Management Letter
For the State of New Hampshire

For the year ended June 30, 2003

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December 17, 2003

To the Fiscal Committee of the General Court
State of New Hampshire
Concord, New Hampshire

We have audited the financial statements of the State of New Hampshire for the period ended June 30, 2003, and have issued our report thereon dated December 17, 2003. In planning and performing our audit of the financial statements of the State of New Hampshire, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control.

However, we noted one matter involving internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions are matters coming to our attention that, in our judgment, relate to significant deficiencies in the design or operation of internal control and could adversely affect the State's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions. The reportable condition noted during our audit has been discussed with the appropriate members of management.

A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control would not necessarily disclose all matters in internal control 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, the reportable condition we noted is not believed to be a material weakness.

Although not considered to be reportable conditions, other comments noted during our audit have been presented herein. These comments have been discussed with appropriate members of management.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the June 30, 2003 financial statements, and this report does not affect our report on these financial statements dated December 17, 2003. We have not considered internal control since the date of our report.

This report is intended solely for the information and use of the Fiscal Committee, management, and others within the State and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

STATE OF NEW HAMPSHIRE
2003 MANAGEMENT LETTER

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Reportable Condition

Department of Health and Human Services

Improving the Department of Health and Human Services Accounting and Reporting

Changes in economic conditions and Federal and legislative changes have resulted in significant increases in the Department of Health and Human Services (the Department) spending over the past several years. As the State's largest agency, spending over $1.5 billion in Federal and State resources in State fiscal year 2003, it is imperative that proper internal controls over the receipt and expenditure of State and Federal resources be in place and that the operations of the Department be reported in an accurate and timely fashion.

The Department's programs, activities and initiatives – including Medicaid, Drug Rebates, Disproportionate Share Hospital, 'ProShare', County programs and others – require strong internal controls and the timely reporting of relevant information for subsequent in-depth analysis by the Department's management. Without accurate, timely reporting, review and analysis, decisions by the Department's management may be incorrect and, in turn, errors could occur in the State's financial statements.

During our audit, we noted several errors in State fiscal year 2003 information produced by the Department that resulted in adjustments to the financial statements of several million dollars out of expenditures totaling approximately $1.5 billion. The most significant area where errors were noted was in the estimation of the State's year-end Medicaid liability. While this calculation is only one of many produced by the Department for internal management, the State, and for the Federal government, the calculation is of sufficient importance to cause concern regarding the Department's internal controls and management reporting.

In State fiscal year 2003, the process used by the Department for estimating the year-end Medicaid liability was inefficient and ineffective and did not properly consider several key variables (e.g., inventory levels for claims, suspended claims). Accordingly, much of the information initially provided to the Bureau of Financial Reporting to support the liability calculation was determined to be incomplete or incorrect resulting in a delay in the audit completion. The Department must be held accountable for the timely and accurate reporting of its activities. This includes, among others, improving the process for generating and reporting data in support of its Medicaid and other activities and improving management's reliance on internal controls over the Medicaid fiscal agent processing of Medicaid transactions. Near the end of the fiscal year 2003 audit, we noted that the Department began implementing controls over the Medicaid liability calculations including upper management reviews of the calculations and the consideration of key performance indicators, including inventory levels for claims and suspended claims, to help ensure that the decisions being made by Department and State managers are being made based on accurate information.

Although many of the internal control and reporting issues existed prior to State fiscal year 2003, the new Commissioner will be responsible for improving controls and addressing other issues the Department faces. Accordingly, the Department will need to analyze its activities and responsibilities and develop a comprehensive plan of action to review critical business processes and institute a formal reporting and review process within the Department. To that end, management has begun to undertake a Department-wide reorganization to help streamline the business activities and improve internal controls. As part of this reorganization, the Department may need additional resources and/or need to redeploy existing resources to effectively implement the plan.

Department of Health and Human Services Response

The Department's management agrees with the comment and has already taken steps to improve internal controls and management reporting within the Department through a comprehensive reorganization. As part of the reorganization, the Department is developing a distinct Program and Integrity unit, reporting directly to the Commissioner, which will be responsible for all quality assurance, special investigations, and internal audit activities. Initial tasks of this group are an analysis of critical business processes to ensure that management is getting accurate information for decision-making.

In addition, because Medicaid accounts for between 65% and 75% of departmental expenditures, the reorganization will centralize and further improve Medicaid reporting and analysis within the Department. Finally, the Department has implemented controls, including ongoing upper management review of the Medicaid Liability calculations as well as a benchmarking initiative, which considers a variety of key indicators (including inventory levels for claims and suspended claims).

Other Comments

Department of Administrative Services

Implementation of Government-wide Enterprise Resource Planning System

The State has appropriated approximately $18.8 million to procure and implement a new financial accounting system or, enterprise resource planning (ERP), to replace the existing legacy system, New Hampshire Integrated Financial System (NHIFS) and the Government Human Resources System (GHRS). An ERP system is an integrated information system that serves all departments in an organization, enhances reporting capability and provides additional system functionality.

The ERP implementation process is an extremely complex, time consuming and expensive process and can severely impact continuing business activities. The State has dedicated a team of State employees to head up the procurement and implementation of the ERP. However, the State has not yet relieved selected employees from continuing business duties to a full-time formally organized implementation team. Adding to Department staff and management responsibilities without removing or minimizing their routine activities will not only impact the implementation, but will have a negative impact on their ability to carry-out their ordinary business responsibilities. Further, scarce resources dedicated to the project will cause significant disruptions in the system implementation process and therefore decrease the likelihood of its success. If time finding and ensuring a proper skill base are not given sufficient consideration in the early planning stages, it will be almost impossible to achieve the intended vision.

We recommend that the responsibilities of the procurement and implementation team be analyzed to ensure that they are properly assigned in order for the system implementation to receive the appropriate level of attention without impacting current services or compromising the State's full effort to successfully implement the system. The team should be comprised of various State agencies and departments that will use the system and its members should have formalized roles and responsibilities and have access to the proper levels of State government.

We also recommend that the State carefully consider its IT needs and goals. This is addressed by a due diligence process that should include a needs assessment, both present and future, across all aspects of the State's operations. Specifically, the State should:

- Develop a detailed timeline, including milestone dates, associated deliverables, and estimated time to achieve each milestone and be agreed to by the team, participating State agencies, and ERP vendor.

- Ensure that the project plan and deliverables are clearly defined. A proposed work plan with appropriate detail for State management review should be properly addressed.

- Develop a reporting mechanism to make sure the team has access to the highest levels of State government for decision-making purposes.

- Confirm that all vendors have a substantial understanding of the State's IT requirements and that the implementation methodology fits the State's culture and management expectations.

- Ensure that all members of the organization are adequately trained to utilize the new systems and its capabilities and have access to system support after implementation.

- Establish a contingency plan in case of unexpected delays in implementation.

Overall, the State should recognize that the failure to adequately plan for and execute fundamental changes to the organization that occur as a result of an ERP implementation will impact the outcome. Failures to review and develop future technical and business requirements, job descriptions, organizational structural changes, and adequate documentation of existing legacy systems are common difficulties.

Department of Administrative Services Response

We concur with all of the above comments. The specific recommendations have been incorporated into the Request for Proposal for a new ERP system, which was issued on February 20, 2004. Dedicating staff to this project will be a challenge, but we have requested Commissioners of the various departments to contribute staff to this critical project. While we have filled out many of the teams, we are aware of the risks associated with being spread too thin and that we will need to constantly monitor to ensure that the project stays on track and that the current work still gets done.

Implementation of State Employee Self-Insurance Fund

In September 2003, the State entered into a contract with a third party to administer the State's health benefits program through June 2005. The plan covers all active and retired State employees. Under the new arrangement, the State is self-insured up to $175 million per year or individual claims of $500,000 or more. Previously, the cost of heath care was covered through insurance policies.

Although the plan does not change State employee benefits, it does change how claims are processed and how the information will be captured and recorded in the State accounting system. In connection with the program, the State has contracted with a vendor to provide an on-line "self-service" that employees are required to use to select or review benefit options. This data is then forwarded to the administrator and the State's payroll system so the benefit expenditure process is fully automated. When medical services are rendered to State employees, health providers submit claims to the third party administrator for payment. Daily, the administrator pays claims and the State replenishes the administrator's bank account. The administrator maintains a claims database that the State can access in order to review claims.

Under this plan, the State will now be required to play a critical management role in its health insurance program. This will include health claims management, forecasting, budgeting, and accounting. To help properly manage this program, we recommend the following:

- Regular claims audit by the State – The State should develop an audit plan to ensure the propriety and accuracy of claims processed by the third-party administrator.

- Actuarial review – The State should have an actuarial study conducted of the claims incurred but not reported by health providers at year-end.

- Statement on Auditing Standards (SAS 70) Procedures – The State should ensure that an audit of the third party administrator's control environment and processing controls is performed annually.

- Financial Reporting – The State should perform, at least monthly, a reconciliation of State Employee Self-Insurance Fund claim payments to cash disbursements and employee payroll charges.

- New Financial System – The State should consider the possible interface difficulties and transition from the current financial reporting system (NHIFS) to the proposed new ERP system.

Department of Administrative Services Response

The move to a self-insurance environment from a traditional insurance environment has increased the workload for the Department of Administrative Services tremendously. The budget authorized a new position to administer and oversee this program and this program has been transitioned to the Bureau of Risk Management. Transitional issues from one carrier to a different third-party administrator; migration of the retiree population for the first time ever to a new servicing carrier; introduction of an on-line enrollment service vendor and related issues with working with various providers; and member eligibility/benefit questions have consumed us operationally in the first quarter. For accounting purposes, the State established a new fund entitled the Employee Benefit Risk Fund and we have been working hard establishing the necessary procedures to properly account for this activity. The Department recognizes that much work remains in terms of claims reporting and analysis, claims auditing, and actuarial analysis, and we will make every effort to implement the necessary management oversight controls over the next several months.

As recommended, Cigna will be providing the State with a SAS 70 audit report. Further, various operational accounting processes and controls are in place including performing monthly bank reconciliations. The Department will continue to brief Fiscal Committee with the status of this activity as required by statute.

Formal Fraud Prevention Program

In accordance with the Statement of Auditing Standards No. 99 *Consideration of Fraud in a Financial Statement Audit* (SAS 99), "management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements. Management, along with those who have responsibility for oversight of the financial reporting process, should set the proper tone; create and maintain a culture of honesty and high ethical standards; and establish appropriate controls to prevent, deter, and detect fraud. When management and those responsible for the oversight of the financial reporting process fulfill those responsibilities, the opportunities to commit fraud can be reduced significantly."

In its effort to adopt sound accounting policies and establish and maintain sound internal controls, management should establish formal broad programs that are designed to prevent, deter and detect fraud. During 2003, an Executive Order was issued by the Governor, which requires unclassified State employees (appointed employees) to sign ethics statements, which among other things discloses the employees' investments and other related parties. However, the State does not have any other formal broad based programs in place to prevent, deter, and detect fraud.

We recommend the State fully implement a formal fraud program that may include a "hot-line" or call center for State employees to anonymously report instances of suspected fraud or inappropriate activities. The establishment of formal procedures for receiving and handling complaints could serve to facilitate disclosures, encourage proper individual conduct and alert the State to potential problems before they have serious consequences.

We also recommend that the Department of Administrative Services develop and distribute to the management of each State agency a formal risk assessment program to annually identify fraud risks resident at each respective agency, including the agency's response to risks identified.

Department of Administrative Services Response

We concur that a Statewide Formal Fraud Program needs to be established. The Department of Administrative Services will assemble a team to look at how best to accomplish this important function. Further, the Attorney General's Office will be contacted to assist with organizing the fraud hotline and call center. In addition, two documents titled "Policy Against Fraudulent or Other Wrongful Acts" and "Fraud Detection and Prevention Policies and Procedures" have been drafted and will be submitted to the Attorney General's office for their review.

Federal Reimbursement Percentage

For financial reporting purposes, the State recognizes accounts receivable for Federal reimbursement on established allowable accounts payable and payroll accruals.

The amount of this Federal reimbursement is based on the Federal reimbursement rate per the State's general ledger, NHIFS, which calculates the Federal reimbursement rate as the percentage of total Federal revenues to total expenditures within an organization code.

However, the NHIFS calculated Federal reimbursement rate for the organization code is not always accurate. Certain organization codes include Federal expenditures without the corresponding Federal revenue. For example, the Department of Transportation records all federal revenues in one organization code, while salary matching expenditures may be recorded in other organization codes. Accordingly, the actual reimbursement rate for a particular federal program may be higher or lower than the rate calculated by NHIFS and, in turn, recorded in the State's financial statements.

To address this situation, the Department of Administrative Services', Bureau of Financial Reporting (BFR), reviews the reasonableness of each federal reimbursement percentage by contacting each State agency and inquiring as to what is the true reimbursement percentage.

During our testwork, we noted an instance, as we have in the past, where BFR overstated the federal reimbursement percentage, which overstated the Federal revenue by approximately $600,000.

Due to the impact of the Federal reimbursement percentage on the State's financial reporting, we recommend that the BFR more closely scrutinize the federal reimbursement percentages being provided by the agencies. In addition, BFR should utilize the expertise of the business supervisors assigned to each of these agencies in order to validate the accuracy of the federal reimbursement rates.

Department of Administrative Services Response

We concur that better monitoring can be performed of the various funding ratios. While the Department has taken steps to confirm the reimbursement rates, apparently further work needs to be undertaken to make sure that everyone understands the importance and purpose of this exercise. In fiscal 2004, the Department has taken further steps by having the Business Supervisors maintain the reimbursement ratios on the IFS Fund Mix Table.

By keeping the Fund Mix Table current and understanding the various accounts that have unusual budgeting relationships, the Division of Accounting Services will be able to increase the accuracy of this computation.

Unexpended Appropriation Balances

In order to provide spending authority for State activities, the State's budgetary process establishes appropriations. Each fiscal year-end, unexpended appropriations are lapsed to undesignated fund balance and are available for future appropriations unless they have been encumbered or are legally defined as non-lapsing. Often included in an agency's unexpended appropriation are 'negative' available balances. Negative available balances are the result of encumbrances established for which Federal revenues have not been drawn, expenditures incurred but not yet billed by the State, or draw downs from the Federal government and other anticipated revenue not yet received.

At year-end, at the request of the Bureau of Financial Reporting (BFR), all State agencies review the "Statement of Appropriation" for unexpended appropriations in order to determine the status of unexpended appropriations and to take appropriate action. During our audit work, we noted various balances in these accounts that were not properly classified in the general and capital funds. These unexpended appropriation balances, some positive and some negative, ranged from $1 million to $1.7 million. Although the effect on the undesignated fund balance is not significant in these specific instances, not properly assessing and recording the availability of funds in light of the laws defeats the merits of the budgetary process and provides State management with an inaccurate reflection of the State's funding availability.

We recommend that the State agencies, in cooperation with the BFR, seek ways to improve the process to review and close out of appropriations.

Department of Administrative Services Response

We concur. Additional language will be added to the Annual Closing Guide and the Department will better coordinate the overall monitoring of all of the accounts. Further, budgetary footnotes to eliminate the negative balance for some of the problem accounts, such as the Multiple Offender Program, will be proposed during the next budgetary cycle.

Liquidation of Encumbrances

An encumbrance is the State's formal commitment to acquire goods or services and is recorded in New Hampshire's Integrated Financial System (NHIFS) when an agency either opens a purchase order (PO) or enters into a Governor and Council approved contract. Encumbrances are liquidated upon receipt of the goods or services and an expenditure is recorded. Encumbrances carried forward require appropriate approval, as provided by State statute.

During our review of the State's open encumbrances at year-end, we noted:

- Instances where encumbrances were not reduced by the amounts expended against them.

- Instances where a Department failed to liquidate open encumbrances on completed projects by encumbering "contingency funds" for projects, but would fail to liquidate those contingency funds, as well as any other open encumbrances, when the project was completed.

- Instances where the State improperly carried forward open encumbrances without the appropriate authority.

Although immaterial to the State's financial position, the errors noted caused the State's reserve for encumbrances to be overstated and the unrestricted fund balance to be understated by approximately $238,000.

We recommend that the State more closely monitor in a timely manner its encumbrances to ensure that there is proper justification and accuracy of encumbrances reported.

Department of Administrative Services Response

The Department has taken steps to study encumbrances and in particular has developed error reports. As in the previous comments, the Department will reemphasize proper closing steps to include a thorough review of all encumbrances. A more vigorous challenge will be conducted by the Department to ensure proper liquidation of these obligations.

Capital Asset Reporting

Governmental Accounting Standards Board Statement 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, adopted by the State as of June 30, 2002, requires that capital assets be reported for all governmental and business-type activities.

In order to report capital assets, the Division of Accounting Services (the Division) requires that each agency manually prepare a spreadsheet to record its capital additions, deletions and ending balances and forward the schedule to the Division for Statewide compilation. Upon receipt, the Division manually enters this information into a master spreadsheet that consolidates all of the capital assets reported by the agencies. There are approximately forty-five State agencies, reporting seven different capital asset categories and the related accumulated depreciation. This process is extremely labor-intensive and is subject to error. Further, such a compilation process provides information for financial reporting purposes only and cannot be used for management analysis and decision-making.

Additionally, although agencies generally use a consistent format to report capital asset information to the Division, the agency level supporting information differs from agency to agency. Inconsistent tracking increases the likelihood of inaccurate financial reporting as certain items may or may not be included.

We recommend that an automated capital asset reporting module be utilized to ensure that fixed asset reports are complete and accurate. The State may consider implementing such a module as a sub-ledger in NHIFS or including the module in the new ERP. The capital asset module should be utilized by all agencies to more uniformly track capital assets.

Department of Administrative Services Response

We concur. The consolidation of statewide capital assets for reporting in accordance with GASB 34 has become very labor intensive. Since the State's current system, NHIFS, is unable to capture the necessary information for compliance with the new accounting standards, multiple advanced spreadsheets have been utilized to allow for the data to be consolidated in a central location. This is considered an interim step until a new ERP system is in place. Although the procurement of a new system is still in the preliminary stages, it is anticipated that a fixed asset module will be implemented.

Compilation of the State's Schedule of Federal Financial Awards

In accordance with Office of Management and Budget Circular A-133 section .310, management of the State is responsible for compiling the Schedule of Federal Financial Awards (the Schedule). As such, management has the responsibility for, among other things: (a) identifying, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the Catalog of Federal Domestic Assistance (CFDA) title and number, award number and year, name of the Federal agency, and name of the pass-through entity; and (b) preparing appropriate financial statements, including the Schedule of Expenditures of Federal Awards.

Currently, the Schedule is compiled by the Office of Legislative Budget Assistant's office (LBA) because the State does not currently have a system in place for gathering the Federal expenditure data needed to prepare the Schedule and the State's general ledger, the New Hampshire Integrated Financial System (NHIFS), is unable to record the information that would enable the State to electronically prepare the Schedule. The process of compiling the information is intensely manual and subject to human error both at the department and LBA levels. Also by compiling the Schedule, the LBA is acting in more of a management role than of an independent auditor role.

The State is in the process of developing and implementing a new financial management system. The State should ensure that this system allows them to generate the needed information to identify Federal awards and prepare the Schedule.

Additionally, OMB has recently issued a policy directive to implement the requirement for grant applicants to provide a Dun and Bradstreet (D&B) Data Universal Numbering System (DUNS) number when applying for Federal grants on or after October 1, 2003. The DUNS number will be required whether an applicant is submitting a paper application or using the government-wide electronic portal (Grants.gov). Eventually, the State will only be able to draw down Federal funds using a valid DUNS number assigned to a grant. In addition, the State will have to report all DUNS numbers used to apply for their respective grants on the Federal Data Collection Form.

We recommend that management of the State implement the necessary steps to ensure that all federal awards are properly identified within the financial accounting system. This will help to ensure that all expenditures are properly reported within the Schedule of Expenditures of Federal Awards. Also, in order to reconcile the Schedule to the State's accounting system, it is important that the new financial management system has the capability of tracking and reporting Federal expenditure data.

Further, the State needs to determine whether a DUNS number exists for the State or take the steps needed to obtain one and that someone at the State control the issuance of the DUNS numbers to help ensure timely Federal cash draws and an accurate preparation of the Data Collection Form.

Most importantly, the State should reassign the responsibility for preparing the Schedule to the Department of Administrative Services as this function is truly a management function similar to the preparation of financial statements.

Department of Administrative Services Response

As part of the new ERP project, Federal award information will be properly identified and the system will have the capability to track and report Federal expenditure data. Until the new system is operational, the Department hopes that the LBA will continue to compile this information. The Department will meet with the LBA to determine if the data can be compiled more efficiently, such as adding requirements to the Annual Closing Guide. Further, the Department will meet with Treasury to study the DUNS numbering system issue to make sure that the State is in compliance with the new OMB policies.

Department of Health and Human Services

Implementation of the Medicaid Decision Support System

The primary system that supports the Medicaid program is the Medicaid Management Information System (MMIS). The MMIS is a complex claims processing system that receives, updates, processes, and stores Medicaid claims submitted by providers for services rendered. The MMIS utilizes various database subsystems including recipient, provider, and reference databases. Approximately $750 million in claims are processed through MMIS annually. The third-party administrator, Electronic Data Systems, Inc. (EDS), maintains and operates the system. Through 2003, EDS utilized Management Administrative Reporting System (MARS) to produce management reports from MMIS.

Our experience with MARS in prior audits indicated that the MARS reporting program did not provide useful, verifiably accurate, or complete information for the Medicaid program in several areas, including:

- Claim expense history
- Estimated incurred claims
- Analysis of non-routine transactions, such as pended or suspended claims
- Exception reporting
- Claim backlog information and statistics

In fiscal 2003, the Department began the implementation of the Medicaid Decision Support Systems (MDSS) to replace MARS. The MDSS, which the Department expects to improve access to data to support program management, is currently under development.

Given the implementation of a new reporting system, we recommend that the Department carefully consider its reporting requirements, both internally and externally. All information produced should be meaningful, useful, and understood.

We also recommend that the Department implement the proper controls and procedures to ensure that historical information as reported under MARS is maintained, not corrupted, and easily accessible in the new reporting environment.

We also suggest that the Department dedicate enough time and resources to the project in order to ensure that it is properly implemented and that those personnel be reasonably relieved of their regular business duties to focus on the new reporting system. Not properly designating appropriate resources to the implementation will have a negative impact on Department's operations and compromise an effective implementation. Clear, measurable goals and a realistic timeline should be established for the implementation.

Department of Health and Human Services Response

The Department needs to clarify the composition of its MMIS. The MMIS is a component system comprised of: NHAIM, administered by EDS, PBM, administered by First Health and MDSS, administered by Medstat. The NHAIM system receives, updates, processes and stores Medicaid medical claims (hospital, nursing home, etc.) submitted by providers for services rendered. The PBM system receives, updates, processes and stores Medicaid pharmaceutical claims submitted by providers for services rendered. Combined, these systems utilize various subsystems including recipient, provider, and reference databases. Lastly, the MDSS is the reporting repository for these two (2) claims processing systems utilizing completed claim payment information and produces MARS, SURS, Federal and clinical reports.

MDSS information about recipiency, service utilization, expenditures, and the clinical status of recipients in the Medicaid program is readily available in an easily understood format. The Department's MDSS development objective is to construct and provide useful information for internal fiscal and program management. This will provide better management tools and increase response time to requests for information. The information available from MDSS will not require Department staff to transform summary or aggregated data to external entities for analysis. The information / reporting developed was based on the needs expressed by a dedicated group of Department staff who have and continue to provide system requirements, testing and operational support.

The historic MARS, SURS and Federal reports will be maintained in the NHAIM system.

Department of Education

Financial Reporting Redundancy

The NH Department of Education (the "Department") Bureau of Business Management (BBM) is responsible for the accounting and record keeping of the Department's many Federal grants, including, but not limited to, Special Education, Title I – Grants to LEAs, Vocational Education, Class Size Reduction, Child Nutrition and Title II – Improving Teacher Quality.

Currently, the BBM accounts for Federal programs through four separate accounting systems including: the Form 2 system, the Federal Ledgers, the Grant Control Ledgers, and the state financial accounting system (NHIFS).

The Form 2 system tracks subrecipient grant awards using project numbers within each grant. Expenditures made through this system are manually posted to NHIFS and a weekly report is generated to post expenditures to the Federal Ledgers.

The Federal Ledgers are used to track Federal expenditures and requests for funds by NHIFS organization code and grant number. All entries are manually keyed into the Federal Ledgers that are reconciled to NHIFS on a monthly basis.

These four systems were developed independent of each other and are not integrated, resulting in transactions having to be posted multiple times and a duplication of effort on the part of the State's employees.

The lack of integration leads to tremendous inefficiencies in posting transactions, increases the risk of errors, and increases the cost to the State by virtue of having a duplication of efforts. The lack of integration also creates difficulties in providing information requested by the Department's internal and external users on a timely basis.

A similar comment was noted in the State's fiscal year 2002 management letter.

We recommend that the Department consider integrating the existing systems or implementing a new integrated management system, which would include a grants management module, that will meet the current and future needs of the Department and their external users.

Department of Education Response

The Department concurs that the lack of a modern integrated accounting/management system leads to inefficiency and potential for errors. The Department anticipates that an Enterprise Resource Planning (ERP) system that completely addresses this need will be implemented statewide in approximately 15 months. As specified by the State's Strategic Information Technology Plan (SITP), the ERP will consist of multi-module application software packages designed to serve and support several business functions across the organization. It will be a strategic tool that helps the State improve operations and management by integrating business processes and helping to optimize the allocation of available resources. Key functional areas of the State's ERP software will include budgeting, financial accounting, accounts payable, grants, projects, assets, inventory, purchasing, human resources, revenue and receipts, and cross function requirements. The Department of Administrative Services has been working with all State agencies including the Department of Education and a procurement vendor on this project and will release a Request for Proposal within days. Implementation will allow the Department to migrate all current business office accounting functions to the ERP system.

Department of Transportation

Infrastructure Reporting

The implementation of Governmental Accounting Standards Board (GASB) Statement 34 requires the State to record and depreciate infrastructure assets on their books.

The Department of Transportation is responsible for the construction and maintenance of the State's infrastructure, which generally includes the State's roads and bridges. The Department also acts as a conduit to Federal Highway funds for the State's municipalities, whereas, the State will complete the project, collect Federal funds and bill the municipality for the balance. Upon the completion of the project, ownership and maintenance responsibilities transfer to the municipality.

Under GASB 34, the State should only report infrastructure assets owned by the State. Ownership is defined by a title or deed to the asset; however, roads and bridges generally do not carry titles. Ownership is commonly defined in a contract between the municipality and the State. However, when ownership is not clearly defined in a contract, the entity that is primarily responsible for the maintenance of the asset is entitled to record that asset on their books.

During the fiscal year 2003 audit, we noted that 117 municipal projects totaling approximately $50 million were improperly included on the State's books, $33 million as construction in progress (CIP) and $17 million as infrastructure. This caused the State's capital assets to be overstated and their transportation expenses to be understated. In addition, approximately $33 million was included in the State's construction in progress account. This caused the State's liabilities to be understated and the transportation expenses to be understated.

Therefore, we recommend that the Department of Transportation adhere to the policies and procedures established to ensure that only State owned projects be transferred to infrastructure. Additionally, we recommend that the Department review its policies and procedures to separately track local construction projects in process for propriety.

Department of Transportation Response

The Department does have policies and procedures in effect to identify and record new highway construction projects under GASB 34 Infrastructure Improvements.

The 117 municipal projects noted in the fiscal year 2003 audit were identified in the historical data compilation phase. All of the municipal projects were completed prior to June 30, 2001. New Hampshire Department of Transportation policies and procedures since June 30, 2001 exclude municipal projects from inventory.

Office of Information Technology

Office of Information Technology

Chapter 223, of the Laws of 2003, authorizes the Office of Information Technology (the Office) to be responsible for managing and coordinating all technology resources in the executive branch of government, developing and implementing strategies to enhance State customer service, and creating statewide efficiencies through the use of information and other technologies. In order to fulfill its objectives, various IT personnel and other resources from several State agencies were transferred to the Office of Information Technology.

The creation of this office brings a significant organizational change and a shift in roles and responsibilities on a statewide basis. Critical to successfully driving change statewide are the clear creation, communication, and implementation of:

- A tactical plan that translates the strategy into concrete actions that allow affected parties to actively participate. This should include a crisp definition of roles and responsibilities with actual people assigned to them.

- A corresponding timeline for the tactical plan. It should include phases, milestones, and deliverables.

- A clear management structure that works together with staff. By setting priorities and practicing defined processes and procedures, they resolve issues and conflict that come up before, during, and after the transition.

- A framework to manage risk and promote compliance with regulatory requirements.

In addition to addressing the critical success factors cited above, a method of charging agencies for IT services needs to be developed to ensure that adequate funding is available in the Office. Such a plan will help recover all costs related to the Office as well as provide support for any Federal reimbursements that may be available to the Office. We recommend the Office, in cooperation with the Department of Administrative Services, consider developing a Statewide Cost Allocation Plan as a way of charging agencies for IT services the Office provided.

Office of Information Technology Response

The Office of Information Technology (OIT) concurs with the finding. On October 27, 2003, the OIT published the Statewide Strategic Information Technology Plan. This document sets the strategic direction to guide the tactical planning recommended by KPMG.

A clear management structured has been established. OIT is fully engaged in defining roles and responsibilities for uniform delivery of service to multiple agencies. This task is complex because of the varied expectations and support models that existed in the source agencies prior to July 2003. All portions of the organization are focused on defining standard repeatable processes and procedures to ensure high quality efficient service delivery.

OIT and the Department of Administrative Services are currently developing a cost allocation plan for OIT services. The plan will be completed by the end of March 2004.

Insurance Department

Business Enterprise Tax Credit

The Insurance Department is responsible for the development and enforcement of insurance laws in the State. These laws provide that the Department collect a tax from licensed insurance companies for premiums underwritten. Pursuant to RSA 400-A:34, insurers that also pay the Business Enterprise Tax (BET) imposed by the Department of Revenue may use the BET as a credit against insurance premium taxes owed. During fiscal 2003, approximately $3.8 million of BET credits were utilized in premium tax returns.

When filing the final premium tax return, the Department requires insurers to submit a copy of the BET tax form to support the credit applied. However, the Department does not confirm the BET credit utilized with the Department of Revenue to ensure accuracy of the reported credit. As a result, any subsequent BET amendments would be undetected and could result in an under payment of premium taxes owed by insurers.

We recommend a formal confirmation process be initiated with the Department of Revenue to ensure the BET credits applied to Premium tax returns are accurate.

Insurance Department Response

The Insurance Department does not allow an insurance company to take the BET tax credit until the company submits a copy of their BET tax filing with the Department. Due to the confidentiality laws applicable to the Department of Revenue Administration, the Insurance Department is unable to verify company information by matching Department of Revenue Administration data with Insurance Department data. Traditionally, Revenue Administration has requested premium tax information on a company-by-company basis, and the Department has from time to time provided a comprehensive listing to Revenue Administration. Recently, Revenue Administration requested a comprehensive listing of calendar year 2002 premium tax with applied 2001 BET tax credits. This listing was provided by the Insurance Department on January 23, 2004. The Department of Revenue Administration has also requested similar data for calendar year 2003 and the Insurance Department will provide the information for calendar year 2003 after their receipt and processing (per RSA 400-A:32 premium tax returns are not due until March 15th). Additionally, the Insurance Department will provide similar information on a yearly basis to the Department of Revenue Administration.

Late Filing Penalty Fees

Pursuant to RSA 400-A:32, any insurer failing to file or remit the proper tax on or before March 15, June 15, September 15, and December 15 of each year shall pay a penalty of 10% on the tax due. If the tax or the estimated payment is not paid when due, the commissioner may suspend or revoke the insurer's certificate of authority.

The Department does not enforce the late filing penalty fee as directed by the Statue. Although there were several late filers during fiscal 2003, ranging from one day to over two months, no late fees were charged by the Department. Late filers and short paying files were placed on a list and contacted by the Department in order to rectify the situation.

We recommend the Department adopt a formal policy for imposing and waiving penalties, communicate the policy to insurers, and enforce the policy accordingly.

Insurance Department Response

While existing law allowed for the imposition of penalties on late filers, no definitive policy existed at the Department for the treatment of those late filings. However, late fee invoices were submitted to companies paying late for the March 15, 2003 due date. Since June 2003, the Department has adopted a policy to more tightly enforce the late payment fee. Effective January 1, 2004, RSA 400-A:32-a sets specific parameters for timely mailing based on language used by the State's Department of Revenue Administration. Further, effective January 12, 2004, RSA 400-A:32-b enables electronic funds transfer for companies and/or groups of companies meeting certain requirements. These new laws will enhance the ability of the Department to ensure timely payment of taxes due. The changes in the legislation and policy were communicated to the companies by means of Department issued bulletins, and published in the premium tax instructions contained on our website.

EXHIBIT A

Outstanding Prior Year Comments

The following represents comments identified in our previous management letter that were reexamined during this year's audit and may require further attention by State management. The full text of the finding is included in the applicable prior year management letter.

In fiscal 2002, the Office of the Legislative Budget Assistant (LBA) performed audit procedures at the Treasury Department and accordingly issued a management letter. We have included any significant unresolved management comments issued by the LBA below.

Department of Administrative Services

***Reports on Processing of Transactions by Service Organizations* (2001 management letter)**

The Department's Bureau of Risk Management contracts with a third party to provide claims administration, and accumulate financial and statistical data for the State's workers' compensation program. The State places a great deal of reliance on the controls in place at the third-party service bureau to input, process, track and expedite claims accurately and properly.

To gain comfort over the controls in place at the service bureau, the State should request a service bureau audit report in accordance with Statement on Auditing Standards (SAS) No. 70, *Reports on the Processing of Transactions by Service Organizations*, and include SAS No. 70 provisions/requirements in future third party service bureau contracts.

Department of Administrative Services Response

Our current contract with our third party service bureau, which expires July 1, 2004, does not contain a SAS 70 requirement. However, bid specifications are being prepared for the next contract with language that will require vendors offering proposals to provide the State with a SAS No. 70 report on an annual basis. Therefore, it is anticipated that the SAS 70 requirement will be resolved in fiscal 2005.

Transfers to the Education Trust Fund **(2002 Management Letter)**

In fiscal 2002, the Education Trust Fund (ETF) operated at a deficit of $16.6 million prior to General fund transfers. The ETF deficit was eliminated by a transfer from the General Fund, in accordance with generally accepted accounting principles. However, we observed that there was no legislation authorizing transfers from the General Fund operating surplus to eliminate such a deficit. In fiscal 2003, the ETF had a surplus from operations of $5 million that was transferred to the General Fund as of June 30, 2003 despite no legislation authorizing such a transfer.

We recommend that the State establish legislation to authorize year-end transfers from one reporting fund to another.

Department of Administrative Services Response

We concur. Since the funding for the Education Fund is so closely tied to the General Fund, and any shortfalls in the ETF are absorbed by the General Fund, it appears appropriate that in years where a surplus in the ETF occurs, monies should be transferred back. However, we agree that legislation should be proposed to authorize these year-end transfers. An additional effort will be made to bring new legislation forward in the next session.

Department of Revenue Administration

Reconciliation Between Various Tax Systems **(2002 management letter)**

The Department of Revenue Administration (DRA) uses the Taxpayer Information Management System (TIMS) to keep records of taxpayer accounts. Daily tax receipts must be manually entered into the TIMS system and manually recorded in the State's Integrated Financial System (NHIFS) because there is no direct interface between the two systems. To ensure that the tax information in each system balances, the Department manually prepares a reconciliation between TIMS and NHIFS on a monthly basis. The reconciliation uses information downloaded from TIMS to a Lotus spreadsheet via an Access database. The Lotus spreadsheet is manually adjusted for tax transactions not initially captured in TIMS (manual refunds, bounced checks, other adjustments). These transactions are eventually manually entered into TIMS and NHIFS. However, as a result of these manual adjustments and complexity of the reconciliation, TIMS and NHIFS are not directly reconciled and, therefore, could result in errors or omissions.

Further, having parallel recording systems, without direct interfaces, seems redundant and inefficient.

We recommend that DRA review its processes to determine how to streamline the tax receipt process to make the best use of technology, for example, review the feasibility of interfacing TIMS with NHIFS. In the meantime, the Department should seek ways to make the TIMS and NHIFS reconciliation less manual and more direct.

Department of Revenue Administration Response

Since the management letter of 2002, the Department has implemented an automated cash receipt, A-17 process, (August 2003). This new process automates the transfer of TIMS deposit information into NHIFS, thus eliminating the need for manual entry into the area pertaining to the deposit data transfer.

The reconciliation process done by the Business Administrator downloads cash receipts using an Access database into the Excel spreadsheet designed to track daily, monthly and year to date transactions. TIMS refunds are automatically downloaded to NHIFS as are bounced checks and zero documents. Manual refunds (taxes that are not on the TIMS system) are manually entered into NHIFS and any discrepancies caught by Treasury are entered into NHIFS by Treasury and later captured by DRA and entered into TIMS.

The reconciliation process, while not totally automated, does reconcile to TIMS and NHIFS in most areas and captures end of the month pending transactions.

***Allocation of Business Enterprise Tax and Business Profits* (2002 management letter)**

In an attempt to verify whether the State properly transferred the increases, we noted that the State is unable to accurately calculate the allocation between Business Profits Tax (BPT) and BET revenue. Because taxpayers are allowed to group these two taxes together for purposes of making estimated payments throughout the year, it is impossible to timely determine the precise amount of BPT and BET revenues attributable to the rate increases, as law dictates.

The inability to determine the break-out on a timely basis directly impacts the amounts deposited into the Education Trust Fund. Additionally, this inability to breakout the taxes makes tracking the State's revenue performance difficult and can affect the State's ability to evaluate both current and prospective tax policies.

We recommend the Department of Revenue Administration (DRA or Department) review its current tax reporting system to determine whether changes can be made to better identify the precise amount of revenue from BPT and BET taxes on a timely basis. Alternatively, DRA should review the applicable legislation to determine whether a change in the current statute is necessary. Precision with the allocation will help ensure that proper amounts are being deposited into the Education Trust Fund, that revenue projections are more accurate, and may help in evaluating current and devising future tax policies.

Department of Revenue Administration Response

The allocation of BET/BPT is dependent upon the taxpayer's submissions of estimates throughout the taxing period. DRA does not know the split between the two until the taxpayer files the return. It is not until then that an accurate determination can be made by the Department.

HB 752, relative to the distribution of business tax revenues to the education trust fund was introduced January 2003 at the 2003 Session. It, in essence, proposed to deposit 33% of the business tax revenues, net of refunds, produced by the taxes imposed by RSA 77-A:2 and 77-E:2 for each fiscal year to the education trust fund. HB 752 also proposed to repeal the separate calculation for the distribution of the business enterprise tax revenues to the education trust fund. The proposal was found to be inexpedient to legislate and the bill was killed in June 2003.

Treasury Department

Debt Management System Should Have the Capacity To Provide Complete Debt Accounting **(Issued by the LBA 2002 Management Letter)**

There are several shortcomings in Treasury’s long-term direct and contingent debt management system (DMS), resulting in inaccurate or unavailable debt information. Treasury’s DMS was implemented in 1992.

While the system appears to adequately track the outstanding principal on bond issuances, DMS has several limitations, including:

- Inability to maintain historical data.
- No mechanism to record changes to the debt repayment schedules (Direct Debt Payment Report, or DDPR) produced by DMS.
- Limitation on tracking interest payments outside of normal increments.
- No function for maintaining information related to bond anticipation notes (BANs).
- The Business Finance Authority (BFA) State guaranteed loan program was excluded from the contingent debt report.

Treasury should consider obtaining or developing a debt management system that has the capacity to accurately track and keep current all information related to long-term direct and contingent liabilities. The system should be sufficient to provide historical data and to accept changes as necessary. If obtaining a new system or updating the current system is not feasible, Treasury should, at least, improve the current procedures for tracking information outside of DMS to keep the information complete and current and to strengthen controls over the information. Additionally, Treasury should document the propriety of any changes made to information in the debt system, and review and approval of those changes should be evidenced.

Treasury Department Response

Treasury continues to operate under the existing debt management system. Treasury is looking to procure or add functionality to its existing debt management system within its budgetary constraints. Additionally, requirements were considered and added by Treasury to the Enterprise Resource Planning (ERP) Request for Proposal that may address some of these debt management needs.

***Timely Escheatment of Abandoned Property* (Similar comment issued by the LBA 2002 Management Letter)**

Treasury did not file its annual escheatment for calendar year 1999 timely, thus delaying funds available to the State and counties.

RSA 471-C:30 requires the administrator of the State Treasury's Abandoned Property Division to pay or deliver to the counties all abandoned property, less the State deduction, within 36 months after the close of the calendar year in which the property was presumed abandoned. Therefore, an escheatment should be completed by December 31 of each year.

During 2003, one escheatment was completed. According to the statute, the calendar year 1999 escheatment should have been completed by December 31, 2002. The 1999 escheatment was completed on June 25, 2003, approximately six months late.

We recommend that Treasury comply with the statutory deadlines outlined in RSA 471-C:30 for the escheat of abandoned property.

Treasury Department Response

We concur. Treasury has processes in place to effectively comply with escheatment provisions of RSA 471-c in a timely manner. It is expected that future escheatments will be completed well within the statutory timeframe.

***Rooms and Meals Tax Distribution* (Similar comment issued by the LBA 2002 Management Letter)**

According to RSA 78-A:26, a portion of the meals and rooms tax revenue is to be distributed to the unincorporated towns, unorganized places, towns and cities of the State based on a distribution formula. The distribution amount is based on the percentage of the towns', places', or cities' population to the population of the State as a whole.

For fiscal 2003, four unincorporated towns were excluded from the population figures used in the calculation. According to Treasury, the unincorporated towns were excluded from the distribution because of past practices. The exclusion did not have an affect on the total 2003 meals and rooms tax distribution of $35.9 million, however the understated population figures did cause each city and town in the distribution to receive a greater distribution than deserved. Although the affect on the allocation would be minimal, the greatest of which being an over allocation of $276 and an under allocation of $3,078, the error is a result of inadequate review of the allocation by Treasury.

We recommend that the Treasury Department implement policies and procedures to ensure that an adequate review of the meals and rooms tax distribution is performed, ensuring the accuracy of the calculation and the distribution, and the completeness of the unincorporated towns, unincorporated places, towns and cities.

Treasury Department Response

Treasury has implemented policies and procedures to perform an adequate review of the meals and rooms tax distribution. Table updates have been made in the Revenue Distribution System by Treasury's Management Information System (MIS) unit. The distribution now includes any unincorporated town, unorganized place, town or city with a population of greater than zero. Review of the distribution includes comparing the total Treasury population figure on the Revenue Distribution Population Import Report to the total population figure on the distribution worksheet.

Revenue Sharing Distribution **(Similar comment issued by the LBA 2002 Management Letter)**

RSA 31-A:4 outlines the formula to be used to calculate the State's revenue sharing distribution.

Treasury calculates an equalized factor for each municipality in order to allocate the $47.3 million distribution. The calculation is based on property valuation data received from the Department of Revenue Administration (DRA) and population data received from the Office of State Planning.

The 1999 revision to RSA 31-A:4 fixed the total revenue sharing disbursement to the cities and towns for fiscal year 1999 and beyond. The RSA defined the fixed distribution as the fiscal year 1998 distribution amount less the amount allocated to the school district in the 1998 property tax calculations. Upon review of the fiscal year 2003 distribution, we noted that the Treasury Department used the fiscal 1999 distribution rather than the fiscal 1998 distribution to calculate the fiscal year 2003 distribution to the cities and towns. This error did not affect the total distribution; however, it does affect the allocation among the cities and towns by a range of $44,445 underpayment to $40,499 overpayment.

Additionally, since this error has been compounding since fiscal 1999, the error has affected the cities' and town's allocation for the past five fiscal years by a range of $222,225 underpayment to $202,495 overpayment.

We recommend that the Department implement policies and procedures to ensure that the yearly allocations going forward are based on 1998 distribution as stipulated in the RSA. Furthermore, we also recommend that the Department retroactively correct the previous five distributions.

Treasury Department Response

Treasury did consult with DRA and came to the conclusion that Treasury has been using the correct fiscal year for making distributions. Treasury and the Department of Revenue believes that the legislative intent of RSA 31-A:4 should have read "tax year 1998" so it would match the Education Trust Fund legislation. In addition, Treasury did consult with the DRA on the distribution to village districts/political subdivisions and came to the conclusion that such entities are entitled to receive distributions based on collection of taxes.

Department of Employment Security

***Benefit Overpayment Accounts Receivable* (2002 management letter)**

The Department of Employment Security (DES) is responsible for providing unemployment benefits to eligible claimants and requires submission of information from claimants and former employers in order to help determine eligibility. At times during the year, overpayment of benefits occurs due to payments to ineligible individuals or incorrect benefit calculations. DES attempts to recover the overpayments.

As of June 30, 2003, the benefit overpayments to be collected were $4.3 million, with the age of receivables dating as far back as 1980. Although an allowance for bad debts has been established for much of the old overpayments, the method for calculating the allowance is not adequate. Currently, the allowance is calculated by taking the year-end general ledger receivable balance and subtracting cash received and offsets made against benefit payments during July and August subsequent to year-end.

We also noted that the record keeping related to the overpayments not recovered needs to be improved. Currently, the automated benefit system, the New Hampshire Unemployment System (NHUS) does not reconcile to the State's general ledger. Additionally, the Approach database, used by the Benefit Overpayments Control Department to collect the monies owed, is not reconciled to either NHUS or the State's general ledger.

We recommend that a better method for calculating the allowance for bad debts be established to help ensure the proper reporting of the accounts receivable and associated allowance.

Further, we recommend that monthly reconciliations be performed between the Approach database, the NHUS system and the general ledger. This will help ensure that collection efforts are made on all outstanding balances and are for the correct amounts, and that the general ledger is properly reported.

Department of Employment Security Response

The Department continues to devote significant resources to minimizing the overpayment of benefits to individuals and maximizing the timely recovery of any benefits that are overpaid. Upon receipt of the fiscal year 2002 management letter, we took immediate steps to resolve the issues associated with our benefit overpayment accounts receivable process. The development of an automated solution for calculating the allowance for bad debts and performing monthly reconciliations was also placed on the Commissioner's IT priority list for fiscal year 2003 and fiscal year 2004.

The Department maintained its commitment despite a series of competing federal and State mandates throughout fiscal year 2003 and fiscal year 2004 that required significant IT staff resources including;

1. Implementation of the U.S. DOL UI Data Validation Program.
2. Implementation of the Health Coverage Tax Credit (HCTC) Program.
3. Extensions to the Temporary Extended Unemployment Compensation Program (TEUC).
4. Implementation of the NH Additional Benefit (NHAB) Program.
5. Implementation of the TEUC-A Program (for displaced airline and related workers).
6. Implementation of the Alternative Trade Adjustment Assistance (ATAA) Program.

Despite these challenges, we have made significant progress in our effort to improve performance and address the internal control structure and record keeping concerns identified in the fiscal year 2002 management letter. Our ultimate goal is to manage all overpayment activity in one system (NHUS) thereby eliminating the problems and inefficiencies associated with maintaining two parallel systems. To reach this goal, the department is attacking the problem on two fronts by first researching and reconciling any discrepancies associated with our current overpayment accounts and then establishing a process for preventing any problems going forward.

Staff from our Information Systems Unit and Benefit Payment Control Unit conducted a thorough assessment of the automated benefit system (NHUS) throughout fiscal year 2003 and into fiscal year 2004 in an effort to broaden our understanding of the problem and identify all potential causes. This analysis, which remains ongoing, has included a detailed review of user transactions and back end system generated adjustments to overpayment totals (e.g., offset activities and adjustments). In addition, staff are reconciling each of the daily transactions within the automated benefits system (NHUS) associated with overpayment activity at the detail record level and summary record level.

When confidence in the NHUS overpayment activity record keeping process is established, we will move forward with reconciling the Benefit Payment Control Overpayment Program records currently maintained in an Approach database against the records maintained in NHUS and address/correct any remaining discrepancies. The Approach database records will be gradually migrated over to the NHUS system and the Approach system will be phased out. Once the Approach system is eliminated, we will reconcile the NHUS system to the General Ledger while phasing in ongoing reconciliation procedures.

Implementation of an overpayment trial balance is currently scheduled for the end of April 2004. The target date for the implementation of an aged trial balance is set for July 2004. The Department will continue to put forth the effort required to fulfill its commitment to improving our internal control procedures within an environment of ongoing time and staffing issues.