

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF EMPLOYMENT SECURITY
FINANCIAL AND COMPLIANCE AUDIT REPORT
FOR THE YEAR ENDED
JUNE 30, 1998**

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF EMPLOYMENT SECURITY**

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**STATE OF NEW HAMPSHIRE
DEPARTMENT OF EMPLOYMENT SECURITY**

Organization

Chapter 99 of the Laws of 1935 provided for the establishment and administration of unemployment compensation. The current enabling statute for the Department of Employment Security is RSA 282-A:107 which establishes the Department including an Unemployment Compensation Bureau, an Employment Service Bureau, and an Economic and Labor Market Information Bureau. Each bureau is responsible for the discharge of its distinct functions and is a separate administrative unit with respect to personnel, budget, and duties except so far as the Commissioner of the Department may find such separation is impractical.

The administrative operations of the Department are under the supervision and direction of the Commissioner who is appointed by the Governor, with the consent and advice of the Council, to a five-year term. Each bureau is administered by a full-time administrator who is subject to the supervision and direction of the Commissioner.

RSA 282-A:128 established the Advisory Council On Unemployment Compensation, within the Unemployment Compensation Bureau, to aid the Commissioner in formulating policies and discussing problems related to the administration of the unemployment compensation statutes and in assuring impartiality and freedom from political influence in the solution of such problems.

RSA 282-A:62 established the Appellate Board. Its purpose is to hear appeals from benefit claimant determinations. The Board is part of the Department for organizational purposes but operates independently of the Department.

The Department's headquarters is located at 32 South Main Street in Concord. The Department also operates a network of thirteen local offices located throughout the state. Each local office offers a range of services to employers and job seekers.

At June 30, 1998, the Department had 5 unclassified, 321 classified, and 55 part-time employees.

Responsibilities

The Department of Employment Security defines its mission to:

- A. Operate a free public Employment Service through a statewide network of job and information centers, providing a broad range of assisted and self-directed employment and career related services, and labor market information to all customers; and to

Responsibilities (Continued)

- B. Pay unemployment compensation benefits in a timely manner to eligible claimants, and collect the tax which funds these payments; and to
- C. Develop and disseminate labor market information, and provide measurements of labor market outcomes to assist local and state officials, private employers, educators and trainers, and the public in making decisions that promote economic development and the efficient use of state labor resources.

The mission of the Department is met by its Bureaus.

Unemployment Compensation Bureau

The New Hampshire Unemployment Compensation Law provides for the payment of benefits to workers who are unemployed through no fault of their own. Payments are made from a dedicated trust fund which is maintained entirely by employer taxes. The fund balance of the Unemployment Trust Fund at June 30, 1998 and at June 30 for the five previous fiscal years is shown on the graph at page 5.

Employment Service Bureau

The Department of Employment Security's thirteen local offices are located throughout the state and offer a range of services to employers and job seekers including access to state and nationwide job listings. Services provided at the local offices include, but are not limited to: employer job orders, recruitment, intake, assessment, referral and placement services, and referrals to training and support services. The Department also provides employment counseling, labor market information, testing, job search workshops, alien labor certification, and unemployment insurance claims-taking as a part of the Employment Security package.

Economic And Labor Market Information Bureau

The Economic and Labor Market Information Bureau prepares various monthly, quarterly, and annual publications, as well as special reports concerning the current and projected economic climate in the state, for use by employers, educators, job seekers, and government officials to assist in decision making.

Funding

The Department is funded by appropriations in the Special Fund. The fiscal year 1998 appropriations combined with supplemental warrants, balances forward, and transfers resulted in spending authority of \$29,439,145. Estimated restricted revenue combined with supplemental warrants, balances forward, and transfers resulted in anticipated fiscal year 1998 restricted revenue of \$26,470,148. The actual financial activity of the Department, as reported in the Special Fund and the Unemployment Trust Fund for the fiscal year ended June 30, 1998, is summarized in the following table.

Funding (Continued)

Summary Of Revenues And Expenditures

Fiscal Year Ended June 30, 1998

(in thousands)

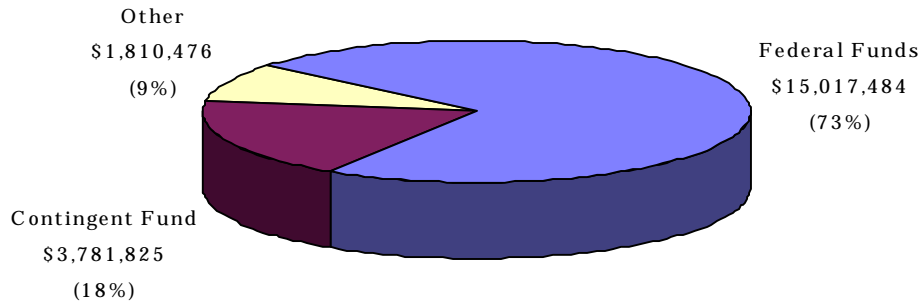
	Special Fund	Unemployment Trust Fund	Combined Total
Total Revenues	<u>\$ 20,610</u>	<u>\$ 46,369</u>	<u>\$ 66,979</u>
Total Expenditures	<u>\$ 19,730</u>	<u>\$ 31,870</u>	<u>\$ 51,600</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>\$ 880</u>	<u>\$ 14,499</u>	<u>\$ 15,379</u>

Seventy-three percent of the Department's Special Fund revenue was derived from federal programs. The Department's Special Fund revenues and expenditures are presented graphically on page 4. Fifty-nine percent of the Unemployment Trust Fund revenue was derived from employer taxes with the remaining 41% attributed to interest earnings on the Fund.

Prior Audit

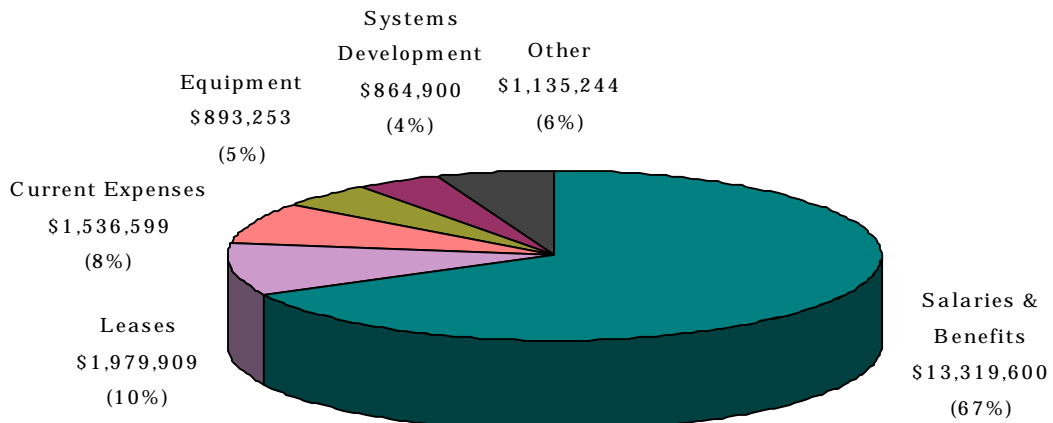
The Department of Employment Security was last audited in 1985 by a public accounting firm. As this is the first audit that the Office of Legislative Budget Assistant has performed on the Department of Employment Security, there are no prior audit findings included in this audit report.

**Department of Employment Security
Special Fund Revenues
For the Year Ended June 30, 1998**

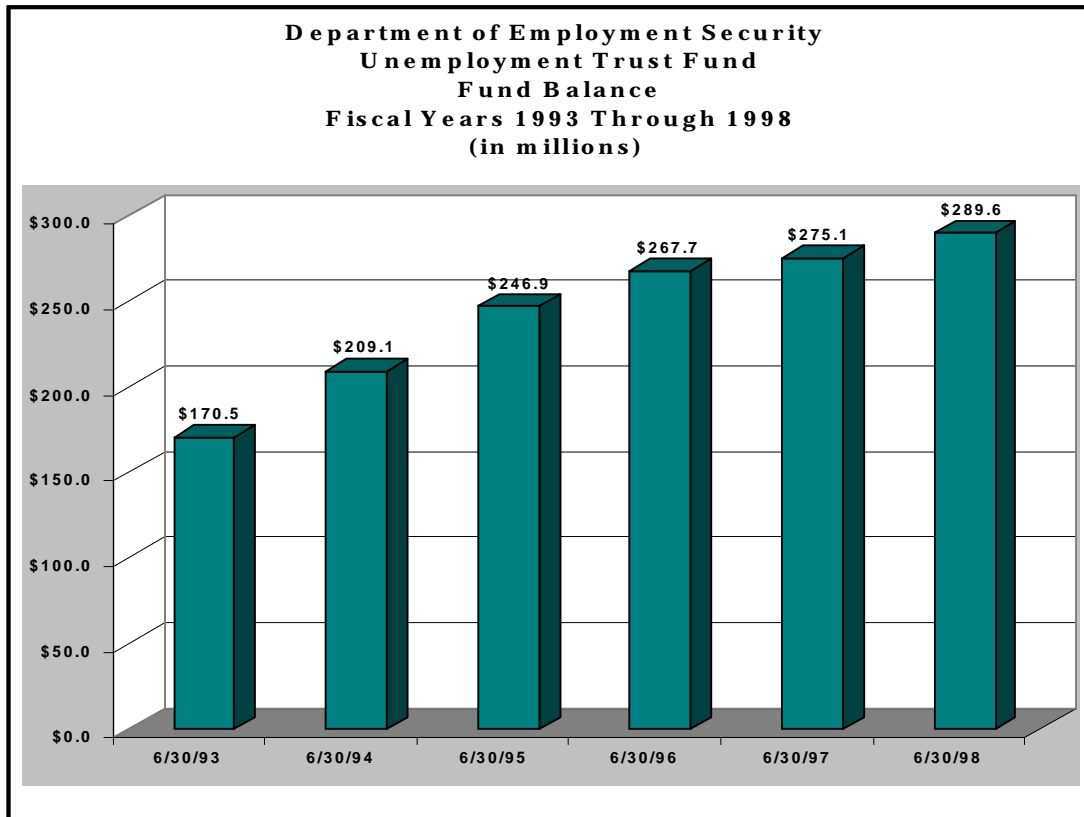


Total Special Fund Revenues \$20,609,785

**Department of Employment Security
Special Fund Expenditures
For the Year Ended June 30, 1998**



Total Special Fund Expenditures \$19,729,505



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. As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, we considered the effectiveness of the internal controls in place at the Department and tested the Department's compliance with certain provisions of applicable state and federal laws, regulations, contracts, and grants. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Internal controls,
- Revenues and appropriations,
- Expenditures and encumbrances,
- Expendable trust fund,
- Cash, cash equivalents, and investments,
- Real property and equipment, and
- State and federal compliance.

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

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

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the New Hampshire Department of Employment Security as of and for the year ended June 30, 1998, and have issued our report thereon dated April 29, 1999, which was qualified with respect to the lack of presentation of the financial position of the Department in the Special Fund. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the New Hampshire Department of Employment Security's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance which are described in observations No. 6 through No. 10 of this report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the New Hampshire Department of Employment Security's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department of Employment Security'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. 5 of this report.

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

This auditor's report on compliance and on internal control over financial reporting is intended solely for the information and use of the management of the New Hampshire Department of Employment Security 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

April 29, 1999

Internal Control Comments
Reportable Conditions

Observation No. 1 – Procedures For Requesting Funds From The Unemployment Trust Fund Account Should Be Documented

Observation:

The Department has not documented its policies and procedures for its daily draw of funds from the Unemployment Trust Fund (UTF) account.

Each business day, the Department's business office is responsible for requesting funds from the UTF account. These funds are transferred from the UTF account, held by the U.S. Treasury, to the benefit account, a Department checking account held in a local bank. Amounts are disbursed from the benefit account to pay unemployment compensation benefits. During fiscal year 1998, approximately \$126,000 in benefits were paid daily.

The assumptions and methodology used to determine the amount of the daily fund requests have developed over time and are known by the current employees of the Department but may not be evident to Department employees if the current performers of the task were no longer available to direct the process.

Excess draws could result in interest penalties assessed against the Department and insufficient draws could result in an insufficient balance in the local account to cover checks drawn on the account.

Recommendation:

To help ensure consistency of operations, the Department should document the assumptions and methodology it uses for determining the amounts it requests from the UTF account.

Auditee Response:

We concur with this observation and recommendation. As of December 1998 we have documented procedures for the daily draw of funds from the Unemployment Trust Fund Account.

Observation No. 2 – Benefit Accuracy Measurement (BAM) System Should Be Tested

Observation:

The Department does not periodically test and evaluate its BAM system to determine whether it is defining the benefit payment population as intended. The BAM system is a diagnostic tool developed by the U.S. Department of Labor for the use of Federal and State Employment Security Agency staff in identifying benefit payment errors and their causes, and in correcting and tracking solutions to these problems.

In the BAM system, benefit payments meeting certain criteria are included in a population that is subject to testing. A sample of payments is drawn and examined intensively to determine whether they were made to eligible claimants and, if so, whether they were made in the proper amounts.

The Department's Information Systems section is responsible for the programming functions related to the identification of the benefit payments to be included in the BAM population and the sample selection.

Recommendation:

The Department should periodically test and evaluate the BAM system to ensure that the system is operating as intended. Consideration should be given to the use of test data and/or the reconciliation of the BAM benefit payment population to the accounting records maintained by the Fiscal Management office. These evaluations should be documented.

Auditee Response:

We concur with this observation and recommendation. The BAM Unit is currently working with our Information Systems staff to develop a process to determine whether the identified universe is inclusive of all benefit payments made the previous week.

Observation No. 3 – Procedure Needed To Resolve Combined Wage Claim Payable Accounting Disagreement

Observation:

There is a lack of Department procedures to resolve a disagreement within the Department as to the June 30, 1998 combined wage claim payable amount. The Department's Wages and Special Programs Unit believes the combined wage claim payable reported by the Department's Fiscal Management office is overstated by \$310,600. This overstatement is not material to the financial statements.

Observation No. 3 – Procedure Needed To Resolve Combined Wage Claim Payable Accounting Disagreement (Continued)

Observation (Continued):

The Wages and Special Programs Unit oversees the Combined Wage Program. Wages earned through employment in another state can be transferred to New Hampshire for use in a New Hampshire claim, and wages earned through employment in New Hampshire can be transferred to another state for use in a claim filed in that state. The Wages and Special Programs Unit receives bills from other states for benefits paid by those states that were chargeable to New Hampshire. Bills are reviewed by the Unit to ensure they are proper in amount. The Fiscal Management office, responsible for the unemployment trust fund accounting and reporting, records combined wage claim payments and maintains the related payable records.

The Wages and Special Programs Unit contends the \$310,600 represents amounts that were previously paid or were determined to be nonchargeable to New Hampshire. The Fiscal Management office was not aware of any previous payments or nonchargeable determinations related to the \$310,600 and continues to consider the amount as a payable.

Recommendation:

The Department should establish a procedure to resolve accounting disagreements between the Wages and Special Programs Unit and the Fiscal Management office. This procedure should support accuracy in financial reporting.

Auditee Response:

We concur with this observation and recommendation. The Wages and Special Programs Unit and the Fiscal Management office will work together to streamline the process and to develop a check and balance with the Data Entry Section's portion of the process. The check and balance will ensure that any combined wage claim payment which is made has a corresponding debit from the Fiscal Management ledger.

Observation No. 4 – Use Of Intragovernmental Payment Vouchers Should Be Considered

Observation:

At the request of the Department, the N.H. Department of Health and Human Services (DHHS) remits payments by check, rather than by intragovernmental payment voucher.

The Department has several contracts with the DHHS and bills the DHHS monthly for services rendered.

Services provided by the Department to the DHHS include information crossmatching and data collection services.

Using intragovernmental payment vouchers to transfer amounts between agencies is more efficient than using checks because the intragovernmental payment voucher doesn't require the generation of a check and avoids the associated direct and indirect costs and risks associated with the generation of checks.

Recommendation:

The Department should consider requesting the DHHS, and any other State agencies it does business with, to make payments by intragovernmental payment voucher.

Auditee Response:

We concur with the theory of this recommendation. We will, however, due to past experience in practical application, continue to require checks be submitted for payment from DHHS. Experience over an extended period using IGPV's [intragovernmental payment vouchers] from DHHS resulted in miscoded, misapplied payments, and failed notification of payments among the numerous problems encountered causing excessive additional cost to resolve. Our staff had to track, identify, and rectify numerous repetitive issues resulting from the use of IGPV's from DHHS. IGPV's are used to and from other agencies successfully. Costs outweigh any possible benefit of the IGPV process with DHHS.

Observation No. 5 – Timing Of Revolving Account Reimbursements Should Be Evaluated

Observation:

Several revolving account reimbursements for employee travel and training cost advances were untimely. Reimbursements for seven of the sixty-seven (10%) travel advances recorded during fiscal year 1998 were made from six to twenty-one weeks after the travel or training return date. The amounts related to these seven reimbursements ranged from \$50 to \$995.

Observation No. 5 – Timing Of Revolving Account Reimbursements Should Be Evaluated (Continued)

Observation (Continued):

The Department has a Governor and Council approved \$10,000 revolving account for, 1) employee travel and training cost advances, 2) witness fees related to Unemployment Compensation hearings, and 3) payments in extraordinary cases.

The Department has a written policy for the revolving account that describes the procedure for requesting an advance and states that the employee must reimburse the account as soon as he receives his travel reimbursement check.

Recommendation:

The Department should determine whether the untimely reimbursements are due to a need for greater enforcement of its current reimbursement policy or a need to expand its policy to include a standard time frame for reimbursements.

Auditee Response:

We concur with this observation and recommendation. We have used a management report for many years as a tool to enforce timely reimbursement of the fund. That report has been modified to improve information contained in the report to allow stricter, more timely enforcement of reimbursements to the revolving fund.

Compliance Comments
State Compliance

Observation No. 6 – Administrative Rules Required By RSA 541-A:16 Should Be Adopted

Observation:

The Department has not adopted the following administrative rules required by RSA 541-A:16.

- RSA 541-A:16, I(a) requires the adoption of a rule that describes the nature of the organization, the general course and method of its operations, and the methods by which the public may obtain information or make submissions or requests.
- RSA 541-A:16, I(b)(3) requires the adoption of rules governing public comment hearings for rulemaking.

Recommendation:

The Department should adopt the rules required under RSA 541-A:16, I(a) and I(b)(3).

Auditee Response:

We concur with this observation and recommendation. We will take necessary action to adopt such rules in the next rulemaking cycle.

Observation No. 7 – Annual Audit Requirement Should Be Clarified

Observation:

RSA 282-A:112, III requires an annual audit of the Department's various funds and accounts. The Department does not undergo annual audits however the financial operations and federal compliance of the Department are included in the scope of the annual state-wide audits, as are the financial operations and federal compliance of all State agencies.

It is unclear whether the audit coverage provided the Department in the annual state-wide audit meets the statutory requirements for an annual audit of the Department. The scope and objectives of an audit of the Department would significantly differ from the scope and objectives of audit procedures applied to the Department as part of the annual state-wide audit.

Observation No. 7 – Annual Audit Requirement Should Be Clarified (Continued)

Recommendation:

The Department should seek clarification from the legislature regarding the intent of RSA 282-A:112, III. If it is determined the audit coverage provided the Department by the state-wide audit is sufficient to meet the intentions of the statute, the Department should request that the specific reference to an annual audit of the Department in RSA 282-A:112, III, be clarified in the statute to eliminate possible future confusion that may arise due to misinterpretation of this statutory requirement.

Auditee Response:

We concur with the finding. We agree that the specific reference to an annual audit in RSA 282-A:112, III should be clarified and we will take necessary action to propose amendments to the General Court in the next legislative session.

Observation No. 8 – Administrative Rules For Appellate Board Procedures Should Be Adopted

Observation:

The Appellate Board is operating under expired administrative rules.

The Board is responsible for hearing appeals from benefit claimant determinations. RSA 282-A:66, I requires the Board to adopt rules of procedure. A portion of the Board's rules expired in 1990. The remaining rules expired in 1992.

Recommendation:

The Board should adopt rules of procedure as required by RSA 282-A:66, I.

Auditee Response:

We concur with this finding. The previous set of rules proved too cumbersome for claimants and employers. The board has provided the requirements by due process to the parties by issuing individualized orders on each request made by the parties consistent with statutory and case law.

Since the expiration of the rules in 1990 and 1992 the described process has been sufficient with no issues arising. The board is in the process of drafting new simplified rules with the assistance of the department. The board operates independently of the department.

Observation No. 9 - Agreement With Appellate Board Should Be Documented

Observation:

The Department does not have a written working agreement with the Appellate Board. RSA 282-A:63 requires a working agreement that outlines the annual funding for the Board and describes the clerical personnel, facilities, space, supplies, services and other support necessary to the functioning of the Board.

The Appellate Board hears appeals from benefit claimant determinations. The Board is part of the Department for organizational purposes but operates independently of the Department.

Recommendation:

The Department should document, in writing, its agreement with the Appellate Board. The agreement should describe the annual funding and support as required by RSA 282-A:63.

Auditee Response:

We concur in part with this finding. Although no completed form or written agreement exists we operate with a "work in process" agreement consisting of an ever changing file of "written" memos which delineate procedural requirements of the board. Due to the ever changing workloads and requirements of the Appellate Board a formal agreement to address these changing scenarios would be difficult to keep appropriately current and to determine fiscal and other needs in advance. Caseloads have varied sharply from 103 in 1992 to 41 in 1998 and to 20 in 1999.

Federal Compliance

Observation No. 10 – Procedures Needed To Enable Aging Of Benefit Overpayment Accounts Receivable

Observation:

The Department is unable to provide the U.S. Department of Labor (USDOL), its federal grantor, with an aging of its benefit overpayment accounts receivable. The Department is required to report this aging quarterly on Report ETA 227 (Overpayment Detection and Collection Activities).

The length of time an account is outstanding is an important factor in estimating the probability of its future collection. The Department would be much more likely to collect an open account that is 30 days old than one that is 360 days old. In addition to fulfilling USDOL reporting requirements, an aging would assist the Department in determining collection efforts to be applied to individual open accounts.

Recommendation:

The Department should track the length of time individual benefit overpayment accounts are open in order to produce an aging for federal reporting and collection purposes.

Auditee Response:

We concur with this observation and recommendation. The Department is currently unable to provide the USDOL with this aging information through the automated benefit system. It is our intent to develop a solution for this within the foreseeable future.

Auditor's Report On Management Issues

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the New Hampshire Department of Employment Security as of and for the year ended June 30, 1998 and have issued our qualified report thereon dated April 29, 1999, which was qualified with respect to the lack of presentation of the financial position of the Department in the Special Fund. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing our audit of the financial statements of the New Hampshire Department of Employment Security as of and for the year ended June 30, 1998, we noted certain issues related to the operation of the Department 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 were not issues of noncompliance with laws, rules, regulations, contracts or grants.

Those issues that we believe are worthy of management consideration but do not meet the criteria of reportable internal control or compliance conditions are described in observations No. 11 through No. 13 of this report.

This auditor's report on management issues is intended solely for the information and use of the management of the New Hampshire Department of Employment Security 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

April 29, 1999

Management Issues Comments

Observation No. 11 – Disaster Recovery Plan Needed

Observation:

The Department has not prepared a disaster recovery plan to ensure continuity of operations should operations be interrupted due to a physical disaster or non-year 2000 computer failure. The purpose of a disaster recovery plan is to document the recovery strategies, essential resources, and plans and procedures necessary to implement a recovery process.

The Department's key business functions are to:

- operate a free public employment service throughout the State,
- pay unemployment compensation benefits and collect the tax which funds those payments, and
- develop and disseminate labor market information.

The lack of a plan will increase the Department's recovery time, should a disaster occur.

Recommendation:

The Department should develop a disaster recovery plan. The benefits of a recovery plan include: shortening the time to effect a recovery, minimizing the recovery costs, avoiding confusion and reducing the exposure to error in the recovery process, and avoiding duplication of effort during the recovery process.

Auditee Response:

We concur with this observation and recommendation. The Department has requested and will continue to request funding to develop a Disaster Recovery Plan from the U.S. Department of Labor. To date, the Department has been unable to obtain funding approval.

Observation No. 12 -- Year 2000 Compliance Status

Observation:

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that make operations beyond the year 1999 troublesome. For many years, programmers eliminated the first two digits from a year when writing programs. For example, programmers would designate January 1, 1965 as "01/01/65" instead of "01/01/1965." On January 1, 2000 at 12:00:01 a.m., the internal clock in computers and other equipment will roll over from "12/31/99" to "01/01/00." Unfortunately,

Observation No. 12 -- Year 2000 Compliance Status (Continued)

Observation (Continued):

many programs (if not corrected) will not be able to distinguish between the year 2000 and the year 1900. This confusion may cause the programs to process data inaccurately or stop processing data altogether.

It is incumbent upon management to determine the scope of the Year 2000 issue on the operations of the organization and to plan and take steps to make systems and other equipment Year 2000 compliant, as well as to develop contingency plans to ensure smooth operations through the turn of the century.

As of the end of audit fieldwork, the Department reported that:

- Key business functions have been identified, and the systems that support these functions have been inventoried and analyzed.
- The systems deemed most critical to the Department's continued operations are the unemployment compensation system, the unemployment tax system, and the mail operations system.
 - The unemployment compensation system is Year 2000 compliant.
 - The unemployment tax system is in the testing phase.
 - The mail operations system is in the assessment phase.

The Department subsequently reported that some Year 2000 issues were identified in June 1999 during the independent validation and verification of the unemployment compensation and unemployment tax systems. These issues were to be resolved and the systems re-tested. The Department also reported in June 1999 that the mail operations system was Year 2000 compliant. Contingency and continuity plans for the unemployment compensation, unemployment tax, and mail operations systems had been prepared but not tested.

Recommendation:

The Department should continue to monitor its Year 2000 readiness and its contingency and continuity plans to ensure that operations will not be unduly disrupted by the Year 2000 issue.

Auditee Response:

We concur with this observation and recommendation and acknowledge the Department will continue to monitor systems for Y2K issues. At this time, all of the issues identified in the independent validation and verification report for both the tax and benefit system have been remediated.

Observation No. 13 – Amendments To Compensating Balance Account Contract Should Be In Writing

Observation:

The Department did not document an amendment to its compensating balance contract agreement with its local bank. The compensating balance agreement provides that all changes to the agreement are to be in writing.

The Department utilizes two checking accounts; a clearing account for deposit and clearance of payments to the Unemployment Trust Fund (Trust Fund), and a benefit account for withdrawals from the Trust Fund for the payment of unemployment compensation benefits. Compensating balances are maintained in these accounts for the purpose of funding banking services.

According to the written agreement between the Department and the bank, the accounts' earnings net of service costs should be monitored and, at least on a quarterly basis, net earnings greater than \$500 should be credited to the clearing account. This transfer of excess earnings to the clearing account does not occur. According to Department personnel, the Department and the bank verbally agreed to remove the excess earnings provision from the agreement because it was in conflict with the intent of the agreement. This change was not documented in writing, as required by the agreement.

Recommendation:

All amendments to Department contracts, including compensating balance agreements with local banks, should be documented in writing. The documentation of the changes should include the actual changes to the contract and also the individuals representing the Department and the contractor who approved the changes.

Auditee Response:

We concur with this observation and recommendation. It is standard department procedure to document significant changes or amendments to contractual agreements including following any associated approval processes. The specific change was noted in discussions between the bank and the department regarding its initial agreement of services and the process was never implemented by the bank as it would be in conflict of the overall intent and process of the agreement. The issue was never formally documented. It was the intent of both parties to work under the agreement for a period of time and see if any issues arose that would require amendments or changes to the agreement. As time passed, no significant problems arose in the working agreement and neither party has ever encountered issues. No further action was taken. This agreement was recently revised to remove the referenced section.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the New Hampshire Department of Employment Security as of and for the year ended June 30, 1998. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As more fully discussed in NOTE 1, the financial statements referred to above are not intended to present the financial position of the New Hampshire Department of Employment Security in the Special Fund.

In our opinion, except for the matter discussed in the previous paragraph, the financial statements referred to above present fairly, in all material respects, certain financial activity of the New Hampshire Department of Employment Security as of and for the year ended June 30, 1998, in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph. The accompanying Required Supplementary Information presented on page 36, and the Schedules of Budgetary Components and Expenditures of Federal Awards (Cash Basis) on pages 38 and 39 are presented for the purpose of additional analysis and are not required parts of the financial statements of the New Hampshire Department of Employment Security. 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 April 29, 1999 on our consideration of the New Hampshire Department of Employment Security's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Office of Legislative Budget Assistant

Office of Legislative Budget Assistant

April 29, 1999

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF EMPLOYMENT SECURITY**

**STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - SPECIAL FUND
FOR THE YEAR ENDED JUNE 30, 1998**

	<u>Special Fund</u>		<u>Favorable/ (Unfavorable) Variance</u>
	<u>Budget</u>	<u>Actual</u>	
<u>Revenues</u>			
<u>Restricted Revenues</u>			
Federal Funds	\$ 19,579,732	\$ 15,017,484	\$ (4,562,248)
Fees, Fines, And Interest			
Contingent Fund	5,398,958	3,781,825	(1,617,133)
All Other Sources	1,491,458	1,810,476	319,018
Total Restricted Revenues	<u>\$ 26,470,148</u>	<u>\$ 20,609,785</u>	<u>\$ (5,860,363)</u>
<u>Expenditures</u>			
Salaries And Benefits	\$ 16,400,774	\$ 13,319,600	\$ 3,081,174
Leases	3,542,604	1,979,909	1,562,695
Current Expenses	2,937,175	1,536,599	1,400,576
Equipment	2,122,356	893,253	1,229,103
System Development	2,110,514	864,900	1,245,614
Maintenance	1,395,949	430,807	965,142
Utilities	347,756	297,851	49,905
Travel	312,103	253,577	58,526
Other	205,914	89,009	116,905
Land And Building Purchase	64,000	64,000	-0-
Total Expenditures	<u>\$ 29,439,145</u>	<u>\$ 19,729,505</u>	<u>\$ 9,709,640</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>\$ (2,968,997)</u>	<u>\$ 880,280</u>	<u>\$ 3,849,277</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF EMPLOYMENT SECURITY**

**BALANCE SHEET
UNEMPLOYMENT TRUST FUND
AS OF JUNE 30, 1998**

Assets

Cash And Investments	\$ 286,715,552
Receivables (net of allowances for uncollectibles)	<u>6,516,343</u>
Total Assets	<u>\$ 293,231,895</u>

Liabilities And Fund Balance

Liabilities

Payment Due Other	
Jurisdictions/Overpayments	\$ 3,587,608
Total Liabilities	<u>\$ 3,587,608</u>

Fund Balance

Reserved For Unemployment	
Compensation Benefits	\$ 289,644,287

Total Liabilities And Fund Balance	<u>\$ 293,231,895</u>
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The accompanying notes are an integral part of these financial statements.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF EMPLOYMENT SECURITY**

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
UNEMPLOYMENT TRUST FUND
FOR THE YEAR ENDED JUNE 30, 1998**

<u>Revenues</u>	
Employer Taxes	\$ 27,546,604
Interest	<u>18,822,006</u>
Total Revenues	\$ 46,368,610
<u>Expenditures</u>	
Benefits	<u>\$ 31,869,842</u>
Excess (Deficiency) Of Revenues Over Expenditures	\$ 14,498,768
 Fund Balance July 1, 1997	 <u>\$ 275,145,519</u>
 Fund Balance June 30, 1998	 <u>\$ 289,644,287</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF EMPLOYMENT SECURITY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1998**

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Department of Employment Security have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Financial Reporting Entity

The Department of Employment Security with its administratively attached Appellate Board is an organization of the primary government of the State of New Hampshire. The accompanying financial statements report certain financial activity of the Department. The financial activity of the Department is accounted for in the Special 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 Department, as an organization of the primary government, accounts for only a small portion of the Special Fund and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to the Department cannot be determined. Accordingly, the accompanying financial statements are not intended to show the financial position of the Department in the Special Fund and the change in this fund balance is not reported on the accompanying Special Fund financial statement.

B. Basis Of Presentation - Fund Accounting

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

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis Of Presentation - Fund Accounting (Continued)

Governmental Fund Types

Special Revenue Fund

The Special Fund, one of the State's Special Revenue Funds, is used to account for specific revenue sources that are legally restricted to expenditures for specific purposes. Federally funded programs at the Department are accounted for in the Special Fund.

Fiduciary Fund Types

Expendable Trust Fund

Transactions related to assets held by the Department in a trustee capacity are accounted for in the fiduciary fund type. Because the Department is functioning in a fiduciary capacity, the authority to employ, dispose of, or otherwise use the assets is determined not by legislative appropriations, but by the statutes and administrative rules that created the trustee relationship. The Department is trustee of the Unemployment Trust Fund, an expendable trust fund. The principal as well as the earnings of the Fund are used to support the Fund's purpose. The financial statements of an expendable trust fund include a balance sheet, and a statement of revenues, expenditures, and changes in fund balance.

Account Groups

General Fixed Assets

General fixed assets acquired for use by the Department for the performance of its operations are reflected in the General Fixed Assets Account Group at the time of acquisition. As of June 30, 1998, the Department had recorded in the General Fixed Assets Account Group the cost of general fixed assets based on available historical cost records. Donated fixed assets are recorded at fair market value at the time donated.

C. Measurement Focus And Basis Of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All government funds and expendable trust funds are accounted for using the flow of current financial resources measurement focus and reported on a modified accrual basis of accounting. Accordingly, the State of New Hampshire accounts for its financial transactions relating to the Special Fund and the Unemployment Trust Fund on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when measurable and available to finance operations of the fiscal period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus And Basis Of Accounting (Continued)

Expenditures are recognized in the period in which obligations are incurred as a result of the receipt of goods or services.

D. Budgetary Data

General Budget Policies

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

The operating budget is prepared principally on a modified cash basis and adopted for the governmental and proprietary fund types with the exception of the Capital Projects Fund. The Capital Projects Fund budget represents appropriations, which extend over several fiscal years, for individual projects. Fiduciary type funds are not budgeted.

The New Hampshire biennial budget is composed of the initial operating budget, supplemented by additional appropriations. These additional appropriations and estimated revenues from various sources are authorized by Governor and Council action, annual session laws, and existing statutes which require appropriations under certain circumstances. As shown on the Schedule of Budgetary Components – Special Fund on page 38, the final budgeted amount includes the initial operating budget plus supplemental appropriation warrants, balances brought forward, and transfers.

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

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Data (Continued)

Unexpended balances of appropriations at year end will lapse to undesignated fund balance and be available for future appropriations unless they have been encumbered or are legally defined as non-lapsing accounts. Capital Projects Fund appropriations are scheduled to lapse two years from the date appropriated unless extended or designated as non-lapsing by law.

A Statement Of Revenues And Expenditures – Budget And Actual – Special Fund is presented as part of the Department’s financial statements.

Variances - Favorable/(Unfavorable)

The variance column on the Statement Of Revenues And Expenditures – Budget And Actual – Special Fund highlights differences between budget and actual revenue and expenditures. For revenue, these variances are caused by actual revenue exceeding budget generating a favorable variance or actual being less than budget generating an unfavorable variance. For expenditures, a favorable variance results from actual expenditures being less than the amount budgeted for the fiscal year. The favorable expenditure variances represent a combination of ending available balances and unliquidated encumbrances. Unfavorable expenditure variances represent actual expenditures for the reporting period exceeding the amounts budgeted for the fiscal year.

Excess (Deficiency) Of Revenues Over (Under) Expenditures

The excess (deficiency) line on the Statement Of Revenues And Expenditures – Budget And Actual – Special Fund generally reflects amounts to be credited to/(provided from) fund balance. The \$2.9 million balance on this line in the budget column represents the reduction of current-year revenue budget (estimated current-year revenue) caused by actual prior year revenues being in excess of what was expected. This amount does not represent a deficiency that will need to be recovered in the future.

Encumbrances

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services, the encumbrance is liquidated and the expenditure and liability are recorded. The Department’s Special Fund unliquidated encumbrance balance at June 30, 1998 was \$2,786,259.

E. Fixed Assets - General

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

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fixed Assets - General (Continued)

estimated fair market value on the date received. Assets in the General Fixed Assets Account Group are not depreciated.

F. Interfund And Intrafund Transactions

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

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

NOTE 2 - LEASES

Description Of Leasing Arrangements

The Department conducts a major part of its operations from its local employment offices located throughout the state. Several of these office spaces are leased. As of June 30, 1998, there were four lease purchase agreements for land and buildings, classified as capital leases; and five lease agreements for buildings with noncancelable lease terms in excess of one year, classified as operating leases.

Capital Leases

The following is a list of the capital leases by location:

<u>Local Employment Office</u>	<u>Asset Balance</u> <u>June 30, 1998</u>
Conway	\$ 693,000
Salem	950,000
Berlin	596,000
Portsmouth	1,132,000
Total	\$ 3,371,000

NOTE 2 - LEASES (Continued)

The following is a schedule by location and year of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 1998.

Schedule Of Future Minimum Lease Payments

Local Employment Office	Fiscal Year						Total
	1999	2000	2001	2002	2003	Thereafter	
Conway	\$ 84,315	\$ 84,315	\$ 84,315	\$ 84,315	\$ 84,315	\$ 414,554	\$ 836,129
Salem	80,760	80,760	80,760	80,760	74,028	-0-	397,068
Berlin	56,532	56,532	56,532	56,532	56,532	23,553	306,213
Portsmouth	<u>100,224</u>	<u>100,224</u>	<u>100,224</u>	<u>100,224</u>	<u>50,112</u>	<u>-0-</u>	<u>451,008</u>
Total Minimum Lease Payments	<u>\$ 321,831</u>	<u>\$ 321,831</u>	<u>\$ 321,831</u>	<u>\$ 321,831</u>	<u>\$ 264,987</u>	<u>\$ 438,107</u>	<u>\$ 1,990,418</u>
Less: Amount Representing Interest							<u>545,484</u>
Present Value Of Net Minimum Lease Payments							<u>\$ 1,444,934</u>

Operating Leases

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 1998.

Schedule Of Future Minimum Rental Payments

Description	Fiscal Year						Total
	1999	2000	2001	2002	2003	Thereafter	
Littleton Local Office	\$ 45,000	\$ 45,000	\$ 13,125	\$ -0-	\$ -0-	\$ -0-	\$ 103,125
Laconia Local Office	47,083	47,083	47,083	47,083	7,847	-0-	196,179
Keene Local Office	39,600	23,100	-0-	-0-	-0-	-0-	62,700
Dover Local Office	70,000	46,667	-0-	-0-	-0-	-0-	116,667
Storage Space	<u>8,400</u>	<u>8,400</u>	<u>8,400</u>	<u>4,900</u>	<u>-0-</u>	<u>-0-</u>	<u>30,100</u>
Total Minimum Rental Payments	<u>\$ 210,083</u>	<u>\$ 170,250</u>	<u>\$ 68,608</u>	<u>\$ 51,983</u>	<u>\$ 7,847</u>	<u>\$ -0-</u>	<u>\$ 508,771</u>

NOTE 3 - CASH

The Department Of Employment Security maintains two checking accounts related to the unemployment trust fund (UTF) at Citizens Bank. The clearing account is for the deposit of unemployment taxes, refunds from overpayment of taxes, and transfers to the UTF investment account. The benefit account receives transfers from the UTF investment account and is the account from which unemployment compensation benefits are paid. These accounts are not interest bearing.

The Department is FDIC insured up to \$100,000 for both the Clearing and Benefit Accounts. The total bank balance represents amounts on deposit as reported by the banking institution at June 30, 1998. The carrying amount represents the balance per the Department Of Employment Security's records at June 30, 1998. The difference between the bank balance and the carrying amount consists of checks or deposits which have not cleared the bank as of June 30, 1998.

<u>Demand Deposits</u>	<u>Bank Balance</u>		<u>Total Balance</u>	<u>Carrying Amount</u>
	<u>FDIC Insured</u>	<u>Uninsured</u>		
Clearing And Benefit Accounts	\$ 100,000	\$ 180,542	\$ 280,542	\$ (170,655)

NOTE 4 - INVESTMENTS

Unemployment Trust Fund

All states are required to deposit their unemployment taxes in the Unemployment Trust Fund (UTF) held by the U.S. Treasury. In accordance with Title IX of the Social Security Act, the U.S. Secretary of the Treasury is authorized and directed to receive and hold in the UTF all moneys deposited therein by a state agency. The fund is invested by the U.S. Treasury as a single fund with each state's portion of the UTF maintained in a separate book account. The interest on and the proceeds from the sale or redemption of any investments held in the UTF are credited to and form a part of the UTF. A proportionate share of the UTF's interest earnings are credited to each state's account on a quarterly basis. The Department withdraws funds from its UTF account to pay unemployment compensation benefits.

During fiscal year 1998 the UTF was invested in certificates of indebtedness. Certificates of indebtedness are only available to the UTF and limited other government agencies as allowed by federal legislation. These investments are not registered with the Securities Exchange Commission. For investment valuation purposes, cost is equal to fair value, due to the absence of a market for this type of investment.

NOTE 4 – INVESTMENTS (Continued)

Contingent Fund

All interest, fines, late-filing fees, penalties, and the .1% administrative assessment related to employer tax payments are deposited with and invested by the State Treasury. During fiscal year 1998, the Contingent Fund was invested in an open-ended mutual fund. This fund may be used for various operating expenses of the Department as described in RSA 282-A:140.

In accordance with GASB Statement No. 3, investments are classified as to custody risk by the three categories described below.

	Categories			Uncategorized	Fair Value
	1	2	3		
Unemployment Trust Fund	\$ -0-	\$ -0-	\$ -0-	\$ 286,886,207	\$ 286,886,207
Contingent Fund	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>3,889,702</u>	<u>3,889,702</u>
Total Investments	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 290,775,909</u>	<u>\$ 290,775,909</u>

Category 1 Insured or registered in the State's name, or securities held by the State or its agent in the State's name.

Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name.

Category 3 Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the State's name.

NOTE 5 -- GENERAL FIXED ASSETS ACCOUNT GROUP

Fixed assets are recorded at historical cost if known, estimated cost if historical cost is unknown, or fair market value at date of acquisition if the asset is donated.

The following is a schedule of changes in fixed assets reported by the Department of Employment Security to the Department of Administrative Services for the fiscal year ended June 30, 1998. Fixed assets are funded through budgeted appropriations.

Schedule Of Changes In Fixed Assets

	<u>July 1, 1997</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 1998</u>
Real Property	\$ 1,268,853	\$ 1,323,289	\$ -0-	\$ 2,592,142
Capital Leases	3,937,289	693,000	1,259,289	3,371,000
Equipment	<u>5,442,865</u>	<u>670,225</u>	<u>368,970</u>	<u>5,744,120</u>
Total Fixed Assets	<u>\$ 10,649,007</u>	<u>\$ 2,686,514</u>	<u>\$ 1,628,259</u>	<u>\$ 11,707,262</u>

NOTE 6 – UNEMPLOYMENT TRUST FUND CASH MANAGEMENT

The Treasury unit within the fiscal management section of the Department is responsible for the financial accounting and reporting of monies received in payment of unemployment insurance taxes and maintaining the adequacy of bank balances for the payment of benefits to eligible unemployment claimants. Cash management practices are a priority to the unit to minimize the compensating bank balances in the paying account and thereby maximizing the deposits in the federal trust account and the interest earnings of the Trust Fund. The Trust Fund balance is critical in determining the employer contribution rate each year. Maximizing the Trust Fund balance tends to reduce the employer contribution rates.

NOTE 7 -- EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

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

Group I - Members contributing through age 60 qualify for a normal service retirement allowance based on years of creditable service. The yearly pension amount is $1/60$ (1.67%) of average final compensation (AFC), multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. At age 65 the yearly pension amount is recalculated at $1/66$ (1.5%) of AFC multiplied by years of creditable service.

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

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

Members of both groups are entitled to disability allowances and also death benefit allowances subject to various requirements and rates based on AFC or earnable compensation. All covered Department employees are members of Group I.

NOTE 7 -- EMPLOYEE BENEFIT PLANS (Continued)

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During fiscal year 1998, Group I and II members were required to contribute 5% and 9.3%, respectively, of gross earnings. The State funds 100% of the employer cost for all of the Department's employees enrolled in the Plan. The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years based on the Plan's actuary.

The Department's payments for normal contribution costs for the year ended June 30, 1998 amounted to 3.86%, of the covered payroll for its Group I employees. The Department's contributions for the year ended June 30, 1998 were \$413,904, equal to the required employer contributions for the period. The Plan does not make separate measurements of assets and pension benefit obligation for individual employers. The New Hampshire Retirement System Comprehensive Annual Financial Report contains detailed information regarding the Plan as a whole, including information on payroll, contributions, actuarial assumptions and funding method, and historical trend data. The New Hampshire Retirement System operates on a fiscal year ending June 30.

Deferred Compensation Plan

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

All amounts of compensation deferred under the Plan, all property rights purchased with those amounts, and all income attributable to those amounts, property or rights, are held in trust for the exclusive benefit of participants and their beneficiaries. The Department and the State are not actively involved in managing the Plan's assets.

Postemployment Health Care Benefits

In addition to the benefits described above, the Department, as an organization of the State government, provides postemployment health care benefits, in accordance with RSA 21-I:30, to all retired employees and their spouses on a non-contributory basis, as authorized by State statute. During the year ended June 30, 1998, the State paid for the full cost of health insurance premiums for the retired employees and spouses on a pay-as-you-go basis. The cost of the health insurance for the Department employees and spouses is a budgeted amount and is paid from an appropriation made to the administrative organization of the New Hampshire Retirement System. Accordingly, the cost of health insurance benefits for the retired Department employees and spouses is not included in the Department's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

YEAR 2000 COMPLIANCE

In October 1998, the Governmental Accounting Standards Board (GASB) issued Technical Bulletin 98-1 entitled, *Disclosures about Year 2000 Issues*. The provisions of the GASB Technical Bulletin, effective for financial statements on which the auditor's report is dated after October 31, 1998, require the State to make disclosures in the notes to the financial statements about its readiness in addressing year 2000 issues for its computer systems and other electronic equipment. In March 1999, GASB issued an amended Technical Bulletin, 99-1, allowing disclosure of year 2000 issues in required supplementary information or in the notes to the financial statements. Retroactive application was allowed.

The year 2000 issue is the result of shortcomings in electronic data-processing systems and other electronic equipment that may adversely affect operations in the year 1999 and beyond. State legislation (Chapter 255, Laws of 1998) requires State agencies to demonstrate adequate year 2000 compliance and to report their status on a quarterly basis. The Division of Information Technology Management within the Department of Administrative Services has provided guidance to agencies regarding industry accepted practices for completing their year 2000 projects.

The following stages have been identified as necessary to implement a year 2000 compliant system:

- 1) Awareness stage – encompasses establishing a budget and project plan for dealing with the year 2000 issue.
- 2) Assessment stage – when the organization begins the actual process of identifying all of its systems and individual components of the systems. An organization may decide to review all system components for year 2000 compliance or, through a risk analysis, identify only mission critical systems and equipment to check for compliance.
- 3) Remediation stage – when the organization actually makes changes to systems and equipment. This stage deals primarily with the technical issues of converting existing systems, or switching to compliant systems. During this stage, decisions are made on how to make the systems or processes year 2000 compliant and the required system changes are made.
- 4) Validation and Testing stage – when the organization validates and tests the changes made during the conversion process. The development of test data and test scripts, the running of test scripts, and the review of test results are crucial for this stage of the conversion process to be successful. If the testing results show anomalies, the tested area needs to be corrected and re-tested.

The Department maintains various computerized systems that are subject to year 2000 data processing compliance issues. The systems deemed most critical to the Department's continued operations are the unemployment compensation system, the unemployment tax system, and the mail operations system. At June 30, 1998, the unemployment compensation system was in the validation and testing stage; the development of a new

REQUIRED SUPPLEMENTARY INFORMATION (Continued)

YEAR 2000 COMPLIANCE (Continued)

year 2000 compliant unemployment tax system, to replace the current system, was in process; and the mail operations system was in the assessment phase with plans to replace it with a year 2000 compliant system. At June 30, 1998 the Department had \$1.8 million in additional commitments for its year 2000 projects.

The Department has set a goal of September 1999 for full compliance of all internal systems and will continue to monitor the progress of each stage. However, because of the unprecedented nature of the year 2000 issue, its effect and the success of the related remediation efforts cannot be fully determined until the year 2000 and thereafter. Consequently, management cannot guarantee that the Department is or will be year 2000 ready, that the Department's remediation efforts will be successful in whole or in part, or that parties with whom the Department does business will be year 2000 ready.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF EMPLOYMENT SECURITY**

**SCHEDULE OF BUDGETARY COMPONENTS
SPECIAL FUND
FOR THE YEAR ENDED JUNE 30, 1998**

	Operating Budget	Supplemental Appropriation Warrants	Balances Brought Forward	Net Transfers In (Out)	Budget
<u>Revenues</u>					
<u>Restricted Revenues</u>					
Federal Funds	\$ 16,973,570	\$ 3,961,880	\$ (1,355,718)	\$ -0-	\$ 19,579,732
Fees, Fines, And Interest					
Contingent Fund	3,267,800	2,418,792	(287,634)	-0-	5,398,958
All Other Sources	<u>1,401,800</u>	<u>698,229</u>	<u>(553,571)</u>	<u>(55,000)</u>	<u>1,491,458</u>
Total Restricted Revenues	<u>\$ 21,643,170</u>	<u>\$ 7,078,901</u>	<u>\$ (2,196,923)</u>	<u>\$ (55,000)</u>	<u>\$ 26,470,148</u>
<u>Expenditures</u>					
Salaries And Benefits	\$ 15,256,212	\$ 1,134,903	\$ -0-	\$ 9,659	\$ 16,400,774
Leases	1,320,942	2,219,702	1,960	-0-	3,542,604
Current Expenses	2,552,929	312,223	136,682	(64,659)	2,937,175
Equipment	868,014	989,022	265,320	-0-	2,122,356
System Development	-0-	2,110,514	-0-	-0-	2,110,514
Maintenance	880,275	156,492	359,182	-0-	1,395,949
Utilities	317,083	30,000	673	-0-	347,756
Travel	264,458	41,921	5,724	-0-	312,103
Other	183,257	20,124	2,533	-0-	205,914
Land And Building Purchase	-0-	64,000	-0-	-0-	64,000
Total Expenditures	<u>\$ 21,643,170</u>	<u>\$ 7,078,901</u>	<u>\$ 772,074</u>	<u>\$ (55,000)</u>	<u>\$ 29,439,145</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (2,968,997)</u>	<u>\$ -0-</u>	<u>\$ (2,968,997)</u>

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF EMPLOYMENT SECURITY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CASH BASIS)
FOR THE YEAR ENDED JUNE 30, 1998**

<u>Federal Catalog Number</u>	<u>Federal Grantor/Federal Program</u>	<u>Expenditures</u>
	<u>Department Of Labor</u>	
17.002	Labor Force Statistics	\$ 543,199
17.207	Employment Service	3,978,471
17.225	Unemployment Insurance (see Note below)	41,239,134
17.245	Trade Adjustment Assistance-Workers	130,241
17.246	Employment And Training Assistance - Dislocated Workers	332,351
17.250	Job Training Partnership Act	225,974
17.801	Disabled Veterans' Outreach Program	410,453
17.804	Local Veterans' Employment Representative Program	443,310
	<u>Department Of Health And Human Services</u>	
None	New Hire Crossmatch	7,907
	<u>Social Security Administration</u>	
None	Social Security Crossmatch	3,821
	Total	<u>\$ 47,314,861</u>

Note: *Unemployment Insurance Program (17.225) - State and Federal Portions*
State Funds..... \$31,326,597
Federal Funds..... 9,912,537
Total \$41,239,134

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