STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE VETERANS' HOME

FINANCIAL AND COMPLIANCE AUDIT REPORT FOR THE NINE MONTHS ENDED MARCH 31, 2005

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Reporting Entity And Scope

The reporting entity of this audit and audit report is the New Hampshire Veterans' Home, an agency of the State of New Hampshire. The period covered is the nine months ended March 31, 2005.

The New Hampshire Veterans' Home, established by RSA 119:1, provides nursing-home level of care to veterans who have served on active duty. The Home is situated on approximately 30 acres of land on Winter Street in Tilton, New Hampshire.

The following report describes the financial activity of the New Hampshire Veterans' Home, as it existed during the period under audit. Unless otherwise indicated, reference to the Home or NHVH refers to the New Hampshire Veterans' Home. Auditee responses were prepared by the Home.

Organization

A Board of Managers, consisting of officials from various veterans' organizations and private citizens, governs the operations of the Veterans' Home. The Home's Commandant, who is appointed by the Board of Managers, oversees the day-to-day administration of the Home. At March 31, 2005, the Home operated with 223 full-time and 68 part-time employees.

Responsibilities

The New Hampshire Veterans' Home was established for the support, care, and treatment of New Hampshire resident veterans who have been honorably discharged after having served on active duty in the armed forces of the United States in time of war. The care provided by the Home includes nursing care, assisted living, domiciliary, day care, dementia, chemical dependency and psychiatric services, and other related services and programs for any veteran otherwise eligible for admittance. Services and programs are provided at the Home or contracted through other organizations and facilities.

At March 31, 2005, the Home provided services to 171 residents.

Funding

The financial activity of the New Hampshire Veterans' Home is accounted for primarily in the General and Capital Projects Funds of the State of New Hampshire. The residents of the Home contribute toward their support by transferring a portion of their monthly income to the General Fund. Appropriations are also recovered through payments made to the Home by the United States Department of Veterans Affairs. The Home is budgeted to recover approximately 77% of its General Fund appropriations from these two sources.

A summary of the Home's General Fund and Capital Projects Fund revenues and expenditures for the nine months ended March 31, 2005 is shown in the following schedule.

Summary Of Revenues And Expenditures
Nine Months Ended March 31, 2005

	General Fund	Capital Projects Fund	Total
Total Revenues	$ 5,757,096	$ 437,430	$ 6,194,526
Total Expenditures	$ 11,660,936	$ 633,815	$ 12,294,751
Excess (Deficiency) Of Revenues Over (Under) Expenditures	$ (5,903,840)	$ (196,385)	$ (6,100,225)

Prior Audit

The most recent prior financial and compliance audit of the New Hampshire Veterans' Home was for the nine months ended March 31, 1998. The appendix to this report on page 59 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 New Hampshire Veterans' Home for the nine months ended March 31, 2005. 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 New Hampshire Veterans' Home and tested the Home's compliance with certain provisions of applicable State and Federal laws, rules, and regulations. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Revenues,
- Expenditures/Expenses,
- Cash and Investments,
- Real Property and Equipment, and
- Fiduciary Funds.

Our reports on internal control over financial reporting and on compliance and other matters and on management issues, the related observations and recommendations, our independent auditor's report, and the financial statements of the New Hampshire Veterans' Home are contained in the report that follows.

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

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the governmental activities and each fund of the New Hampshire Veterans' Home for the nine months ended March 31, 2005, as listed in the table of contents, and have issued our report thereon dated July 11, 2006, which was qualified with respect to the lack of presentation of the financial position of the New Hampshire Veterans' Home in the government-wide and governmental 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the New Hampshire Veterans' Home's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 New Hampshire Veterans' Home's 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. 27 of this report.

A material weakness is a reportable 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 caused by error or fraud 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 described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the New Hampshire Veterans' Home's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other management issues, which are described in Observations No. 28 through No. 30, that we reported to the management of the New Hampshire Veterans' Home in a separate letter dated July 11, 2006.

This auditor's report on internal control over financial reporting and on compliance and other matters is intended solely for the information and use of the management of the New Hampshire Veterans' Home 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

July 11, 2006

Internal Control Comments
Reportable Conditions

FIDUCIARY FUNDS

Observation No. 1: Controls Over Members' Benefit Fund Expenditures Should Be Improved

Observation:

The Home does not document that it subjects its Members' Benefit Fund (MBF) expenditures to the State's purchasing controls, the application of which appears to be required by RSA 11:7.

The Home does not document that it follows normal State operating procedures and controls when using the MBF to fund purchases. The Home does its own ordering and purchasing, regardless of the dollar amount, and it does not document that it obtains competitive prices or performs quality comparisons.

RSA 11:7 states "[a]ll disbursements made by state agencies and departments for trust fund purposes shall follow the laws, rules, and regulations applicable to said agencies and departments for normal operating and capital purposes." The State's purchasing laws, rules, and regulations generally require purchases greater than $500 to be processed through the Bureau of Purchase and Property, expenditures greater than $2,000 to be subject to bidding requirements, expenditures greater than $250 for information technology equipment and software to be approved by the Office of Information Technology, and expenditures of greater than $2,500 for personal service contracts and greater than $5,000 for other service contracts to be approved by Governor and Council. While purchases funded by a trust fund such as the MBF are not accounted for in the State's accounting system (NHIFS) and are not normally processed utilizing Bureau of Purchase and Property controls, the Bureau reportedly could provide those services if requested.

During our detail test of MBF expenditures, questions were raised regarding the Home's purchase of $29,000 of patient lifting equipment.

- According to the invoice supporting the purchase, the Home received delivery of the equipment in June 2004 seven months before the Home's Board of Managers (Board) authorized the purchase of this and other "patient-related equipment needs" totaling $93,000 from the MBF in early January 2005.
- The minutes of the Board of Managers meeting at which the purchase was approved included the statement that "these purchases will be made according to established state procurement procedures." In at least the instance of the $29,000 patient lifting equipment, the Home did not utilize the State's procurement procedures. There was no documented vendor qualification process, no bidding process, or prior encumbering of funds.

By not applying prudent controls over Benefit Fund expenditures, prudent controls being those required by laws, rules, and regulations applicable to disbursements for normal state operating purposes, the Home risks failing to demonstrate that it meets its fiduciary responsibility for MBF disbursements.

A similar comment was issued in the prior audit of the Home.

Recommendation:

The Home should establish policies and procedures to comply with prudent expenditure controls and RSA 11:7. The Home should ensure that its MBF expenditures are subject to at least the internal controls required of State-funded expenditures. Doing so will help establish and document that the Home is meeting its fiduciary responsibility and exercising appropriate due diligence over its trust fund expenditures.

Auditee Response:

The Home concurs with this observation. The Home has established policies and procedures to comply with prudent expenditure controls and RSA 11:7. The Home will formalize its new procedures in a policy document.

Observation No. 2: Documentation Of Deceased Residents' Account Balances Should Be Improved

Observation:

The Home does not maintain complete and accurate documentation to support the amounts reported in its quarterly financial reports as funds belonging to the estates of deceased residents. In addition, the Home continues to hold unclaimed funds from residents who died between 1997 and 1999 in the Members' Benefit Fund (MBF).

While the Home no longer deposits the unclaimed Members' Administration Account (MAA) balances of deceased residents in the MBF and takes steps to forward funds to the estates of the deceased residents, the Home does not maintain complete and accurate documentation to support the MAA liability balance for the funds of the deceased residents. The Home reported a lower MAA liability balance and a higher MBF liability balance in its March 31, 2005 financial report than its documentation supported (see table below).

Description	Financial Report	Supporting Documentation	Difference
Funds Of Deceased Residents – MBF	$ 59,361	$ 32,978	$ 26,383
Funds Of Deceased Residents – MAA	76,309	93,372	(17,063)
Funds Of Deceased Residents	$ 135,670	$ 126,350	$ 9,320

The Home did not have documentation to support the source of the difference.

The Home obtains the current liability balance from a report generated from the computerized MAA accounting and reporting system. The report provides current resident-account balances and is printed daily. The report is primarily used for the Home's residents' banking operation to determine current account balances. The report is generally discarded daily after use. If the employee preparing the financial reports does not obtain and retain the daily report for the financial reporting date, e.g. March 31, a report for a subsequent date has to be used which requires trying to work back to the balances as of the financial reporting date.

In addition, the Home maintains old/unclaimed balances in the MBF. Apparently, no claims have been made for those funds and the funds have remained in the MBF since the Home started accounting for the deceased residents' balances in the MAA system (approximately fiscal year 1999). Also, the MAA maintains unclaimed balances that date back to fiscal year 1999. The Home agreed that some of those balances might be considered abandoned property under RSA 471-C.

A similar comment was issued in the prior audit of the Home.

Recommendation:

The Home should improve its retention of documentation to support the MAA balance of deceased residents. The final disposition of the MAA balances of deceased residents should be a priority of the Home.

In the absence of any other proper claimant, the Home should submit the balances of deceased resident MAA accounts, whether currently held in the MAA or MBF, to the State Treasury as abandoned property in accordance with statute.

Auditee Response:

The Home concurs with this observation. The Home will improve its retention of documentation to support the MAA balance of deceased residents. Final disposition of the MAA balances of deceased residents will be a priority of the Home. All deceased resident accounts will be reviewed and all that are not able to be paid to estates will be turned over to the State Treasury as abandoned property in accordance with statute RSA 471-C.

Observation No. 3: Policies And Procedures Should Be Established For The Distribution Of Interest Income To Resident Accounts

Observation:

The Home does not have formal policies and procedures for distributing interest income to resident accounts. During the nine months ended March 31, 2005, the Home did not distribute interest income to resident accounts in the time frame provided for in the Home's unofficial policy.

The Home, as required by U.S. Department of Veterans Affairs (VA) regulations, provides interest on residents' account balances held in the Home's Members' Administration Account

(MAA). The Home's reported policy is to credit members' accounts with interest on a quarterly basis. The Home does not credit interest on the account balances of deceased members. These account balances remain in the Home's MAA pending distribution to the deceased members' estates. Absence of consistent practices for the timing and distribution of interest income may inadvertently result in unequal treatment of residents relative to the Home's management of their funds.

During the nine months ended March 31, 2005, the Home distributed interest income to the residents' accounts in the MAA only two times. The total interest earnings on the MAA for the nine months ended March 31, 2005 were $7,300. The total balance in the MAA checking and investment account at March 31, 2005 was $532,000. Member account balances ranged from $(6,400) to $21,900 and averaged $600 at March 31, 2005. Negative amounts are generally due to the Home having charged monthly room and board prior to receiving and posting residents' income for the same month.

Recommendation:

The Home should establish policies and procedures for distributing interest income to the residents' balances in the MAA. The policies and procedures should be in compliance with VA regulations and provide for fair and consistent treatment of the members.

Auditee Response:

The Home concurs with this observation. The Home has established policies and procedures for the distribution of interest income to the resident balances in the MAA. All residents will receive their prorated share of the interest earned on March 31, June 30, September 30, and December 31. Resident prorated share of interest will be based on balances for each resident on those same dates listed above.

Observation No. 4: Compliance With Donation Policies And Procedures Should Be Improved

Observation:

During the nine months ended March 31, 2005, the Home did not enforce staff compliance with its policies and procedures intended to ensure donations to the Home's Benefit Fund are used for their intended purposes.

The Home established policies to ensure donations are used in accordance with the wishes of the donors. The Home's policies require tracking any donor restrictions on gifts in an accounting system and using the accounting system to ensure the use of the funds coincides with those donor restrictions. The Home's business office is designated by the policies and procedures to notify the Public Affairs and Development Office (PADO) of all purchases using donated funds. The PADO is responsible for ensuring the use of the funds complies with the donors' wishes.

During the nine months ended March 31, 2005, the Business Office did not notify the PADO of purchases made with donated funds and the comparison of the purchases to the donors' intentions was not performed by the PADO.

During the nine months ended March 31, 2005, there were approximately $89,000 of Benefit Fund expenses. The Home does not have information on what percentage of those expenses represented the use of restricted donated funds. During that period, disbursements from the Fund totaled $107,000.

Recommendation:

The Home should improve its compliance with its policies and procedures intended to ensure that donations are used in accordance with the donors' wishes. If the Home determines that its current policies and procedures are not in the best interest of the Home and the State, the Home should revise the policies and procedures as appropriate to allow for better compliance and also to ensure donors' wishes are respected.

Auditee Response:

The Home concurs with this observation. The Home will improve its compliance with these policies and procedures to ensure that donations are used in accordance with the donor's wishes. An Excel spreadsheet has been set up to track all restricted donations. The Business Office will notify the PADO of purchases made with the restricted donated funds and allow the PADO to perform a comparison of such donations and purchases.

Observation No. 5: Controls Over Guy Thompson Memorial Trust Should Be Improved

Observation:

The Home's employee responsible for Guy Thompson Memorial Trust Fund (Trust) activity was not provided with a clear understanding of the conditions governing the use of the Trust, a permanent fund of the Home. We noted:

- No formal trust documents providing specific information on the Trust's purpose and conditions for use could be located at the Home.
- The Home does not have policies and procedures to assist it in accounting for the Trust's operation.

The Home's lack of understanding of the Trust's stipulations was apparent during the nine months ended March 31, 2005. The Home did not request the Treasury to distribute the earnings of the Trust. When the State Treasury contacted the Home to remind it that no interest was distributed from the Trust, the Home requested Treasury to deposit the Trust earnings, $184, into the Members' Benefit Fund to be used for the purchase of landscaping materials and supplies, a use not clearly authorized by the Trust agreement.

While the financial activity of the Guy Thompson Memorial Trust is not a significant part of the operation of the Home, donations to the Home's operations are significant, especially to the

Home's residents who generally are the intended beneficiaries of the donations. In order to continue to assure the Home's many benefactors of its proper use of donations, the Home must continually demonstrate its proper fiduciary responsibility for all donations.

Recommendation:

The Home should document its understanding of the Guy Thompson Memorial Trust, including the stipulated uses of the earnings of the Trust and the Home's policies and procedures intended to ensure the Trust is operated in a manner consistent with the objectives of the Trust.

All functional areas of the Home responsible for the operation of the Trust should have access to sufficient information and appropriate policies and procedures to allow for the controlled operation of the Trust.

Auditee Response:

The Home concurs in part to this observation. The Home does have documented understanding of the Guy Thompson Memorial Trust and has policies and procedures intended to ensure the Trust is operated in a manner consistent with the objectives of the Trust. The Home will make sure all functional areas of the Home have access to sufficient documented information and appropriate policies and procedures are available for the controlled operation of the Trust.

Observation No. 6: Balance In Members' Benefit Fund Checking Account Should Not Exceed Target

Observation:

The Home has not been maintaining the balance in the Members' Benefit Fund checking account in line with its targeted amount of $25,000. By not adhering to its targeted balances, the Home may be accepting more risk and fewer investment opportunities than intended by the Board of Managers.

Balances in the account during the audit period were as follows:

Date	Book Balance
July 1, 2004	$ 25,302
September 30, 2004	$ 17,261
December 31, 2004	$ 31,126
March 31, 2005	$ 95,155

A similar comment was issued in the prior audit of the Home.

Recommendation:

The Home should monitor the balance in the Members' Benefit Fund checking account more closely. In order to properly balance the limitation of risk, maximization of income and availability of funds, and also to demonstrate that it meets its fiduciary responsibility over the

Members' Benefit Fund, the Home should ensure that the balance in the checking account does not exceed the target amount without due cause.

Auditee Response:

The Home concurs with this observation. The Home will monitor the balance in the MBF account more closely. The Home will ensure that the balance in the checking account does not exceed the target amount without due cause.

Observation No. 7: Segregation Of Duties And Other Controls Over The Members' Administration Account Should Be Improved

Observation:

There is an overall lack of segregation of incompatible duties in the Home's operation of the Members' Administration Account (MAA). One Home employee is essentially responsible for the incompatible functions of:

- Disbursing cash to and receiving cash deposits from residents,
- Processing other cash and checks deposited into the MAA which are initially received by other areas of the Home,
- Replenishing the petty-cash account,
- Making bank deposits,
- Recording financial transactions in the check register and automated system,
- Reconciling cash on hand to supporting documentation, the check register, and automated system,
- Recording resident income data into the automated room and board calculation system, and
- Manually calculating the partial-month room and board charge for residents who leave the Home mid-month due to death or relocation.

Other weaknesses in the Home's controls over the MAA include:

- Lack of daily reconciliation of the $2,000 petty cash/change fund balance of the account,
- Not securing the safe containing the funds during business hours and not adequately securing the safe when it is locked (most business office employees know the combination to the safe),
- Lack of supervisory review of reconciliations, and
- Not numerically controlling the member fund withdrawal authorization forms, used to evidence a member's request to withdraw/spend money in the member's account.

The MAA is an agency account operated by the Home as a banking operation for the Home's residents. Each resident has an individual account into which resident funds are deposited and from which room and board and other resident-directed expenditures are made. During the nine months ended March 31, 2005, approximately $3.3 million of receipts and disbursements activity was recorded in the MAA checking account. The balance in the MAA checking account at March 31, 2005 was approximately $75,000.

Weak controls over the MAA increase the risk that errors or frauds that may occur in the account will not be detected in a timely manner in the normal course of business. The effect of errors or frauds are especially concerning in the MAA as the Home operates the account as a fiduciary to the Home's residents, many of which are near completely reliant upon the Home's fair operation of the account.

A similar comment was issued in the prior audit of the Home.

Recommendation:

The Home should improve controls over the MAA to ensure that residents' funds are properly safeguarded and accounted for.

The Home should improve the effectiveness of its controls by adequately segregating control responsibilities over the MAA. Additional responsible employees should be integrated into the control systems to promote the likelihood that errors, frauds, or other matters that may occur would be detected and corrected timely. Properly segregated duties are required for the review and approval functions necessary for management to monitor the effectiveness of its controls.

Additional control policies and procedures should be established to provide a proper level of control and security over the account, while still providing residents reasonable access to their money.

Auditee Response:

The Home concurs with this observation. During the time of the audit, we had one position that was not filled. That position is now filled and has been integrated into the control system to detect and correct any errors in a timely fashion. Funds are now reconciled on a daily basis by the Account Technician with the Chief Accountant reviewing. Member withdrawals are on pre-numbered three part forms. The safe combination has been changed and only employees with a need to access have been given the combination. The safe is kept locked at all times unless in use.

Observation No. 8: Segregation Of Duties Over Members' Benefit Fund Should Be Improved

Observation:

Lack of appropriate segregation of duties over Members' Benefit Fund responsibilities negatively affects the effectiveness of other intended controls.

The fundamental purpose of segregating incompatible responsibilities is to protect the integrity of the control system by limiting the risk that one employee has such exclusive control to permit intentional or unintentional errors, frauds, or other matters to remain undetected.

During the nine months ended March 31, 2005, responsibilities for Members' Benefit Fund (MBF) activities, including control activities, were not adequately segregated among employees to provide reasonable assurance that controls would be effective. For example, one employee was essentially the sole custodian of the MBF petty cash account, maintained the MBF check register, prepared and monitored the budget, verified initial cash receipt documents, prepared bank deposits, and prepared withdrawal authorization forms. This employee was also responsible for maintaining the list of equipment purchased with MBF money. The MBF bank account reconciliation, prepared by another employee, was not reviewed to ensure the reconciliation was accurate and complete. One employee was responsible for maintaining the change machine without preparing supporting documentation of the activity or supervisory review.

The risks accepted by the Home as a result of the lack of a proper segregation of incompatible duties over the MBF is especially concerning, as the MBF is a fiduciary fund of the Home largely funded by donations. Demonstrated concern for safeguarding the MBF and its operation may be essential to a continued source of funding.

A similar comment was issued in the prior audit of the Home.

Recommendation:

The Home should improve the effectiveness of its controls by adequately segregating control responsibilities. Additional responsible employees should be integrated into the control systems to promote the likelihood that errors, frauds, or other matters that may occur would be detected and corrected timely. Properly segregated duties are required for the review and approval functions necessary for management to monitor the effectiveness of its controls.

Auditee Response:

The Home concurs with this observation. During the time of the audit, we had one position that was not filled. That position is now filled and has been integrated into the control system to detect and correct any errors in a timely fashion.

Observation No. 9: Segregation Of Duties Over Room And Board Charges Should Be Improved

Observation:

There is a general lack of segregation of duties over the posting of resident income to the Home's automated room and board system. One Home employee is responsible for posting resident income information into the automated room and board system with no formal supervisory review of the process to ensure that information, including temporary and permanent changes to resident income, is recorded accurately and timely in the system.

In our review of a selected resident account, we noted an error in the room and board charged by the Home. The error was the result of an increase in the resident's Veterans Affairs income not being reflected in the room and board calculation until three months after the Home began receiving the increased amount. An effective segregation of responsibilities control over the posting of room and board charges would likely have detected the error and allowed for a timely correction.

The lack of effective segregation of responsibilities controls is especially concerning due to the limitations of the Home's automated room and board system which, as noted in Observation No. 12, does not have automated edit checks or advanced management reporting capabilities and requires manual workarounds to system limitations.

Recommendation:

The Home should increase its controls over the recording of resident income to the Home's automated room and board system. A supervisory review function should be added to review and approve postings to ensure that errors, frauds, or other matters are detected and corrected in a timely manner.

Auditee Response:

The Home concurs with this observation. During the time of the audit we had one position that was not filled, that position is now filled and has been integrated into the control system to detect and correct any errors in a timely fashion. The Chief Accountant has begun a procedure of randomly checking resident accounts in regards to room and board and all other activity on their accounts.

Observation No. 10: Policies And Procedures Manual Should Be Established For Billing Room And Board Charges

Observation:

The Home does not have a current policies and procedures manual supporting its billing of resident room and board charges, a significant business office function.

The lack of a policies and procedures manual causes inefficiencies in the Home's operations by increasing the risk that decisions may be made on an ad hoc basis based on employee experience and understanding which may not necessarily be consistent with management's plans and objectives. The risk facing an organization that lacks appropriate policies and procedures manuals is often first recognized upon employee turnover, when the organization finds it difficult to: 1) understand how its processes are performed and 2) train replacement employees.

The Home's efforts to establish a policies and procedures manual for billing room and board will require integration with its efforts to adopt current administrative rules that describe its operations.

Recommendation:

The Home should undertake a concerted effort to establish policies and procedures manuals for its major functional operations including billing resident room and board charges. The policies and procedures manuals should provide for: 1) consistency in decision making and processing according to management's plan and design, and 2) useful guidance to employees. Written policies and procedures should include control procedures established by management intended to provide for safeguarding Home operations.

While it is recognized that preparing meaningful policies and procedures manuals is a time consuming task, well-conceived manuals increase long-term efficiency as employees become more accustomed to performing their duties in accordance with management's plans and objectives.

Auditee Response:

The Home concurs with this observation. All staff has been producing written documentation of all job functions so that a manual can be established for each position. Policies and Procedures Manuals will be written for each job by the end of the fiscal year and posted at each desk so that cross training and long term efficiency will be easier to accomplish.

Observation No. 11: Basis For Room And Board Rate Should Be Determined And Documented

Observation:

The Home did not maintain appropriate documentation to support the full-pay room and board rate of $110 per day/$3,300 per month in effect for the nine months ended March 31, 2005. The room and board rate had been in effect since January of 2003, when it was increased by $10 per day. Prior to that change, the rate had been set at $3,000 per month since 1994.

Considering the Home's $10.5 million total costs of operation as reported in the State's accounting system (NHIFS) for the nine months ended March 31, 2005 and the number of residents at the Home at March 31, 2005, the room and board rate, net of Federal per-diem contributions, would have to be approximately $164 per day/$4,920 per month to cover the Home's costs. While there is no statutory or other requirement for the Home to be self sufficient, no documentation was made available to demonstrate that the Home's room and board rates were based on an analysis of program costs and expectations.

A similar comment was issued in the prior audit of the Home.

Recommendation:

The Home should establish policies and procedures to periodically and formally review the room and board rates charged to residents. The Home should consider codifying these policies and procedures in its administrative rules. The Home should document the calculation of the rate and periodically review the rate to ensure it remains appropriate.

Auditee Response:

The Home concurs with this observation. The Home will seek the opinion of the Attorney General's Office regarding Administrative Rule Ve-H 601.05(a) concerning full-pay residents. It will then update the rule to allow the Board of Managers to set the amount of the daily rate in conjunction with the development of the Home's operating budget. The rate will be periodically reviewed for appropriateness.

Observation No. 12: Automated Room And Board System Should Be Improved

Observation:

The Home's automated room and board system has significant limitations that negatively impact the Home's ability to efficiently and accurately process and record room and board charges. System limitations require employees to post adjustments based on manual calculations.

The 1998 audit report noted the following:
- The component of the automated system used to calculate room and board charges did not adequately address room and board calculations for residents who did not receive monthly social security.
- The component of the automated system used to calculate room and board charges does not calculate charges for the residents leaving the Home at a time other than month end.

The current audit noted the following additional system limitations:
- In order to close out a resident's account, the accounting technician has to enter $100 for social security income; otherwise the system will calculate a room and board of ($90) due to the room and board formula built into the system for partial pay residents.
- The system is unable to generate accurate activity reports of any account in the system after the closing of transactions at month end. The beginning balance of the account is accurate before the end of the month. After the closing of the month, the beginning balance of the account is brought forward inaccurately.

While the automated room and board system was modified after the 1998 audit and improvements were made to certain calculation functions, we noted system limitations still require the Home to manually calculate room and board charges for periods of less than a month.

According to the Home, a request for a new system was included in the 2006-2007 budget, however, that section of the Home's budget did not pass. The Home will include a new room and board system in the following biennial budget.

A similar comment was issued in the prior audit of the Home.

Recommendation:

The Home should work toward improving the automated room and board system to make the process more efficient. If the Home determines it is not feasible, the Home should work on replacing the system.

Auditee Response:

The Home concurs with this observation. The Home is looking into replacing the current system with a more user friendly system that will not have the limitations of the current system. When funding is available, the Home will implement a new system, with involvement of the Department of Administrative Services and the Office of Information Technology.

Observation No. 13: Initial Record Of Cash Receipts Should Be Consistently Prepared

Observation:

The Home does not consistently prepare an initial recording of cash and checks at the point and time when it accepts the receipts.

Per standard State procedures, as described in N.H. Admin Rule, Adm 402.02, the State's expired *Manual of Procedures*, agencies are to record all revenue daily as it is received at the point of receipt. The State's *Record of Daily Receipts* (A-15) is the form suggested for use to record the initial receipt of cash and checks. The initial recording of receipts is subsequently available to be compared with deposit documents to ensure that all receipts are ultimately deposited.

The Home does not consistently complete an initial recording of receipts in the manner described in the State procedure. For 10 out of 15 dates selected, no initial recording was prepared. Reportedly, the Home's business office generally prepares an A-15 at the time of the preparation of the bank deposit, which may be days after the point of receipt.

Recommendation:

The Home should consistently prepare a record of the initial receipt of cash and checks at the point of receipt.

The Home should review the factors that currently inhibit it from preparing A-15s or other initial recordings at the point and time of receipt. If the A-15 form is determined not to provide an efficient mechanism for this initial recording, the Home should establish alternative procedures to provide the intended control.

The process for making the recording and incorporating the record into the deposit procedure should be documented in the Home's policies and procedures. Once policies and procedures for initially recording receipts are established, management will need to monitor compliance with the policies and procedures to ensure that the control remains effective.

Auditee Response:

The Home concurs with this observation. The Home has established procedures to better control cash receipts. The Home will formalize its new procedures in a policies document.

Observation No. 14: Funds Should Be Deposited Timely

Observation:

The Home does not consistently deposit funds daily. According to Home employees, deposits are made two to three times a week, depending on available time and workloads.

RSA 6:11, II is generally regarded as requiring daily deposits of money collected by State government organizations. Unnecessarily delaying deposit of money increases the risk that the money may be subject to mishandling including loss or misapplication and also negatively affecting cash flows and potential interest earnings for the owners of the funds.

During audit testing, instances were noted where deposits of money to the Home's Members' Administration Account and the Home's Members' Benefit Fund were held undeposited for up to six business days.

While RSA 6:11, II speaks to the State's organizations depositing of State funds, organizations handling non-State funds owe the same fiduciary responsibility for safe and efficient handling of those funds as well.

A similar comment was issued in the prior audit of the Home.

Recommendation:

The Home should increase the frequency of its deposits of State and other money. As a matter of policy, money should be deposited daily unless doing so is deemed not possible. On those occasions, the Home should properly secure the money in a secured location.

Auditee Response:

The Home concurs with this observation. The Home has increased the frequency of its deposits; anytime funds are in house a deposit is prepared and taken to the bank in accordance with RSA 6:11, II.

Observation No. 15: Balance Of Cash-On-Hand Should Be Reviewed

Observation:

The Home maintains an excessive balance of cash-on-hand to support its Members' Administration Account (MAA) resident banking operations.

The Home maintains a $2,000 on-hand cash balance in its MAA to provide available cash for residents' needs. The Home replenished the on-hand cash account 51 times during the 180 business days the MAA bank operated during the nine months ended March 31, 2005. The daily average of cash used during bank days was $160 during this period.

Excess cash-on-hand increases the risk of fraud, errors, or other matters occurring in the account without timely detection.

A similar comment was issued in the prior audit of the Home.

Recommendation:

The Home should review the on-hand cash balance maintained for the MAA. The balance of cash-on-hand should be limited to the immediate needs of the resident bank. Excess cash balances should not be maintained to support infrequent and disproportionate cash requirements. Special trips to the local commercial bank should be used to access cash needed for unusual circumstances.

Auditee Response:

The Home concurs with this observation. The Home will review the current amount of on-hand cash balance maintained for the MAA. At the end of this fiscal year adjustments will be made to the amount of cash that is kept on hand to better reflect the needs of the residents.

Observation No. 16: Controls Over Petty Cash Accounts Should Be Improved

Observation:

A review of the Home's petty cash accounts noted instances where established controls were not working as intended and where existing controls did not address noted problems.

The Home maintains a Members' Administration Account (MAA) and a Members' Benefit Fund (MBF) petty cash fund. The MBF fund has several petty cash sub-accounts. The MAA petty cash account is primarily used to provide residents a cash bank for ready access to their personal funds. The MBF petty cash accounts are used to provide change for the Home's $80 canteen operation, $200 change machine, as well as a $175 general petty cash account. At March 31, 2005, the balances in the MAA and MBF petty cash accounts were $2,000 and $455, respectively.

Auditor counts of the MBF petty cash account balances during field work noted a $5 shortage, a $54 shortage, and a $5 overage in the canteen, change machine, and general petty cash accounts, respectively, on the days counted. A cash count of the MAA petty cash account noted a $123 overage. In reviewing the reconciliation of the MAA account, the Home noted several errors in the Home's original reconciliation of the account, including reconciling items being counted twice and unrecorded transactions such as returned amounts not being added back to the account balance. The variances in the account balances, while not significant, raise concerns as to whether the controls over the petty cash accounts, including accurate reconciliations, are being effectively and consistently performed. General employee access to the storage location of the account balances limits accountability for any variances that may be noted in the accounts.

Other reportedly established controls such as required supporting documentation for petty cash disbursements also do not appear to be consistently complied with. According to the Home employee responsible for review of the activity in the accounts, receipts are not always provided to support expenditures and provided documentation is not always complete.

Recommendation:

Controls over the Home's petty cash accounts should be improved. Physical access to the accounts should be limited to enhance accountability over the account balance. Policies and procedures requiring supporting documentation for expenditures should be enforced and compliance monitored.

Auditee Response:

The Home concurs with this observation. Policies and procedures have been reviewed and revised to improve the control of the petty cash accounts. Supporting documentation is required on all petty cash. The safe combination has been changed and only given to personnel who require access to perform their job functions.

Observation No. 17: Controls Over The Canteen Operation Should Be Strengthened

Observation:

The financial controls over the Home's canteen operation are not robust. While the canteen operation is a relatively minor financial activity of the Home, the lax controls increase the risk that errors, frauds, or other matters could occur and not be detected and corrected in a timely manner. The relative lack of effective controls is especially concerning as the Home operates the canteen in a fiduciary capacity and accounts for the canteen outside of the State's accounting system.

The Home's canteen operation includes the sale of products such as candy, toiletries, cigarettes, veteran's pins, etc. The canteen is staffed by volunteers and sells products to residents and visitors to the Home. Products are generally sold at a 15% markup over cost and, by statute, tobacco products are sold without the imposition of the State's tobacco tax. During the nine months ended March 31, 2005, the Home reported the canteen's average monthly sales were $850.

- In reviewing documentation of canteen sales activity, we noted that for three out of five days tested, the cash register tape record of daily sales activity did not agree to the daily cash-out record or to the deposit slip. While the noted differences were not significant, there was no indication on the documents that the cause of differences had been recognized and addressed by the Home.
- RSA 78:7-b allows the sale of up to two cartons of non state-taxed cigarettes per week to residents of the Home. However, per discussion with individuals servicing the canteen's customers, the sales staff was unaware of the statute's restrictions. According to the sales staff, all products are available to all customers, regardless of residency status.

Recommendation:

The Home should strengthen its controls over its canteen operation. Policies and procedures should be established to properly review and approve the reported daily activity in the canteen. Cash outs should be fully reconciled with differences noted and properly resolved. Policies and procedures should be established to inform and remind sales staff of sales guidelines and restrictions, such as the limitation on the sale of non-taxed tobacco products.

Auditee Response:

The Home concurs with this observation. Policies and procedures have been established in the form of a store manual. The Volunteer Coordinator, who is in charge of the canteen, has established a routine of orienting all volunteers to the statute's restrictions regarding the sale of cigarettes to residents only and the limited amount. In addition a sign has been hung in the store to remind customers and employees of the State's statute.

Observation No. 18: Controls Must Be Established For Vending Machine Operations

Observation:

The Home does not monitor the performance of the firm providing vending machine services at the Home. The Home did not take timely action when the vendor failed to make required commission payments to the Home and does not require the vendor to provide activity reports to support the commissions that are paid.

The Home has an agreement whereby a vending machine operator provides services at the Home and pays a commission to the Home's Benefit Fund based on vending machine sales. The agreement provides for quarterly commission checks to be paid to the Home's Benefit Fund. Quarterly commissions averaged $500.

The vending machine operator did not make any commission payments to the Home during the 18-month period August 2003 through February 2005. During this period, the Home apparently did not recognize that it had not received payments and took no action to determine the status of the missing payments. In March 2005, the operator began to make monthly commission payments to the Home but had not established the amount owed for the period of missed payments.

Recommendation:

The Home must establish controls over its vending machine operations. Policies and procedures should be established to create employee responsibility for monitoring the vending machine operator's performance including ensuring that all moneys due the Home are collected in a timely manner. The vending machine operator should be required to provide documentation or by other means support the sales activity and the resulting commissions owed the Benefit Fund. Timely action should be taken, including notifying management of the Home, if the operator becomes delinquent in making commission payments or otherwise does not comply with the Home's terms for operations.

Auditee Response:

The Home concurs with this observation. The Home will establish controls over the vending machine operations by assigning an employee to be in charge of tracking sales and receipts of the vending machines. The vending machine operator will be required to provide documentation of sales activity and provide the resulting commission in a timely fashion.

Observation No. 19: Administrative Rule Should Be Updated For Compliance With Current Home Practice And Federal Regulation

Observation:

N.H. Admin. Rules Ve-H 601.04 (a) (3) and Ve-H 601.05 (b) are not consistent with the Home's current practice and federal regulations providing for the payment of interest on balances of members' money held in Home accounts.

N.H. Admin. Rules Ve-H 601.04 (a) (3) and Ve-H 601.05 (b) provide that interest garnished from the Members' Administration Account, including balances of members' personal money in that account, be transferred to the Members' Benefit Fund account monthly.

Federal regulation 38 CFR 51.70 (c) (3) (i) provides, "[t]he facility management must deposit any residents' personal funds in excess of $100 in an interest bearing account (or accounts) that is separate from any of the facility's operating accounts, and that credits all interest on resident's funds to that account."

The Home's current practice of paying interest on residents' accounts with at least a $100 balance in the Home's Members' Administration Account appears consistent with federal regulations.

The Home recognizes its administrative rule related to interest paid to member accounts needs to be updated.

Recommendation:

The Home should update its administrative rule related to the payment of interest on members' accounts to be in agreement with Federal regulation. The Home should also review whether limiting interest to accounts with a balance in excess of $100 is within the spirit of the federal regulation.

Auditee Response:

The Home concurs with this observation. The Home currently is working with the Department of Administrative Services to update all Administrative rules.

Observation No. 20: Contrary Provisions In Administrative Rules Should Be Clarified

Observation:

The Home has conflicting rules relative to the disposition of resident contributions to room and board, referred to as members' excess income.

Per N.H. Admin Rule, Ve-H 601.04 (a) (1), partial-pay applicants shall have 90% of any monthly income in excess of $100 transferred to the State of New Hampshire for partial reimbursement of room and board.
Per N.H. Admin Rule, Ve-H 601.07 (a), 90% of member income shall be assigned and transferred to the Members' Benefit Fund.

The definitions of income items in the two administrative rules are essentially the same. The practice of the Home during the nine months ended March 31, 2005 was to transfer all members' excess income to the State's General Fund in accordance with N.H. Admin Rule, Ve-H 601.04.

A similar comment was issued in the prior audit of the Home.

Recommendation:

Residents' contributions toward room and board should continue to be deposited into the State's General Fund in accordance with N.H. Admin Rule, Ve-H 601.04 (a) (1).

The Home should clarify its administrative rules to eliminate the conflict between N.H. Admin Rule, Ve-H 601.04 (a) (1) and Ve-H 601.07 (a).

Auditee Response:

The Home concurs with this observation. The Home currently is working with the Department of Administrative Services to update all Administrative rules.

<u>GENERAL STATE OPERATIONS</u>

Observation No. 21: Accurate Payroll Records Should Be Required

Observation:

Audit testing revealed minor documentation errors in approximately 10% of the payroll selections tested.

Per N.H. Admin Rule Per 1202.01, "Each employee requesting leave shall fill out an application for leave…." Per N.H. Admin Rule Per 1202.02, "No employee shall be compensated unless the employee has first obtained an approved application of leave from the appointing authority." All leave actually used, as indicated within the State's payroll system (GHRS) as a decrease in a leave balance, must be supported by accurate leave slips authorized by appropriate personnel. The timesheet should also correctly indicate the date and amount of leave used to prevent errors or misuse in the use of leave from occurring.

- We noted three test items in a sample of twenty-five payroll expenditures tested (12%), with inconsistencies or other apparent errors in payroll documentation including timesheets, leave slips, and GHRS records that did not agree.
    - In one sample selection, there was no leave slip to support the use of leave.

- In another sample item, there was an inconsistency between the leave slip and the timesheet and GHRS. The timesheet and GHRS indicated that the employee used 16 hours of annual leave yet the leave slip reported the use of only 10 hours of annual leave. There was no documented explanation of the variance.
- In the third sample item, there were two instances noted where the timesheet did not agree to the leave slips and GHRS records. In one instance, the timesheet indicates that annual leave was taken on 2/23/05 and 2/24/05 though the GHRS records and the completed leave slip indicate that the leave was used on 2/22/05 and 2/23/05. In the other instance, the timesheet indicates that the employee worked the entire shift yet a leave slip and GHRS reports that 1.5 hours of annual leave were used on that date. There were no documented explanations of the variances.

Inaccurate and inconsistent payroll documentation increases the risk of fraud, errors, and other matters occurring in the Home's payroll functions that may not be detected and corrected in a timely manner. While it is difficult to guarantee that employees will complete all payroll records accurately, an error rate of 10% or more appears excessive and indicative of a need for increased management attention.

Recommendation:

The Home should regularly remind employees of the requirement for accurate time and attendance reporting. Inconsistencies and other errors in timesheets, leave slips, and GHRS reporting should be resolved and corrected in a timely manner. Continued errors should result in additional training or other appropriate action to encourage compliance and accuracy in reporting.

Auditee Response:

The Home concurs with this observation. The Home has scheduled orientation and an annual refresher for all employees. During this orientation the requirement of accurate time and attendance is stressed. Additional audits by the Chief Accountant will resolve inconsistencies and facilitate errors being identified and corrected in a timely manner.

Observation No. 22: Cause Of Pay Rate Errors Should Be Reviewed

Observation:

Errors noted in employee pay rate testing indicate payroll control weaknesses at the Home.

The pay rate for one employee in a sample of twenty-five payroll expenditures tested was not accurate resulting in that employee being underpaid by approximately $88 during the nine months ended March 31, 2005 and underpaid approximately $1,100 during the prior fiscal year. The Home reported that the error was caused when an incorrect pay rate was entered on a Personnel Action Form (PAF).

The pay rate for another sample item was rounded in a manner inconsistent with all of the other test items. For all but one sample item, the pay rate was calculated using three decimal places of accuracy. For one sample item, the pay rate (which includes the differential and nursing enhancement) was rounded down to two decimal places. While rounding the pay rate down to two decimal places had less than a $10 effect on total pay received by the employee during the audit period, inconsistent calculation of pay rates increases the risk that errors, frauds, or other matters could occur in the calculation of employee pay and not be detected in a timely manner.

The complexity of calculating employee pay rates at the Home is compounded by pay premiums such as shift differentials and nursing enhancements that may be added to employees' pay rates based on shifts worked and functions performed at the Home.

Recommendation:

The Home should pay the affected employees the amounts owed.

The Home should review its procedures for making certain all employee pay rates are based upon the approved State salary scales and that all pay rates are calculated in a consistent and approved manner. The Home should consider whether its current process of reviewing and approving information entered into the State's payroll system (GHRS) is adequate or should be expanded or made more intensive to lessen the risk of errors.

Auditee Response:

The Home concurs with this observation. The Home has paid the affected employees the amounts owed. The Home has expanded the current process of reviewing and approving information entered into the State's payroll system. The Payroll Officer I will enter the information which is then audited by the Payroll Officer II, ensuring that all information is consistent and accurate. The Chief Accountant will perform unannounced audits to ensure accuracies of all information.

Observation No. 23: Equipment Control Responsibilities Should Be Segregated

Observation:

There is a general lack of segregation of duties over the Home's equipment control processes. One employee at the Home is responsible for the incompatible duties of recording changes in equipment on the monthly equipment adjustment reports (P-21), maintaining the perpetual inventory report of equipment (P-16), and essentially solely performing the annual physical inventory observation of equipment. This employee is also authorized to dispose of broken equipment without prior authorization and record the disposal on the P-21 and P-16 forms. While management does sign the forms, the signers do not verify the appropriateness of these disposals.

The lack of an effective segregation of equipment control responsibilities increases the risk that fraud, errors, or other matters could occur and not be detected and corrected in a timely manner.

Recommendation:

Equipment control responsibilities at the Home should be segregated to provide for an appropriate review and approval function.

The responsibilities for the maintenance of the equipment records should be segregated from the responsibilities for performing the annual inventory observation and the disposal of equipment. As recommended in Observation No. 25, the Home should comply with P-18 discrepancy reporting procedures when disposing of lost, stolen, or destroyed equipment.

Auditee Response:

The Home concurs with this observation. As of July 1, 2006 a new position will be added to the inventory control of all equipment. An Inventory Control Supervisor position has been authorized and will be in charge of signing off on all receiving, shipping and/or disposal of all equipment inventories. This position will add another layer of approvals to better protect the assets of the Home. All policies and procedures regulated by the State will be followed.

Observation No. 24: Controls Over Equipment Accounting And Reporting Should Be Improved

Observation:

The number and variety of errors noted in the Home's accounting for and reporting of equipment indicate a deficiency in the Home's equipment control processes.

Problems noted in the Home's accounting for and reporting of equipment included:

- Incomplete tagging or other identification of equipment items,
- Incomplete documentation supporting the cost of equipment items,
- Incomplete accounting for and reporting of donated equipment, and
- Incomplete accounting for and reporting of equipment disposals.

While the nature and extent of the equipment assets at the Home makes the complete and accurate accounting for and reporting of equipment difficult, the Home has a responsibility to safeguard State assets and comply with State asset control procedures.

Recommendation:

The Home should improve its controls over equipment accounting and reporting.

The Home should review its equipment control processes to ensure that the processes are adequate and that employees are knowledgeable of and performing the control activities intended by management.

Once appropriate control activities are reestablished, the Home will need to monitor the controls to be assured of their continued effectiveness.

Auditee Response:

The Home concurs with this observation. As of July 1, 2006 a new position was added to the inventory control of all equipment. An Inventory Control Supervisor position has been authorized and will be in charge of signing off on all receiving, shipping and/or disposal of all equipment inventories. All personnel will be refreshed on policies and procedures for the purchase, receipt, and disposal of equipment. All policies and procedures regulated by the State will be followed.

Observation No. 25: State Policies Regarding Missing Equipment Should Be Complied With

Observation:

During the nine months ended March 31, 2005, the Home apparently was unaware it was required by Statewide equipment management policy to perform investigatory and discrepancy reporting procedures for equipment determined by its annual equipment inventory observation to be lost, stolen, destroyed, or damaged. The P-18 *Discrepancy Report* process is intended in part to ensure that there is a supervisory review and approval of the resolution of the status of missing equipment. Currently, when the Home cannot locate an item of equipment during the physical inventory count, the item is listed on the monthly P-21 *Equipment Adjustment Report* as a disposal and is removed from the equipment listing. The Home does not perform State equipment discrepancy procedures or complete the required P-18 reports.

RSA 21-I:11,VII requires each State agency to report annually, in such form as prescribed by the Department of Administrative Services'(DAS) Director of Plant and Property Management (Director), an inventory of real property and equipment under the agency's jurisdiction. The most recent guidance provided by DAS was dated April 1993. This technical assistance manual includes detail equipment inventory procedures and requirements and directs agencies to complete additional procedures and reporting when the inventory detects missing or destroyed State-owned equipment. The P-18 *Discrepancy Report* includes a sworn statement by the custodian of the equipment, a statement of an employee assigned to investigate the subject equipment item, and the signature of the agency head. According to the DAS, the technical assistance manual is no longer a regularly issued manual, however copies are made available when requested by agency personnel and agencies are expected to comply with the manual's procedures.

Recommendation:

The Home should establish policies and procedures to ensure that equipment transactions are accurately recorded and reported and State equipment policies and procedures are consistently performed.

Auditee Response:

The Home concurs with this observation. As of July 1, 2006 a new position was added to the inventory control of all equipment. An Inventory Control Supervisor position has been authorized and will be in charge of signing off on all receiving, shipping and/or disposal of all equipment inventories. All policies and procedures regulated by the State will be followed.

Observation No. 26: Controls Over The Receiving Of Shipped Goods Should Be Improved

Observation:

The Home is inconsistent in its practice of documenting the inspection of goods delivered to the Home. The Home's business office pays invoices for delivered goods without requiring evidence that all invoiced goods were received and in a usable condition.

The Home does not document any inspections of delivered non-dietary supplies and nonprescription medical supplies. The Home's employees who receive these deliveries forward a signed copy of the bills of lading or packing lists to the Home's business office, without documenting the accuracy of the quantity and condition of the received supplies. While the signed shipping documents evidence that a delivery has been received by the Home, there is no assurance provided that all of the items on the shipping documents were received by the Home in acceptable condition. Paying invoices without this information increases the risk of paying improper amounts. The Home's business office estimated that, in the past year, there were two instances it became aware of where the Home paid invoiced amounts supported by uninspected shipping documents only to be informed later that a problem with the received goods was discovered.

All deliveries of dietary supplies are inspected with the results of the inspection documented on the packing list to notify the Home's business office of the receipt and acceptance of goods, prior to the payment of an invoice.

Recommendation:

The Home should establish policies and procedures requiring the performance and documentation of a receiving and inspection process for all delivered goods received by the Home. The Home's business office should be instructed that relevant information on all invoices requesting payment should be compared and agreed to evidence that usable goods have actually been received by the Home.

Auditee Response:

The Home concurs with this observation. The Home will put into place a manual of policies and procedures to make sure that all employees check in deliveries the same way. All deliveries will be checked for damage and checked against the packing list. Packing lists will be forwarded to the Business Office before any payments are made to vendors.

Observation No. 27: Segregation Of Duties Should Be Established Over All Consumable Inventories

Observation:

There is a general lack of segregation of duties over the custody and reporting of some categories of consumable inventories at the Home, leading to increased risk that errors, frauds, or other matters requiring management attention related to the Home's consumable inventories may not be detected in a timely manner.

The custodians of the Home's nonprescription medical supplies and other general supplies singly perform inventory control procedures and make adjustments to the consumable inventory records without involvement of any other Home employees. The custodians of the Home's dietary and linen supplies have incorporated the involvement of other Home employees in the inventory procedures to allow for a level of segregation of responsibilities over the control process.

Because the custodians of the nonprescription medical supplies and other general supplies are in sole control of the inventory processes, little to no review of these consumable inventories occurs.

Recommendation:

The Home should establish appropriate segregation of duties over all consumable inventories.

Adjustments made to inventory records should be subject to a review and approval function to help ensure that errors, frauds, and other matters are detected and corrected in a timely manner.

Auditee Response:

The Home concurs with this observation. As of July 1, 2006 a new position was added to the inventory control of all consumables. An Inventory Control Supervisor position has been authorized and will be in charge of signing off on all receiving, shipping and/or disposal of all consumable inventories.

Auditor's Report On Management Issues

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the governmental activities and each fund of the New Hampshire Veterans' Home for the nine months ended March 31, 2005, as listed in the table of contents, and have issued our report thereon dated July 11, 2006, which was qualified with respect to the lack of presentation of the financial position of the New Hampshire Veterans' Home 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 New Hampshire Veterans' Home for the nine months ended March 31, 2005, we noted issues related to the operation of the New Hampshire Veterans' Home that merit management consideration but do 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, regulations, contracts, and grant agreements.

Those issues that we believe are worthy of management consideration but do not meet the criteria of reportable conditions or noncompliance or other matters are included in Observations No. 28 through No. 30 of this report.

This auditor's report on management issues is intended solely for the information of the management of the New Hampshire Veterans' Home 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

July 11, 2006

Management Issues Comments

Observation No. 28: The Home's Trust Funds Should Not Be Used To Supplant State Funds

Observation:

During the nine months ended March 31, 2005, the Home used the Members' Benefit Fund (MBF) to purchase equipment and to cover expenses that otherwise would have been covered by the Home's General Fund appropriations.

Per N.H. Admin Rule, Ve-H 601.08 (a), the Benefit Fund shall be managed and administered by the Board of Managers for the benefit of all of the Home's residents.

During our detail test of payments made from the MBF, we noted:

- Two instances where the MBF was used to pay a total of $38,735 for medical equipment that one would normally expect to be provided by State appropriations. According to the Home's business office, State appropriations were not available and the equipment was needed for the Home's operation. The Board of Managers approved the purchase of the equipment.
- The MBF was used to pay $1,049 for the Home's participation at a Healthcare Review Symposium where the Home had the opportunity to recruit nursing staff and attract candidates to become residents of the Home.
- The MBF was used to pay $98 for movie tickets purchased for an employee appreciation day. We also noted an instance where the MBF was used to pay $40 for two gift certificates at local restaurants for staff appreciation day.

In order for the MBF to continue to be classified and reported as a private purpose trust fund, according to governmental accounting standards, the MBF has to primarily benefit individuals, private organizations, or other governments and not the reporting government. If a substantial amount of the MBF activity is used to pay for costs normally covered by the General Fund, governmental accounting standards require the fund to be reported as a special revenue fund within the General Fund.

Recommendation:

The administrative costs of operating the Home, including the purchase of equipment necessary for attending to patient needs, should be paid from State appropriations. Non-State funds administered by the Home in a fiduciary capacity for the benefit of the residents should be used for their intended purpose and not be used to supplant unavailable State funds. If the Home continues to fund relatively significant amounts of administrative costs from the MBF, the Home and the State will need to revise its financial reporting of the MBF.

The Home should establish policies and procedures including specific evaluation criteria for determining whether anticipated expenditures are within the intended uses of the MBF.

Auditee Response:

The Home concurs in part with this observation. The Home has established specific evaluation criteria for determining whether anticipated expenditures are within the intended uses of the MBF. In the future the Home will request equipment needs in the State Operating Budget. A large portion of the $38,735 approved by the Board of Managers was used to purchase additional lifts, Briox machines, bladder scanner and dentist equipment to benefit the residents. Purchase of movie tickets and gift certificates were not approved from the MBF and as such should have been paid through the Employee Benefit Fund (sunshine fund). Corrective action has been taken to correct this error.

Observation No. 29: Social Security Number Should Not Be Used For General Resident Identification Purposes

Observation:

The Home uses residents' social security numbers for general resident identification purposes. Using resident social security numbers for general resident identification purposes raises the risk that the residents' social security numbers could become known by unauthorized individuals and subsequently misused.

Resident social security numbers are used as account numbers in the Home's automated room and board system. Essentially all records generated from the automated room and board system, including individual account statements and room and board activity reports, contain resident social security numbers. In addition, resident social security numbers are included on financial records such as initial records of cash receipts (A-15 forms) when receipts to be deposited to member accounts are accepted.

Recommendation:

The Home should protect the confidential nature of resident social security numbers. While the Home must have access to and utilize resident social security numbers for tax, pension, and other similar purposes, the Home has an obligation to properly protect the confidential nature of a resident's social security number.

The Home should establish policies and procedures to keep resident social security numbers confidential. Alternative identification numbers should be used for general identification and reporting purposes. Employees should be periodically reminded of the need to keep resident information confidential.

Auditee Response:

The Home concurs with this observation. The Home currently has an annual orientation of all employees to remind them of the confidential nature of the work we perform at the Home. HIPAA laws are followed very closely here at the Home and we will strive to enhance our present system to allow us to use other methods of identification wherever possible to protect the residents' social security number.

Observation No. 30: Propriety Of Sunshine Fund Should Be Established

Observation:

The Home maintains an employee "sunshine fund" checking account at a local bank on behalf of employees. The account is used to deposit employee contributions to fund gifts for employees, luncheons, flowers, etc. The bank account, opened in 2002, is in the Home's name and uses the State's tax identification number, providing federal tax-free status to the account. The Home did not notify the State Treasurer of the opening of the account or the use of the State's tax identification number.

Placing employee funds in a State-maintained account establishes a liability upon the State for the security of the account and its proper operation. In addition, opening an account without authority from the State Treasury appears contrary to RSA 6:11, I, which requires Treasurer concurrence for the opening of department bank accounts.

At March 31, 2005, the balance in the account was approximately $2,700.

Recommendation:

The Home should review with the Treasurer the appropriateness of this account and the use of the State's tax identification number for this account.

Auditee Response:

The Home concurs with this observation. The Home will be contacting the Treasurer for a review of the appropriateness of this account and its using the State's tax identification number.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the governmental activities and each fund of the New Hampshire Veterans' Home as of and for the nine months ended March 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the New Hampshire Veterans' Home's management. Our responsibility is to express opinions 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 opinions.

As discussed in Note 1, the financial statements referred to above are not intended to present the financial position of the New Hampshire Veterans' Home in the government-wide or fund financial statements.

As discussed in Note 1, the financial statements of the New Hampshire Veterans' Home 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 New Hampshire Veterans' Home. They do not purport to, and do not, present fairly the financial position of the State of New Hampshire as of March 31, 2005 and the changes in its financial position for the nine months ended March 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the matter referred to in the third paragraph, the financial statements referred to above present fairly, in all material respects, certain financial activity of the governmental activities and each fund of the New Hampshire Veterans' Home for the nine months ended March 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

The Home 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 54 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 opinions on the financial statements referred to in the first paragraph. The Schedule Of Expenditures Of Federal Awards on page 57 is presented for the purpose of additional analysis and is not a required part of the financial statements of the New Hampshire Veterans' Home. 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 July 11, 2006 on our consideration of the New Hampshire Veterans' Home's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, and regulations, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Office Of Legislative Budget Assistant

Office Of Legislative Budget Assistant

July 11, 2006

STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE VETERANS' HOME

STATEMENT OF ACTIVITIES
FOR THE NINE MONTHS ENDED MARCH 31, 2005

		Program Revenues			Net (Expenses)
			Operating	Capital	Revenues
		Charges For	Grants And	Grants And	And Changes
Functions/Programs	**Expenses**	**Services**	**Contributions**	**Contributions**	**In Net Assets**
Governmental Activities:					
Health And Social Services					
Veterans' Home	$ 11,488,563	$ 3,051,611	$ 2,705,689	$ 437,430	$ (5,293,833)
Interest Expense	234,982	-0-	-0-	-0-	(234,982)
Total Governmental Activities	**$11,723,545**	**$ 3,051,611**	**$ 2,705,689**	**$ 437,430**	**(5,528,815)**

General Revenues And Transfers	
Net Appropriations	6,374,713
Transfers	(184)
Total General Revenues And Transfers	6,374,529
Change In Net Assets	**$ 845,714**

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

STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE VETERANS' HOME

STATEMENT OF REVENUES AND EXPENDITURES
GOVERNMENTAL FUNDS
FOR THE NINE MONTHS ENDED MARCH 31, 2005

	General Fund	Capital Projects Fund	Guy Thompson Memorial Trust Fund	Total Governmental Funds
Revenues				
Residents Room And Board	$ 3,051,611	$ -0-	$ -0-	$ 3,051,611
Federal Per-Diem Payments	2,705,485	-0-	-0-	2,705,485
Federal Grants	-0-	437,430	-0-	437,430
Interest And Dividends	-0-	-0-	204	204
Total Revenues	**5,757,096**	**437,430**	**204**	**6,194,730**
Expenditures				
Professional Care	8,349,126	-0-	-0-	8,349,126
Custodial Care	2,632,030	-0-	-0-	2,632,030
Debt Service	508,935	-0-	-0-	508,935
Workers Compensation	139,104	-0-	-0-	139,104
Unemployment Compensation	17,142	-0-	-0-	17,142
Capital Outlay	14,599	633,815	-0-	648,414
Total Expenditures	**11,660,936**	**633,815**	**-0-**	**12,294,751**
Excess (Deficiency) Of Revenues Over (Under) Expenditures	**(5,903,840)**	**(196,385)**	**204**	**(6,100,021)**
Other Financing Sources (Uses)				
Net Appropriations	4,906,251	1,468,462	-0-	6,374,713
Transfer To Members' Benefit Fund	-0-	-0-	(184)	(184)
Total Other Financing Sources (Uses)	4,906,251	1,468,462	(184)	6,374,529
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	**$ (997,589)**	**$ 1,272,077**	**20**	**$ 274,508**
Fund Balance-July 1			15,385	
Fund Balance-March 31			**$ 15,405**	

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

STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE VETERANS' HOME

RECONCILIATION OF THE STATEMENT OF REVENUES AND EXPENDITURES - GOVERNMENTAL FUNDS - TO THE STATEMENT OF ACTIVITIES
FOR THE NINE MONTHS ENDED MARCH 31, 2005

Excess (Deficiency) Of Revenues And Other Sources Over (Under) Expenditures And Other Uses - Total Governmental Funds	$ 274,508
Amounts Reported For Governmental Activities In The Statement Of Activities Are Different Because (See Note 1-C):	
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	292,061
Interest Expense/Expenditure Recognition Difference	(18,108)
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 Outlay Exceeded Depreciation In The Current Period:	297,253
Change In Net Assets Of Governmental Activities	$ 845,714

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

STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE VETERANS' HOME

BALANCE SHEET - PERMANENT FUND
GUY THOMPSON MEMORIAL TRUST
MARCH 31, 2005

Assets	
Cash And Cash Equivalents	$ 15,589
Total Assets	**$ 15,589**
Liabilities	
Due To Members' Benefit Fund	$ 184
Total Liabilities	**184**
Fund Balance	
Reserved For Permanent Trust	15,405
Total Fund Balance	**15,405**
Total Liabilities And Fund Balance	**$ 15,589**

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

STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE VETERANS' HOME

STATEMENT OF FIDUCIARY NET ASSETS - PRIVATE PURPOSE TRUST FUND
MEMBERS' BENEFIT FUND
MARCH 31, 2005

Assets	
Cash And Cash Equivalents	$ 95,609
Investments	559,164
Capital Assets (Net Of Accumulated Depreciation)	13,000
Total Assets	**$ 667,773**
Liabilities	
Due To Deceased Members	$ 32,978
Due To Members' Administration Account	17,385
Other Liabilities	8,507
Total Liabilities	**58,870**
Net Assets Held In Trust For Benefits And Other Purposes	**$ 608,903**

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

STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE VETERANS' HOME

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUND
MEMBERS' BENEFIT FUND
NINE MONTHS ENDED MARCH 31, 2005

Additions	
Contributions	
Gifts, Bequests, And Endowments	$ 55,615
Total Contributions	55,615
Income From Investing Activities	
Interest And Dividends	10,761
Net Increase In Fair Value Of Investments	24,212
Total Net Income From Investing Activities	34,973
Other Income	
Canteen Operations	7,615
Miscellaneous	3,097
Total Other Income	10,712
Total Additions	**101,300**
Deductions	
Benefits/Distributions To Participants	
Resident Activities	36,025
Supplies And Equipment	28,173
Public Relations	9,418
Canteen Operations	6,176
Miscellaneous	9,072
Total Benefits/Distributions To Participants	88,864
Total Deductions	**88,864**
Change In Net Assets	**12,436**
Net Assets Held In Trust For Benefits And Other Purposes	
Beginning Of The Year	596,467
End Of Period	**$ 608,903**

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

STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE VETERANS' HOME

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUND
MEMBERS' ADMINISTRATION ACCOUNT
NINE MONTHS ENDED MARCH 31, 2005

Assets	Balance July 1, 2004	Additions	Deletions	Balance March 31, 2005
Cash And Cash Equivalents	$ 136,543	$ 3,225,707	$ 3,287,360	$ 74,890
Investments	451,148	5,160	-0-	456,308
Due From Members' Benefit Fund	-0-	17,385	-0-	17,385
Due From General Fund	-0-	5,481	-0-	5,481
Total Assets	**$ 587,691**	**$ 3,253,733**	**$ 3,287,360**	**$ 554,064**
Liabilities				
Custodial Funds Payable	$ 587,691	$ 3,253,733	$ 3,287,360	$ 554,064
Total Liabilities	**$ 587,691**	**$ 3,253,733**	**$ 3,287,360**	**$ 554,064**

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

STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE VETERANS' HOME

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the New Hampshire Veterans' Home (Home) 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 New Hampshire Veterans' Home is an organization of the primary government of the State of New Hampshire. The accompanying financial statements report the financial activity of the Home.

The financial activity of the New Hampshire Veterans' Home is accounted for and reported in the State's General, Capital Projects, Permanent, and Fiduciary 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 Home, 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 Home cannot be determined. Accordingly, the accompanying financial statements are not intended to show the financial position of the Home or the changes in its fund balances for 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 New Hampshire Veterans' Home. As none of the Home'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 and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Each governmental fund - the General Fund, Capital Projects Fund, and Guy Thompson Memorial Trust Fund - is reported as a separate column in the fund financial statement.

C. Measurement Focus And Basis Of Accounting

The government-wide and fiduciary fund 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 New Hampshire Veterans' Home 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 New Hampshire Veterans' Home 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 accounts 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.

Permanent Fund: A permanent fund reports resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the State or its citizenry. The Guy Thompson Memorial Trust Fund is a permanent fund accounted for by the New Hampshire Veterans' Home.

Fiduciary Fund Types

Private Purpose Trust Fund: A private purpose trust fund reports resources of those trust fund arrangements in which principal and income benefit individuals, private organizations, or other governments. The Members' Benefit Fund is a private purpose trust fund accounted for by the New Hampshire Veterans' Home.

Agency Fund: An agency fund reports assets and liabilities for deposits and other investments entrusted to the State as an agent for others. The Members' Administration Account is an agency fund accounted for by the New Hampshire Veterans' Home.

E. Cash Equivalents

Cash equivalents represent short-term investments with original maturities less than three months from the date acquired by the State.

F. Investments

Investments are reported at fair value.

G. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported by the State in its CAFR in the government-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The New Hampshire Veterans' Home's capital assets are reported in Note 3 on page 50.

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

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

H. 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 New Hampshire Veterans' Home's program revenues include 1) charges for services provided, 2) operating grants and contributions, and 3) capital 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 Home's Statement of Activities are net appropriations.

In the governmental fund financial statements, revenues and expenditures are reported by source and nature, respectfully. 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.

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

I. 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.

J. 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 is 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 New Hampshire Veterans' Home's General Fund unliquidated encumbrance balance at March 31, 2005 was $449,867.

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

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3* was implemented by the State during the fiscal year ended June 30, 2005. As a result, the disclosures related to deposit and investment risks were changed.

Deposits

The following statutory requirements and New Hampshire Treasury Department policies have been adopted to minimize risk associated with deposits.

RSA 6:7 establishes the policy the State Treasurer must adhere to when depositing public monies. Operating funds are invested per investment policies that further define appropriate investment choices and constraints as they apply to those investment types.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered.

Custodial credit risk is managed in a variety of ways. Although State law does not require deposits to be collateralized, the State Treasurer does utilize such arrangements where prudent and/or cost effective. All banks, where the State has deposits and/or active accounts, are monitored as to their financial health through the services of Veribanc, Inc., a bank rating firm. In addition, ongoing reviews with officials of depository institutions are used to allow for frequent monitoring of custodial credit risk.

All depositories used by the State must be approved at least annually by the Governor and Executive Council. All commercial paper must be from issuers having an A1/P1 rating or better and an AA- or better long-term debt rating from one or more of the nationally recognized rating agencies. Certificates of deposit must be with state or federally chartered banking institutions with a branch in New Hampshire. The institution must have the highest rating as measured by Veribanc, Inc.

Whereas all payments made to the State are to be in U.S. dollars, foreign currency risk is essentially nonexistent on State deposits.

As of March 31, 2005, the New Hampshire Veterans' Home bank balances in its Permanent and Fiduciary Funds were exposed to custodial credit risk as follows:

	Permanent Fund			Fiduciary Funds			
Type	**Insured**	**Collateralized And Held In State's Name**	**Uncollateralized**	**Insured**	**Collateralized And Held In State's Name**	**Uncollateralized**	**Total**
Demand Deposits	$ -0-	$ -0-	$ -0-	$ 98,378	$ -0-	$ -0-	$ 98,378
Money Markets	-0-	-0-	15,589	-0-	-0-	259,905	275,494
Total	$ -0-	$ -0-	$ 15,589	$ 98,378	$ -0-	$ 259,905	$ 373,872

Investments:

The State Treasury has adopted policies to ensure reasonable rates of return on investments while minimizing risk factors. Approved investments are defined in statute (RSA 6:8, 387:6, 387:6-a, and 387:14). Additionally, investment guidelines exist for operating funds as well as trust and custodial funds. All investments are denominated in U.S. dollars. As of March 31, 2005, the New Hampshire Veterans' Home's Fiduciary Funds were invested in the following vehicles by the State Treasury.

Fair Value Of Investments By Type
March 31, 2005

Investment Type	Fiduciary Funds
U.S. Treasury	$ 197,910
Equity Open Ended Mutual Funds	335,405
Fixed Income Open Ended Mutual Funds	222,253
Total	**$ 755,568**

Debt Securities: The State invests in several types of debt securities including corporate and municipal bonds, securities issued by the U.S. Treasury and government agencies, mutual funds and investment pools. The U.S. Treasury and fixed income open ended mutual funds noted above are debt securities.

Credit Risk: The risk that the issuer will not fulfill its obligations. The State invests in grade securities which are defined as those with a grade B or higher. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk.

Interest Rate Risk: The risk that changes in interest rates will adversely affect the fair value of the State's investments. Interest rate risk is primarily measured and monitored by defining or limiting the maturity of any investment or weighted average maturity of a group of investments. Trust and custodial funds manage and monitor interest rate risk primarily through a weighted average maturity approach (WAM). The State's WAM is dollar-weighted in terms of years. The specific target or limits of such maturity and percentage allocations are tailored to meet the investment objective(s) and are defined in the investment guidelines associated with those funds.

Custodial Credit Risk: The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investments that are in the possession of an outside party. Open ended mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The State's selection criteria is aimed at investing only with high quality institutions where default is extremely unlikely.

Equity Mutual Funds:

Credit Risk: The risk that the issuer will not fulfill its obligations. Equity mutual funds are not rated.

Custodial Credit Risk: Equity open ended mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The State's selection criteria is aimed at investing only with high quality institutions where default is extremely unlikely.

The exposed risks at March 31, 2005 for the New Hampshire Veterans' Home Fiduciary Funds' investments are noted below.

Exposed Risks
March 31, 2005

Investment Type	Fiduciary Funds: Credit Risk Grade	Credit Risk Unrated	Interest Rate Risk WAM
U.S. Treasury	$ 197,910	$ -0-	0.83
Fixed Income Open Ended Mutual Funds	$ -0-	$ 222,253	6.03

NOTE 3 - CAPITAL ASSETS AND OTHER EQUIPMENT

In addition to capital assets, the New Hampshire Veterans' Home also accounts for equipment and other assets with an original cost between $100 and $10,000. While only capital assets are reported on the Home'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 nine months ended March 31, 2005 was as follows.

	Balance July 1, 2004	Additions	Deletions	Balance March 31, 2005
Capital Assets Not Being Depreciated:				
Construction In Progress	$ 10,642,620	$ 827,696	$ 10,797,339	$ 672,977
Land And Land Improvements	95,000	-0-	-0-	95,000
Total Capital Assets Not Being Depreciated	**10,737,620**	**827,696**	**10,797,339**	**767,977**
Capital Assets Being Depreciated:				
Buildings And Building Improvements	7,500,000	10,797,339	-0-	18,297,339
Capital Equipment	105,167	14,599	-0-	119,766
Total Capital Assets Being Depreciated	**7,605,167**	**10,811,938**	**-0-**	**18,417,105**
Less Accumulated Depreciation For:				
Buildings And Building Improvements	4,075,000	343,075	-0-	4,418,075
Capital Equipment	71,521	8,086	-0-	79,607
Total Accumulated Depreciation	**4,146,521**	**351,161**	**-0-**	**4,497,682**
Depreciable Capital Assets, Net	**3,458,646**	**10,460,777**	**-0-**	**13,919,423**
Equipment With Original Cost Between $100 And $10,000	1,096,617	215,675	27,365	1,284,927
Net Capital Assets And Other Equipment	**$ 15,292,883**	**$11,504,148**	**$ 10,824,704**	**$ 15,972,327**

NOTE 4 - LONG-TERM DEBT

The following is a summary of changes in the long-term liabilities during the nine months ended March 31, 2005 and for the fiscal year ended June 30, 2005 for bond amounts related to the New Hampshire Veterans' Home's projects.

Governmental Activities	July 1, 2004 Beginning Balance	Increases	Decreases	March 31, 2005 Ending Balance
General Obligation Bonds Payable	$ 5,399,722	$ -0-	$ 292,061	$ 5,107,661
Total Governmental	$ 5,399,722	$ -0-	$ 292,061	$ 5,107,661

Governmental Activities	July 1, 2004 Beginning Balance	Increases	Decreases	June 30, 2005 Ending Balance	Current	Long-Term
General Obligation Bonds Payable	$ 5,399,722	$ -0-	$ 380,795	$ 5,018,927	$ 552,082	$ 4,466,845
Total Governmental	$ 5,399,722	$ -0-	$ 380,795	$ 5,018,927	$ 552,082	$ 4,466,845

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. The anticipated source of repayment is the General Fund. The annual maturities are as follows:

Year Ended June 30,	Principal	Interest	Total
2006	$ 552,082	$ 175,031	$ 727,113
2007	501,893	152,117	654,010
2008	451,703	131,505	583,208
2009	451,703	119,175	570,878
2010	451,703	102,642	554,345
2011-2015	1,606,057	331,680	1,937,737
2016-2020	752,839	132,504	885,343
2021-2025	250,947	23,458	274,405
Total	**$ 5,018,927**	**$ 1,168,112**	**$ 6,187,039**

NOTE 5 - FEDERAL FUNDS

The Schedule Of Expenditures Of Federal Awards (the Schedule), on page 57, is presented for the purpose of additional analysis. The expenditures presented in the Schedule are presented on the cash basis of accounting; expenditures are recorded when paid rather than when the obligation is incurred.

NOTE 6 - FIDUCIARY FUNDS

Members' Benefit Fund

The Members' Benefit Fund, a private purpose trust fund, was established in 1963 by the Board of Managers of the Home for the purpose of providing needed items for the care, comfort, and safety of the residents. The fund, for the most part, consists of donations from organizations and individuals and the earnings on the invested fund balance. The Board of Managers directs the expenditures from the fund. Per RSA 11:7, all disbursements made by State agencies and departments for trust fund purposes are to follow the laws, rules, and regulations applicable to said agencies and departments for normal operating and capital purposes.

Members' Administration Account

The Members' Administration Account, an agency fund, is a custodial fund maintained by the Home. The fund is used to receive, hold, and disburse residents' money according to the direction of the residents. An account is maintained in the fund in the name of each resident. The accounts are used to post the residents' income (e.g. pensions, social security benefits), to make payment for residents' room and board, to make purchases at the direction of residents for items such as clothing, periodicals, and special foods and beverages, and for residents' personal spending money.

NOTE 7 - EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The Home, 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 Home. 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 New Hampshire Veterans' Home 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 nine months ended March 31, 2005, 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 Home'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 New Hampshire Veterans' Home's payments for normal contribution costs for the nine months ended March 31, 2005 amounted to 5.90% of the covered payroll for its Group I employees and 12.11% of the covered payroll for its Group II employees. The Home's normal contributions for the nine months ended March 31, 2005 were $298,544.

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 54 Regional Drive, Concord, NH 03301 or from their web site at http://www.nh.gov/retirement.

Health Insurance For Retired Employees

In addition to providing pension benefits, RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses within the limits of the funds appropriated at each legislative session. These benefits include group hospitalization, hospital medical care, and surgical care. Substantially all of the State's employees who were hired on or before June 30, 2003 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 2004, 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 are provided through the Employee Benefit Risk Management Fund, which is the State's self insurance fund implemented in October 2003 for active state employees and retirees. The State recognizes the cost of providing these benefits on a pay-as-you-go basis by paying actuarially determined contributions into the fund. The New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees also contributes to the fund. The cost of the health benefits for the Home'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 benefits for retired New Hampshire Veterans' Home employees and spouses is not included in the Home's financial statements.

STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE VETERANS' HOME
REQUIRED SUPPLEMENTARY INFORMATION

BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2005

	Budgeted Amounts		Actual Amounts	Favorable/ (Unfavorable)
	Original	Final	(Budgetary Basis)	Variance- Final
Revenues				
Residents Room And Board	$ 6,194,217	$ 6,194,217	$ 3,218,178	$ (2,976,039)
Federal Per-Diem Payments	5,075,864	5,661,864	2,786,789	(2,875,075)
Total Revenues	11,270,081	11,856,081	6,004,967	(5,851,114)
Expenditures				
Professional Care	11,401,832	11,987,832	8,253,512	3,734,320
Custodial Care	3,358,982	3,358,982	2,588,330	770,652
Workers Compensation	139,416	139,416	148,801	(9,385)
Unemployment Compensation	3,200	3,200	17,143	(13,943)
Total Expenditures	14,903,430	15,489,430	11,007,786	4,481,644
Excess (Deficiency) Of Revenues Over (Under) Expenditures	$ (3,633,349)	$ (3,633,349)	$ (5,002,819)	$ (1,369,470)

The accompanying note is an integral part of this schedule.

Note To The Required Supplementary Information - Budgetary Reporting
For The Nine Months Ended March 31, 2005

The New Hampshire Veterans' Home's 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, a favorable variance is caused by actual revenue exceeding budget. For expenditures, a favorable variance results from actual expenditures being less than the amount budgeted for the fiscal year. For interim period financial statements, the variance is largely due to comparison of an annual budget amount with actual financial activity of a partial year. The negative expenditure variances for workers compensation and unemployment compensation represent expenditures made prior to the transfer of available appropriations.

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 New Hampshire Veterans' Home's financial statements.

The following schedule reconciles the differences between budgetary accounting methods and the GAAP basis accounting principles for the nine months ended March 31, 2005.

RECONCILIATION OF BUDGETARY TO GAAP
FOR THE NINE MONTHS ENDED MARCH 31, 2005

Excess (Deficiency) Of Revenues	
Over (Under) Expenditures (Budgetary Basis)	**$ (5,002,819)**
Adjustments And Reclassifications:	
To Record The Net Effect Of Encumbrances	96,568
To Record Net Accrued Salaries And Benefits	
And Other Accounts Payable	(564,948)
To Record Accounts Receivable	76,294
To Record Debt Service	(508,935)
To Record Other Financing Sources	4,906,251
Net Adjustments	4,005,230
Excess (Deficiency) Of Revenues And Other	
Financing Sources Over (Under) Expenditures	
And Other Financing Uses (GAAP Basis)	**$ (997,589)**

STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE VETERANS' HOME

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CASH BASIS)
FOR THE NINE MONTHS ENDED MARCH 31, 2005

Federal Catalog Number	Federal Grantor *Federal Program Title*	Expenditures	Pass Thru Percent
	U.S.Department of Veterans Affairs		
64.005	*Grants To States For Construction Of State Home Facilities*	$ 437,430	0%
	U.S. Department of Veterans Affairs		
64.015	*Veterans State Nursing Home Care*	$ 2,629,192	0%
	Total	$ 3,066,622	

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APPENDIX

CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of July 11, 2006, of the current status of the observations contained in the audit report of the New Hampshire Veterans' Home for the nine months ended March 31, 1998. 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			
Reportable Conditions			
1. Deposit Of Revenue With The State Treasury	●	●	●
2. Timeliness Of Deposits *(See Current Observation No. 14)*	○	○	○
3. Full-Pay Rate Charged For Residents' Room And Board *(See Current Observation No. 11)*	○	○	○
4. Accounting For The Funds Of Deceased Residents *(See Current Observation No. 2)*	●	○	○
5. Strengthening Internal Controls Over The Members' Administration Account *(See Current Observation No. 7)*	○	○	○
6. Strengthening Internal Controls Over The Members' Benefit Fund *(See Current Observation No. 8)*	●	○	○
7. Reconciliation Of Investment Records	●	●	●
8. Balance In Members' Benefit Fund Operating Account *(See Current Observation No. 6)*	○	○	○
9. Restrictions On The Use Of Donations *(See Current Observation No. 4)*	●	○	○
10. Controls Over Members' Benefit Fund Expenditures *(See Current Observation No. 1)*	○	○	○
11. Documentation Of Members' Benefit Fund Transactions	●	●	●
12. Completion Of Fund Authorization Forms	●	●	●
13. Limitations In The Home's Automated Room And Board System *(See Current Observation No. 12)*	○	○	○
14. Members' Administration Account Cash-On-Hand Balance *(See Current Observation No. 15)*	●	○	○
15. Segregation Of Payroll Duties	●	●	●
16. Reporting Equipment Purchased By The Members' Benefit Fund	●	●	●
State Compliance Comments			
17. Statements Of Financial Interests	●	●	●
18. Capital Projects Status Reports	●	●	○
19. Transfers To The Audit Set-Aside Account	●	●	●

Management Issues Comments

20. Use Of Members' Benefit Fund To Purchase Administrative Equipment *(See Current Observation No. 28)*	●	○	○
21. Conflicting Administrative Rules Relative To Disposition Of Room And Board *(See Current Observation No. 20)*	○	○	○
22. Application Of Administrative Rules Relative To Determination Of Member Income And Receipt Of Funds *(See Current Observation No. 20)*	○	○	○
23. Year 2000 Compliance	●	●	●

Status Key				**Count**
Fully Resolved	●	●	●	9
Substantially Resolved	●	●	○	1
Partially Resolved	●	○	○	5
Unresolved	○	○	○	8