.

Department of Safety Response:

We concur. The *Emergency Educators Group* that the observation refers to is owned by the estranged husband of E-911's Public Education person. It has provided specialty in-house training services including Heart Saver/CPR, Automated External Defibrillator, OSHA BBP, and NSC First Responder Certification as part of the intensive training given to our Telecommunicators. Approximately 70 students completed this training.

We knew of no other entities that could provide the quality and range of training required of the Telecommunications Staff. This was the reason this firm was chosen to provide the training.

As of July 2003 we were able to assume all training responsibilities for new hires and continuing education requirements for all of our Telecommunications Staff, so we no longer have to contract out for this service. This was possible because of the training received from the *Emergency Educators Group*, which led to our own Bureau Training Staff reaching a level of certification and training that allowed them to take over this training assignment.

We agree with the observation and the recommended solution, have reviewed the State Manual of Procedures and State policy, and will abide by both.

Observation No. 29: Authority For Purchase Of Employee Uniforms Should Be Clarified

Observation:

Conflicting language in the *2002-2003 Operating Budget* and the *Collective Bargaining Agreement* raises a question whether the Bureau of Emergency Communications was authorized to expend $4,321 on uniform-related items in fiscal year 2003.

The *2002-2003 Operating Budget* places a restriction on the use of appropriated funds. The restriction states that appropriated funds shall not be used for the purchase of uniforms or such similar wear or fashion.

Article 49.8 of the Collective Bargaining Agreement states, "Emergency Communications employees shall be issued shirts appropriate to the season and a sweater or sweatshirt with the Enhanced 911 logo. Clothing issued shall be replaced as needed with the approval of the Employer."

The Bureau of Emergency Communications purchased $4,321 in uniform-related items including shirts, sweaters, hats, poplin jacket, and special embroidery during fiscal year 2003.

While the Bureau was aware of the conflicting language, it reportedly believed that it had the authority to purchase uniform items through the Collective Bargaining Agreement cite.

Recommendation:

The Bureau of Emergency Communications should request legislative clarification regarding the purchase of uniform items.

Department of Safety Response:

We concur in part and do not concur in part. The collective bargaining agreement requires that we provide shirts appropriate to the season and a sweater or sweatshirt with the E-911 logo, and the replacement of such clothing as needed. When the State agreed to the conditions of the Collective Bargaining Agreement and it was ratified by Governor and Council, our position is that the State was bound by this agreement and would be guilty of an unfair labor practice if it failed to honor it. If a grievance was filed, based on past history and current labor law, we believe the State would lose. If the State wishes to stop the practice, we believe it must bargain the change. The items that are purchased are not "uniforms" like those worn by police and firefighters, but rather are work clothing such as many janitors, mechanics, and other public and private employees are customarily issued. The history of this practice is that the Legislature wanted to be sure E-911 personnel did not wear expensive police-type uniforms because of a concern that this would be an incentive for them to be placed in the Group II retirement system. The clothing they are issued is not a police uniform, and thus we believe is in keeping with the intent of the Legislature. The baseball caps that the audit observations noted were not issued to employees. Rather, they were used in a public relations campaign, much as pens with agency logos, bookmarks or coffee cups are issued by other agencies and by the private sector.

Observation No. 30: Required Administrative Rules Should Be Adopted For Enhanced 911

Observation:

Not all of the administrative rules required by statute for Enhanced 911 have been adopted and other adopted rules need to be revised to reflect the change in the organizational structure of Enhanced 911 operations.

RSA 106-H:7, prior to September 4, 2003, and RSA 21-P:14, subsequent to that date, required administrative rules, adopted pursuant to 541-A, relative to the State's Enhanced 911 operations.

While a number of Enhanced 911 rules have been adopted, the rules have not been revised to reflect the change in organizational structure that occurred with the transfer of the Enhanced 911 organization from the Department of Administrative Services to the Department of Safety.

In addition, required rules relative to procedures necessary for adequate funding of the Enhanced 911 system, including coordination with the Public Utilities Commission for appropriate tariff and billing mechanisms, have not been adopted.

Recommendation:

Administrative Rules regarding the operation of the State's Enhanced 911 system should be complete and reflect enacted statues.

The Enhanced 911 organization with the assistance of the Department of Safety should continue with efforts to adopt required rules and update existing rules that do not accurately reflect the current structure and organization of the Enhanced 911 organization.

Department of Safety Response:

We concur. The Bureau of E-911 has gone through numerous legislative and administrative changes over the past 24 months and the process of managing this much change in a short period of time has been challenging.

The chapters 100, 200 and 300 rules are complete; the chapter 500 rules are in draft form and one of our supervisors is working with Safety's in-house legal staff to finalize them.

The completed rules will require further amendment to associate them with the Department of Safety, as they were written when the Bureau was administratively attached to the Department of Administrative Services, and those amendments are being drafted along with the chapter 500 rules. Action by the 2004 legislative session creating a new Division of Emergency Management and Emergency Communications will require some additional reworking, which is also currently in progress.

Federal Compliance Comments

Observation No. 31: The Surplus Food Distribution Section Should Establish And Perform Monitoring Procedures In Accordance With Federal Regulations

Observation:

The Surplus Food Distribution Section (Section) has not established a review system and procedures to monitor and assess the effectiveness of its food distribution program. Such systems and procedures are required by federal guidelines.

The Section has not established a review system or review procedures required by Title 7, *Code of Federal Regulations* (CFR), Part 250.19 (a) and (b). In addition, as noted below, required monitoring has not been performed.

- The Section delegates the responsibility of monitoring The Emergency Food Assistance Program (TEFAP) program to the Belknap-Merrimack Community Action Program (CAP) via a written contract between the State and the CAP. The contract states, "through this contract, the Belknap-Merrimack Community Action Program monitors compliance with the Federal Regulations as it relates to this TEFAP program." According to Title 7, CFR, Part 251.10 (e), state agencies may not delegate this responsibility. The Section performed no monitoring procedures for the TEFAP program (or any other program it administered) during fiscal year 2003.
- The Section performed no monitoring procedures for food service management companies under contract with recipient agencies (e.g. schools) during fiscal year 2003 reportedly due to inadequate staff resources and timing restraints. The Section indicated that, in the past, a former employee performed monitoring procedures for the Surplus Food Program but these procedures ended when this employee left the Surplus Food Program. The Section stated that the State Department of Education (DOE) may be performing monitoring procedures for food service management companies (FSMC) under the National School Lunch Program. We contacted DOE and they noted that they do monitor FSMC once every five years during their administrative reviews of all school food authorities (Title 7, CFR, Part 210.18 (c) (1)).

Recommendation:

The Section should establish and perform monitoring procedures in accordance with federal regulations. Consideration should be given to coordinating efforts with the DOE regarding monitoring procedures for food service management companies to determine the most effective and efficient method of monitoring those companies in accordance with federal regulations.

Auditee Response:

We partly concur. A new TEFAP Program is being developed with guidance and training from the federal officials. While it was the understanding of the federal Department of Agriculture that they could waive this requirement, as a result of this audit, we have now come to the conclusion that the granting of the waiver is not permissible. The federal officials visited during the week of July 26, 2004 and we discussed how best to accomplish monitoring in accordance with regulations.

This monitoring responsibilities will be further defined when the contract with Belknap-Merrimack Community Action Program (CAP) comes up from renewal. We are prepared to start actual visits to various TEFAP sites in August.

We have further developed monitoring guidelines to be implemented with the schools program starting in September to ensure we are 100% compliant with the federal regulations.

Observation No. 32: The Surplus Food Distribution Section Should Obtain Formal And Authoritative Direction For Meeting Federal Financial Reporting Requirements

Observation:

The Surplus Food Distribution Section (Section) does not have a clear and documented understanding as to what financial reporting is required by the federal granting agency.

According to Title 7, *Code of Federal Regulations,* (CFR) Part 250.17, a grantee such as the State of New Hampshire is required to submit an *Inventory Management Register* (form FNS-155), semiannually; *Processing Inventory Reports,* quarterly; and *Commodity Acceptability Reports,* annually. During fiscal year 2003, the Section did not submit any of these financial reports.

According to the Section's federal representative in Boston, due to the federal *Paperwork Reduction Act*, the Section is not required to submit any program financial reports with the federal government. The federal representative provided emails and memos supporting the position that no federal financial reports were required to be sent from the Section. This documentation contradicts the requirements of the CFRs and, in some cases, contradicts verbal reporting guidance from the federal representative in Boston. For some reports (e.g. quarterly *Processing Inventory Reports*), the documentation provided by the federal representative stated the reports should be completed and kept on file by the Section but not submitted. Due to the contradictory information received during the audit, it is unclear what the federal financial reporting requirements of the Surplus Food Program are.

Recommendation:

The Surplus Food Distribution Section should obtain formal and authoritative direction from the federal granting agency for meeting the federal financial reporting requirements for the Surplus Food Program. Once obtained, the understanding should be documented in the Section's policies and procedures.

Auditee Response:

We concur and are updating our policies and procedures. We have met twice with the officials representing the federal Department of Agriculture, and they have made a site visit the week of July 26, 2004. The purpose of the visit was to review the process and jointly develop a plan to ensure that we are in compliance with all federal fiscal requirements and controls. Please note, that we have confirmed that due to the Paperwork Reduction Act, the Federal Officials do not want the various reports sent to them. However, we will complete the necessary forms and keep them on file as required.

Observation No. 33: Building Use Allowance Calculations Should Be Based On Adequate Supporting Property Records

Observation:

The Department computed fiscal year 2003 building use allowances for six buildings under its control. The cost records for five of the six buildings are incomplete raising question as to the accuracy and completeness of the results of the allowance calculations. While the Department has made efforts to compile and maintain cost documentation for new buildings and improvements, the Department has not pursued the development of reasonable cost estimates as a solution to incomplete historical cost records for older buildings.

The building use allowance, based on the historical cost of a building and its improvements, is a component of the rent the Department charges tenant State agencies. Those State agencies with federal program funding can generally recover a portion of the building use allowance charge from a federal grantor participation in the payment of the building use allowance.

Federal Office of Management and Budget Circular A-87, *Cost Principles For State, Local, and Indian Tribal Governments* establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local and federally-recognized Indian tribal governments. Attachment B, paragraph 11, provides principles to be applied in establishing the allowability of building use allowances. Paragraph 11b notes that the computation of use allowances shall be based on the acquisition cost of the assets involved. Where actual cost records have not been maintained, a reasonable estimate of the original acquisition cost may be used. Paragraph 11c notes that the computation of use allowances will exclude: the cost of land; any portion of the cost of buildings borne by or donated by the Federal Government irrespective of where title was originally vested or where it presently resides; and any portion of the cost of buildings contributed by or for the governmental unit, or a related donor organization, in satisfaction of a matching requirement. Paragraph 11h states, charges for use allowances must be supported by adequate property records.

Absence of complete building cost records or building cost estimates increases the potential that tenant agencies that seek federal participation in building use allowance charges could face questioned costs from their federal grantors and potentially a federal determination of unallowability for unsupported costs.

Recommendation:

The Department should continue in its efforts to move toward complete real property records. In situations where complete historical cost documentation is not available or the procurement of supporting documentation would be burdensome, the Department should consider developing estimates of historical cost. Estimates would need to be documented, including the method used to arrive at historical cost.

Auditee Response:

We concur. The Department will continue in its efforts to move toward complete real property records. The Department is aware that complete cost records, or reasonable cost estimates, are important support for federal cost reimbursement. As time and resources allow, the Department will endeavor to have cost estimates prepared in the absence of actual costs. In accordance with OMB Circular A-87, use allowances are not claimed for federal reimbursement on many of the State's older buildings because these buildings are fully depreciated.

Auditor's Report On Management Issues

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the New Hampshire Department of Administrative Services for the fiscal year ended June 30, 2003, as listed in the table of contents, and have issued our report thereon dated August 5, 2004, which was qualified with respect to the lack of presentation of the financial position of the Department of Administrative Services in the government-wide and fund financial statements.

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 statements are free of material misstatement.

In planning and performing our audit of the financial statements of the Department of Administrative Services for the fiscal year ended June 30, 2003, we noted an issue related to the operation of the Department of Administrative Services that merits management consideration but does not meet the definition of a reportable condition as defined by the American Institute of Certified Public Accountants, and was not an issue of noncompliance with laws, rules, or contracts.

That issue that we believe is worthy of management consideration but does not meet the criteria of reportable conditions or noncompliance is included in Observation No. 34 of this report.

This auditor's report on management issues is intended solely for the information of the management of the Department of Administrative Services 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

Office Of Legislative Budget Assistant

August 5, 2004

Management Issues Comment

Observation No. 34: The Bureau Of Emergency Communications Should Resolve Its Contract Negotiations To Ensure Continued Operations

Observation:

The Bureau of Emergency Communications has operated without a contract for a network service provider since July 5, 2003. The Bureau is still receiving network services from Verizon based on terms set in the third extension of the original contract. Per the Bureau, a decision was made to not request a fourth extension of the contract from Governor and Council, and to continue making payments for network services to Verizon based on terms established under the preceding, third contract extension.

The original network service provider contract was for the period June 1994 through June 2000. Two subsequent extensions of the contract provided for service through July 2002 and covered a period when a Request for Proposal (RFP) for network services was issued and a bid accepted on November 2, 2001. As of February 2, 2004, contract negotiations have not been completed and a third contract extension has expired. Since July 5, 2003, the Bureau has operated without a contract in place for a network service provider increasing the risk that the Bureau has lost negotiation position and operates at the good will of the service provider.

Recommendation:

The Bureau should immediately review its negotiation position for network services. The Bureau should determine whether it should continue to negotiate based on the November 2001 RFP bid award or whether it would be more beneficial to press for a further extension of the prior contract and reissue an RFP for services. The Bureau should consider whether it is capable of completing the negotiation of the contract itself, or whether the Bureau needs additional assistance. At a minimum, the Bureau should request an extension of its original contract from Governor and Council to ensure continued service and the ability to negotiate for services without needing to rely on the current vendor’s goodwill.

Department of Safety Response:

We concur in part and do not concur in part. E-911 does not believe they compromised their negotiating position with Verizon by extending their service. The Manual of Procedures sets forth a procedure for extending a contract through Governor and Council approval. The E-911 Commission has always sought formal extensions in the past and that policy should have been followed in this instance.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the New Hampshire Department of Administrative Services for the fiscal year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Department of Administrative Services' management. Our responsibility is to express an opinion on these financial statements 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 opinion.

As discussed in Note 1, the financial statements referred to above are not intended to present the financial position of the Department of Administrative Services in the government-wide or fund financial statements.

As discussed in Note 1, the financial statements of the Department of Administrative Services are intended to present certain financial activity of only that portion of the governmental activities of the State that is attributable to the transactions of the Department of Administrative Services. They do not purport to, and do not, present fairly the financial position of the State of New Hampshire as of June 30, 2003 and the changes in its financial position for the fiscal year ended June 30, 2003 in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the matter discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, certain financial activity of the Department of Administrative Services for the fiscal year ended June 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

The Department has not presented the management discussion and analysis that the Government Accounting Standards Board has deemed necessary to supplement, although not required to be part of, the basic financial statements.

The Budget to Actual (Non-GAAP Budgetary Basis) Schedule on page 66 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph. The Schedule Of Expenditures Of Federal Awards on page 69 is presented for the purpose of additional analysis and is not a required part of the financial statements of the Department of Administrative Services. Such information has been subjected to the auditing procedures applied in our audit of the financial statements referred to in the first paragraph and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards,* we have also issued a report dated August 5, 2004 on our consideration of the Department of Administrative Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Office Of Legislative Budget Assistant

August 5, 2004 — Office Of Legislative Budget Assistant

STATE OF NEW HAMPSHIRE
DEPARTMENT OF ADMINISTRATIVE SERVICES

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Expenses	Program Revenues: Charges For Services	Program Revenues: Operating Grants And Contributions	Net (Expenses) Revenues And Change In Net Assets
Governmental Activities				
General Government				
(Department Activities)	$ 71,345,579	$ 33,137,242	$ 5,506,712	$ (32,701,625)
Total Govermental Activities	**$ 71,345,579**	**$ 33,137,242**	**$ 5,506,712**	**(32,701,625)**
General Revenues				
Net Appropriations				35,202,363
Federal Flexible Grant				25,000,000
Indigent Representation				14,556,418
State-Wide Cost Recoveries				9,256,396
Other				783,664
Total General Revenues				**84,798,841**
Change In Net Assets				**$ 52,097,216**

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

STATE OF NEW HAMPSHIRE DEPARTMENT OF ADMINISTRATIVE SERVICES
COMBINED STATEMENT OF REVENUES AND EXPENDITURES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues			
Sale Of Services	$ 25,239,436	$ -0-	$ 25,239,436
Grants From Federal Government	25,129,712	-0-	25,129,712
State-Wide Cost Recoveries	9,803,601	-0-	9,803,601
Rents And Leases	5,572,952	-0-	5,572,952
Federal Surplus Food And Property	5,377,000	-0-	5,377,000
Assessments And Fees	3,673,843	-0-	3,673,843
Sale Of Commodities	731,229	-0-	731,229
Miscellaneous	215,778	-0-	215,778
Total Revenues	**75,743,551**	**-0-**	**75,743,551**
Expenditures			
Salaries And Benefits	20,516,441	-0-	20,516,441
Capital Outlay	-0-	20,125,026	20,125,026
Equipment And Equipment Maintenance	6,028,759	-0-	6,028,759
Federal Surplus Food And Property	5,595,000	-0-	5,595,000
Debt Service	5,448,340	-0-	5,448,340
Telecommunications	4,505,235	-0-	4,505,235
Utilities	3,793,904	-0-	3,793,904
Current Expenses	3,767,573	-0-	3,767,573
Rents And Leases	3,657,445	-0-	3,657,445
Consultants	2,925,054	-0-	2,925,054
Building And Grounds Maintenance	1,708,746	-0-	1,708,746
Awards And Indemnities	983,953	-0-	983,953
Court Service Compensation	784,569	-0-	784,569
Indirect Cost	108,904	-0-	108,904
Other	28,208	-0-	28,208
Total Expenditures	**59,852,131**	**20,125,026**	**79,977,157**
Excess (Deficiency) Of Revenues Over (Under) Expenditures	**15,891,420**	**(20,125,026)**	**(4,233,606)**
Other Financing Sources (Uses)			
Net Appropriations	16,044,143	19,158,220	35,202,363
Proceeds From Bond Anticipation Notes	-0-	8,137,584	8,137,584
Total Other Financing Sources (Uses)	**16,044,143**	**27,295,804**	**43,339,947**
Excess (Deficiency) Of Revenues And Other Sources Over (Under) Expenditures And Other Sources (Uses)	**$ 31,935,563**	**$ 7,170,778**	**$ 39,106,341**

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

STATE OF NEW HAMPSHIRE
DEPARTMENT OF ADMINISTRATIVE SERVICES

RECONCILIATION OF THE STATEMENT OF REVENUES AND EXPENDITURES GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Excess (Deficiency) Of Revenues And Other Sources Over (Under) Expenditures And Other Sources (Uses)	$ 39,106,341
Amounts reported for governmental activities in the Statement of Activities are different because (see Note 1-C., also):	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	16,848,699
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:	
Change in Capital Lease Obligations	415,000
Changes in Compensated Absences And Workers Compensation	(304,460)
Indigent Representation Bad Debt Expense	(11,520,000)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets and therefore is not recognized as an expense in the Statement of Activities:	
Bond Principal Repayments	3,192,340
Elimination of other financing sources reported on the fund statements for short term bond proceeds	(8,137,584)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.	
Indigent Representation	12,496,880
Change In Net Assets Of Governmental Activities	$ 52,097,216

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

STATE OF NEW HAMPSHIRE
DEPARTMENT OF ADMINISTRATIVE SERVICES

NOTES TO THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Department of Administrative Services have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

A. Financial Reporting Entity

The Department of Administrative Services is an organization of the primary government of the State of New Hampshire. The accompanying financial statements report the financial activity of the Department of Administrative Services.

The financial activity of the Department of Administrative Services is accounted for and reported in the State's General and Capital Projects Funds in the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the CAFR. The Department of Administrative Services, as a department of the primary government, accounts for only a small portion of the General and Capital Projects Funds and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to the Department of Administrative Services cannot be determined. Accordingly, the accompanying financial statements are not intended to show the financial position or change in fund balances of the Department of Administrative Services in the General and Capital Projects Funds.

B. Government-wide And Fund Financial Statements

Government-wide Financial Statements

The Statement of Activities reports information on the financial activities of the Department of Administrative Services. As none of the Department's activities are business-type, the activities reported in the Statement are all governmental. Business-type activities rely significantly on fees and charges for support. Governmental activities are normally supported through taxes and intergovernmental revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not meeting the definition of program revenues, including resources that are dedicated internally, are reported as general revenues. Certain indirect costs are included in program expenses reported for individual functions.

Fund Financial Statements

Separate financial statements are provided for governmental funds. The General and Capital Projects Funds are reported as separate columns in the fund financial statement.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay the liabilities of the current period. For this purpose, the State generally considers non-grant revenues to be available if they are collected within 60 days of the end of the current fiscal period. Grant revenues that the State earns by incurring obligations are recognized in the same period the obligations are recognized. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due.

D. Financial Statement Presentation

The State of New Hampshire and the Department of Administrative Services use funds to report on their financial position and the results of their operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The Department of Administrative Services reports its financial activity in the funds described below:

Governmental Fund Types:

General Fund: The General Fund accounts for all financial transactions not specifically accounted for in any other fund. All revenues of governmental funds, 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.

E. Interfund And Intra-Agency Transactions

As a general rule, the effect of interfund and intra-agency activity is eliminated from the government-wide statements, with the exception of activities between funds that are reported in different functional categories of governmental activities. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

F. Revenues And Expenditures/Expenses

In the government-wide Statement of Activities, revenues and expenses are listed by activity type (governmental or business-type). Additionally, revenues are classified between program and general revenues. The Department of Administrative Services' program revenues include 1) charges for services provided and 2) operating grants and contributions. In general, resources not dedicated to a program, as well as resources that are internally dedicated, are reported as general revenues rather than program revenues. The general revenues reported on the Department's Statement of Activities include net appropriations and unrestricted revenues. These unrestricted revenues are collected by the Department but are not dedicated for use by the Department.

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either "general purpose" or "restricted". General-purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction, available for only specified purposes. When both general purpose and restricted funds are available for use, it is the State's policy to use restricted resources first.

In the governmental fund financial statements, expenditures are reported by type. Debt service includes both interest and principal outlays related to bonds. Capital outlay includes expenditures for real property and equipment in the Capital Projects Fund.

Reimbursements – State agencies reimburse the Department of Administrative Services for services it provides such as data processing, telecommunications, maintenance, and mailroom services. These reimbursements are recognized as revenue in the Department's financial statements.

Other Financing Sources – these additions to governmental resources in the fund financial statements result from financing provided by bond proceeds and net appropriations.

G. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported by the State in its CAFR in its 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. The Department of Administrative Services' capital assets are reported in Note 2 on page 61.

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 project 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. Depreciation expense is recognized in the government-wide financial statements. Capital assets are depreciated using the straight-line method over the following useful lives:

Depreciation Useful Lives	
Equipment	5 years
Computer Software	5 years
Building Improvements	20 years
Buildings	40 years
Infrastructure	50 years

H. Budget Control And Reporting

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 a separate budget for each year of the biennium, consists of three parts: Part I is the Governor's program for meeting all expenditure needs and estimating revenues. There is no constitutional or statutory requirement that the Governor propose, or that 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 Capital Projects Fund budget represents individual projects that extend over several fiscal years. Since the Capital Projects Fund comprises appropriations for multi-year projects, it is not included in the budget and actual comparison schedule.

In addition to the enacted biennial operating budget, the Governor may submit to the Legislature supplemental budget requests to meet expenditures during the current biennium. Appropriation transfers can be made within a department without the approval of the Legislature; therefore, the legal level of budgetary control is at the department level.

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 operations, needs, and resources, and to maintain an integrated financial accounting 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 legally defined as non-lapsing, which means the balances are reported as reservation of fund balance. The balance of unexpended encumbrances are brought forward into the next fiscal year. Capital Projects Fund unencumbered appropriations lapse in two years unless extended or designated as non-lapsing by law.

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services, the encumbrance is liquidated and the expenditure and liability are recorded. The Department of Administrative Services' unliquidated encumbrance balances at June 30, 2003 were $2,856,563 and $16,814,173 in the General and Capital Projects Funds, respectively.

A Budget To Actual (Non-GAAP Budgetary Basis) Schedule - General Fund is included as required supplemental information.

NOTE 2 - CAPITAL ASSETS AND OTHER EQUIPMENT

In addition to capital assets, the Department of Administrative Services also accounts for equipment and other assets with an original cost between $100 and $10,000. While only capital assets are reported on the Department's financial statements, State policies require departments to inventory all assets with an original cost of $100 or more and a useful life of greater than one year for accountability purposes.

Capital asset and other equipment activity for the fiscal year ended June 30, 2003 was as follows.

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Capital Assets Not Being Depreciated:				
Land And Land Improvements	$ 5,782,443	$ -0-	$ -0-	$ 5,782,443
Construction In Progress	6,726,424	16,103,461	1,435,061	21,394,824
Total Capital Assets Not Being Depreciated	**12,508,867**	**16,103,461**	**1,435,061**	**27,177,267**
Other Capital Assets:				
Building And Building Improvements	90,380,274	4,546,206	-0-	94,926,480
Capital Equipment	8,832,181	727,762	494,817	9,065,126
Total Other Capital Assets	**99,212,455**	**5,273,968**	**494,817**	**103,991,606**
Less Accumulated Depreciation For:				
Building And Building Improvements	37,905,298	2,620,353	-0-	40,525,651
Capital Equipment	7,885,961	538,111	494,817	7,929,255
Total Accumulated Depreciation	**45,791,259**	**3,158,464**	**494,817**	**48,454,906**
Other Capital Assets, Net	**53,421,196**	**2,115,504**	**-0-**	**55,536,700**
Capital Assets, Net	**65,930,063**	**18,218,965**	**1,435,061**	**82,713,967**
Equipment With Original Cost Between $100 And $10,000	3,875,697	273,679	419,433	3,729,943
Net Capital Assets And Other Equipment	**$ 69,805,760**	**$ 18,492,644**	**$ 1,854,494**	**$ 86,443,910**

NOTE 3 - EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The Department, as an organization of the State government, participates in the New Hampshire Retirement System (Plan). The Plan is a contributory defined-benefit plan and covers substantially all full-time employees of the Department. The Plan qualifies as a tax-exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. RSA 100-A established the Plan and the contribution requirements. The Plan, which is a cost-sharing, multiple-employer Public Employees Retirement System (PERS), is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. All assets are in a single trust and are available to pay retirement benefits to all members.

Group I members at age 60 qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is 1/60 (1.67%) of AFC multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. At age 65, the yearly pension amount is recalculated at 1/66 (1.5%) of AFC multiplied by years of creditable service. Members in service with ten or more years of creditable service who are between ages 50 and 60 or members in service with at least 20 or more years of service, whose combination of age and service is 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years.

All covered Department of Administrative Services employees are members of Group I.

Members of both groups may qualify for vested deferred allowances, disability allowances, and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation, service, or both.

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the fiscal year ended June 30, 2003, Group I and II members were required to contribute 5% and 9.3%, respectively, of gross earnings. The State funds 100% of the employer cost for all of the Department’s employees enrolled in the Plan. The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years based on the Plan’s actuary.

The Department of Administrative Services’ payments for normal contribution costs for the fiscal year ended June 30, 2003 amounted to 4.14% of the covered payroll for its Group I employees. The Department’s normal contributions for the fiscal year ended June 30, 2003 were $560,818.

A special account was established by RSA 100-A:16, II (h) for additional benefits. The account is credited with all the earnings of the account assets in the account plus the earnings of the remaining assets of the plan in excess of the assumed rate of return plus ½ of 1%.

The New Hampshire Retirement System issues a publicly available financial report that may be obtained by writing to them at 4 Chenell Drive, Concord, NH 03301-8509 or from their web site at http://www.state.nh.us/retirement.

Post-employment Health Care Benefits

In addition to providing pension benefits, RSA 21-I:30 specifies that the State provide certain health care insurance benefits for retired employees. These benefits include group hospitalization, hospital medical care, and surgical care. Substantially all of the State's employees may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2003, legislation was passed that requires State Group I employees hired after July 1, 2003 to have 20 years of State service in order to qualify for health insurance benefits. These and similar benefits for active employees are authorized by RSA 21-I:30 and, during fiscal year 2003, were provided through an insurance company whose premiums are based on the benefits paid during the year. The State recognizes the cost of providing these benefits by paying the entire annual insurance premium with a portion of the cost offset by the New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees.

During the fiscal year ended June 30, 2003, the State paid for the cost of health insurance premiums for the Department of Administrative Services' retired employees and spouses on a pay-as-you-go basis. The cost of the health insurance for the Department's retired employees and spouses is a budgeted amount paid from an appropriation made to the administrative organization of the New Hampshire Retirement System. Accordingly, the cost of health insurance benefits for retired Department of Administrative Services employees and spouses is not included in the Department's financial statements.

NOTE 4 - FEDERAL FUNDS

The Schedule of Expenditures of Federal Awards (the Schedule), on page 69, is presented for the purpose of additional analysis. The expenditures presented in the Schedule for the Food Donation, Child and Adult Care Food Program, Summer Food Service Program for Children, Emergency Food Assistance (Food Commodities), and Donation of Federal Surplus Personal Property programs represent the federally assigned value of the nonmonetary federal financial assistance for the federal surplus food and personal property distributed to the Department. Expenditures for all other programs are presented in the Schedule on the cash basis of accounting; expenditures are recorded when paid rather than when the obligation is incurred.

Donated Foods – The State distributes federal surplus food to institutions (schools, hospitals, and prisons) and to the needy. Expenditures are reported in the Schedule at the federally assigned value of the product distributed.

Donated Federal Surplus Personal Property – The State obtains surplus property from various federal agencies at no cost. The property is then sold by the State to eligible organizations for a nominal service charge. Total expenditures of $494,909 reported on the Schedule for CFDA No. 39.003, Donation of Federal Surplus Personal Property, represents 23.3% of the federal government's original acquisition value of the federal property sold by the State.

NOTE 5 – CAPITAL LEASES

The Department entered into lease agreements as lessee for financing the acquisition of the Conway, Franklin, Derry, and Jaffrey district court buildings. The lessors obtained the bonding for the court construction. The Department's lease term coincides with the lessor's bond term. At the end of the lease, ownership transfers to the State.

These leases qualify as capital leases for accounting purposes and therefore, have been recorded at the present value of the future minimum lease payments. The future minimum lease payments and the net present value of those payments at June 30, 2003, are as follows (in thousands):

Payable June 30,	Governmental Activities
2004	$ 545
2005	530
2006	514
2007	503
2008	491
Thereafter	4,027
Total	6,610
Amount Representing Interest	(1,885)
Present Value of Minimum Lease Payments	$ 4,725

The assets acquired through capital leases and included in capital assets at June 30, 2003 include the following (in thousands):

	Governmental Activities
Equipment	$ 1,589
Building and Building Improvements	5,411
Total	7,000
Less: Accumulated Depreciation	3,399
Net	$ 3,601

NOTE 6 – LONG-TERM DEBT

The following is a summary of changes in the long-term liabilities during fiscal year 2003 for bond amounts related to the Department of Administrative Services' projects.

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
General Obligation Bonds Payable	$ 37,301,835	$ 2,346,799	$ (6,865,269)	$ 32,783,365
Total Governmental	$ 37,301,835	$ 2,346,799	$ (6,865,269)	$ 32,783,365

All bonds issued by the State, except for Turnpike revenue bonds, are general obligation bonds, which are backed by the full faith and credit of the State. Interest rates on these issues range from 3.0% to 7.2%. The anticipated source of repayment is the General Fund. The annual maturities are as follows:

Payable June 30,	Principal	Interest	Total
2004	$ 4,079,129	$ 2,138,486	$ 6,217,615
2005	4,023,313	2,476,530	6,499,843
2006	2,807,219	1,808,494	4,615,713
2007	2,539,512	1,616,144	4,155,656
2008	2,434,087	1,343,331	3,777,418
Thereafter	16,900,105	9,863,525	26,763,630
Total	**$ 32,783,365**	**$ 19,246,510**	**$ 52,029,875**

NOTE 7 – SUBSEQUENT EVENTS

During the period under audit, the Bureau of Emergency Communications (Bureau) was administratively attached to the Department of Administrative Services. The Bureau's budget and financial activity was recorded in the State accounting system under the Department of Administrative Services. The Bureau is responsible for administering Enhanced 911 services. Chapter 319, Laws of 2003, removed the Bureau's administrative attachment to the Department of Administrative Services and effective September 4, 2003, the Bureau was transferred to the Department of Safety.

STATE OF NEW HAMPSHIRE
DEPARTMENT OF ADMINISTRATIVE SERVICES
REQUIRED SUPPLEMENTARY INFORMATION

BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Budgeted Amount		Actual	Variance With Final Budget
	Original	**Final**	**Budgetary Basis**	**Positive (Negative)**
Revenues				
Grants From Federal Government	$ 2,318,016	$ 2,318,016	$ 28,971,649	$ 26,653,633
Sale Of Services	22,285,591	22,285,591	20,853,996	(1,431,595)
Rents And Leases	5,885,798	5,885,798	5,660,990	(224,808)
Assessments And Fees	3,490,827	3,490,827	4,027,978	537,151
Sale Of Commodities	232,834	232,834	2,102,815	1,869,981
Miscellaneous	4,479,576	4,479,576	12,439,432	7,959,856
Total Revenues	**38,692,642**	**38,692,642**	**74,056,860**	**35,364,218**
Expenditures				
General Government And Capital Outlays	51,828,471	51,748,942	53,414,715	(1,665,773)
Total Expenditures	**51,828,471**	**51,748,942**	**53,414,715**	**(1,665,773)**
Excess (Deficiency) Of Revenues Over (Under) Expenditures	**$ (13,135,829)**	**$ (13,056,300)**	**$ 20,642,145**	**$ 33,698,445**

The accompanying note is an integral part of this schedule.

Note To The Required Supplementary Information – Budgetary Reporting

The Department of Administrative Services' biennial budget is prepared principally on a modified cash basis and adopted for governmental and proprietary funds. The "actual" results column of the Budget To Actual Schedule is presented on a "budgetary basis" to provide a meaningful comparison to budget.

The 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. For reporting purposes, the original budget is equal to the initial operating budget plus any balances brought forward, additional appropriations, and other legally authorized legislative and executive changes made before the beginning of the fiscal year. The final budgeted amount includes the original budget plus supplemental appropriation warrants and transfers made throughout the fiscal year.

The variance column on the Budget To Actual Schedule highlights differences between the final budget and actual revenue and expenditures. For revenue, these variances are caused by actual revenue exceeding budget, generating a favorable variance, or actual being less than budget, generating an unfavorable variance. For expenditures, a favorable variance results from actual expenditures being less than the amount budgeted for the fiscal year, and unfavorable variances represent actual expenditures for the reporting period exceeding the amounts budgeted for the fiscal year.

The negative expenditure variance reflects expenditures out of Department revolving accounts that are not budgeted and activity in the employee benefit adjustment account established by RSA 9:17-c. Unused employee benefit appropriations from State agencies are transferred into the account and are able to be transferred to State agencies to cover legally authorized employee benefits with insufficient appropriations. At the end of fiscal year 2003, the account was in a deficit position. To remedy the account's deficit, $2.3 million was transferred from General Fund surplus to fund the fiscal year 2003 account activity.

Budgetary vs GAAP basis

Because the budget is prepared on a budgetary basis and not in accordance with generally accepted accounting principles (GAAP) there are differences in the revenue and expenditures amounts reported in the Statement of Revenues and Expenditures and the Budget To Actual Schedule. The major differences between the budgetary basis and the GAAP basis are:

1. Expenditures are recorded when cash is paid or committed (budgetary), rather than when the obligation is incurred (GAAP). In addition, revenue based on these accruals is adjusted on a GAAP basis only.
2. On a GAAP basis, major intra-agency transactions are eliminated in order to not double count revenues and expenditures reported in the Department of Administrative Services' financial statements.

The following schedule reconciles the differences between budgetary accounting methods and the GAAP basis accounting principles for the fiscal year ended June 30, 2003.

RECONCILIATION OF BUDGETARY TO GAAP

Excess (Deficiency) Of Revenues Over (Under) Expenditures (Budgetary Basis)	**$**	**20,642,145**
Adjustments And Reclassifications:		
To Record The Effect Of Encumbrances		1,248,887
To Record Net Accounts Receivable		(213,775)
To Record Net Accounts Payable		18,600
To Record Net Accrued Salaries And Benefits		(138,097)
To Record Debt Service Paid By State Treasury		(5,448,340)
To Record Net Non-Monetary Federal Assistance		(218,000)
Net Adjustments And Reclassifications		(4,750,725)
Excess (Deficiency) Of Revenues Over (Under) Expenditures (GAAP)	**$**	**15,891,420**

STATE OF NEW HAMPSHIRE
DEPARTMENT OF ADMINISTRATIVE SERVICES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Federal Catalog Number	Federal Grantor *Federal Program Title*	Expenditures	Pass Thru Percent
	U. S. Department of Agriculture		
10.550	*Food Donation*	$ 3,144,822	100%
10.558	*Child and Adult Care Food Program*	144,422	100%
10.559	*Summer Food Service Program for Children*	29,825	100%
10.560	*State Administrative Expenses for Child Nutrition*	38,879	0%
10.568	*Emergency Food Assistance Program (Administrative Costs)*	46,978	0%
10.569	*Emergency Food Assistance Program (Food Commodities)*	1,649,461	100%
	U. S. General Services Administration		
39.003	*Donation of Federal Surplus Personal Property*	494,909	100%
		$ 5,549,296	

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APPENDIX

CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of August 5, 2004, of the current status of the observations and other issues and concerns contained in the audit report of the Department of Administrative Services for the fiscal year ended June 30, 1993. 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.

	Status		
Internal Control Comments			
Material Weakness			
1. General Fixed Assets *(See Current Observation No. 12)*	●	○	○
Reportable Conditions			
2. Equipment Internal Control Procedures	●	●	○
3. Equipment Inventory Overstatement	●	●	●
4. Indigent Defense Payment Process	●	●	●
5. Revenue Collected By The Office Of Cost Containment	●	●	●
6. Warehouse Inventory Computer Reconciliations	●	●	●
7. Errors On Declaration Of Surplus Property Forms	●	●	●
8. Lack Of Segregation Of Duties	●	●	●
9. Building Use Allowance *(See Current Observation No. 33)*	●	○	○
Federal Compliance Comments			
10. Statewide Indirect Cost Rollforward Adjustments	●	●	●
11. Statewide Cost Allocation Plan – Errors In Plan Allocations	●	●	○
12. Statewide Cost Allocation Plan Approval	●	●	●
13. Federally Funded Equipment Expenditures	●	●	●
14. Charitable Institution Participation Report	●	●	●
15. Federal Surplus Program Inventory Adjustments	●	●	●
16. Understatement Of Federal Surplus Equipment Inventory	●	●	●
State Compliance Comments			
17. State Warehouse Sundry Materials And Supplies	●	●	●
18. Expired Manual Of Procedures	●	○	○
19. Expired Administrative Rules *(See Current Observation No. 25)*	●	○	○
20. No Administrative Rules Adopted *(See Current Observation No. 25)*	●	○	○
21. Annual/Biennial Reports And Financial Plan	●	●	●

Status Key

Fully Resolved	●	●	●
Substantially Resolved	●	●	○
Partially Resolved	●	○	○
Unresolved	○	○	○

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