

**STATE OF NEW HAMPSHIRE
GOVERNOR'S OFFICE OF
EMERGENCY MANAGEMENT**

**AUDIT REPORT
FOR THE NINE MONTHS ENDED
MARCH 31, 1997**

**STATE OF NEW HAMPSHIRE
GOVERNOR'S OFFICE OF EMERGENCY MANAGEMENT**

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**STATE OF NEW HAMPSHIRE
GOVERNOR'S OFFICE OF EMERGENCY MANAGEMENT**

INTRODUCTION

BACKGROUND

The Governor's Office of Emergency Management (OEM) was established in 1949 under the provisions of RSA 107 and was known as the New Hampshire Civil Defense Agency. Chapter 162, Laws of 1987, repealed RSA 107 and established the Governor's Office of Emergency Management under RSA 107-C, effective July 11, 1987.

In accordance with RSA 107-C, the OEM was established to provide a plan for carrying out the necessary emergency functions in order to preserve the lives and the property of the people in the State in the event of a disaster resulting from fire, flood, hurricane, or other natural or technological emergency.

Radiological Emergency Response Plans (RERP)

Federal regulations require that licensed nuclear generating facilities create radiological emergency response plans (RERP). The RERP must cover municipalities within a ten mile radius of the nuclear facility. The State is affected by two nuclear generating facilities: Seabrook Station Nuclear Power Plant, located in Seabrook, New Hampshire, and Vermont Yankee Nuclear Power Station, located in Vernon, Vermont. Pursuant to RSA 107-B, effective June 30, 1981, the Director of the OEM, in cooperation with affected local units of government, is required to prepare, maintain, and operate an RERP for Seabrook Station. The utility is assessed for the cost of the RERP. Vermont Yankee and the OEM have a voluntary agreement giving the OEM the responsibility of maintaining the New Hampshire RERP for the utility, in exchange for reimbursement of the related costs incurred by the OEM.

ORGANIZATION

The OEM is headed by a Director, who is appointed by, and serves at the pleasure of the Governor and Council. The Director and an Assistant Director oversee the four sections within the OEM; Technical Hazards, Program Management and Training, Operations, and Business Administration. The OEM employs 35 full-time and four part-time employees. The Office is located at 107 Pleasant Street, Concord, New Hampshire.

INTRODUCTION (Continued)

FUNDING

The Governor's Office of Emergency Management is funded by appropriations from the General and Special Funds. During the nine months ended March 31, 1997, costs were primarily recovered by the reimbursement of disaster payments from the Federal Emergency Management Agency and the collection of utility assessments from Seabrook Station and Vermont Yankee. Actual revenues and expenditures for the General and Special Funds for the nine months ended March 31, 1997 are summarized with budgeted amounts in the following tables. Because the audit period does not cover the entire fiscal year, it is not expected that actual revenues and expenditures would approximate budgeted amounts for the period under audit.

<i>General Fund</i>	<i>Nine Months Ended March 31, 1997</i>	
(in thousands)	Budget	Actual
Restricted Revenues	\$3,463	\$1,754
Expenditures	\$4,303	\$2,528

<i>Special Fund</i>	<i>Nine Months Ended March 31, 1997</i>	
(in thousands)	Budget	Actual
Restricted Revenues	\$8,367	\$2,262
Expenditures	\$8,416	\$2,352

Combined General and Special Fund actual revenues and expenditures by type for the nine months ended March 31, 1997 are presented in the graphs on the following page.

PRIOR AUDIT

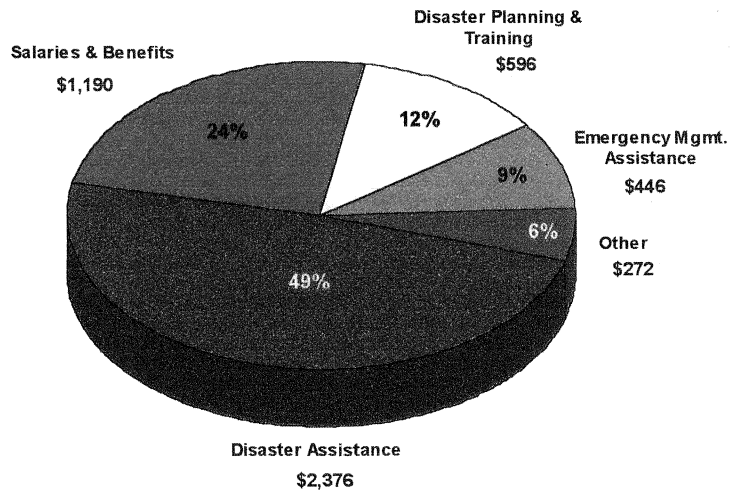
The most recent prior financial and compliance audit of the Governor's Office of Emergency Management was for the fiscal year ended June 30, 1989. The appendix on page 43 of this report contains a summary of the current status of the observations contained in that prior audit report.

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, New Hampshire 03301-4906.

INTRODUCTION (Continued)

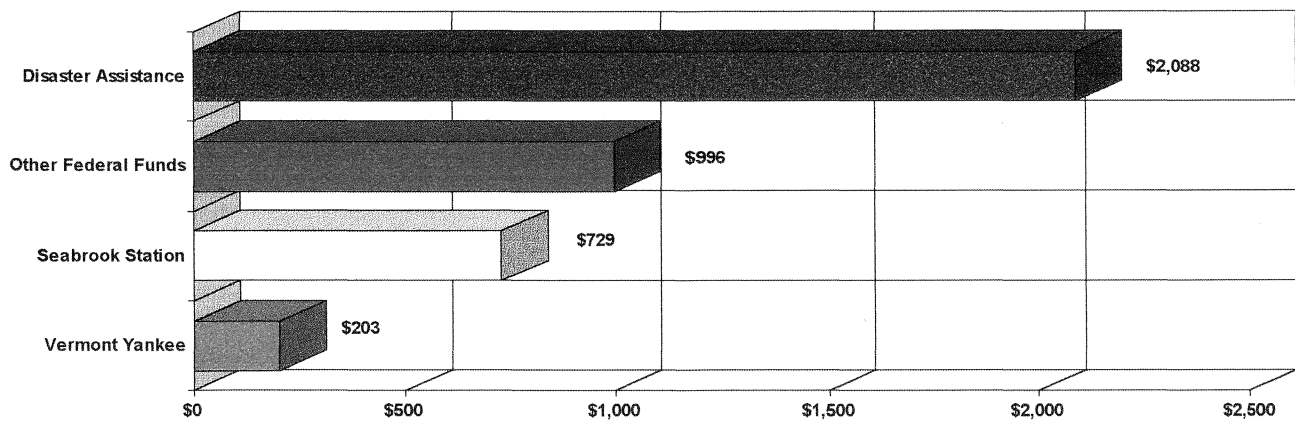
**EXPENDITURES
FOR THE NINE MONTHS ENDED 3/31/97
(in thousands)**

TOTAL EXPENDITURES \$4,880,000



**REVENUE
FOR THE NINE MONTHS ENDED 3/31/97
(in thousands)**

TOTAL REVENUE \$4,016,000



**STATE OF NEW HAMPSHIRE
GOVERNOR'S OFFICE OF EMERGENCY MANAGEMENT**

AUDIT OBJECTIVES AND SCOPE

The primary objective of our audit is to express an opinion on the fairness of the presentation of the financial statement. As part of obtaining reasonable assurance about whether the financial statement is free of material misstatement, we considered the effectiveness of the internal control structure in place at the Governor's Office of Emergency Management and tested the Office's compliance with certain provisions of applicable state and federal laws, regulations, contracts, and grants. Major accounts or areas subject to our examination included, but were not limited to the following:

- Internal control structure
- Revenues and appropriations
- Expenditures and encumbrances
- Equipment
- State and federal compliance
- Accounts receivable and payable

Our reports on the internal control structure, state and federal compliance, and management issues, the related observations and recommendations, our independent auditor's report, and the financial statement are contained in the report that follows.

AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the accompanying financial statement of the New Hampshire Governor's Office of Emergency Management for the nine months ended March 31, 1997, and have issued our qualified report thereon dated May 5, 1997, which was qualified with respect to the lack of presentation of the financial position of the Office, the accounting for general fixed assets, the understatement of General Fund revenue, and the understatement of Special Fund revenue and expenditures for the nine months ended March 31, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

The management of the New Hampshire Governor's Office of Emergency Management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statement of the New Hampshire Governor's Office of Emergency Management for the nine months ended March 31, 1997, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statement 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 structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following matter involving the internal control structure and its operation that we consider to be a material weakness as defined above. This condition was considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the financial statement of the New Hampshire Governor's Office of Emergency Management for the nine months ended March 31, 1997. Those matters that we consider to be reportable conditions, including the one that we consider to be a material weakness, are presented on the following pages.

MATERIAL WEAKNESS

OBSERVATION NO. 1: LACK OF A COST ALLOCATION PLAN

Audit History

The LBA performed an audit of the former New Hampshire Civil Defense Agency for the year ended June 30, 1984. The report contained observations regarding incomplete federal grant ledgers and inadequate payroll time records to support partial or full allocation of salary costs on a program basis. The subsequent audit of the Governor's Office of Emergency Management (OEM) for the year ended June 30, 1989, noted that the OEM judgmentally allocated all expenditures to its various funding sources with no documentation to support the allocation. This resulted in a material weakness in the OEM's internal control structure. The Governor's Office of Emergency Management responded that it would work to implement a meaningful cost allocation system including a detailed positive time keeping system.

Of the total agency expenditures of \$4,879,785 for the nine months ended March 31, 1997, \$1,163,448 (24%) were charged to Vermont Yankee and Seabrook Station and \$3,716,337 (76%) were charged to federal programs. The OEM administers both the Seabrook Station and Vermont Yankee emergency response plans and 11 federal grants that are accounted for in 29 different organization codes in the state accounting system. It employs 35 full-time and four part-time employees, the majority of whom work on multiple programs. An effective cost allocation system is imperative to ensure that program costs are properly charged.

During the current audit it was again noted that the OEM had not implemented a cost allocation system and that the same problems identified in the 1989 audit regarding the judgmental allocation of expenditures to various funding sources continue. As a result of this ongoing problem it cannot be determined whether costs incurred have been charged to the appropriate programs. Therefore, we are questioning \$409,070 in federal expenditures and \$613,747 in expenditures charged to Vermont Yankee and Seabrook Station nuclear power facilities. The questioned costs regarding federal programs are discussed more fully in Observation No. 5 on page 16. The questioned costs related to utility assessments are detailed below.

OBSERVATION:

Salaries and Benefits

The Seabrook Station utility assessment is authorized pursuant to the fiscal year 1997 Public Utilities Commission Order No. 22,318. The Order specifies the allowable costs to be incurred by the OEM for personnel, training, and other expenses to maintain the New Hampshire Radiological Emergency Response Plan (RERP). Through a voluntary agreement, the Vermont Yankee utility assessment is paid by the Vermont Yankee Nuclear Power Corporation to the OEM for the costs incurred by the OEM for the maintenance of the New Hampshire RERP in support of Vermont Yankee.

OBSERVATION NO. 1: LACK OF A COST ALLOCATION PLAN (Continued)

OBSERVATION: (Continued)

While it is acknowledged that the OEM has developed a positive time keeping system, it does not provide needed detail to properly track hours worked on specific programs. The OEM time sheets do not properly support the hours worked by employees on individual programs but instead track by general program category. In addition, the information on the time sheets is not used to allocate payroll expenditures. For example:

- In three of seven payroll selections tested (43%), the number of hours that the employee reported working on each general program category on his/her time sheet did not agree with the number of hours charged to the account codes in the state accounting system.
- We reviewed, in detail, eight employees' time sheets for the six months ended December 31, 1996 and compared the hours charged per the time sheets to the number of hours charged per the state accounting system. This resulted in various over and under-charges to Seabrook Station and Vermont Yankee.
- We reviewed the time sheets for the same period to determine whether the time sheets were complete, accurate and supported by approved leave slips. We noted that 18% of the time sheets were not clerically accurate, 18% omitted totals, 11% were missing leave slips, and 3% of the leave slips were not properly approved.

The results of our tests indicate that the OEM does not maintain documentation to support its payroll expenditures to the various funding sources. As a result, we are questioning all payroll costs charged to Seabrook Station and Vermont Yankee totaling \$565,883.

Telephone Expenditures

The allocation method used by OEM to charge its monthly telephone bills is based on various formulas that were developed in the 1980's, however, there is no documentation available to support the allocation. We reviewed a phone bill for the OEM's toll-free number and observed that the cost was charged equally to only three of its programs. However, the phone number is used by people calling the OEM regarding all of its programs. The OEM does not have a viable cost allocation system for any of its phone charges. Based on this lack of support, we are questioning all telephone expenditures.

OBSERVATION NO. 1: LACK OF A COST ALLOCATION PLAN (Continued)

OBSERVATION: (Continued)

Other Expenditures

In addition to questioning all salaries and benefits and telephone expenditures, we also noted the following individual expenditures that we are questioning as detailed below:

- Of \$18,553 in computer equipment purchases, Seabrook Station was charged \$8,286. There is no documentation to support the allocation method used for this charge.
- Vermont Yankee was charged \$797 for a radio installed in an OEM vehicle, though the radio is not used exclusively for that program. We noted that the radio was not included in the fiscal year 1997 Vermont Yankee voluntary agreement budget.

The table below summarizes costs charged to Seabrook Station and Vermont Yankee that are questioned as a result of an inadequate cost allocation plan or inadequate supporting documentation.

	PAYROLL	TELEPHONE	OTHER	TOTAL
Seabrook Station	460,110	16,397	8,286	484,793
Vermont Yankee	105,773	22,384	797	128,954
TOTAL	\$ 565,883	\$ 38,781	\$ 9,083	\$ 613,747

RECOMMENDATION:

The OEM should work with the utilities and the Public Utilities Commission to resolve the questioned costs. The OEM must implement procedures to comply with the Public Utilities Commission Order No. 22,318, and the Vermont Yankee voluntary agreement. This can only be done through the implementation of an effective cost allocation plan. If the OEM chooses to use time sheets as a method of allocating personnel costs, then the time sheets should be revised to provide adequate detail by project and should be compiled to adequately track costs incurred.

OBSERVATION NO. 1: LACK OF A COST ALLOCATION PLAN (Continued)

AUDITEE RESPONSE:

Salaries and Benefits

OEM charges salary and benefits costs to the appropriate accounts where the funds for such costs are budgeted. OEM's funding levels are such that there is little or no allowance to allocate costs for positions other than the budgeted program accounts. Therefore, salaries and benefits costs are charged to accounts in accordance with budgets as approved by the State, Utilities, PUC and FEMA.

Telephone Expenditures

In addition to telephone lines serving the general agency population, OEM has telephone lines that were installed for specific program activity. The agency's three primary programs Emergency Management Assistance (federal), Seabrook Station (utility), and Vermont Yankee (utility) generate the greatest amount of activity agency wide and are charged accordingly for telephone costs. Other programs are charged for telephone costs in relation to each grant and level of activity.

As time and technology have changed, OEM has made several changes to agency telephone service since the telephone cost allocation was developed. OEM will conduct a review of telephone usage, program activity, availability of funding, and telephone costs to update telephone expense allocations.

Other Expenditures

OEM identifies equipment needs and acquires equipment as funding and program guidelines allow. The mandate of the agency, however, is to provide a comprehensive emergency preparedness program for all communities throughout the State. Emergencies of every type can occur at any time and equipment requirements for any program need to address the State's preparedness on a continuing basis. Equipment is acquired to support the needs of the general public in the event of any type of emergency even if the equipment acquired has associated with it a specific justification for a particular program. Radios and computer equipment purchased with funds from one program are not limited to exclusive use by that program activity. Equipment purchased by OEM from all funding sources is used to support general emergency management operations and preparedness in support of the Agency's mandate.

Payroll, telephone, and other costs will be reviewed with the interested parties to resolve questions presented in the audit observations.

OEM will again review funding sources and costs and will consult professional assistance to further develop a more responsive cost allocation methodology that is in compliance with OMB Circular A-87, PUC orders, and voluntary agreements.

OTHER REPORTABLE CONDITIONS

OBSERVATION NO. 2: INADEQUATE SEGREGATION OF DUTIES

The fundamental purpose of properly segregating accounting and administrative duties is to protect the integrity of the accounting and administrative systems by ensuring that no one employee is in a position to commit, either intentionally or unintentionally, errors or irregularities and also be responsible for the detection of those errors or irregularities. In general, there are three groups of incompatible duties that must be segregated for proper internal controls: 1) transaction authorization; 2) custody of assets; and 3) recording of transactions.

OBSERVATION:

We found the following areas where the Governor's Office of Emergency Management (OEM) could strengthen its internal control structure by properly segregating duties:

Invoicing Procedures

- OEM invoices Vermont Yankee and Seabrook Station monthly for utility assessments. One OEM employee is responsible for computing monthly utility assessments, preparing the invoices, maintaining receivable records, and reconciling records to paid bills.

Equipment

- The duties of maintaining detail equipment records, performing the physical equipment inventory and resolving inventory discrepancies should be segregated. One OEM employee is responsible for performing all duties related to accounting for equipment.

RECOMMENDATION:

While it is recognized that the Office of Emergency Management has limited resources in its business office, it should strive to segregate duties of transaction authorization, custody of assets, and recording of transactions.

AUDITEE RESPONSE:

Segregating duties in a small accounting office with a limited number of resources is not always possible for all tasks. OEM will take steps to segregate and/or better monitor duties within the accounting section.

OBSERVATION NO. 3: CASH MANAGEMENT - UNTIMELY REQUESTS FOR FEDERAL FUNDS

OBSERVATION:

An effective cash management system requires that federal reimbursements be requested as soon as legally possible to minimize the drain on the cash reserves of the State. The OEM's policy is to request federal reimbursements on a quarterly basis. We tested seven requests for federal funds for the quarters ended September 30, 1996 and December 31, 1996 for timeliness. The requests were not performed timely, ranging from 21 to 113 days beyond the end of the quarter, with an average delay of 77 days. Using an interest rate of 5%, provided by the State Treasury, this resulted in the potential for lost interest to the State totaling \$20,043.

In addition, we also noted that a June 30, 1996 receivable due from the U.S. Department of Transportation, totaling \$21,254 was not requested by OEM until May 1997.

RECOMMENDATION:

The OEM should implement effective cash management procedures to ensure timely receipt of federal funds after expenditures have been incurred. These procedures should require that requests for federal funds be performed monthly or more frequently when large disaster disbursements are incurred.

AUDITEE RESPONSE:

OEM has effective cash management procedures in place and normally processes requests for federal reimbursements on a timely basis. During the period August through December 1996 the OEM Accounting Section experienced a staffing shortage, and was unable to stay current with the workload.

As of March 31, 1997, the U.S. Department of Transportation (USDOT) Hazardous Materials Uniform Safety Act (HMUSA) grant had only been partially expended. Since March 31st the grant has been fully expended and a request for funds has been processed.

OBSERVATION NO. 4: INADEQUATE EQUIPMENT RECORDS AND LATE FILING OF EQUIPMENT REPORTS

The Fixed Asset Policies and Procedures Manual, issued by the Department of Administrative Services (DAS), prescribes procedures to be followed by state agencies for accounting for state owned equipment. Procedures include reporting changes in equipment balances monthly, maintaining documentation to support equipment costs, performing an annual physical inventory of equipment, and establishing an internal control system over equipment. The OEM's March 31, 1997 equipment inventory balance totaled \$1,086,340. During our testing of the OEM's equipment inventory records, we noted the following:

OBSERVATION:

- For 36 of 50 equipment items tested (72%), documentation was not maintained to support the recorded cost of the equipment as required by the Fixed Asset Policies and Procedures Manual.
- The year-end and twelve monthly equipment reports for fiscal year 1996 were not prepared and submitted to DAS until September 1996. The monthly equipment reports for the first nine months of fiscal year 1997 were not submitted until April 1997. Our prior audit report of the OEM for the fiscal year ended June 30, 1989, noted a similar comment regarding the late filing of equipment reports.

RECOMMENDATION:

The OEM should establish appropriate procedures to: 1) maintain documentation to support the recorded cost of equipment items; 2) ensure all equipment items are properly identified and tagged; and 3) ensure that the monthly equipment inventory reports and the year-end equipment inventory listing are prepared and submitted timely to the Department of Administrative Services as required.

AUDITEE RESPONSE:

Documentation to support the recorded cost of equipment items purchased by OEM has been maintained and filed by fiscal year with the accounting records. OEM believes a permanent centralized file will be a more efficient method of maintaining equipment acquisition documents and will establish an evidential file in the Agency Accounting Office.

During FY'96 OEM developed a new inventory application using bar code equipment tags. Problems encountered implementing the new system resulted in a delay submitting the annual inventory report to the Bureau of Purchase and Property. OEM anticipates the FY'97 annual physical inventory will be completed on schedule pursuant to Purchase and Property requirements. OEM has established a procedure to ensure the monthly equipment inventory reports are submitted to the Bureau of Purchase and Property on a timely basis.

This report is intended for the information of the management of the New Hampshire Governor's Office of Emergency Management and the Fiscal Committee of the General Court. However, this report is a matter of public record upon acceptance by the Fiscal Committee and its distribution is not limited.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

May 5, 1997

AUDITOR'S REPORT ON STATE AND FEDERAL COMPLIANCE

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the accompanying financial statement of the New Hampshire Governor's Office of Emergency Management for the nine months ended March 31, 1997, and have issued our qualified report thereon dated May 5, 1997, which was qualified with respect to the lack of presentation of the financial position of the Office, the accounting for general fixed assets, the understatement of General Fund revenue, and the understatement of Special Fund revenue and expenditures for the nine months ended March 31, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

Compliance with state and federal laws, regulations, contracts, and grants applicable to the New Hampshire Governor's Office of Emergency Management is the responsibility of the Office's management. As part of obtaining reasonable assurance about whether the financial statement is free of material misstatement, we performed tests of the New Hampshire Governor's Office of Emergency Management's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statement was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed the following instance of noncompliance that is required to be reported herein under *Government Auditing Standards* for which the ultimate resolution cannot presently be determined. Accordingly, no provision for any liability that may result has been recognized in the New Hampshire Governor's Office of Emergency Management's financial statement for the nine months ended March 31, 1997.

MATERIAL INSTANCE OF NONCOMPLIANCE

OBSERVATION NO. 5: FEDERAL QUESTIONED COSTS

As noted in Observation No. 1 on page seven, the OEM does not have a system in place to appropriately allocate expenditures incurred to its various programs and functions.

This observation was made during the prior LBA audit for the fiscal year ended June 30, 1989. The OEM has made no progress toward implementing a plan to properly allocate costs incurred to its numerous programs. As a result, federal expenditures incurred during the nine months ended March 31, 1997 totaling \$409,070 are questioned as detailed below.

OBSERVATION:

Salaries and Benefits - Questioned Costs

OMB Circular No. A-87 Revised, "Cost Principles For State, Local, and Indian Tribal Governments" provides principles and standards for determining the allowable costs for federal grants, contracts, and other agreements. Attachment B of the Circular states that in general, when employees work on multiple activities, a positive time keeping system is to be maintained that supports the amount of salaries or wages charged to each federal program. The time keeping system should reflect an after-the-fact distribution of hours worked and must be signed by the employee. Substitute systems (i.e. quarterly statistical sampling) may be used subject to federal approval.

As noted in Observation No. 1 and in our prior audit for the year ended June 30, 1989, the OEM judgmentally allocates expenditures to the various funding sources with no documentation to support the allocation of the charges. Though the OEM has developed a positive time keeping system, it does not provide the information needed to properly track hours worked by specific programs and grants. In addition, the OEM does not use the information on the time sheets to allocate payroll expenditures in any way. As a result, payroll costs of \$393,780 as summarized in the table on the following page are being questioned.

Telephone Expenditures - Questioned Costs

The allocation method used to charge the OEM's monthly phone bills is based on various formulas that were developed in the 1980's, however, there is no documentation available to support the allocation. As discussed in more detail in Observation No. 1, the OEM does not have a viable cost allocation system to support its phone charges. Based on this lack of support, we are questioning telephone expenditures of \$8,554 as summarized in the table on the following page.

OBSERVATION NO. 5: FEDERAL QUESTIONED COSTS (Continued)

OBSERVATION: (Continued)

Other Expenditures - Questioned Costs

In addition to the federal costs questioned due to the lack of a cost allocation plan, we noted the following federal expenditures that were not incurred in accordance with grant provisions.

- The Radiological Instrumentation Maintenance & Calibration (RIM&C) program (CFDA No. 83.531) was overcharged by \$2,236 for its share of software licenses and upgrades. The cost of RIM&C's share of the invoice was \$379, yet it was charged \$2,615.
- The OEM made a \$4,500 advance to a vendor on October 18, 1996 to cover the cost of two workshops to be held for a Disaster Assistance program (CFDA No. 83.516). As of March 31, 1997, the workshops have not been held and the OEM has not requested that the funds be returned.

Based on the items noted above, federal costs incurred during the nine months ended March 31, 1997 totaling \$409,070 are being questioned because of the lack of an adequate cost allocation plan or adequate supporting documentation.

CFDA #	TITLE	PAYROLL	TELEPHONE	OTHER	TOTAL
83.105	Community Assistance	\$ 6,013	\$ - 0-	\$ -0-	\$ 6,013
83.503	Emergency Management Assistance	182,764	3,716	-0-	186,480
83.505	Disaster Preparedness	16,245	362	-0-	16,607
83.516	Disaster Assistance	21,903	-0-	4,500	26,403
83.520	Hurricane	821	723	-0-	1,544
83.531	EMA-Other	166,034	3,753	2,236	172,023
	Total	\$ 393,780	\$ 8,554	\$ 6,736	\$ 409,070

(see Schedule of Questioned Costs on page 23)

RECOMMENDATION:

The OEM should work with the Federal Emergency Management Agency to resolve the questioned costs and implement procedures to comply with OMB Circular A-87 through the implementation of an effective cost allocation plan. If the OEM chooses to use time sheets as a method of allocating personnel costs, then the time sheets should be revised to provide adequate detail by project and should be compiled to adequately track costs incurred.

OBSERVATION NO. 5: FEDERAL QUESTIONED COSTS (Continued)

AUDITEE RESPONSE:

As discussed in more detail in our response to Observation No. 1, OEM charges salary and benefits costs based on where the funds for these costs are budgeted. With regard to telephone charges, programs are charged for usage in relation to funding and level of activity.

Concerning the other expenses questioned, OEM purchased software licenses and upgrades to support the overall operations of the agency. Each program contributed what was available toward the purchases which was not intended to be an equal cost distribution. Program managers allocated what each program could provide to accomplish the purchases for the overall operation of the agency.

The sub-grantee in receipt of mitigation funds to conduct hazard mitigation workshops has provided documentation that the workshops will be conducted in October 1997. OEM staff will follow up on the subgrantee's fulfillment of the workshop obligations.

OEM will work with the Federal Emergency Management Agency to resolve any outstanding issues with regard to the expenditures in question.

OEM will review funding and costs to further develop a more responsive cost allocation methodology that is in compliance with OMB Circular A-87.

We considered this instance of noncompliance in forming our opinion on whether the New Hampshire Governor's Office of Emergency Management's financial statement for the nine months ended March 31, 1997 is presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated May 5, 1997 on the financial statement.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the New Hampshire Governor's Office of Emergency Management complied, in all material respects, with the provisions referred to in the third paragraph of this report. However, we have noted on pages 20 through 25 instances of noncompliance with state statutes and federal regulations, while not material to the financial statement, we believe to be worthy of report mention.

This report is intended for the information of the management of the New Hampshire Governor's Office of Emergency Management and the Fiscal Committee of the General Court. However, this report is a matter of public record upon acceptance by the Fiscal Committee and its distribution is not limited.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

May 5, 1997

OTHER INSTANCES OF NONCOMPLIANCE

FEDERAL COMPLIANCE

OBSERVATION NO. 6: INACCURATE AND LATE FILING OF FEDERAL REPORTS

The OEM administered 11 federal grant programs during the audit period. In general, these programs require federal Cash Transaction Reports (PMS 272) and Financial Status Reports (PMS 269) to be submitted 30 days after the quarter end or 90 days after the end of a grant award if it is a final report. In addition, performance and status reports are due periodically. We tested various reports for timeliness and accuracy and noted the following problems.

OBSERVATION:

Federal Reports Not Filed Timely

- Of the 16 federal financial reports tested for timely filing, 15 (94%) were filed late, with the number of days late ranging from 21 to 82 days. The average filing was 39 days beyond the deadline.
- A federal performance report, due on October 30, 1996, was filed by the OEM on January 10, 1997, 72 days beyond the deadline.

Inaccurate Financial Reporting

Twelve federal financial reports were reviewed for accuracy and we noted the following:

- The federal outlay reported for a Disaster Assistance grant for the quarter ended December 31, 1996 did not agree to expenditures reported in the state accounting system. We brought this discrepancy to the attention of OEM agency personnel and based on further investigation by the agency and FEMA, it was determined that FEMA had over reimbursed the OEM by \$12,162. This resulted in a questioned cost of \$12,162 to CFDA No. 83.516 as of March 31, 1997.
- Four of 12 (33%) reports contained clerical errors resulting in inaccurate amounts being reported to the federal agency.

QUESTIONED COSTS: \$12,162

(see Schedule of Questioned Costs on page 23)

OBSERVATION NO. 6: INACCURATE AND LATE FILING OF FEDERAL REPORTS (Continued)

RECOMMENDATION:

The OEM should implement procedures to ensure that reports are submitted timely and are complete and accurate.

AUDITEE RESPONSE

OEM's procedures call for financial reports to be completed and submitted on a timely basis. Staffing problems in the accounting section in the late summer and fall of 1996, caused OEM to fall behind schedule in completing and submitting financial reports.

The funds which FEMA over reimbursed OEM for disaster assistance administration were returned to FEMA by electronic transfer on April 23, 1997.

OEM will revise the financial report procedures to ensure the reports are complete and accurate.

OBSERVATION NO. 7: MONITORING OF SUBRECIPIENTS

OBSERVATION:

In accordance with OMB Circular A-128, "Audits of State and Local Governments", [superceded by OMB Circular A-133 effective June 24, 1997] OEM, as a recipient of federal funds, is responsible for monitoring those entities or subrecipients that it provides with federal dollars. The monitoring includes obtaining an audit report from those subrecipients that receive \$25,000 or more in federal assistance in a year. The audit report once received by OEM should be reviewed with follow-up on any findings noted.

The OEM notifies subrecipients at the inception of the grant of the Circular A-128 audit requirement. However, the OEM does not: 1) track subrecipient payments to determine those required to have audits conducted; 2) review reports that are received; or 3) have procedures in place to follow up on audit findings. We selected files for five subrecipients that were required to file an audit report with the OEM related to grants received for fiscal year 1996 and noted that none of the subrecipients had filed audit reports.

OBSERVATION NO. 7: MONITORING OF SUBRECIPIENTS (Continued)

RECOMMENDATION:

The OEM should implement procedures to comply with federal subrecipient monitoring requirements as required by OMB Circular A-133 issued June 24, 1997. These procedures should include the tracking of subrecipient payments to determine those required to have audits performed, the review of audit reports when received, and the follow-up of any audit findings.

AUDITEE RESPONSE:

OEM will implement procedures to monitor subrecipients in compliance with OMB Circular A-133. The procedure will include tracking of subrecipient payments to determine who is required to have an audit performed, review of audit reports when received, and follow-up of any audit findings.

**STATE OF NEW HAMPSHIRE
GOVERNOR'S OFFICE OF EMERGENCY MANAGEMENT**

FEDERAL COMPLIANCE

**SCHEDULE OF QUESTIONED COSTS
FOR THE NINE MONTHS ENDED MARCH 31, 1997**

<u>CFDA #</u>	<u>FEDERAL PROGRAM</u>	<u>OBS # 5</u>	<u>OBS # 6</u>	<u>TOTAL</u>
83.105	Community Assistance Program-State Support Services Element (CAP-SSSE)	\$ 6,013	\$ -0-	\$ 6,013
83.503	Civil Defense-State and Local Emergency Management Assistance	186,480	-0-	186,480
83.505	State Disaster Preparedness Grants	16,607	-0-	16,607
83.516	Disaster Assistance	26,403	12,162	38,565
83.520	Hurricane Program	1,544	-0-	1,544
83.531	State and Local Emergency Management Assistance - Other Assistance	<u>172,023</u>	<u>-0-</u>	<u>172,023</u>
	TOTAL	<u>\$409,070</u>	<u>\$12,162</u>	<u>\$421,232</u>

OTHER COMPLIANCE ISSUES

STATE COMPLIANCE

OBSERVATION NO. 8: EMPLOYEE TRAVEL REIMBURSEMENTS

N.H. Admin. Rules, Adm 308 (expired) defines “official headquarters” as “...the limits of the city, town, or unincorporated place from which any state official, department head, or employee regularly conducts official state duties. The department office shall be deemed the headquarters of every employee assigned thereto.” It further prohibits employees from receiving mileage reimbursement while traveling from their residence to their official headquarters. The 1995 - 1997 Collective Bargaining Agreement, Article XIX (Wages and Benefits), Section 19.4.3 states, “. . .In no instance, however, shall the Employer reimburse for travel incurred from an employee’s home to or through the site of his/her official headquarters, or vice versa, unless such reimbursement is specifically authorized by this Agreement.” The 1995 - 1997 Collective Bargaining Agreement does not contain specific language authorizing the OEM to reimburse for such mileage.

OBSERVATION:

During our testing, we noted that an individual employed as a part-time field representative was receiving mileage reimbursements from home to OEM in Concord. Total mileage reimbursements paid to this employee during the seven months ended January 31, 1997, were \$2,873. Reimbursements tested for one month revealed 13 of the 16 days reimbursed (81%) were related to travel from home to OEM in Concord. When questioned, the OEM stated that an unwritten agreement existed between the employee and the former Director of the OEM allowing the employee to use his residence as “official headquarters”. This practice has continued since the departure of the former Director in July 1989. The OEM has not reevaluated its employee’s duties to determine whether the residence remains appropriate as the official headquarters. Since this employee spends the majority of time in Concord and has an office at the OEM, it appears that the OEM Concord office should be defined as the “official headquarters”. Accordingly, we believe the reimbursements made are in violation of Section 19.4.3 of the Collective Bargaining Agreement and N.H. Admin. Rules, Adm 308 (expired).

RECOMMENDATION:

The OEM should reevaluate its employee’s duties to determine whether the residence remains appropriate as the official headquarters. Based on the evaluation, if it is determined that the official headquarters are OEM in Concord, the OEM should immediately cease its practice of reimbursing an employee for mileage expenses incurred while commuting between the residence and the OEM. Only travel that is authorized under the Collective Bargaining Agreement and N.H. Admin. Rules, Adm 308 (expired) should be reimbursed.

OBSERVATION NO. 8: EMPLOYEE TRAVEL REIMBURSEMENTS (Continued)

AUDITEE RESPONSE:

OEM is reviewing the duties and responsibilities of the employee discussed in the observation. This review will be performed to determine if the official headquarters for this employee remains valid.

AUDITOR'S REPORT ON MANAGEMENT ISSUES

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the accompanying financial statement of the New Hampshire Governor's Office of Emergency Management for the nine months ended March 31, 1997, and have issued our qualified report thereon dated May 5, 1997, which was qualified with respect to the lack of presentation of the financial position of the Office, the accounting for general fixed assets, the understatement of General Fund revenue, and the understatement of Special Fund revenue and expenditures for the nine months ended March 31, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

In planning and performing our audit of the financial statement of the New Hampshire Governor's Office of Emergency Management for the nine months ended March 31, 1997, we noted an issue related to the operation of the Office 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 regulations.

The issue that we believe is worthy of management consideration but does not meet the criteria of reportable condition or noncompliance is on page 27.

This report is intended for the information of the management of the New Hampshire Governor's Office of Emergency Management and the Fiscal Committee of the General Court. This restriction is not intended to limit the distribution of this report, which upon its acceptance by the Fiscal Committee, is a matter of public record.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

May 5, 1997

MANAGEMENT ISSUE

OBSERVATION NO. 9: AUTOMATION OF PROCEDURES

OBSERVATION:

During our review of the OEM's internal control system we noted that many of its operations could be made more efficient and effective through the use of computer applications to eliminate a duplication of effort. Examples of these procedures are noted below:

- Equipment Inventory Records - The OEM maintains an equipment inventory database that contains the equipment inventory number, item, description, purchase price, and location. It also maintains manual equipment inventory cards that contain the above information as well as the date of purchase, purchase order number, and source of funding. The OEM should consider combining the information on the inventory cards with the database to eliminate the necessity of the inventory cards.
- Procedures for Requesting Federal Reimbursement - Requests are made by the Accountant I who manually prepares a worksheet using the state accounting system to calculate the amounts to be reimbursed. She then manually prepares a second schedule that shows the total amount to be reimbursed by federal program. After preparation of the cash receipt form, the Accountant I posts the information to a manual agency ledger. Through the use of computer spreadsheets, it appears some of the above tasks could be combined.
- Agency Ledgers - Manual ledgers are maintained for expenditures and revenues. The same information contained in the ledgers is also contained in the state accounting system reports which are received semi-monthly. It appears the OEM could rely on reports produced by the state accounting system and eliminate its manual ledgers.

RECOMMENDATION:

The OEM should review all recurring administrative and accounting functions including those mentioned above to determine if computerization of these tasks could improve efficiency and effectiveness.

AUDITEE RESPONSE:

OEM will review administrative and accounting functions to develop additional computer applications to enhance the efficiency and effectiveness of the Agency operations.

INDEPENDENT AUDITOR'S REPORT

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the COMBINED STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL AND SPECIAL FUNDS of the New Hampshire Governor's Office of Emergency Management for the nine months ended March 31, 1997. This financial statement is the responsibility of the management of the New Hampshire Governor's Office of Emergency Management. Our responsibility is to express an opinion on the financial statement based on our audit.

Except as discussed in the fourth paragraph, we conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully discussed in NOTE 1, the financial statement referred to in paragraph one is not intended to present the financial position of the New Hampshire Governor's Office of Emergency Management.

As more fully described in NOTE 2, the New Hampshire Governor's Office of Emergency Management does not have complete financial records to support the amounts included in the General Fixed Assets Account Group. Accordingly, we were unable to examine sufficient evidential matter to support such amounts.

As more fully described in NOTE 4, the New Hampshire Governor's Office of Emergency Management did not record accounts receivable in accordance with generally accepted accounting principles, and thus understated General Fund revenue by \$289,250 and Special Fund revenue by \$102,664 for the nine months ended March 31, 1997.

As more fully described in NOTE 5, the New Hampshire Governor's Office of Emergency Management did not record accounts payable in accordance with generally accepted accounting principles, and thus understated Special Fund expenditures by \$192,673 for the nine months ended March 31, 1997.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had our audit not been limited in scope as discussed in the fourth paragraph and the matters discussed in the third, fifth, and sixth paragraphs, the financial statement referred to above presents fairly, in all material respects, certain financial activity of the New Hampshire Governor's Office of Emergency Management for the nine months ended March 31, 1997 in conformity with generally accepted accounting principles.

As discussed in NOTE 7, the New Hampshire Governor's Office of Emergency Management failed to comply with certain federal requirements regarding the development of a cost allocation system for its federal grants that may be material to the General Fund. The financial statement does not include an adjustment for any liability that may result from the actions of the federal regulatory agency in relation to the Office not having a cost allocation system.

Our audit was conducted for the purpose of forming an opinion on the financial statement referred to in the first paragraph. The accompanying Schedules of Budgetary Components and Federal Financial Assistance (Cash Basis) are presented on pages 40 through 42 for the purpose of additional analysis and are not required parts of the financial statement of the New Hampshire Governor's Office of Emergency Management. Such information has been subjected to the auditing procedures applied in our audit of the financial statement referred to in the first paragraph and, in our opinion, is fairly presented in all material respects in relation to the financial statement taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 5, 1997 on our consideration of the New Hampshire Governor's Office of Emergency Management's internal control structure and a report dated May 5, 1997 on its compliance with laws and regulations.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

May 5, 1997

**STATE OF NEW HAMPSHIRE
GOVERNOR'S OFFICE OF EMERGENCY MANAGEMENT**

**COMBINED STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
GENERAL AND SPECIAL FUNDS
FOR THE NINE MONTHS ENDED MARCH 31, 1997**

	GENERAL FUND		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>FAVORABLE/ (UNFAVORABLE) VARIANCE</u>
<u>REVENUES</u>			
<u>RESTRICTED REVENUES</u>			
Federal Funds	\$ 1,264,363	\$ 822,249	\$ (442,114)
Seabrook Station Utility Assessment	1,616,713	728,657	(888,056)
Vermont Yankee Utility Assessment	581,723	203,451	(378,272)
TOTAL RESTRICTED REVENUES	\$ 3,462,799	\$ 1,754,357	\$(1,708,442)
<u>EXPENDITURES</u>			
Disaster Assistance	\$ 551,387	\$ 237,025	\$ 314,362
Salaries & Benefits	1,637,861	1,114,163	523,698
Disaster Planning & Training	1,149,678	483,436	666,242
Emergency Management Assistance	502,912	445,528	57,384
Current Expenses	198,206	115,646	82,560
Transfers to Other Agencies	163,972	56,284	107,688
Travel	46,193	24,714	21,479
Equipment	39,133	37,189	1,944
Other	13,358	14,097	(739)
TOTAL EXPENDITURES	\$ 4,302,700	\$ 2,528,082	\$ 1,774,618

The accompanying notes are an

<u>SPECIAL FUND</u>			<u>COMBINED TOTAL (MEMO ONLY)</u>		
<u>BUDGET</u>	<u>ACTUAL</u>	<u>FAVORABLE/ (UNFAVORABLE) VARIANCE</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>FAVORABLE/ (UNFAVORABLE) VARIANCE</u>
\$ 8,366,862	\$ 2,262,063	\$ (6,104,799)	\$ 9,631,225	\$ 3,084,312	\$ (6,546,913)
-0-	-0-	-0-	1,616,713	728,657	(888,056)
-0-	-0-	-0-	581,723	203,451	(378,272)
<u>\$ 8,366,862</u>	<u>\$ 2,262,063</u>	<u>\$ (6,104,799)</u>	<u>\$ 11,829,661</u>	<u>\$ 4,016,420</u>	<u>\$ (7,813,241)</u>
\$ 7,728,026	\$ 2,138,857	\$ 5,589,169	\$ 8,279,413	\$ 2,375,882	\$ 5,903,531
99,067	75,466	23,601	1,736,928	1,189,629	547,299
438,551	112,976	325,575	1,588,229	596,412	991,817
-0-	-0-	-0-	502,912	445,528	57,384
11,720	5,162	6,558	209,926	120,808	89,118
72,666	14,365	58,301	236,638	70,649	165,989
9,114	1,609	7,505	55,307	26,323	28,984
4,855	3,155	1,700	43,988	40,344	3,644
52,403	113	52,290	65,761	14,210	51,551
<u>\$ 8,416,402</u>	<u>\$ 2,351,703</u>	<u>\$ 6,064,699</u>	<u>\$ 12,719,102</u>	<u>\$ 4,879,785</u>	<u>\$ 7,839,317</u>

integral part of the financial statement.

**STATE OF NEW HAMPSHIRE
GOVERNOR'S OFFICE OF EMERGENCY MANAGEMENT**

NOTES TO THE FINANCIAL STATEMENT

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FINANCIAL REPORTING ENTITY

The Governor's Office of Emergency Management (OEM), established under RSA 107-C, is an organization of the primary government of the State of New Hampshire. The financial activity of the OEM is accounted for in the General and Special Funds of 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 OEM, as an organization of the primary government, accounts for only a small portion of the General and Special Funds and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to the OEM cannot be determined. Accordingly, the accompanying financial statement is not intended to show the financial position of the OEM in the General and Special Funds and the changes in these fund balances are not reported on the accompanying financial statement.

B. BASIS OF PRESENTATION - FUND ACCOUNTING

Financial Statement

The financial statement of the OEM has been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Fund Accounting

The State of New Hampshire and the OEM use funds and account groups to report on its financial position and the results of its 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. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

NOTES TO THE FINANCIAL STATEMENT (Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF PRESENTATION - FUND ACCOUNTING (Continued)

GOVERNMENTAL FUND TYPES

General Fund

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

Special Fund

The State allocates to the Special Fund expenditures and revenues of programs which, by statute, operate primarily from specific program revenues, such as user fees or federal grants-in-aid. The unexpended balances of appropriations for programs that lapse are transferred to the General Fund. The Special Fund is used to account for specific revenue sources that are legally restricted to expenditures for specific purposes.

ACCOUNT GROUP

General Fixed Assets (Unaudited)

General fixed assets acquired by the OEM for the performance of its operations are reflected in the General Fixed Assets Account Group at the time of acquisition. As of March 31, 1997, the OEM had recorded in the General Fixed Assets Account Group the cost of general fixed assets based on available historical cost records. Donated fixed assets are recorded at fair market value at the time donated.

C. BASIS OF ACCOUNTING

The State of New Hampshire accounts for its financial transactions related to the General and Special Funds on the modified accrual basis of accounting, under which revenues are recognized when measurable and available to finance operations during the year. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay obligations of the current period. Expenditures are recognized in the period in which obligations are incurred as a result of the receipt of goods or services.

NOTES TO THE FINANCIAL STATEMENT (Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. BUDGETARY DATA

General Budget Policies

The statutes of the State of New Hampshire require the Governor to submit a biennial operating budget to the Legislature. This budget consists of three parts: part I is the Governor's program for meeting all expenditure needs as well as estimating revenues to be received; 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 operations of the OEM are budgeted in the General and Special Funds.

The New Hampshire biennial budget is composed of the initial operating budget and 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. As shown on the Schedules of Budgetary Components on pages 40 and 41, the final budgeted amount includes the initial operating budget plus supplemental appropriation warrants, balances brought forward, and transfers.

The Combined Statement of Revenues and Expenditures-Budget and Actual-General and Special Funds is presented as OEM's financial statement for the nine months ended March 31, 1997.

The variance is the difference between budgeted and actual amounts. For revenue, a favorable variance results from actual revenue for the reporting period exceeding the amounts budgeted for the fiscal year. Unfavorable revenue variances represent actual revenue collected being less than amounts budgeted. For expenditures, a favorable variance results from actual expenditures of the reporting period being less than the amount budgeted for the fiscal year. The favorable expenditure variances represent a combination of ending available balances and unliquidated encumbrances. Unfavorable expenditure variances represent actual expenditures for the reporting period exceeding the amounts budgeted for the fiscal year.

When statements are presented at an interim date, a date other than a June 30 fiscal year end, the variance reflects the difference between the twelve month budgeted amount and a partial year's actual revenue and expenditures. Thus, on the nine month financial statement dated March 31, 1997, unfavorable variances in revenues are expected, because nine months of actual receipts are compared to the amount of revenue expected to be collected in the twelve month budget period. Similarly, favorable expenditure variances are expected, as nine months of actual expenditures are compared to amounts expected to be expended in the twelve month budget period.

NOTES TO THE FINANCIAL STATEMENT (Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. BUDGETARY DATA (Continued)

Encumbrances

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 unliquidated encumbrances at March 31, 1997 in the General and Special Funds were \$374,446 and \$84,389 respectively.

E. FIXED ASSETS - GENERAL (UNAUDITED)

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition costs are reflected as expenditures in governmental funds, and the related assets are reported in the General Fixed Assets Account Group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Assets in the General Fixed Assets Account Group are not depreciated.

F. INTERFUND AND INTRAFUND TRANSACTIONS

The State accounts for interfund and intrafund transactions as described below:

Reimbursements - Various departments charge fees on a user basis for such services as centralized data processing, accounting and auditing, purchasing, personnel and maintenance. In addition, the Department of Administrative Services charges rent to those departments that are housed in State-owned buildings. These fees and rent are not considered material and are recorded as revenue by the servicing department and as expenditures by the user department.

G. INTERPRETATION OF TOTAL (MEMO ONLY) COLUMN

Total columns have been included on the Combined Statement of Revenues and Expenditures-Budget and Actual-General and Special Funds. The total columns include interfund activity and are presented only to facilitate financial analysis. Data in these columns do not present financial activity in conformity with generally accepted accounting principles. Intra-agency eliminations have not been made in the aggregation of this data.

NOTES TO THE FINANCIAL STATEMENT (Continued)

NOTE 2 – GENERAL FIXED ASSETS ACCOUNT GROUP - (Unaudited)

The following is a schedule of changes in equipment, as reported by the OEM, in the General Fixed Assets Account Group for the nine months ended March 31, 1997. Equipment purchases are funded through budgeted appropriations.

	Balance at 7/1/96	Additions	Deletions	Balance at 3/31/97
Equipment	\$1,092,251	\$89,033	\$94,944	\$1,086,340

Changes in the equipment balance are reported to the Department of Administrative Services for inclusion in the State's Comprehensive Annual Financial Report. The OEM does not have complete financial records to support the amounts reported in the General Fixed Assets Account Group.

NOTE 3 – CAPITAL LEASES

The OEM leases four motor vehicles. The value of the motor vehicles leased under the capital leases totaled \$65,230 at March 31, 1997. The following is a schedule of the future minimum lease payments by year under the capital leases and the present value of the net minimum lease payments as of June 30, 1997.

<u>Year Ended 6/30</u>	<u>Minimum Lease Payments</u>
1998	\$18,708
1999	18,708
2000	15,218
2001	<u>2,030</u>
Total future minimum lease payments	\$54,664
Less: Amount representing interest at OEM's incremental borrowing rate of 5.53%	<u>5,552</u>
Present value of net future minimum lease payments	<u>\$49,112</u>

NOTES TO THE FINANCIAL STATEMENT (Continued)

NOTE 4 – ACCOUNTS RECEIVABLE

The OEM is required by state accounting policy to record accounts receivable at each June 30 year end. The OEM is not required by state accounting policy to record accounts receivable at March 31. As a result, the OEM did not record \$289,250 and \$102,664 in accounts receivable in the General and Special Funds, respectively, at March 31, 1997 in accordance with generally accepted accounting principles.

The effect of not recording accounts receivable was an understatement of revenue in the General and Special Funds of \$289,250 and \$102,664 respectively for the nine months ended March 31, 1997.

NOTE 5 – ACCOUNTS PAYABLE

The OEM is not required by state accounting policy to record accounts payable at March 31. As a result, the OEM did not record \$192,673 in accounts payable in the Special Fund at March 31, 1997 in accordance with generally accepted accounting principles.

The effect of not recording accounts payable was an understatement of expenditures in the Special Fund of \$192,673 for the nine months ended March 31, 1997.

NOTE 6 – EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The OEM, as an organization of State government, participates in the New Hampshire Retirement System (the Plan). The Plan is a contributory defined benefit plan and covers substantially all full-time employees of the OEM. The Plan qualifies as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. New Hampshire Revised Statutes Annotated (RSA), Chapter 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 employees and teachers. Group II consists of firefighters and police officers, including some correctional officers. All employees of the OEM who are members of the Plan are members of Group I.

Group I - Members contributing through age 60 qualify for a normal service retirement allowance based on years of creditable service. The yearly pension amount is 1/60 (1.67%) of

NOTES TO THE FINANCIAL STATEMENT (Continued)

NOTE 6 – EMPLOYEE BENEFIT PLANS (Continued)

New Hampshire Retirement System (Continued)

average final compensation (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 10 or more years of creditable service who are between age 50 and 60 are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service. In addition, any Group I member who has completed at least 20 years of creditable service that, when combined with his or her age equals at least 70, is entitled to retire and have benefits commence immediately at a reduced service retirement allowance.

Group II - After attaining the age of 45, members with 20 years of creditable service qualify to receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members in service at age 60 qualify to receive a prorated retirement allowance.

Members of both groups are entitled to disability allowances and also death benefit allowances subject to various requirements and rates based on AFC or earnable compensation.

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the nine months ended March 31, 1997, 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 Governor's Office of Emergency Management employees enrolled in the Plan. The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years by the Plan's actuary.

The OEM's payments for normal contribution costs for the nine months ended March 31, 1997 amounted to 3.14% of the covered payroll. The Plan does not make separate measurements of assets and pension benefit obligation for individual employers. The New Hampshire Retirement System Comprehensive Annual Financial Report contains detailed information regarding the Plan as a whole, including information on payroll, contributions, actuarial assumptions and funding method, pension benefit obligation, and ten year historical trend data. The New Hampshire Retirement System operates on a fiscal year ending June 30.

Deferred Compensation Plan

The OEM, as an organization of State government, offers its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all State employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

NOTES TO THE FINANCIAL STATEMENT (Continued)

NOTE 6 – EMPLOYEE BENEFIT PLANS (Continued)

Deferred Compensation Plan (Continued)

All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights, are (until paid or made available to the employees or other beneficiaries) solely the property and rights of the State (without being restricted to the provisions of benefits under the Plan), subject only to the claims of the State's general creditors. Participants' rights under the Plan are equal to those of general creditors of the State in an amount equal to the fair market value of the deferred account for each participant.

Postemployment Health Care Benefits

In addition to the benefits described above, the OEM, as an organization of State government, provides postemployment health care benefits, in accordance with RSA 21-I:30, to all retired employees and their spouses on a non-contributory basis, as authorized by state statute.

During the nine months ended March 31, 1997, the State paid for the full cost of health insurance premiums for the OEM's retired employees and spouses on a pay-as-you-go basis. The cost of the health insurance for the OEM's employees and spouses is a budgeted amount and is paid from an appropriation made to the administrative organization of the New Hampshire Retirement System.

Accordingly, the cost of health insurance benefits for the retired OEM employees and spouses is not included in OEM's financial statement.

NOTE 7 – CONTINGENCY RELATED TO FEDERAL GRANTS

The OEM receives numerous federal grants from the Federal Emergency Management Agency (FEMA) for planning and developing disaster response plans at the state and local level and coordinating federal disaster relief payments to victims of natural disasters. These grants are accounted for in both the General and Special Funds of the Office and represent 66% of total expenditures of the Office for the nine months ended March 31, 1997. Of the \$3,231,862 federal expenditures incurred for the nine months ended March 31, 1997, \$421,232 has been questioned by the auditors for lack of a cost allocation system or adequate documentation. The ultimate resolution of these questioned costs can not presently be determined; therefore no liability has been recognized in the financial statement.

**STATE OF NEW HAMPSHIRE
GOVERNOR'S OFFICE OF EMERGENCY MANAGEMENT**

**SCHEDULE OF BUDGETARY COMPONENTS
GENERAL FUND
FOR THE NINE MONTHS ENDED MARCH 31, 1997**

	<u>OPERATING BUDGET</u>	<u>SUPPLEMENTAL APPROPRIATION WARRANTS</u>	<u>BALANCES BROUGHT FORWARD</u>	<u>NET TRANSFERS IN/(OUT)</u>	<u>BUDGET</u>
<u>REVENUES</u>					
<u>RESTRICTED REVENUES</u>					
Federal Funds	\$ 1,149,178	\$ 17,387	\$ 97,798	\$ -0-	\$ 1,264,363
Seabrook Station Utility Assessment	1,593,365	-0-	23,348	-0-	1,616,713
Vermont Yankee Utility Assessment	<u>568,615</u>	<u>-0-</u>	<u>13,108</u>	<u>-0-</u>	<u>581,723</u>
TOTAL RESTRICTED REVENUES	<u>\$ 3,311,158</u>	<u>\$ 17,387</u>	<u>\$ 134,254</u>	<u>\$ -0-</u>	<u>\$ 3,462,799</u>
<u>EXPENDITURES</u>					
Disaster Assistance	\$ 50,000	\$ -0-	\$ 501,387	\$ -0-	\$ 551,387
Salaries & Benefits	1,656,929	(19,068)	-0-	-0-	1,637,861
Disaster Planning & Training	1,089,552	26,921	33,205	-0-	1,149,678
Emergency Management Assistance	418,034	-0-	84,878	-0-	502,912
Current Expenses	191,299	-0-	6,907	-0-	198,206
Transfers to Other Agencies	162,132	-0-	1,840	-0-	163,972
Travel	46,193	-0-	-0-	-0-	46,193
Equipment	37,610	-0-	1,523	-0-	39,133
Other	<u>13,288</u>	<u>-0-</u>	<u>70</u>	<u>-0-</u>	<u>13,358</u>
TOTAL EXPENDITURES	<u>\$ 3,665,037</u>	<u>\$ 7,853</u>	<u>\$ 629,810</u>	<u>\$ -0-</u>	<u>\$ 4,302,700</u>

**STATE OF NEW HAMPSHIRE
GOVERNOR'S OFFICE OF EMERGENCY MANAGEMENT**

**SCHEDULE OF BUDGETARY COMPONENTS
SPECIAL FUND
FOR THE NINE MONTHS ENDED MARCH 31, 1997**

	<u>OPERATING BUDGET</u>	<u>SUPPLEMENTAL APPROPRIATION WARRANTS</u>	<u>BALANCES BROUGHT FORWARD</u>	<u>NET TRANSFERS IN/(OUT)</u>	<u>BUDGET</u>
<u>REVENUES</u>					
<u>RESTRICTED REVENUES</u>					
Federal Funds	\$ 229,981	\$ 6,438,218	\$ 1,698,663	\$ -0-	\$ 8,366,862
Seabrook Station Utility Assessment	-0-	-0-	-0-	-0-	-0-
Vermont Yankee Utility Assessment	-0-	-0-	-0-	-0-	-0-
TOTAL RESTRICTED REVENUES	<u>\$ 229,981</u>	<u>\$ 6,438,218</u>	<u>\$ 1,698,663</u>	<u>\$ -0-</u>	<u>\$ 8,366,862</u>
 <u>EXPENDITURES</u>					
Disaster Assistance	\$ -0-	\$ 6,201,029	\$ 1,526,997	\$ -0-	\$ 7,728,026
Salaries & Benefits	99,067	-0-	-0-	-0-	99,067
Disaster Planning & Training	58,287	229,474	150,790	-0-	438,551
Emergency Management Assistance	-0-	-0-	-0-	-0-	-0-
Current Expenses	11,000	-0-	720	-0-	11,720
Transfers to Other Agencies	67,581	3,042	2,043	-0-	72,666
Travel	7,614	1,500	-0-	-0-	9,114
Equipment	1,200	1,500	2,155	-0-	4,855
Other	232	207	51,964	-0-	52,403
TOTAL EXPENDITURES	<u>\$ 244,981</u>	<u>\$ 6,436,752</u>	<u>\$ 1,734,669</u>	<u>\$ -0-</u>	<u>\$ 8,416,402</u>

**STATE OF NEW HAMPSHIRE
GOVERNOR'S OFFICE OF EMERGENCY MANAGEMENT**

**SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
(CASH BASIS)
FOR THE NINE MONTHS ENDED MARCH 31, 1997**

FEDERAL CATALOG NUMBER	FEDERAL GRANTOR/PROGRAM TITLE	REVENUES	EXPENDITURES
FEDERAL EMERGENCY MANAGEMENT AGENCY			
83.003	Public Education Assistance Program	\$ 12,000	\$ 12,000
83.011	Hazardous Materials Training Program For Implementation of the Superfund Amendment and Reauthorization Act (SARA) of 1986	8,981	6,593
83.105	Community Assistance Program-State Support Services Element (CAP-SSSE)	28,746	20,667
83.503	Civil Defense-State and Local Emergency Management Assistance	647,823	663,909
83.505	State Disaster Preparedness Grants	21,951	27,961
83.516	Disaster Assistance	2,088,753	2,138,858
83.520	Hurricane Program	35,561	35,943
83.521	Earthquake Hazards Reduction Grants	35,294	38,575
83.531	State and Local Emergency Management Assistance - Other Assistance	241,562	243,315
83.532	Facilities and Equipment	33,717	33,073
NONE	Counter Terrorism	<u>10,975</u>	<u>10,968</u>
	TOTAL	<u>\$3,165,363</u>	<u>\$3,231,862</u>

**STATE OF NEW HAMPSHIRE
GOVERNOR'S OFFICE OF EMERGENCY MANAGEMENT**

APPENDIX

CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary of the May 5, 1997 status of the observations contained in the audit report for the fiscal year ended June 30, 1989. A copy of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

<u>INTERNAL CONTROL STRUCTURE</u>	<u>STATUS</u>
MATERIAL WEAKNESSES	
1. Lack of Cost Allocation Plan (see Current Year Observation Nos. 1&5)	○ ○ ○
2. Equipment Recordkeeping (see Current Year Observation No. 4)	● ● ○
OTHER REPORTABLE CONDITIONS	
3. Balances Forward - Seabrook Station Account	● ● ●
4. Cash Management - Requests for Federal Funds (see Current Year Observation No. 3)	○ ○ ○
 <u>STATE AND FEDERAL COMPLIANCE</u>	
STATE COMPLIANCE	
5. Transfers to the Audit Set Aside Fund	● ● ○
FEDERAL COMPLIANCE	
6. Federal Questioned Costs (see Current Year Observation No. 5)	● ● ●
7. Federal Cash Transactions Reports (see Current Year Observation No. 6)	○ ○ ○
8. Monitoring of Subrecipients (see Current Year Observation No. 7)	○ ○ ○
9. Federal Equipment Standards	● ● ●

STATUS KEY

Fully resolved	● ● ●
Substantially resolved	● ● ○
Partially resolved	● ○ ○
Unresolved	○ ○ ○

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