

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF ENVIRONMENTAL  
SERVICES**

**AUDIT REPORT  
FOR THE NINE MONTHS ENDED  
MARCH 31, 1995**

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF ENVIRONMENTAL SERVICES**

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**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF ENVIRONMENTAL SERVICES**

**INTRODUCTION**

**ORGANIZATION**

The Department of Environmental Services (DES) was established in 1986 by RSA 21-0. DES is responsible for water pollution control, water supply protection, regulation of waste disposal, maintenance of state-owned dams, inspection of dams, flood control, and air pollution control.

DES is organized into the Office of the Commissioner and four divisions: Water Resources, Water Supply and Pollution Control, Air Resources, and Waste Management. The Commissioner is the executive officer of the Department of Environmental Services and he is aided by an Assistant Commissioner and four division directors.

The Commissioner is appointed by the Governor and Council to a four year term. The Assistant Commissioner is nominated by the Commissioner for appointment by Governor and Council and also serves a four year term. The directors of Water Resources and Waste Management are nominated by the Commissioner for appointment by Governor and Council. The Water Supply and Pollution Control Council and the Air Resources Council, after consulting with the Commissioner, nominate for appointment by Governor and Council the directors of the Water Supply and Pollution Control and Air Resources Divisions, respectively. All directors serve a four year term.

**FUNDING**

The Department of Environmental Services is funded by appropriations from the General, Special and Capital Projects Funds. DES's total fiscal year 1995 spending authority as of March 31, 1995 was \$35,515,475, \$71,835,195 and \$18,583,789 in the General, Special and Capital Projects Funds, respectively. Actual expenditures totalled \$22,815,862, \$20,362,370 and \$2,137,839, respectively.

Estimated restricted revenue combined with balances forward and transfers resulted in anticipated fiscal year 1995 revenue of \$7,199,533 and \$50,783,284 in the General and Special Funds, respectively. Actual restricted revenue as of March 31, 1995 totalled \$4,000,359, \$20,670,942 and \$179,458 in the General, Special and Capital Projects Funds, respectively. Fiscal year 1995 estimated and actual unrestricted revenue for the General Fund for the nine months ended March 31, 1995 totalled \$2,409,250 and \$1,287,571, respectively.

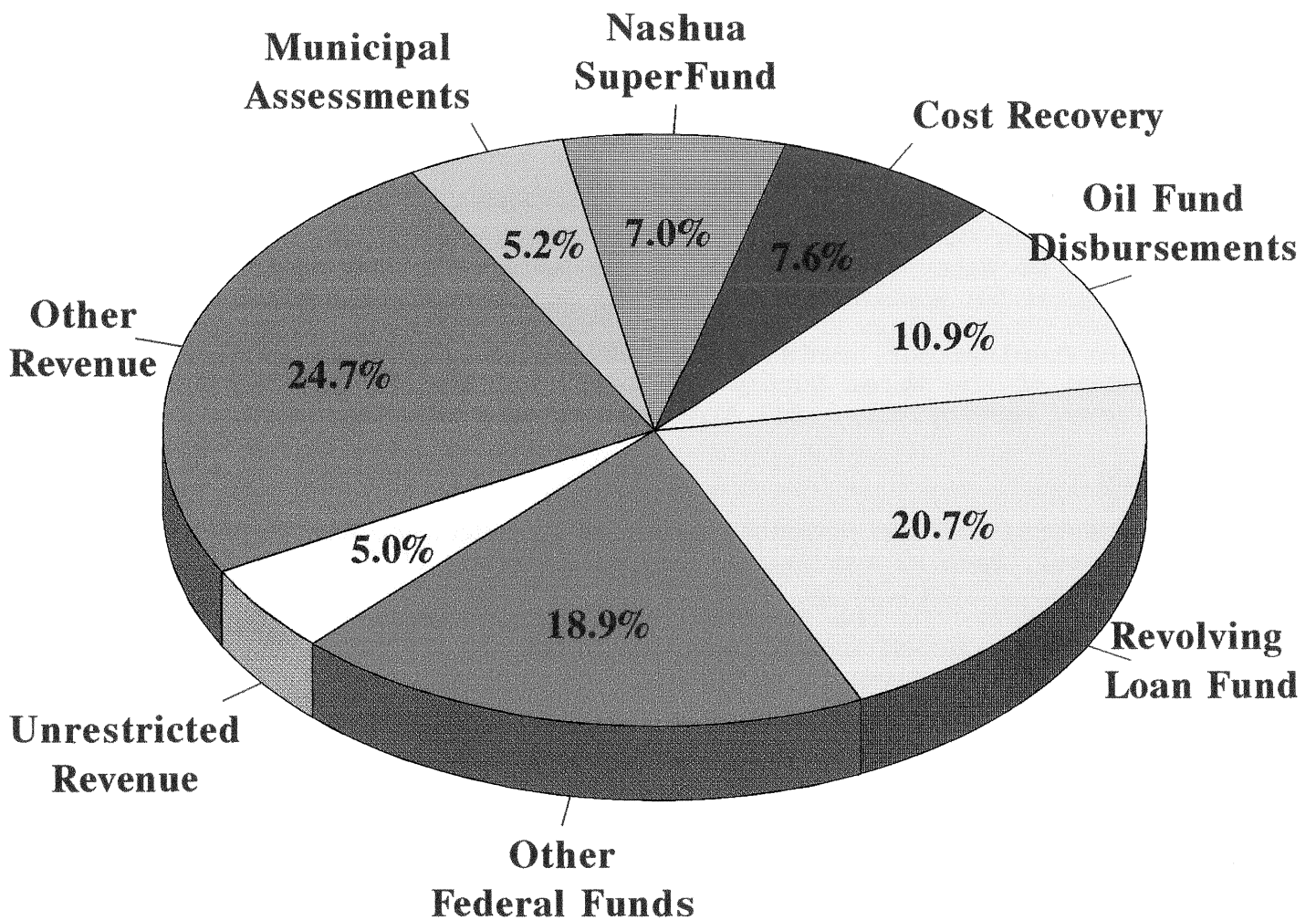
Actual revenues and expenditures for the nine months ended March 31, 1995 are illustrated on the following pages.

INTRODUCTION (Continued)

**DEPARTMENT OF ENVIRONMENTAL SERVICES  
FOR THE NINE MONTHS ENDED MARCH 31, 1995**

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**TOTAL REVENUE = \$26.1 MILLION**

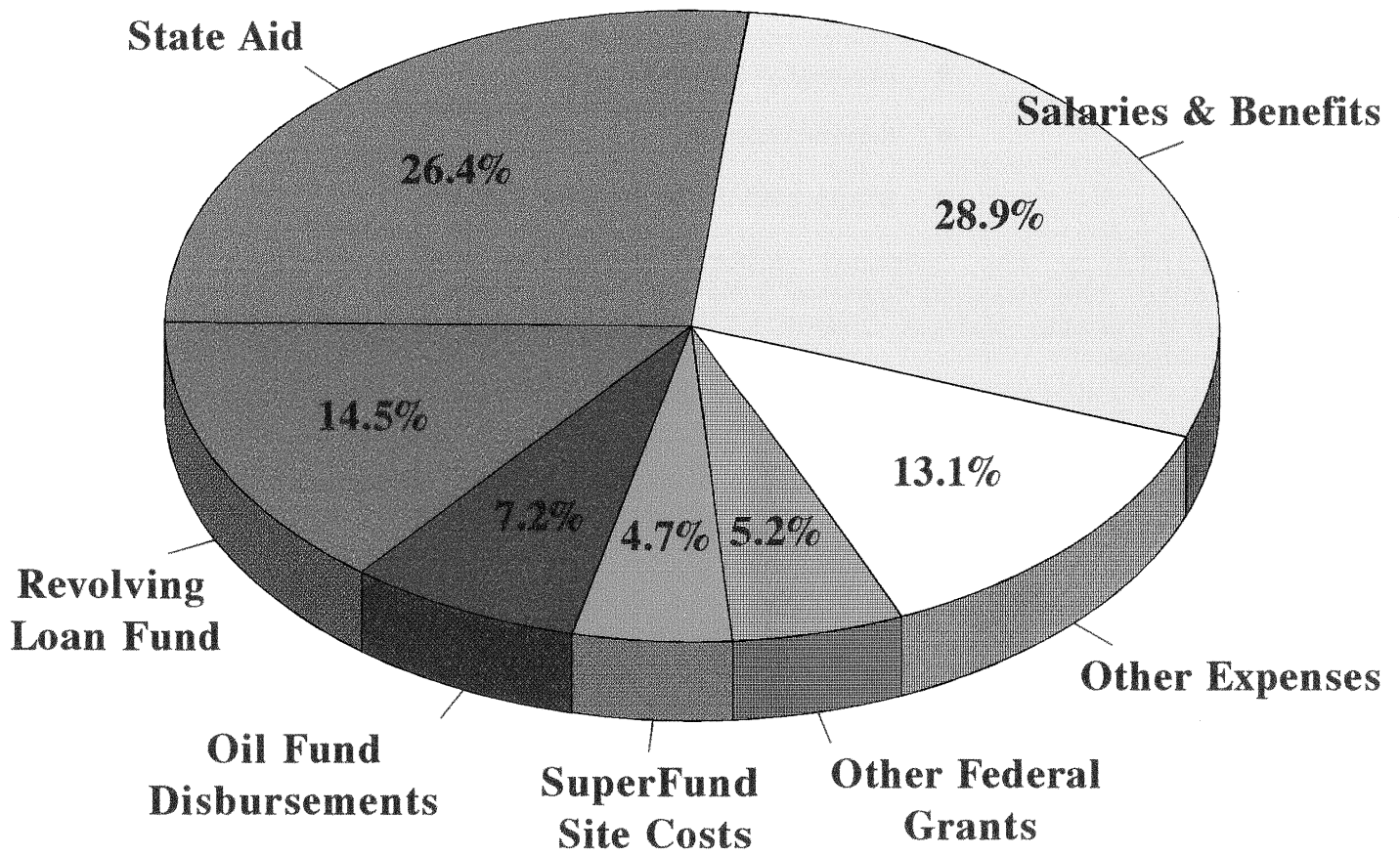


INTRODUCTION (Continued)

**DEPARTMENT OF ENVIRONMENTAL SERVICES  
FOR THE NINE MONTHS ENDED MARCH 31, 1995**

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**TOTAL EXPENDITURES = \$45.3 MILLION**



**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF ENVIRONMENTAL SERVICES**

**AUDIT OBJECTIVES AND SCOPE**

The primary objectives of our audit are to determine that the financial statements are fairly stated, that there is an effective internal control structure in place, and that the Department of Environmental Services is in compliance with applicable state and federal laws and regulations. Major accounts or areas subject to our audit included, but were not limited to, the following:

- Internal control structure
- Revenues and appropriations
- Property and equipment
- Expenditures
- State and federal compliance.

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

**AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE**

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the COMBINED STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL AND SPECIAL FUNDS, the STATEMENT OF CAPITAL PROJECTS FUND ACTIVITY and the FIDUCIARY FUND - BALANCE SHEET of the Department of Environmental Services (DES) for the nine months ended March 31, 1995, and have issued our qualified report thereon dated June 13, 1995.

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

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

In planning and performing our audit of the financial statements of the Department of Environmental Services for the nine months ended March 31, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of



the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. Accordingly, we do not express such an opinion.

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

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial 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 structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following matter involving the internal control structure and its operation that we consider to be a material weakness as defined above. This condition was considered in determining the nature, timing and extent of the procedures to be performed in our audit of the financial statements of the Department of Environmental Services for the nine months ended March 31, 1995. Those matters that we consider to be reportable conditions, including the one we consider to be a material weakness, are presented on the following pages.

## MATERIAL WEAKNESS

### OBSERVATION NO. 1: DOCUMENTATION FOR REAL PROPERTY

#### OBSERVATION

DES and the Water Resources Council own approximately 20% of all state owned real property. At June 30, 1994, DES and the Water Resources Council reported real property to the Department of Administrative Services in the amount of \$140,962,446. Of that total approximately \$88 million is controlled by DES and \$52 million is held by the Council. The real property owned by DES includes the Winnepesaukee River Basin and related projects valued at \$66.7 million, various dams valued at \$9.9 million and other property and buildings valued at \$11.4 million. The Council's full amount represents investments in dams. When we tested the real property we could not trace the amounts reported to the supporting documentation for two reasons.

- The supporting documentation that is maintained for some of the real property owned by DES is not in a format to support the amounts on the Real Property Report and, therefore, there was no way to determine how the reported amounts were derived and how accurate they were. For example, DES maintains the supporting documentation for the Winnepesaukee River Basin by project number. The project information does not agree to the amounts in the Real Property Report nor can the agency provide us with a cross walk between the reported amounts and the project files.
- The Water Resources Council reports numerous dams and the land on which the dams rest. Most of the dams were given to the Council and according to generally accepted accounting principles, they should have been recorded at their fair market value at the time they came into the Council's possession. The Council determined fair market value to be the recreational value of the water that the dam held back and derived a formula by which each acre of water held back was multiplied by a cost per acre to arrive at the recreational value.

The Water Resources Council has no support for the cost per acre figure, which increases based on the date the dam was acquired. Therefore, there is no way to determine if the formula used by the Council is valid and consequently, no way to determine if the amounts reported for the dams are reasonable. The cost per acre was derived in the 1980s and there is no documentation that outlines the assumptions made to arrive at the cost per acre.

The recreational value of the water held back by a dam doesn't appear to be the best way to estimate fair market value for dams acquired at no cost. The amount of water held back by a dam is not directly related to the size of the dam since a small dam could hold back a

OBSERVATION NO. 1: DOCUMENTATION FOR REAL PROPERTY (Continued)

OBSERVATION (Continued)

large amount of water and a large dam could hold back a small amount of water. The size of the dam is related to the lay of the land where it is built rather than the amount of water held back.

RECOMMENDATIONS

- The documentation used to derive the amounts reported as real property should be filed in a manner that provides a clear audit trail and provides evidence that the amount reported is accurate.
- The Water Resource Council should ensure that any factors used in the calculation of the fair market value of dams are adequately documented. In addition, the Council should reconsider whether the recreational value of the water held back by dams is the best indication of fair value. There may be other ways to estimate fair market value, such as cost to construct, that may have a more direct relationship to the dam itself.

AUDITEE RESPONSE

- We will comply with the recommendations of the observation to document more fully the value of all real property reported to the Department of Administrative Services. Our real property program files will be updated to more clearly show the methods used, computations, and supporting documentation.

We have contacted other state agencies to determine how they assessed the value assigned to dams under their control. To date we have not received any clear useable formula. We have also contacted the Association of State Dam Safety Officials, Inc. and asked them to send a questionnaire to other states to determine how they assign property values to their state owned dams. The majority of responses received so far indicate that dams are considered part of the state infrastructure and appraised values are not typically assigned. We will continue to investigate this matter until we have sufficient information to make a decision on how to change our valuation methods. We will consult with the Department of Administrative Services to determine the best course of action since this is a state-wide issue.

## OTHER REPORTABLE CONDITIONS

### OBSERVATION NO. 2: LACK OF CONTROL OVER PERMIT AND LICENSE FEES

#### OBSERVATION

DES collects money for various fees for permits, licenses, and applications. This revenue is collected at the various bureaus and then forwarded to the central business office for recording and deposit. Of the approximately \$26 million in revenue received by DES during the nine months ended March 31, 1995, \$2.7 million was in fees for permits, licenses, and applications. We performed testing on this revenue and noted the following.

- A. When cash and checks are received there are procedures that should be performed immediately in order to protect and establish accountability for the revenue. These procedures include issuing prenumbered receipts for cash, endorsing checks for deposit only and preparing an initial record of receipt.
- DES does not restrictively endorse checks to prevent unauthorized cashing until they reach the central business office.
  - When cash is received a prenumbered cash receipt form is given to the customer; however, the numeric sequence of the cash receipt forms is not monitored to ensure all receipts are accounted for.
  - When revenue is received from a customer it is recorded by the employee receiving it on an A-15 form (Record of Daily Receipt); however, it is not always recorded the same day. We noted that of 68 receipts tested, 40 (59%) were not recorded on the A-15 form the same day. The number of days it took to record the receipts ranged from 1 to 19 with the average being 5 days. At one location the person who received the revenue did not record it, but instead delivered it to another person who recorded the revenue on the A-15.
- B. Good internal control procedures over receipts include proper segregation of duties where different individuals have control over the accounting records and access to the receipts. This segregation helps prevent one person from being in a position to commit and conceal an error or irregularity in the normal course of their duties. During our review of internal control procedures at DES we noted the following instances where there was a breakdown in segregation of duties.

OBSERVATION NO. 2: LACK OF CONTROL OVER PERMIT AND LICENSE FEES (Continued)

OBSERVATION (Continued)

- We noted that the revenue and A-15 forms were sent by the bureaus to an employee in the central business office who prepared the deposit and the form necessary to record the revenue in the central state accounting system. That employee forwarded the deposit and the revenue form to another person in the business office who performed a clerical check on the deposit and the revenue form and then returned them to the employee who prepared them. This put these two employees in positions to commit and conceal errors or irregularities without detection.
  - In eight locations the person who received the revenue and prepared the A-15 also maintained the accounts receivable records and/or was responsible for mailing invoices. Having access to assets and being responsible for accounting records is an improper segregation of duties.
- C. Another internal control procedure includes management reviewing the financial information and periodically performing comparisons of financial information with non-financial information or comparing financial information from different sources to ensure that all revenue received is deposited timely. Examples of this would include comparing total receipts to total number of licenses issued or comparing receipt information from the accounts receivable ledgers to the state accounting system. During our testing of permit and license fees we noted the following problem.
- DES does not have any reconciliation process that will detect if the money for a permit is not deposited. We observed an instance where a customer sent a check to renew a permit on October 10, 1994. The renewal permit was issued on November 1, 1994. However, we noted that the check was never recorded on an A-15 form and deposited. When questioned by us concerning the lack of a receipt to match the renewal DES personnel found the check was filed with the renewal paperwork. DES recorded and deposited the check on March 30, 1995.

RECOMMENDATIONS

- A. DES should reevaluate its revenue receipt process to ensure all revenue is safeguarded, recorded and deposited. Checks should be restrictively endorsed when received, the numeric sequence of cash receipt forms should be tracked and revenue should be recorded the same day it is received.

**OBSERVATION NO. 2: LACK OF CONTROL OVER PERMIT AND LICENSE FEES (Continued)**

RECOMMENDATIONS (Continued)

- B. Duties related to the recording of revenue and the maintenance of accounts receivable records should be segregated from those related to the custody of the receipts.
- C. DES should develop procedures to periodically review permit and license fees to ensure revenue is deposited timely.

AUDITEE RESPONSE

We will exert more control over our revenue by following the specific recommendations and writing the necessary procedures. Shown below are the specific steps we will take.

- 1. We have purchased and distributed rubber stamps for use by all 14 revenue collection points to endorse checks. A memo of instruction was given to each collection point and copies were sent to the appropriate division director and bureau administrator. We will monitor this situation very closely to make sure that all checks are endorsed promptly.
- 2. We are in the process of writing procedures to tighten controls over the segregation of duties with regard to invoicing; accounts receivable ledgers; and reconciling deposits with the invoices and number of permits issued. We will be assisting all personnel in the 14 revenue collection locations in setting up records that are needed to comply with these new procedures. Monitoring of the procedures will be done on a quarterly basis at all collection locations.
- 3. Our quarterly review checklist has been revised to include a check of the sequential numbers of Form A-14 to make sure they are all accounted for.

Our revenue procedures have been revised to emphasize the importance of recording checks on the A-15 on the same day they are received. Also our quarterly income reviews of each of our 14 revenue collection locations will check to make sure this is being done.

Regarding the comparison of permits issued with funds deposited, we are developing a procedure to reconcile deposits with numbers of permits. This will be done on a monthly basis for each program.

The procedures will also be revised to require documentation of payments received from third parties on behalf of a permit applicant. A notation to the file will be required.

**OBSERVATION NO. 2: LACK OF CONTROL OVER PERMIT AND LICENSE FEES (Continued)**

AUDITEE RESPONSE (Continued)

It should be noted that we followed the recommendations in the previous audit regarding control over revenue. We perform quarterly reviews of all collection points for all programs and do a follow-up on any exceptions noted. We give monthly reports to all program managers that can be used to check income. Our internal controls have improved dramatically over the past few years.

DES intends to aggressively implement these recommendations to further strengthen our internal control over revenue.

We are also exploring the feasibility of establishing a central collection point for all fees to ensure the timely and proper recording and deposit of checks on all of DES's receipt accounts.

**OBSERVATION NO. 3: EQUIPMENT ERRORS**

OBSERVATION

As of March 31, 1995, DES had over 4,000 items of equipment with a reported cost of approximately \$8.9 million. Based on our testing of eighty-five equipment items, we noted the following errors.

- Four items costing \$46,533 could not be located.
- A computer system was put on the equipment inventory at \$46,890 when its cost was \$68,314, resulting in a \$21,424 understatement.
- A computer system was recorded at a value of \$282,329 when the documentation indicated it should have been recorded at \$171,495.
- Equipment was overstated by \$32,645 because a software package license agreement terminated in 1991 was still carried on the inventory.
- Equipment was overstated by \$14,894 because an item was recorded at full cost even though a discount was taken by DES.
- DES purchased two used equipment items from the federal government for \$6,500. DES recorded the items on the equipment inventory at a cost of \$250,118, the cost the federal government paid to purchase the items new. As a result, equipment was overstated by \$243,618.

In summary we noted errors that netted to an overstatement of the equipment inventory of \$427,100.

**OBSERVATION NO. 3: EQUIPMENT ERRORS (Continued)**

**RECOMMENDATION**

DES should review its equipment inventory pricing procedures to ensure that the values recorded are at the proper amounts and net of all applicable credits or discounts.

**AUDITEE RESPONSE**

We will review our equipment inventory pricing procedures to ensure that the values recorded are at the proper amounts and that all adjustments are made in a timely manner. Checks and balances will be put in place that will reconcile the total value of equipment purchases each month, less the equipment surplussed, with the payment records. We will also be checking all equipment values reported against the payment documentation.

**OBSERVATION NO. 4: DOCUMENTATION OF COMPUTER SYSTEM**

**OBSERVATION**

DES maintains a computerized database system, which it refers to as the PACE system, to record, summarize and report virtually all of its daily operations. One of the key functions of the PACE system is the management and reporting of federal funds. As discussed more fully in Observation No. 5, this system contains the programs necessary to allocate expenditures to the various federal grants and to document the state match requirements for these federal programs. DES has only partially documented the system's programming and operations, so a change in personnel would put DES at a disadvantage in maintaining the continuity of its computer operation. Currently, only one employee at the agency fully understands the expenditure allocation portion of the system.

**RECOMMENDATION**

DES should develop and implement procedures to ensure that system documentation is maintained to ensure continuity of its computer operations.

**AUDITEE RESPONSE**

We agree that our procedures should be more fully documented. The end user procedures are in draft form and will be completed shortly. It should be noted that we will be converting our current PACE database to a new relational database on our newly installed LAN Computer System in the Commissioner's Office. The documentation for the new database will be much more detailed and easier to use.



## OBSERVATION NO. 5: FEDERAL FINANCIAL REPORTING SYSTEM

### OBSERVATION

DES receives many grants from the federal government and some of these grants require the state to match a percentage of the federal funds with state dollars. Federal regulations require that state and federal funds be spent concurrently. As we noted in Observation No. 4, DES maintains all its federal funds accounting information on the PACE computer system. Expenditures are keyed into PACE from employee time sheets and payment vouchers. Based on the coding of the time sheets and payment vouchers, the system allocates the expenditures to the various grants. We reviewed this accounting system and noted the following problems.

- Because time sheets are prepared on a biweekly basis, there is a delay between the time the expense was incurred and when the grants were charged with the expense. In addition, the agency was not current in its posting of the time sheets to PACE during the audit period. As a result, initial expenditure reports for the various grants were often not produced until two to four weeks after the expenditures were incurred. These reports were then adjusted by the program managers, causing additional delays in the reports.

Because the expenditure reports which show the state match are not current, it is not possible for DES to know if it is properly matching its federal grants at the time the drawdowns of federal funds are made. We were, however, able to determine that DES had properly matched its federal grants for the audit period taken as a whole.

- In addition, the PACE system is not designed to close a grant once a federal grant period has ended. The system allows changes to the grant expenditure reports even after DES has sent a final financial status report (FSR) to the federal agency. Specifically, we noted when we traced the amounts on the final FSRs for two grants to the PACE expenditure reports, the amounts differed by as much as \$98,000. The December 1994 PACE reports were used to generate the FSRs, however, when we reviewed the May 1995 PACE reports we noted that adjustments had been made to these grants even though the grants had ended.

### RECOMMENDATION

- DES should adjust its federal financial reporting system to ensure that the state match is spent at the same time federal funds are spent and to leave a clear record that the state match has been met.
- The system should be redesigned to prevent changes to the expenditures reports once final reports are sent to the federal government.

**OBSERVATION NO. 5: FEDERAL FINANCIAL REPORTING SYSTEM (Continued)**

AUDITEE RESPONSE

- We have spent a great deal of time and effort developing our Cost Allocation System during the past two years. It is a complex system that is meant to serve all of our allocation needs - federal fund matching, management reports, maintenance of dam allocation, cost recovery, transfers of expenditures, and other needs. Due to the large volume of data that must be entered into the database, it is difficult to produce reports as quickly as we would like. However, we are making substantial progress in this area.
- We will make the final adjustments to our system to ensure that our state match meets with federal requirements and that a definitive record is kept. Our procedures will be revised to prevent changes to the match reports once the final Financial Status Reports are submitted.

**OBSERVATION NO. 6: SEGREGATION OF DUTIES - PAYROLL**

OBSERVATION

The duties of authorizing transactions, recording transactions and maintaining custody of assets should be segregated to prevent one person from being in a position to both commit and conceal errors or irregularities in the normal course of his duties. In addition, checks on performance, such as clerical checks, reconciliations and tracing assets to their recorded values, should be performed by individuals independent of the recording of transactions and the custody of assets.

We noted the following instance where duties were not properly segregated.

- The human resource employees prepare the payroll records, account for leave time, obtain and distribute paychecks and retain custody of unclaimed paychecks.

RECOMMENDATION

Duties should be segregated so one person is not in the position to commit and conceal errors or irregularities in the normal course of his duties.

AUDITEE RESPONSE

We will assign other personnel from outside of the Human Resource Unit to perform some of the payroll duties. Also an alternate person will perform the payroll functions in the absence of the Payroll Officer so that

**OBSERVATION NO. 6: SEGREGATION OF DUTIES - PAYROLL**

AUDITEE RESPONSE (Continued)

payroll records are not under the control of one person all of the time. Payroll duties have been performed by all four of the members of the Human Resource unit.

It should be noted that payroll expenditures are checked very closely by the accounting staff. Personnel in the Cost Allocation and Grants Management Sections are involved in payroll changes, transfers of payroll expenses, time sheets, and reconciliation of payroll manifests.

**OBSERVATION NO. 7: OIL FUND DISBURSEMENTS AUDIT TRAIL**

OBSERVATION

RSA 146-D established an Oil Discharge and Disposal Cleanup Fund, which allows for the reimbursement to owners of oil storage tanks who incur costs as a result of cleaning up and disposing of oil that has leaked from the tanks. To receive reimbursement for cleanup costs, the owners submit a claim to the Oil Fund Board. During the nine months ended March 31, 1995, the Board approved and paid claims of \$3.2 million. During our testing of these claims, we noted the following problem.

- DES did not create a clear audit trail, the means by which a transaction is traced through the accounting system, when paying oil fund disbursement board claims. Before making payments under the program DES often adjusted amounts without fully documenting why they were adjusted. As a result, it was difficult to determine the propriety of the payments.

RECOMMENDATION

In order to establish a clear audit trail for expenditures DES should clearly document the adjustments it makes to oil fund disbursement board claims.

AUDITEE RESPONSE

To ensure that eligible costs are fully documented in the future the reimbursement review procedures have been revised as follows:

1. Deductions for non-eligible costs must be identified on each invoice by circling the line-item amount or the entire invoice amount, as applicable, and writing the code (e.g. (3); subcontractor invoice

**OBSERVATION NO. 7: OIL FUND DISBURSEMENTS AUDIT TRAIL (Continued)**

*AUDITEE RESPONSE (Continued)*

required) next to the amount(s). If the reason for a deduction is not clear and obvious by the code, then you must provide additional detail on the LOTUS spreadsheet.

2. The total eligible amount for each invoice must be written on the invoice, if different than the invoiced amount.
3. The reviewer must initial each invoice they have adjusted/reduced.

A copy of this additional procedure was distributed to the project managers involved along with examples of how to mark the invoices.

**OBSERVATION NO. 8: UNDERSTATEMENT OF TOTAL INDIRECT COSTS**

*OBSERVATION*

Federal regulations allow DES to charge indirect costs to federal grants using a preapproved indirect cost plan. Indirect costs are generally defined as those costs that cannot be allocated to any one specific grant and tend to benefit the whole organization not just one program. An example of indirect costs would be the general business office functions such as payroll, budgeting, computer services, etc. During our testing of DES's indirect cost plan for fiscal year 1995 we noted the following problems.

- DES does not include its own administration and support costs in the total indirect costs to be allocated to the federal grants; it only includes the overall state administrative costs assigned to it by the Department of Administrative Services. As a result, DES has understated the total amount of indirect costs it could potentially be recovering.
- DES is under allocating indirect costs to individual federal grants because it applies the indirect cost rate to only direct salaries and benefits instead of all allowable costs of the grant.

In addition to these problems we also noted in Observation No. 12, instances of noncompliance with federal regulations regarding the fiscal year 1995 indirect cost plan.

OBSERVATION NO. 8: UNDERSTATEMENT OF TOTAL INDIRECT COSTS (Continued)

RECOMMENDATION

DES should revise its indirect cost plan to include not only statewide indirect costs but the department's business office costs as well. In addition, the indirect cost rate, once approved by the federal government, should be applied to all direct costs not just salaries and benefits.

AUDITEE RESPONSE

The amount of indirect cost charged against our federal grants is substantial. During the past eight years, fiscal year 1987 to fiscal year 1994, we have collected \$1,728,250 in indirect costs from our federal grants. We will review our indirect cost plan, however, it should be noted that any additional charges against our grants would result in the loss of several federally funded positions which carry out important activities. We wonder if the Legislature would be willing to fund these lost positions from the General Fund.

This report is intended for the information of the management of the Department of Environmental Services and the Fiscal Committee of the General Court. This restriction is not intended to limit the distribution of this report, which upon acceptance by the Fiscal Committee, is a matter of public record.

*Office of Legislative Budget Assistant*  
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

June 13, 1995

**AUDITOR'S REPORT ON STATE AND FEDERAL COMPLIANCE**

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the COMBINED STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL AND SPECIAL FUNDS, the STATEMENT OF CAPITAL PROJECTS FUND ACTIVITY and the FIDUCIARY FUND - BALANCE SHEET of the Department of Environmental Services (DES) for the nine months ended March 31, 1995, and have issued our qualified report thereon dated June 13, 1995.

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

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

The results of our tests indicate that, with respect to the items tested, the Department of Environmental Services complied, in all material respects, with provisions referred to in the preceding paragraph. However, we have noted on pages twenty-one through twenty-four, instances of noncompliance with laws and regulations that, while not material to the financial statements, we believe to be worthy of report mention.

This report is intended for the information of the management of the Department of Environmental Services and the Fiscal Committee of the General Court. However, this report is a matter of public record upon acceptance by the Fiscal Committee, and its distribution is not limited.

*Office of Legislative Budget Assistant*  
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

June 13, 1995

## STATE COMPLIANCE

### OBSERVATION NO. 9: STATE AID TO MUNICIPALITIES

#### OBSERVATION

RSA 486 requires the state to pay 20% of the amortization charges for a municipality's costs of acquisition or construction of sewage disposal facilities for the control of water pollution. The Governor and Council approves such payments. During our testing of State Aid payments we noted the following.

- We noted an instance where DES is making payments based on a bond amortization schedule that exceeds the one approved by Governor and Council. The Governor and Council approved a grant to a city on May 10, 1989 in the amount of \$17,911,315 but DES is paying based on a schedule, set up in May 1992, that totals \$21,387,888.

#### RECOMMENDATION

DES should obtain Governor and Council approval for the May 1992 bond amortization schedule.

#### AUDITEE RESPONSE

DES follows a procedure whereby adjustments to grant projects are made when the final costs are determined. During the construction period of a project the costs may change up or down based upon change orders, therefore, final eligible costs can't be determined until the project has been completed.

In the project cited there was a long delay in the completion of project documentation because the municipality changed engineering firms. Given that the grant payments are made over the life of the bond issue, we have found that a final adjustment for Governor & Council approval is the most efficient way to handle this issue. We will seek Governor & Council approval as soon as final costs are determined.



## FEDERAL COMPLIANCE

### OBSERVATION NO. 10: FEDERAL PROGRAM INCOME

#### OBSERVATION

The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* states that program income derived from a federal program shall be deducted when determining reimbursement from the federal government. However, DES did not deduct the income from the sale of electricity at the Nashua/Gilson Road Hazardous Waste site. As a result, DES requested and received \$63,578, the amount of program income, from the federal government in error. When made aware of this problem, DES reimbursed the federal government for its share of the electricity sales.

#### RECOMMENDATION

DES should establish procedures to reduce the amount requested for reimbursement from the federal government by the amount of program income on a periodic basis.

#### AUDITEE RESPONSE

We made the necessary adjustments to the Nashua/Gilson Road federal grant for the program income. Our procedures have been revised to make sure that program income is deducted from allowable costs before federal drawdowns.

### OBSERVATION NO. 11: FEDERAL GRANT REPORTING

#### OBSERVATION

DES is required to file various financial and activity reports with the federal government to report information related to its numerous federal grants. We tested the department's compliance with the reporting requirements and determined the following.

- Ten reports were not submitted as required by the federal regulations.
- Nine reports were filed from 4 to 90 days late.
- One report was filed for a period other than the one specified by the grant rules.
- One report contained incomplete information.

**OBSERVATION NO. 11: FEDERAL GRANT REPORTING (Continued)**

RECOMMENDATION

DES should attempt to file the required reports timely and accurately.

AUDITEE RESPONSE

The observation deals with both financial and progress reports. The Financial Status Reports (FSR) are tracked closely using a checklist. This system works very well considering that more than 50 FSRs were prepared during the nine month period of the audit and the few late reports that were identified in the audit observation.

Progress reports are non-financial in nature. They are the responsibility of various program managers. We will establish a check list system for tracking these reports.

**OBSERVATION NO. 12: INDIRECT COST PLAN**

OBSERVATION

Federal regulations allow DES to charge indirect costs to federal grants using a preapproved indirect cost plan. Indirect costs are charged using an indirect cost rate, which is anticipated indirect costs divided by anticipated allowable cost as defined by the federal government. As actual allowable costs for a particular grant are incurred they are multiplied by the actual indirect cost rate to determine the amount to be charged to the grant. When we tested the 1995 indirect cost plan and amounts charged to the federal grants we noted the following.

- The plan for fiscal year 1995 has not been approved and, therefore, DES has charged indirect costs without authorization. Accordingly, we are questioning the \$35,000 in indirect costs paid during the nine months ended March 31, 1995.
- The U.S. Environmental Protection Agency (EPA) performed an audit of DES indirect cost plans for fiscal years 1988 through 1991. As a result of the audit, EPA determined that DES overcharged indirect costs by a cumulative amount of \$928,381 for the four years. It instructed DES to adjust its 1995 indirect cost plan for the error. Currently, DES is in negotiations with EPA to resolve the amount in question and to spread the final adjustment amount over future years.

**QUESTIONED COSTS**      \$35,000      (Reference page 40 for the Schedule of Questioned Costs)

OBSERVATION NO. 12: INDIRECT COST PLAN (Continued)

RECOMMENDATION

DES should reevaluate its indirect cost procedures to ensure that the indirect cost plan is approved, all indirect costs are properly charged and that any past overcharges are taken into consideration when charging current indirect costs.

AUDITEE RESPONSE

We received a Negotiated Agreement from the U.S. Environmental Protection Agency approving our indirect cost rate for fiscal year 1995, on September 22, 1995. This agreement included the final roll-forward adjustments going back to fiscal year 1987. We have been working with EPA for the past five years to reach this point. EPA has approved the procedures; the roll-forward adjustments have been made; and we have a fixed indirect cost rate approved to June 30, 1996. It should be noted that EPA makes the roll-forward adjustments and not us. We supply them with the information and their Cost Policy and Rate Negotiation Branch, which is part of EPA Headquarters, makes the adjustments.

The issue now appears to be behind us and we don't foresee any problems in getting EPA to approve our rates on a timely basis.

**INDEPENDENT AUDITOR'S REPORT**

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the COMBINED STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL AND SPECIAL FUNDS, the STATEMENT OF CAPITAL PROJECTS FUND ACTIVITY and the FIDUCIARY FUND - BALANCE SHEET of the Department of Environmental Services (DES) for the nine months ended March 31, 1995. These financial statements are the responsibility of the management of the Department of Environmental Services. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial 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 by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

The Department of Environmental Services does not have complete financial records to support the amount of recorded real property. Consequently, we were unable to examine sufficient evidential matter to support such amounts.

As discussed in Note 1, the financial statements are not intended to present the financial position of the Department of Environmental Services or the State of New Hampshire.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the amount of recorded real property and except for the matter

discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, certain financial activity of the Department of Environmental Services for the nine months ended March 31, 1995 in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the COMBINED STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL AND SPECIAL FUNDS, the STATEMENT OF CAPITAL PROJECTS FUND ACTIVITY and the FIDUCIARY FUND - BALANCE SHEET of the Department of Environmental Services for the nine months ended March 31, 1995. The accompanying schedules presented on pages thirty-seven through thirty-nine are presented for the purpose of additional analysis and are not a required part of the financial statements of the Department of Environmental Services. Such information has been subjected to the auditing procedures applied in the audit of the financial statements referred to in the first paragraph and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 13, 1995 on our consideration of the Department of Environmental Services's internal control structure and a report dated June 13, 1995 on its compliance with state and federal laws and regulations.

*Office of Legislative Budget Assistant*  
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

June 13, 1995

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**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF ENVIRONMENTAL SERVICES**

**COMBINED STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
GENERAL AND SPECIAL FUNDS  
FOR THE NINE MONTHS ENDED MARCH 31, 1995**

	GENERAL FUND		FAVORABLE/ (UNFAVORABLE) VARIANCE
	BUDGET	ACTUAL	
<b><u>UNRESTRICTED REVENUE</u></b>			
Subsurface Waste Fees	\$ 660,000	\$ 457,377	\$ ( 202,623)
Water Analysis Fees	300,000	267,353	( 32,647)
Subsurface Systems Fees	205,000	115,360	( 89,640)
Other Revenue	<u>1,244,250</u>	<u>447,481</u>	<u>( 796,769)</u>
<b>TOTAL UNRESTRICTED REVENUE</b>	<b><u>\$ 2,409,250</u></b>	<b><u>\$ 1,287,571</u></b>	<b><u>\$ (1,121,679)</u></b>
<b><u>RESTRICTED REVENUE</u></b>			
Revolving Fund Loans (NOTE 6)	\$ -0-	\$ -0-	\$ -0-
Other Restricted Revenue	2,343,200	910,982	(1,432,218)
Other Federal Funds	-0-	-0-	-0-
Oil Disbursement Fund	-0-	-0-	-0-
Cost Recovery	-0-	-0-	-0-
Nashua SuperFund Site	-0-	-0-	-0-
Municipal Assessments	2,817,964	1,351,901	(1,466,063)
Permit Fees	464,202	561,149	96,947
Lab Fees	453,169	507,058	53,889
Dam Maintenance	-0-	-0-	-0-
Other Transfers and Fees	<u>1,120,998</u>	<u>669,269</u>	<u>( 451,729)</u>
<b>TOTAL RESTRICTED REVENUE</b>	<b><u>\$ 7,199,533</u></b>	<b><u>\$ 4,000,359</u></b>	<b><u>\$ (3,199,174)</u></b>
<b><u>EXPENDITURES</u></b>			
Salaries and Benefits	\$12,225,522	\$ 7,957,505	\$ 4,268,017
State Aid Payments	15,345,591	11,985,565	3,360,026
Revolving Fund Loans (NOTE 6)	-0-	-0-	-0-
Oil Fund Disbursements	-0-	-0-	-0-
Other Federal Costs	-0-	-0-	-0-
Current Expenses	2,566,327	1,519,112	1,047,215
SuperFund Contracts	-0-	-0-	-0-
Miscellaneous	4,703,577	1,077,797	3,625,780
Equipment	674,458	275,883	398,575
Interagency Transfers	-0-	-0-	-0-
<b>TOTAL EXPENDITURES</b>	<b><u>\$35,515,475</u></b>	<b><u>\$22,815,862</u></b>	<b><u>\$12,699,613</u></b>

The accompanying notes are an integral

SPECIAL FUND			COMBINED TOTAL (MEMO ONLY)		
BUDGET	ACTUAL	FAVORABLE/ (UNFAVORABLE) VARIANCE	BUDGET	ACTUAL	FAVORABLE/ (UNFAVORABLE) VARIANCE
\$ -0-	\$ -0-	\$ -0-	\$ 660,000	\$ 457,377	\$ ( 202,623)
-0-	-0-	-0-	300,000	267,353	( 32,647)
-0-	-0-	-0-	205,000	115,360	( 89,640)
-0-	-0-	-0-	1,244,250	447,481	( 796,769)
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 2,409,250</u>	<u>\$ 1,287,571</u>	<u>\$ ( 1,121,679)</u>
\$20,011,860	\$ 5,370,563	\$ (14,641,297)	\$ 20,011,860	\$ 5,370,563	\$ (14,641,297)
3,262,823	3,259,860	( 2,963)	5,606,023	4,170,842	( 1,435,181)
13,356,790	4,923,585	( 8,433,205)	13,356,790	4,923,585	( 8,433,205)
7,603,644	2,835,577	( 4,768,067)	7,603,644	2,835,577	( 4,768,067)
3,133,267	1,963,447	( 1,169,820)	3,133,267	1,963,447	( 1,169,820)
2,560,101	1,816,565	( 743,536)	2,560,101	1,816,565	( 743,536)
-0-	-0-	-0-	2,817,964	1,351,901	( 1,466,063)
-0-	-0-	-0-	464,202	561,149	96,947
-0-	-0-	-0-	453,169	507,058	53,889
854,799	501,345	( 353,454)	854,799	501,345	( 353,454)
-0-	-0-	-0-	1,120,998	669,269	( 451,729)
<u>\$50,783,284</u>	<u>\$20,670,942</u>	<u>\$ (30,112,342)</u>	<u>\$ 57,982,817</u>	<u>\$24,671,301</u>	<u>\$ (33,311,516)</u>
\$ 9,924,043	\$ 5,156,894	\$ 4,767,149	\$ 22,149,565	\$13,114,399	\$ 9,035,166
-0-	-0-	-0-	15,345,591	11,985,565	3,360,026
19,991,848	5,430,386	14,561,462	19,991,848	5,430,386	14,561,462
11,912,638	3,250,204	8,662,434	11,912,638	3,250,204	8,662,434
7,456,992	2,337,734	5,119,258	7,456,992	2,337,734	5,119,258
867,848	458,622	409,226	3,434,175	1,977,734	1,456,441
2,692,135	1,869,440	822,695	2,692,135	1,869,440	822,695
16,068,258	451,091	15,617,167	20,771,835	1,528,888	19,242,947
969,860	602,969	366,891	1,644,318	878,852	765,466
1,951,573	805,030	1,146,543	1,951,573	805,030	1,146,543
<u>\$71,835,195</u>	<u>\$20,362,370</u>	<u>\$ 51,472,825</u>	<u>\$107,350,670</u>	<u>\$43,178,232</u>	<u>\$ 64,172,438</u>

part of these financial statements.



**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF ENVIRONMENTAL SERVICES**

**STATEMENT OF CAPITAL PROJECTS FUND ACTIVITY  
FOR THE NINE MONTHS ENDED MARCH 31, 1995**

Balance Forward July 1, 1994	\$ 18,404,331
 <u>APPROPRIATIONS AND REVENUE</u>	
Appropriations	-0-
Less: Anticipated restricted revenue from sources other than the General fund	-0-
Net Appropriations	-0-
Actual restricted revenue from sources other than the General Fund	179,458
Net Transfers In/(Out)	-0-
TOTAL AVAILABLE	18,583,789
 <u>EXPENDITURES</u>	
Revolving Fund Match (NOTE 6)	1,133,584
Maintenance of Dams	491,755
Hazardous Waste Superfund Match	271,783
Miscellaneous	240,717
TOTAL EXPENDITURES	2,137,839
Funds (lapsed to)/drawn from the General Fund	-0-
Balance to be carried forward	16,445,950
Less: Unliquidated Encumbrances	1,273,742
Available Balance March 31, 1995	\$ 15,172,208

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

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF ENVIRONMENTAL SERVICES  
WATER RESOURCES COUNCIL**

**FIDUCIARY FUND  
BALANCE SHEET  
FOR THE NINE MONTHS ENDED MARCH 31, 1995**

**ASSETS**

Cash and Cash Equivalents	\$ <u>1,717,541</u>
<b>TOTAL ASSETS</b>	<b>\$ <u><u>1,717,541</u></u></b>

**LIABILITIES AND FUND BALANCE**

FUND BALANCE	
Reserved for Dam Maintenance	\$ <u>1,717,541</u>
<b>TOTAL LABILITIES AND FUND BALANCE</b>	<b>\$ <u><u>1,717,541</u></u></b>

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

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF ENVIRONMENTAL SERVICES**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED MARCH 31, 1995**

**NOTE 1--FINANCIAL REPORTING ENTITY**

The financial activity of the Department of Environmental Services is accounted for in the General, Special, Capital Projects and Fiduciary Funds of the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities and fund balances are reported by fund for the State as a whole in the CAFR. The Department of Environmental Services accounts for only a portion of the General, Special, Capital Projects and Fiduciary Funds; therefore, those assets, liabilities and fund balances attributable to the department cannot be determined. Accordingly, the accompanying financial statements are not intended to show the financial position of the General, Special, Capital Projects and Fiduciary Funds and the changes in these fund balances are not reported on the COMBINED STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL AND SPECIAL FUNDS, the STATEMENT OF CAPITAL PROJECTS FUND ACTIVITY, and FIDUCIARY FUND - BALANCE SHEET.

**NOTE 2 -- FINANCIAL STATEMENTS AND FUND ACCOUNTING**

Financial Statements

The financial statements of the Department of Environmental Services 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.

Fund Accounting

The Department of Environmental Services uses funds to report on the results of its operations. A fund is a separate entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### NOTE 3 -- GOVERNMENTAL FUND TYPES

#### General Fund

The General Fund accounts for all financial transactions not specifically accounted for in any other fund. By law, all revenues are paid at least weekly into the State Treasury. All such revenues, other than certain designated revenues, are credited to the General Fund.

#### Special Fund

The state allocates to the Special Fund expenditures and revenues of programs that, by statute, operate primarily from specific program revenues, such as user fees or federal grants-in-aid. The unexpended balance of appropriations for programs that lapse is transferred to the General Fund.

#### Capital Projects Fund

The Capital Projects Fund accounts for certain capital improvement appropriations that are, or will be, primarily funded by the issuance of state bonds or notes or by the application of certain restricted revenues.

#### Fiduciary Fund

Transactions related to assets held by the state in a trustee or agency capacity are accounted for in the Fiduciary Fund. The Fiduciary Fund is comprised of expendable trust funds, non-expendable trust funds, and agency funds. The trust fund, managed by the Water Resources Council and held by the State Treasurer, is an expendable trust fund where both the principal and earnings of the fund may be expended to achieve the objectives of the fund.

### NOTE 4 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Accounting

The State of New Hampshire accounts for its financial transactions relating to the funds mentioned above on the modified accrual basis of accounting, under which revenues are recognized in the accounting period in which they become measurable and available to finance operations during the year. Expenditures and liabilities are recognized in the period in which the obligations are incurred. Expenditures by the department are limited by statute to appropriations made by the General Court and the Governor and Council.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 4 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budget Control and Reporting

The statutes of the State of New Hampshire require the Governor to submit a biennial operating budget to the Legislature as provided by RSA 9:8. This budget consists of three parts: part I is the Governor's program for meeting all expenditure needs as well as estimating revenues to be received; part II is a detailed breakdown of the budget at the department level for appropriations to meet the expenditure needs of the government; part III consists of draft appropriation bills for the appropriations made in the proposed budget. This budget is prepared and adopted for the General, Highway and Special Funds. A separate budget is prepared for the Capital Projects Fund.

The COMBINED STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL AND SPECIAL FUNDS, is presented as part of the financial statements. The budget figure represents the net authority to spend for fiscal year 1995. As shown on the Schedules of Budgetary Components (pages 37 and 38) the biennial operating budget is composed of the initial operating budget, supplemental appropriation warrants, balances brought forward, transfers and lapses. Balances carried forward into the following fiscal year include encumbrances, non-lapsing appropriations and estimated revenue, and excess restricted revenue which requires Governor and Council approval before it can be spent.

RSA 9:3-a requires the Governor to submit a capital budget to the Legislature in each odd numbered year. The enacted capital budget authorizes appropriations that are usually intended to be expended over several years. The Capital Projects Fund is shown on a separate STATEMENT OF CAPITAL PROJECTS FUND ACTIVITY.

Supplemental Appropriation Warrants

Supplemental appropriation warrants increase or decrease the appropriations set forth in the operating budget. These changes are effective when the Legislature, Fiscal Committee and/or Governor and Council approve an agency's request after adoption of the operating budget. Supplemental warrants are usually issued to accept additional monies from the federal government and to fund expenditures not normally budgeted by individual agencies, such as statewide salary increases and workers' compensation claims. During the nine months ended March 31, 1995 the Department of Environmental Services had increases/(decreases) in the General Fund and the Special Fund appropriations of \$(240,585) and \$9,000,156, respectively, which were offset by increases in estimated revenues of \$964,046 and \$9,000,156, respectively.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 4 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Balances Forward

The Department of Environmental Services is limited by state statute as to when appropriations may be carried forward into future fiscal years. Generally, General and Special Funds appropriations lapse annually and Capital Projects Fund appropriations are nonlapsing for two fiscal years. General and Special Fund appropriations may be carried forward if there is a contract obligation outstanding at fiscal year end. Additionally, specific lapse dates may be set in the enabling appropriation legislation. Included in the expenditure balance forward amounts for the General and Special Funds are unliquidated encumbrances of \$388,290 and \$2,086,396, respectively.

Transfers

The Department is authorized by statute to transfer funds, with certain limitations within and among its program appropriation units, subject to prior approval of the Fiscal Committee and/or the Governor and Council.

Lapses

RSA 9:18 II states that all unexpended portions of appropriations for which a legally enforceable obligation has not been incurred, such as contracts or purchase commitments, during the fiscal year, shall lapse at the end of each fiscal year. Unexpended appropriations are lapsed back to General Fund Surplus.

Variances -- Favorable/Unfavorable

The variance column on the COMBINED STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL AND SPECIAL FUNDS 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 the favorable variances represent a combination of positive ending available balances and unliquidated encumbrances. The unliquidated encumbrances outstanding at March 31, 1995 in the General and Special Funds were \$482,585 and \$3,088,370, respectively, and available balances were \$12,217,028 and \$48,384,455, respectively.

When statements are presented at an interim date, the variance reflects the difference between the twelve month budgeted amount and a partial year's actual revenue and expenditures. Thus the variances noted on the statement referred to above, are expected because nine months of actual activity is compared to the expected activity for the twelve month budget period.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**NOTE 4 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Interpretation of Total (Memo Only) Column

The total column on the COMBINED STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL AND SPECIAL FUNDS is captioned "Memo Only" to indicate that it is presented only for financial analysis. Data in this column does not present financial activity in conformity with generally accepted accounting principles. Intra-agency eliminations have not been made in the aggregation of this data.

**NOTE 5 -- PROPERTY AND EQUIPMENT - (UNAUDITED)**

The Department of Environmental Services accounts for property and equipment based on historical cost if known, estimated cost if historical cost is unknown, or fair market value at the date of acquisition if the asset is donated.

The following is a schedule of land, buildings and equipment balances and activity reported by DES to the Department of Administrative Services as of March 31, 1995.

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
Balance 7-1-94	\$112,129,227	\$28,833,219	\$8,127,773	\$149,090,219
Additions	36,914	-0-	1,032,784	1,069,698
Deletions	( -0- )	( -0- )	( 268,550 )	( 268,550 )
Balance 3-31-95	<u>\$112,166,141</u>	<u>\$28,833,219</u>	<u>\$8,892,007</u>	<u>\$149,891,367</u>

**NOTE 6 -- STATE REVOLVING FUND**

The State Water Pollution Control Revolving Loan Fund ("State Revolving Fund"), established through RSA 486:14, provides loans and other assistance to local communities for financing waste water treatment facilities. The State Revolving Fund was authorized through the Federal Clean Water Act of 1988 and is initially funded through a federal capitalization grant program to states which includes a state matching funds requirement equal to 20% of the capitalization grant funding. As of March 31, 1995, total loans outstanding amounted to \$41.1 million. All loan agreements executed under the State Revolving Fund follow federal requirements and require approval from Governor and Council. Principal and interest repayments on the loans will occur over a period not to exceed 20 years and will be credited directly to the State Revolving Fund enabling the fund balance to be available in perpetuity.

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF ENVIRONMENTAL SERVICES**

**SCHEDULE OF BUDGETARY COMPONENTS  
GENERAL FUND  
FOR THE NINE MONTHS ENDED MARCH 31, 1995**

	1995 OPERATING BUDGET	SUPPLEMENTAL APPROPRIATION WARRANTS	BALANCE BROUGHT FORWARD	TRANSFERS IN/ (OUT)	LAPSES	TOTAL BUDGET
<u>RESTRICTED REVENUE</u>						
Other Restricted Revenue	\$ 1,920,610	\$ 847,417	\$( 424,827)	\$ -0-	\$ -0-	\$ 2,343,200
Municipal Assessments	3,078,876	-0-	( 260,912)	-0-	-0-	2,817,964
Permit Fees	841,740	83,627	( 461,165)	-0-	-0-	464,202
Lab Fees	453,169	-0-	-0-	-0-	-0-	453,169
Other Transfers and Fees	<u>1,039,063</u>	<u>33,002</u>	<u>48,933</u>	<u>-0-</u>	<u>-0-</u>	<u>1,120,998</u>
<b>TOTAL RESTRICTED REVENUE</b>	<b><u>\$ 7,333,458</u></b>	<b><u>\$ 964,046</u></b>	<b><u>\$(1,097,971)</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$ 7,199,533</u></b>
<u>EXPENDITURES</u>						
Salaries and Benefits	\$12,002,485	\$( 32,110)	\$ 396,011	\$( 140,864)	\$ -0-	\$12,225,522
State Aid Payments	16,157,850	(812,259)	-0-	-0-	-0-	15,345,591
Current Expenses	2,378,126	74,882	120,869	( 7,550)	-0-	2,566,327
Miscellaneous	1,044,439	445,301	3,231,260	( 9,250)	( 8,173)	4,703,577
Equipment	<u>430,497</u>	<u>83,601</u>	<u>166,875</u>	<u>21,485</u>	<u>( 28,000)</u>	<u>674,458</u>
<b>TOTAL EXPENDITURES</b>	<b><u>\$32,013,397</u></b>	<b><u>\$(240,585)</u></b>	<b><u>\$ 3,915,015</u></b>	<b><u>\$( 136,179)</u></b>	<b><u>\$( 36,173)</u></b>	<b><u>\$35,515,475</u></b>



**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF ENVIRONMENTAL SERVICES**

**SCHEDULE OF BUDGETARY COMPONENTS  
SPECIAL FUND  
FOR THE NINE MONTHS ENDED MARCH 31, 1995**

	1995 OPERATING BUDGET	SUPPLEMENTAL APPROPRIATION WARRANTS	BALANCE BROUGHT FORWARD	TRANSFERS IN/ (OUT)	LAPSES	TOTAL BUDGET
<b><u>RESTRICTED REVENUE</u></b>						
Revolving Fund Loans	\$20,011,860	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$20,011,860
Other Restricted Revenue	1,577,199	2,169,471	( 483,847)	-0-	-0-	3,262,823
Other Federal Funds	10,189,931	3,359,500	906,842	(1,099,483)	-0-	13,356,790
Oil Disbursement Fund	4,353,644	3,250,000	-0-	-0-	-0-	7,603,644
Cost Recovery	1,568,439	162,605	1,402,223	-0-	-0-	3,133,267
Nashua Superfund Site	1,962,120	-0-	647,981	( 50,000)	-0-	2,560,101
Dam Maintenance	796,219	58,580	-0-	-0-	-0-	854,799
<b>TOTAL RESTRICTED REVENUE</b>	<b><u>\$40,459,412</u></b>	<b><u>\$9,000,156</u></b>	<b><u>\$ 2,473,199</u></b>	<b><u>\$(1,149,483)</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$50,783,284</u></b>
<b><u>EXPENDITURES</u></b>						
Salaries and Benefits	\$ 8,569,794	\$1,216,854	\$ 266,824	\$( 129,429)	\$ -0-	\$ 9,924,043
Revolving Fund Loans	19,991,848	-0-	-0-	-0-	-0-	19,991,848
Oil Fund Disbursements	4,000,000	3,250,000	4,662,638	-0-	-0-	11,912,638
Other Federal Costs	2,326,533	3,617,635	1,135,850	376,974	-0-	7,456,992
Current Expenses	690,608	126,633	45,208	5,399	-0-	867,848
SuperFund Contracts	2,000,000	-0-	692,135	-0-	-0-	2,692,135
Miscellaneous	919,482	185,343	16,298,191	(1,334,758)	-0-	16,068,258
Equipment	250,473	483,227	235,546	614	-0-	969,860
Interagency Transfers	1,710,674	120,464	138,291	( 17,856)	-0-	1,951,573
<b>TOTAL EXPENDITURES</b>	<b><u>\$40,459,412</u></b>	<b><u>\$9,000,156</u></b>	<b><u>\$23,474,683</u></b>	<b><u>\$(1,099,056)</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$71,835,195</u></b>

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF ENVIRONMENTAL SERVICES**

**SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE (CASH BASIS)  
FOR THE NINE MONTHS ENDED MARCH 31, 1995**

FEDERAL CATALOG NUMBER	FEDERAL GRANTOR / PROGRAM TITLE	REVENUE	EXPENDITURES
<b>DEPARTMENT OF THE INTERIOR</b>			
None	U. S. Geological Survey	\$ 20,002	\$ 6,470
None	River Studies	24,956	24,580
<b>DEPARTMENT OF DEFENSE</b>			
None	Defense Environment Restoration	312,070	243,004
<b>ENVIRONMENTAL PROTECTION AGENCY</b>			
66.001	Air Pollution Control	1,296,108	1,254,343
66.419	Clean Water Act, Section 106	434,243	484,099
66.432	Public Water Systems	546,715	522,424
66.433	Underground Water Source	41,485	38,843
66.435	Clean Lakes Program	130,680	102,099
66.438	Construction Grant	170,896	243,415
66.454	Water Quality Management	140,262	115,962
66.458	Grants for State Revolving Fund	5,576,947	5,646,314
66.460	Non-point Implementation	344,855	376,194
66.461	Wetlands Protection	53,176	33,449
66.463	Clean Water Act, Section 104(b) (3)	211,930	168,104
66.467	Outreach Operator Training	39,682	38,981
66.701	Toxic Substances	71,048	60,088
66.801	Hazardous Waste Support	274,115	264,133
66.802	Hazardous Substance Response Trust	2,777,745	2,574,088
66.804	State Underground Storage Tanks	140,579	135,535
66.805	Leaking Underground Storage Tank Trust Fund Program	509,478	527,922
66.808	Solid Waste Management Assistance	37,526	28,140
66.900	Pollution Prevention Grants Program	118,537	124,338
66.925	State/EPA Data Management Financial Assistance	2,164	504
66.951	Environmental Education Grants	1,098	1,325
None	Other Federal Assistance	<u>34,038</u>	<u>34,026</u>
<b>TOTAL FEDERAL ACTIVITY</b>		<b><u>\$ 13,310,335</u></b>	<b><u>\$ 13,048,380</u></b>

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF ENVIRONMENTAL SERVICES**

**SCHEDULE OF QUESTIONED COSTS  
FOR THE NINE MONTHS ENDED MARCH 31, 1995**

<u>FEDERAL CATALOG NUMBER</u>	<u>FEDERAL GRANTOR / PROGRAM TITLE</u>	<u>QUESTIONED COSTS</u>
<b>ENVIRONMENTAL PROTECTION AGENCY</b>		
66.001	Air Pollution Control	\$ 5,920
66.419	Clean Water Act, Section 106	2,624
66.432	Public Water Systems	3,259
66.433	Underground Water Source	318
66.435	Clean Lakes Program	638
66.438	Construction Grant	5,629
66.454	Water Quality Management	690
66.458	Grants for State Revolving Fund	2,688
66.460	Non-point Implementation	1,083
66.463	Clean Water Act, Section 104(b) (3)	386
66.467	Outreach Operator Training	241
66.701	Toxic Substances	894
66.801	Hazardous Waste Support	1,757
66.802	Hazardous Substance Response Trust	2,922
66.804	State Underground Storage Tanks	998
66.805	Leaking Underground Storage Tank Trust Fund Program	3,132
66.900	Pollution Prevention Grants Program	141
None	Other Federal Assistance	<u>1,680</u>
	<b>TOTAL QUESTIONED COSTS</b>	<b><u>\$ 35,000</u></b>

**APPENDIX I**  
**STATUS OF PRIOR AUDIT REPORT OBSERVATIONS**

The LBA audited the Department of Environmental Services for the fiscal year ended June 30, 1989. The LBA followed up on the observations in that audit when it issued the *Report On Current Status Of Prior Audit Observations As Of January 1, 1992*. The following is a summary of the status of the observations contained in the 1989 audit as reported in January of 1992 and as of June 13, 1995.

Copies of prior audit reports can be obtained from the Office of Legislative Budget Assistant, Audit Division, Room 102, State House, Concord, NH 03301. Current year observations are denoted in parenthesis next to the observation titles.

<u>INTERNAL CONTROL</u>	<u>STATUS AS OF JANUARY 1, 1992</u>	<u>STATUS AS OF JUNE 13, 1995</u>
<b>MATERIAL WEAKNESSES</b>		
1. ACCOUNTING AND SUPERVISION	● ○ ○	● ● ●
2. INTRA-AGENCY TRANSACTIONS	● ○ ○	● ● ●
3. UNDERSTATEMENT OF LAND AND BUILDINGS	○ ○ ○	● ● ●
4. MONITORING OF LITIGATION AND REVENUES	● ● ●	● ● ●
5. WATER RESOURCES COUNCIL EXCLUDED FROM FINANCIAL STATEMENTS	● ● ●	● ● ●
6. INTERNAL CONTROL OVER EQUIPMENT (See Current Observation No. 3)	● ● ●	● ○ ○
<b>OTHER REPORTABLE CONDITIONS</b>		
7. REVOLVING FUNDS	● ○ ○	● ● ●
8. INTERNAL CONTROL OVER CASH RECEIPTS (See Current Observation No. 2)	● ● ●	● ○ ○
9. STATE AID TO MUNICIPALITIES (See Current Observation No. 9)	● ○ ○	● ● ○
10. UNRECORDED ACCOUNTS RECEIVABLE	● ○ ○	● ● ●
11. BILLING AND RECEIVABLES FOR LAB TESTS	● ○ ○	● ● ●
12. IMPROPER ACCOUNTING FOR AIR MONITORING CONTRACTS	● ● ●	● ● ●
13. FEDERAL FUNDS LAPSED TO THE GENERAL FUND	● ● ●	● ● ●
14. IMPROPER CLASSIFICATION OF EXPENDITURES	● ● ●	● ● ●
15. LAB COST CENTER CHARGES	● ● ●	● ● ●
<b><u>STATE AND FEDERAL COMPLIANCE</u></b>		
<b>MATERIAL INSTANCES OF NONCOMPLIANCE</b>		
16. QUESTIONED COSTS - STATE MATCH	● ○ ○	● ● ●
17. QUESTIONED COSTS - LABORATORY COST CENTER	○ ○ ○	● ● ●
18. QUESTIONED COSTS - INDIRECT COSTS (See Current Observation No. 12)	● ○ ○	● ● ○

(Continued)

## APPENDIX I (Continued)

<u>STATE AND FEDERAL COMPLIANCE (Continued)</u>	<u>STATUS AS OF JANUARY 1, 1992</u>	<u>STATUS AS OF JUNE 13, 1995</u>
<b>MATERIAL INSTANCES OF NONCOMPLIANCE (Continued):</b>		
19. QUESTIONED COSTS - DOCUMENTATION OF FEDERAL CHARGES	● ○ ○	● ● ●
20. QUESTIONED COSTS - ALLOCATION OF COMPUTER SYSTEM PURCHASE	● ○ ○	● ● ●
21. HAZARDOUS WASTE CLEANUP FUND	● ● ●	● ● ●
22. SPECIAL FUNDS NOT CREDITED WITH INTEREST	● ● ●	● ● ●
23. EQUIPMENT INVENTORY PROCEDURES AND RECORDS	● ● ●	● ● ●
 <b>REPORTABLE INSTANCES OF NON-COMPLIANCE</b>		
24. CASH MANAGEMENT	● ● ●	● ● ●
25. FEDERAL FINANCIAL REPORTS (See Current Observation No. 11)	● ○ ○	● ○ ○
26. FEDERAL PROGRAM ACCOUNTING	● ○ ○	● ● ●
27. UNRECOVERED FEDERAL PROGRAM EXPENDITURES	● ○ ○	● ● ●
28. STATE-OWNED MOTOR VEHICLES	● ● ●	● ● ●
29. CREDIT REFUNDS	● ● ●	● ● ●

**STATUS KEY**

Fully Resolved	● ● ●	14	24
Substantially Resolved	● ● ○	0	2
Partially Resolved	● ○ ○	13	3
Unresolved	○ ○ ○	2	0

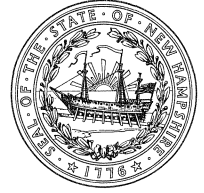


**State of New Hampshire**  
**DEPARTMENT OF ENVIRONMENTAL SERVICES**

6 Hazen Drive, P.O. Box 95, Concord, NH 03302-0095

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January 26, 1996

The Honorable Channing T. Brown, Chairman  
 Fiscal Committee of the General Court  
 State House  
 Concord, New Hampshire 03301

Dear Chairman Brown:

We have reviewed the draft audit report of this department for fiscal year 1995 that was prepared by the Office of Legislative Budget Assistant. I assure you that we will address all audit recommendations as soon as possible. Many of the recommendations have been implemented and we expect the others will be completed within a few months.

I am proud of the effort by our accounting staff since the last audit. They have initiated many procedures to improve our financial controls during the past four years and they continue to do so. Other improvements are the establishment of a comprehensive time allocation system, automation of payment vouchers and transfers of expense, consolidation of accounts, and staff training. This has all been accomplished with no additional staff at a time when demands on the department have continued to increase.

During the past four years we have given greater emphasis to audit matters on a department-wide basis. People throughout the department are more understanding of the important role of good financial controls. Their cooperation has made a difference.

We continue to make improvements in our accounting controls by increasing our use of computers. We have recently installed a LAN Computer System which will eventually replace our outdated Wang VS Computer System. Our accounting and other administrative databases will be converted to the new system. The new software being used will allow us to make improvements to these databases to make them more efficient. Continuous improvement has become the hallmark of our financial and administrative functions as well as other programs throughout the department.

Sincerely,

Robert W. Varney  
 Commissioner

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