STATE OF NEW HAMPSHIRE

Management Letter

Year Ended June 30, 2012

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To the Fiscal Committee of the General Court
State of New Hampshire:

In planning and performing our audit of the financial statements of the State of New Hampshire (the "State") as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the State's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider deficiency 2012 – 01 in the State's internal control to be a material weakness.

Although not considered to be significant deficiencies or material weaknesses, we also noted the items in Section II during our audit which we would like to bring to your attention.

The State's responses to the findings identified in our audit are described in Section I and Section II of the management letter. We did not audit the State's responses and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the Fiscal Committee, management, and elected officials, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 31, 2012

STATE OF NEW HAMPSHIRE

Management Letter

Year Ended June 30, 2012

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SECTION I

MATERIAL WEAKNESS

2012-01 – Material Weakness

Accounting and Reporting of Capital Assets

During fiscal year 2012, the Department of Transportation (the Department) underwent an extensive effort to reconcile and inventory its non-Turnpike related infrastructure assets (roads and bridges). The results of this effort uncovered adjustments that were required to be made to the Department's infrastructure records, and, ultimately, the State's financial statements.

The errors uncovered by the Department include the following:

- Infrastructure assets missing from the capital asset accounting records;

- Lack of removal from the records and statements of infrastructure assets that had been disposed of or replaced; and

- Misclassification of capital assets between Turnpike and non-Turnpike capital asset accounting records.

These errors were corrected in the capital asset records in 2012, however, certain errors related to prior periods. The correction of these prior period errors caused a net misstatement in the State's 2012 government-wide financial statements of approximately $118.5 million.

We do note that this is the result of continued efforts by the Department to accurately and completely report its infrastructure assets. However, the errors demonstrate the need for improving internal controls over accounting and financial reporting for capital assets on an ongoing basis.

Recommendation:

In 2012, the Department took strides to improve the accuracy of its historic capital asset records and its internal controls over the ongoing reporting of capital assets. We recommend that the Department continue with its efforts to formally implement a set of internal controls that address the ongoing risks of misstatement associated with accounting for and reporting capital assets, particularly in the area of completeness of infrastructure assets.

Management's Response:

The Department concurs.

The auditors properly report that the Department of Transportation underwent an extensive internal effort to reconcile inventory and fixed assets and as a result, correcting adjustments were identified and posted to the financials by Finance Division staff.

The auditor's recommendation that the Department continue with its efforts to implement internal controls is consistent with the Department's own findings and formal written procedures are being drafted. It is anticipated that written procedures will be complete and in practice fiscal year 2013.

SECTION II

OTHER COMMENTS

2012-02

NHFIRST Information Technology General Controls

In 2010, the State implemented their new general ledger package, NHFIRST, which was designed not only to replace the legacy general ledger, NHIFS, with more up-to-date, user friendly accounting software, but also to help the State become more efficient in the way it conducts its day-to-day business.

Our 2010 review of NHFIRST indicated that there was a material weakness in the design of internal controls regarding password authentication. As of June 30, 2012, it appears the State has remediated that design weakness. However, although of less severity, we noted the following opportunities for improvements in NHFIRST information technology general controls that the State should consider remediating:

Data Center Access

On a regular basis, knowledgeable management, including appropriate information technology (IT) personnel, should review who has physical access to the data center to ensure that only authorized personnel with an appropriate need for access have physical access rights to the data center. While a full review of physical access rights to the data center was performed and documented in October 2011, we were advised that only informal, undocumented, reviews have been performed since that full review.

Recommendation:

We recommend that the State implement policies and procedure requiring regular and documented reviews of physical access rights of employees and others to the data center be performed. The policies and procedures should require timely action based of the results of those reviews.

User Access Rights

On a periodic basis, business management should review user access rights to verify that access rights assigned to NHFIRST users is appropriate in light of current job responsibilities and that access rights no longer exist for terminated employees. While it appears that procedures are in place to remove access rights upon termination of an employee, the State last conducted a complete formal review of access rights in May 2011.

Recommendation:

We recommend that the State implement policies and procedures to conduct regularly scheduled user access rights audits to ensure that users' access rights are limited to those appropriate for their current job responsibilities.

Shared Accounts

During our audit, we noted that certain administrative accounts are shared among State employees. The use of shared accounts creates a risk that the accountability for errors or unauthorized or malicious systems changes cannot be established, preventing management from being able to take appropriate responses.

Recommendation:

We recommend that shared accounts and passwords not be used in critical systems. Unique accounts should be assigned to all users. All users should be required to utilize unique passwords that conform to State password policy.

Management's Response:

Data Center Access

DoIT performed a review of the access list on September 28, 2012. DoIT is in the process of establishing a policy of a full review of the Data Center Access list quarterly going forward.

User Access Rights

FDM reviews the bi-weekly employee termination and transfer report from GHRS (Government Human Resources System, pre NHFIRST implementation) and NHFIRST and removes all access except for Employee Self Service and Time Reporting for anyone that terminates employment or transfers to another agency. Administrative Services reviewed the NH FIRST security access form and process and engaged the business process owners (Bureau of Accounts, Division of Personnel, Purchase & Property, Treasury) in the review and approval of the access requested prior to establishing the access to ensure that the security level requested is consistent with the function performed by the requestor and the segregation of duties. In May 2011, FDM completed a review of all NH FIRST users. This included review and confirmation of each NH FIRST user's access by the agency power of attorney and/or agency head. Another complete review of all NH FIRST users, except those users who are limited to Employee Self Service and Time Reporting and retain their access regardless of employment status, is planned to be completed before the end of fiscal year 2013.

Shared Accounts

Some accounts are required for the software to function. For example, SYS and SYSTEM accounts are standard Oracle database accounts used to administer Oracle databases. They must exist for the database to run and to maintain the databases (patches). However, unique accounts have been created with the same rights as SYS or SYSTEM for DoIT staff responsible for administering the NH FIRST databases on a day to day basis. Activity with these accounts are logged and reviewed by DoIT management.

PFUSER and PFAdmin are also system accounts required for ProcessFlow to function. These accounts are used exclusively by the ProcessFlow application and by the ProcessFlow Administrator and Backup Administrator in Financial Data Management to manage ProcessFlow on a daily basis.

FDMOPER is used by the Department of Administrative Services, Financial Data Management for NH FIRST daily scheduling and job processing. LBI, the Lawson report repository, was implemented to also use FDMOPER to access and publish reports from the daily processing cycle. FDM implemented in the first quarter of calendar year 2011 the processing changes and a password change to eliminate the use of this userid in LBI processing and restrict the use of this userid to the three FDM staff that support the daily job scheduling and processing. Subsequently, the password for this account is changed annually or whenever an FDM staff member with access to the account transfers to another position in State government.

2012-03

Liquor Inventory

In the spring of each year, the State Liquor Commission (the Commission) performs a full physical inventory count at each of the State's liquor stores and its warehouse. The purpose of the inventory is to determine the amount of inventory on hand at a point in time and to make necessary adjustments to the Commission's perpetual inventory management system.

As part of our audit, we observed the inventory counts performed by Commission personnel at a sample of locations and independently performed a blind recount of a sample of those counts. We compared the quantities per our counts to those per the counts of Commission personnel, and where differences existed, they were investigated and resolved. The quantities determined through these counts are used to update, if necessary, the Commission's inventory figures per their perpetual inventory management system.

We noted 13 instances in our sample of 180 recounts where the Commission's perpetual inventory management system was not updated to reflect the actual quantities counted as part of the physical inventory.

Recommendation:

We recommend that the Commission revisit their policies and procedures related to the performance of the physical inventory count and reinforce those policies and procedures with Commission personnel responsible for the performance of the physical inventory to ensure that all actual quantities identified through physical counts are properly updated in the Commission's perpetual inventory management system as appropriate.

Management's Response:

We have revised our policies and procedures related to the performance of the physical inventory count and reinforced those policies and procedures with Commission personnel responsible for the performance of the physical inventory to ensure that all actual quantities identified through physical counts are properly updated in the Commission's perpetual inventory management system.

2012-04

Liquor Purchases

From time-to-time, the Liquor Commission will receive bulk discounts from a vendor, which are referred to as “Power Buys”. During our audit of inventory purchases, we encountered one Power Buy. The Liquor Commission adjusted the related purchase order to reflect the discounted price and approved payment to the vendor for the discounted price. When the Liquor Commission received the invoice from the vendor, it was for the full undiscounted price. Despite the existence of a purchase order for a discounted price, the Liquor Commission paid the invoice at the full invoiced price, which resulted in a $36,000 overpayment to the vendor. The Commission later sought recovery of the overpayment to the vendor.

Recommendation:

We recommend that the Liquor Commission revisit its policies and procedures over the purchasing of liquor inventory. The policies and procedures should reinforce, and employees should be reminded of, the importance of the expenditure control provided by matching purchase orders and invoices The Commission should also clearly document its policies related to Power Buys.

Management’s Response:

We have reviewed our policies and procedures over the purchasing of liquor inventory related to Power Buys. To mitigate the inherent risks involved in this manual process, and in an effort to detect and correct any discrepancies in a timely fashion we have implemented an in-house software application that matches Power Buy purchase orders to invoices, similar to all other purchases of liquor inventory.

2012-05

New Pension Standards

In June 2012, the Governmental Accounting Standards Board (GASB) issued two new standards that will substantially change the accounting and financial reporting of public employee pensions by state and local governments. Statement No. 67, *Financial Reporting for Pension Plans*, revises existing guidance for the financial reports of most pension plans. Statement No. 68, *Accounting and Financial Reporting for Pensions*, revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. These changes include the following:

- A requirement to report a net pension liability in the employer's statements of financial position prepared under the economic resources measurement focus, which is the difference between the total pension liability of the plan and plan net assets set aside in a qualified trust to pay benefits to current employees, retirees, and their beneficiaries (essentially representing the unfunded actuarial accrued liability), measured as of a date no earlier than the employer's prior fiscal year-end. Governments participating in cost-sharing multiple-employer pension plans would be required to report a liability equal to their proportionate share of any net pension liability for the cost-sharing plan as a whole.

- Immediate recognition as expense of more components of the change in total pension liability than is currently required, including the effect on the pension liability of changes in benefit terms, rather than deferral and amortization over as many as 30 years which is common for funding purposes. Certain changes in total pension liability and plan net assets will be reported as deferred outflows of resources or deferred inflows of resources and will be recognized as expense over the average remaining service life of all employees (active, inactives and retirees). Governments participating in cost-sharing multiple-employer plans would be required to report their proportionate share of the annual pension expense, deferred outflows of resources and deferred inflows of resources associated with the cost-sharing plan as a whole.

- Use of a single blended discount rate that applies (a) the expected long-term rate of return on pension plan investments to the extent that plan assets are expected to be available to make projected benefit payments and (b) the interest rate on a tax-exempt 20-year AA-or-higher rated municipal bond index to projected benefit payments for which plan assets are not expected to be available for long-term investment in a qualified trust. Currently, the discount rate is solely based on the expected long-term rate of return on plan investments.

- Required use of a single actuarial cost allocation method—"entry-age normal "—rather than the current choice among six actuarial cost methods.

- More extensive note disclosures and required supplementary information, particularly related to the determination of the discount rate and the expected rate of return on plan investments, and the components of the pension liability and pension expense.

Statement No. 68 will be effective for the State's fiscal year ending June 30, 2015 and Statement No. 67 will be effective for the New Hampshire Retirement System (NHRS) for its fiscal year ending June 30, 2014. Because NHRS is a cost-sharing multiple-employer plan, much of the burden of providing information required for the State and other participating employers to comply with Statement No. 68 likely will be the responsibility of NHRS.

Recommendation:

The successful implementation of this new standard by the State will require the timely receipt of accurate and complete information from the NHRS. Therefore, we recommend that the State begin to work with the NHRS to understand this new standard and develop a plan to ensure necessary information will be available in a timely manner for the State and all other participating employers. Further, the State should evaluate the effect of these changes on its financial statements and begin to advise significant stakeholders of the changes and their effects.

Managements Response

The State has been and will continue to work with the NHRS to understand this new standard. The NHRS, the NH Municipal Association (NHMA) and the State have been meeting regularly since the standards were released developing a plan to educate all governments in New Hampshire affected by the new standards. Training by the NHRS and the NHMA has already begun.

Additionally, the State is participating in industry implementation strategies with the National Association of State Auditors, Comptrollers and Treasurers (NASACT) and the National Association of State Treasurers (NAST). As a member of the Governmental Accounting Standards Advisory Council (GASAC), the State Treasurer also is participating on the Governmental Accounting Standards Board's (GASB) Pension Q&A Advisory Committee.

Management is confident that NH will be prepared by the effective dates.

2012-06

SEC Report on the Municipal Securities Market

On July 31, 2012, the SEC issued a report on the municipal securities market. This report highlights a number of concerns regarding the disclosure of information by municipal securities issuers and the overall municipal securities market structure. The report specifically highlights the following concerns related to disclosures:

- Timeliness and comparability of financial information;
- Level of disclosure by conduit borrowers through municipal issuers;
- Accuracy and adequacy of disclosures regarding pension and OPEB funding obligations;
- Disclosures involving exposure to derivatives;
- Use of disclaimers of responsibility for information included in official statements and other disclosures; and
- Completeness of disclosure of conflicts of interest and other relationships or practices.

The report goes on to make several recommendations of potential legislative changes and regulatory approaches to addressing the disclosure concerns raised in the report. These legislative recommendations include the following:

- Authorization of the SEC to require that municipal issuers prepare and disseminate official statements and disclosures during the outstanding term of the securities, including timeframes, frequency for such dissemination and minimum disclosure requirements, including financial statements and other financial and operating information, and provide tools to enforce such requirements.
- Authorization of the SEC to establish the form and content of financial statements for municipal securities issuers, including the authority to recognize the standards of a designated private-sector body as generally accepted for purposes of federal securities laws, and provide the SEC with attendant authority over such private-sector body.
- Authorization of the SEC to require municipal securities issuers to have their financial statements audited, whether by an independent auditor or a state auditor.
- Provision of a safe harbor from private liability for forward-looking statements of repeat municipal securities issuers who are subject to and current in their ongoing disclosure obligations that satisfy certain conditions, including appropriate risk disclosure relating to such forward-looking statements, and if projections are provided disclosure of significant assumptions underlying such projections.

- Authorization of the SEC to require trustees or other entities to enforce the terms of the continuing disclosure agreements with municipal securities issuers to provide a mechanism to enforce compliance with continuing disclosure agreements and other obligations of municipal securities issuers to protect municipal securities bondholders.

The recommendations provided in the report under the current regulatory authority of the SEC include the following:

- SEC could host market participants, regulators, and academics at an annual conference on the municipal securities markets.

- SEC could consider issuing updated interpretive guidance regarding disclosure obligations of municipal securities issuers and others.

- SEC could consider amendments to the Securities Exchange Act of 1934 Rule 15c2-12 to further improve the disclosures made regarding municipal securities.

- SEC should continue to work with the Municipal Securities Rulemaking Board to strengthen its rules and further enhance EMMA.

In October 2012, the Government Finance Officers Association (GFOA) issued a public policy statement expressing opposition of any expansion of the SEC's authority into the development and oversight of governmental accounting standards, and the content, timing and frequency of financial statements and other disclosure materials. That public policy statement was supportive of the recommendations in the SEC report regarding the alleviation of risk of liability related to projections and forward-looking information included in financial documents.

<u>Recommendation</u>

We recommend that the State monitor the status of legislative and regulatory changes regarding municipal securities disclosures that arise as a result of the aforementioned SEC report. While the majority of the specific disclosure concerns expressed in the SEC report are targeted toward smaller, less sophisticated issuers, any changes to the nature and extent of the regulatory authority of the SEC over municipal securities issuers could have an impact on State disclosures in the future.

<u>Management's Response</u>

We concur. The State has been and will continue to closely monitor the status of legislative and regulatory changes regarding municipal securities disclosures. The State Treasurer through her active involvement with various committees of the National Association of State Treasurers and through her membership on the Governmental Accounting Standards Advisory Council stays abreast of changes as they are proposed by the SEC and provides responses to many SEC proposals. Additionally, the State's bond counsel is aware of these changes, periodically informs the State of developments in this area and plays an active role in the preparation of the State's disclosure documents to help ensure that the State's disclosure is complete and compliant.

2012-07

Succession Planning

Many governments, including the State, are facing the challenge of ensuring continuity and consistency of service delivery due to employee turnover. In instances where large numbers of government employees are eligible to retire, there is a concern that not enough qualified or available workers will be prepared to replace them. The Government Finance Officers' Association (GFOA) has issued a Generational Change Task Force Report with a number of recommendations to mitigate the risks of turnover of experienced employees. We have summarized a number of these recommendations in the section below.

Recommendation

The GFOA encourages governments to address the following key issues and develop strategies concerning succession planning:

- Develop an integrated approach to succession management. Organizations with an integrated, rather than "just-in-time," approach to succession management experience higher retention rates, increased employee morale, and an environment that stimulates innovation and organizational change. There are some positions in an organization that are more critical than others. A successful succession plan should place a high priority on planning for a smooth change in such positions. Key components of an integrated succession management approach include: workforce planning, succession planning, knowledge management practices, and recruitment and retention practices.

- Continually assess potential employee turnover. Making career planning discussions a part of a regular and ongoing performance review process assists in assessing potential turnover. Department heads are a good resource in helping to identify employees that may be planning to leave.

- Provide a formal, written succession plan as a framework for succession initiatives. Without a formal plan, workforce/succession planning tends to take place in a haphazard fashion. A formal plan identifies risks and strategies, thereby providing a guiding framework for specific succession initiatives, including how employees are eligible to participate and what being part of the succession plan means. Plans that have been thoughtfully articulated and communicated to the organization are more likely to be successful. Additionally, having a formal plan indicates organization and leadership commitment to succession management, which is critical for success and for sustaining successful planning across political and leadership transitions. The Budget Department and the Human Resources Department should work together to develop this plan, along with other departments as needed.

- Develop written policies and procedures to facilitate knowledge transfer. Knowledge transfer is a critical component of succession management. There should be written procedures in place to formalize the knowledge transfer. A meeting should be held with departing staff to document job responsibilities.

- Development of leadership skills should be a key component of any succession planning initiative. When leadership development occurs, the organization benefits from developing a leadership pool for other positions. Encouragement of personal professional development activities should be a key part of the succession planning effort. Personal professional development benefits the organization over the long term by helping employees gain the skills they need to assume increased responsibilities.

- Design of better recruitment and retention practices may aid in the succession process. Many organizations will focus more on recruiting the new employee and less on orienting the person to the position and the ongoing development of the employee. Making sure pay levels are competitive with the market place is one means of retaining employees. Providing career advancement opportunities for employees is another means of retention.

- Consideration must be given to collective bargaining agreements and how those agreements fit in with the overall succession plan. The engagement of bargaining units for cross training opportunities is encouraged.

- If early retirement programs are offered, it should be done in conjunction with a succession plan. GFOA strongly recommends that governments use considerable caution when considering the implementation of early retirement plans. If an early retirement program is offered, that might provide a window of opportunity to look at technology, potential to streamline, or rethinking the way services are provided, managed, and/or administered.

- Consider non-traditional hiring strategies. Options such as part-time work, job-sharing, volunteers, and flexible schedules and flexible-place arrangements are providing mechanisms to both meet the needs of the organization and employees.

Management's Response

We concur in part.

The State of New Hampshire believes very strongly in Workforce Development. In 2009 the Department of Administrative Services, Division of Personnel hired its first statewide Workforce Development Program Specialist dedicated to furthering Workforce Development (WFD) efforts in the State. The position was filled for two years during such time the Division created and implemented a variety of online WFD tools and resources to include:

- Self Assessment Tools
- Employee Recognition Tool Kit
- Candidate Development Program Model
- How to Measure Customer Satisfaction
- Individual Employee Development Plans

- Knowledge Management Transfer Model
- Mentoring Model
- Organizational Readiness Assessment
- Strategic Planning Model
- Workforce Planning Model

Over the course of the two years the Division also hosted two WFD Summit events, where agency management staff came together for a daylong event, highlighting the variety of agencies WFD initiatives. During this time, the Division also published a monthly HR newsletter distributed throughout all of New Hampshire State government highlighting the variety of WFD, recruitment and retention initiatives.

In late 2010 the Workforce Development Coordinator retired for State service concurrent with fiscal budget cuts and the Division made the decision to not fill the vacant position. Although some individual agencies continue to have dedicated WFD staff, statewide coordination of WFD efforts have stalled due to staffing reductions. However, the WFD toolkit continues to exist on the State of New Hampshire website as a resource for agency staff to utilize and implement where appropriate independent of the Division of Personnel.

2012-08

DRA Processing of Tax Returns

During 2012, the Department of Revenue Administration (DRA) implemented an optical scanning system that is designed to speed the intake of tax returns and eliminate many manual processes at the DRA. The new system is designed to read data on tax returns and automatically populate the DRA's tax database with minimal manual intervention.

During the testing of the scanning system by DRA prior to it becoming operational, a backlog of returns to be processed through the DRA's tax database was created. Further, upon the scanning system becoming operational, a high error rate among returns being processed occurred, further delaying the processing of returns in the tax database. Because of this error rate, the DRA implemented a control to manually verify 100% of the tax returns being scanned. The effort required to perform these manual verifications required other State agencies to loan staff to the DRA in order to eliminate the backlog of returns. While the delay in processing these returns in the tax database generally did not impact the deposit of cash received or recognition of tax revenue in the State's accounting records, it did delay the accumulation of tax return information in the tax database for reports used by State management and for the external audit.

Recommendation

While the manual verification control over the processing of tax returns in the scanning system was sufficient to ensure that the financial statements contained reliable information, it was time consuming and resulted in significant delays in inputting tax returns into DRA's database. We recommend that the DRA and State management continue to monitor the implementation of this system. Should it be anticipated that significant manual intervention is still necessary, the State should plan to ensure all returns are processed timely for management and financial reporting purposes.

Management's Response

Prior to its implementation of a modernized processing system DRA's Document Processing Division (DP) would manually batch each return received via green screen into DRA's Tax Information Management System (TIMS), extract minimal information, and then manually key on average 35% of the remaining form data thereafter as time allowed. Historically, DP was staffed with upwards of 35 personnel plus temporary staff and keying would typically be completed by the end of the same calendar year, with the exception of volume received in December (typically completed by March 1 of the following year). DP staff was and continues to be responsible for additional tasks such as mail opening/processing, document prepping, deposit functions, vendor form testing, filing, etc.

Faced with significant reductions in both its Operating Budget (-30%) and its staffing (-43%), the DRA persevered to re-engineer its operations, and introduced the new systems aimed at making the DRA more efficient. Although cautioned by DRA during every phase of the FY 12/13 biennial budget process that insufficient staffing levels could prove fatal to the new system's implementation, there was no ability for DRA to follow best practices to run parallel systems while implementing its new systems due to the lack of employees.

The implementation of the aforementioned system, which includes imaging returns and attachments plus imaging and electronically depositing checks, began in October 2011 and was not in full live production until September 2012. The new system, which captures 100% of the form data, leverages Optical Character Recognition (OCR) and 2D barcode reading technology to automate the extraction of form and check data. A workflow module is utilized to route essential and/or questionable data for human validation. As DRA did not have the staff required to run parallel systems (DP staff had been reduced to 17 personnel in July 2011) it was essential that all data was human validated so as to ensure the integrity of the backend system. The vendor recommended this approach as a “best practice” methodology. 100% validation was not as a result of a problem with the new system or DRA’s management of same, but rather to ensure the integrity of the new system during its first year of implementation because of the inability to run parallel systems. Going forward, DRA will need to perform less validation because the system integrity will have been fully proofed. This validation schedule has not been mandated because of a problem with the system, but rather to ensure proper implementation of a new system. The validation schedule was compromised and a backlog ensued due to insufficient staffing levels.

The new system was implemented in phases specific to transaction types (money returns, balance dues, etc.). With an increased amount of data to validate (100% versus 35%), a new system to learn, a legacy system to maintain, and 53% less staff in DP, DP had to prioritize their work efforts. Despite all of the above, 99.8% of the CY 2012 transactions completed processing in Fairfax by March 2013.

The system and process reengineering efforts that were painstakingly developed and implemented allow DRA to work smarter, think differently, and react differently, with greater customer service/convenience value potential. The analytics capability that has been built into the DRA’s “legacy” computer systems will provide for better informed tax policy discussions and decisions throughout the State.

In terms of TY12, DP is processing the majority of transactions in real time as the need for 100% data validation has been significantly reduced due to improved form and data quality as well as planned enhancements to system logic. It is anticipated that the aforementioned improvements and enhancements will result in the most efficient processing season ever experienced in DP and have positive implications throughout the Department and State.