STATE OF NEW HAMPSHIRE

Management Letter

Year Ended June 30, 2015

KPMG LLP
Two Financial Center
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Boston, MA 02111

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, 2015, 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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal controls that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that were not identified.

Our audit was also not designed to identify deficiencies in internal control that might be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies listed in Section I to be significant deficiencies.

During our audit we noted certain other matters involving internal controls and other operational matters that are presented for your consideration. Although not considered to be significant deficiencies or material weaknesses, we also noted the items during our audit which are intended to improve internal control or result in other operating efficiencies, which we would like to bring to your attention and are summarized on the attached Section II.

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.

Very truly yours,

KPMG LLP

March 31, 2016

STATE OF NEW HAMPSHIRE

Management Letter

Year Ended June 30, 2015

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SECTION I

SIGNIFICANT DEFICIENCIES

2015-001

Medicaid Liability Review Control Deficiencies

Observation:

The State is responsible for administering the multi-billion dollar Medicaid program. Among its responsibilities related to Medicaid, the State is ultimately responsible for ensuring that Medicaid providers receive compensation for services provided to eligible Medicaid recipients. The General Fund's financial statements are prepared using the current financial resource measurement focus and the modified accrual basis of accounting, in which expenditures and related liabilities are recorded in the accounting period the liability is incurred, to the extent it is expected to be paid within the next twelve months. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in which expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Department of Health and Human Services (DHHS) is responsible for calculating a statewide MMIS liability and drug rebate liability as of the year end date for those expenditures incurred but not yet reported. This annual estimate is then used by the Department of Administrative Services to record these two liabilities which are consolidated into accounts payable liability on the face of the balance sheet in the fund statements and on the statement of net position in the governmental activities. As a portion of the claims are reimbursed by the Federal government in the Medicaid grant and as such are recorded as a receivable due from the Federal government is recognized. The majority of the remaining portion of this liability is expensed within the General Fund.

Ineffective/ Lack of Management Review pertaining to the MMIS liability and drug rebate liability

During fiscal year 2015, there was turnover in personnel at the Department of Health and Human Services. The Department lost several key employees responsible for calculating the MMIS liability as well as the drug rebate liability. As a result, the historical knowledge of the assumptions and calculations previously utilized to calculate the MMIS liability and drug rebate liability were lost. During the year end close and financial reporting process management completed numerous versions of the estimated calculation of the MMIS liability and drug rebate liability. From the beginning of the process in September to completion in December, Management changed the assumptions they utilized to calculate the MMIS claims incurred but not yet reported. Based upon this we note there was a lack of a timely and quality review by management, both at DHHS and the Department of Administrative Services (DAS). This lack of review led to a corrected audit misstatements and delays in delivering the calculations to us.

Effect:

Ineffective and lack of timely management review relating to the MMIS and drug rebate liabilities increases the risk that the accounts payable, and related expense and receivable from the federal government are not accurately calculated or complete as significant information may be missing. This could also lead to an incorrect presentation of the State's obligation for MMIS and Drug Rebates in the financial statements. Furthermore, due to the delays in receiving the final liability calculations, the lack of a timely review impeded DAS from drafting the financial statements in a timely manner.

Recommendation:

We recommend that DHHS management complete an in-depth analysis to develop a methodology and assumptions to be utilized in the calculation of MMIS claims incurred but not yet reported liability prior to the State’s fiscal year end. Further, we recommend DHHS and DAS review their existing controls to ensure the MMIS liability is completed in sufficient time to allow management at both departments appropriate time to perform their management review controls at a specified level of precision. A would level of precision is a level of precision that would identify any areas in the calculation or assumptions being utilized in the calculation of the liability. Furthermore, we recommend management review its existing controls over communication between the two departments to ensure any changes or time delays are communicated to those in charge of financial reporting in a timely manner.

Management Response:

Department of Administrative Services Response:

We concur. Recent events such as the implementation of a managed care service model and the transition to a new Medicaid service provider, coupled with staff turnover at key financial positions within both the Department of Health and Human Services (DHHS) and the Department of Administrative Services (DAS) resulted in a challenging year from a financial reporting perspective. Despite calculations for liabilities related to the State’s Medicaid program not being prepared and reviewed in as timely a manner as has occurred in years past, we are confident that the liabilities ultimately reported in the fiscal year 2015 financial statements are materially accurate. However, we realize the importance of a documented calculation methodology completed within a timeframe which allows sufficient review before inclusion in the financial statements. We are committed to ensuring such a methodology and reporting schedule is in place moving forward and have already begun cooperating with DHHS to address these issues in fiscal year 2016 and thereafter.

Department of Health and Human Services Response:

We concur. Because of managed care, the Department determined that a redesign of our liability calculation was necessary because costs were too distorted over a 36 month claims period and a 12 month claims process was more typical of current claims under the new model. The previous liability calculation was outdated because it was based upon a 36 month period.

The new liability calculation required DHHS to make a significant change to how the Department approached the MMIS claims liability calculation. As a result of the Department facing a number of challenges, not including the loss of key financial positions, the previous year liability calculations were incomparable to the current liability calculations. The Department had to redesign required IT reports. The Department requested the MMIS information technology group to create new reports based upon a 12 month claims period, which required over a month of IT time to create the necessary reports. Once the reports were received, the Department needed to test the validity of the data received to affirm a proper and accurate current year liability. The Department for the upcoming year will continue to refine our MMIS liability claims process. In fiscal year 2016, working with DAS, DHHS expects the issues experienced during fiscal year 2015 to be resolved.

2015-002

Financial Reporting Management Review

Observation:

DAS is responsible for drafting the Comprehensive Annual Financial Report (CAFR). There are areas which DAS prepares the financial data to be included in the CAFR (General Fund, Capital Fund, etc.) and there is financial information which other departments prepare and give to DAS for inclusion in the CAFR (Turnpikes, Liquor, Lottery, etc.). DAS will take this financial information, and compile the CAFR along with the relating Management Discussion and Analysis, footnote, required supplemental information, and statistical sections. Historically, as a part of DAS internal control structure, this responsibility has been at the Deputy Comptroller's level and the Comptroller and Commissioner are responsible for reviewing the financial reporting process and the CAFR at a would level of precision. A would level of precision is one which would identify a material misstatement in the CAFR.

By State law (RSA 21-I:8-II), the first draft of the CAFR is due to be released by September 30 each year. This draft historically included financial statements and footnotes that are still in process but should not substantially change. Also, the first draft may not include the MD&A, RSI, and statistical sections. To meet the State's December 31st financial reporting RSA deadline, DAS historically completes a "final" complete CAFR draft prior to the end of November which then goes through management and external auditors review. One more draft is historically released in December just before the final CAFR is issued. Pursuant to RSA 21-I:8-II, the final CAFR needs to be issued on or before December 31, unless an extension is granted by the Fiscal Committee of the General Court.

Ineffective/ Lack of Financial Reporting Management Review

In the spring of 2015, there was significant employee turnover at DAS, including the Commissioner, Comptroller and Financial Reporting Administrator. As a result of the turnover, the Financial Reporting Administrator position was vacant during the year end close and financial reporting process as the position was not filled until September 2015. Due to this vacant position during the State's financial reporting period, the Comptroller took over many of the financial reporting responsibilities resulting in a break down in DAS internal control structure.

DAS management was not able to complete their financial reporting process including review in a timely manner to ensure draft financial statements were provided within the historical timeframe. Additionally, several key areas of the CAFR contained misstatements which were subsequently corrected by DAS prior to issuance. Further as a result, DAS recorded numerous post-closing or late adjustments and had numerous changes to the financial statement footnotes. These areas included General Fund MMIS payable, general fund debt, State Revolving Fund and liquor cash accounts.

Effect:

Inadequate controls in financial reporting increases the risk that a material misstatement could occur in the CAFR. There is a reasonable possibility that the lack of review will result in a material misstatement due to management's lack of knowledge of the State's historical transactions and assumptions utilized for estimates. Missing required disclosures or miscalculating an account balance can lead to a material misstatement, therefore the magnitude of a potential misstatement can be large. Furthermore, due to the delays in drafting financial statement footnotes and finalization in accounts balances, the lack of a timely review resulted in numerous versions of the financial statement in which adjustments or changes were not consistently made throughout the CAFR.

Recommendation:

We recommend that DAS continues to refine the financial reporting process to ensure all balances are finalized consistent with the State's historical financial reporting timeline and significant discloses are reviewed on a timelier basis to ensure issues and questions can be addressed earlier on in the process leading to a better quality financial statement and timelier financial reporting. We also recommend key employees of DAS responsible for drafting the CAFR stay abreast of new and relevant Government Accounting Standards Board (GASB) pronouncements so that they can be properly accounted for and disclosed in the CAFR.

Management's Response:

Department of Administrative Services Response:

We concur. During the fiscal year ended June 30, 2015, the Department of Administrative Services (DAS) experienced an unprecedented turnover in several higher level positions which were either partially or completely dedicated to financial analysis, reporting, and review. The loss of knowledge which accompanied the departure of the DAS Commissioner, the state comptroller, the financial reporting administrator, and the administrator of federal programs was exacerbated by the fact that two of those positions, the financial reporting administrator and administrator of federal programs, were vacant for approximately 6 months apiece. In addition to these departures of long-term knowledgeable employees and lengthy position vacancies, the division of accounting services within DAS has seen its statutorily required duties increased over the past two years, without any associated increase in resources to accomplish the workload increase. Compounding matters even further were the implementation during fiscal year 2015 of a complex and labor-intensive GASB pronouncement and the additional turnover of financial staff in several other state agencies, upon which DAS relies to prepare the state's financial statements.

Despite these difficulties, we did meet the statutory requirement to produce the first draft of the state's fiscal year 2015 CAFR by September 30, 2015. However adherence to the historical financial statement timelines after that point was not achieved, nor was compliance with the requirement for a final CAFR by December 31, 2015. An extension of that deadline by two weeks was granted by the Fiscal Committee and the final CAFR was issued within that extended deadline. We realize timely preparation of reviewed and accurate financial statements is one of our highest priorities. We feel these difficulties with meeting the historical and statutory reporting timelines, while serious, were largely a product of what we hope are temporary circumstances, such as the resource limitations caused by the turnover in financial positions. The positions affected by the turnover have been filled and we are committed to putting a structure in place to ensure these delays are not repeated in fiscal year 2016 or beyond. With more staff in place, while the prescribed timeframes will still be tight, we will be better able to reestablish the analysis and review necessary to produce accurate financial statements in a timely manner and to also devote the time required to maintain up-to-date knowledge of current accounting pronouncements. Within DAS as well as with financial staff in other state agencies, we have already begun planning for the preparation of the fiscal year 2016 financial statements and we will, to the best of our ability, work to meet all requirements in fiscal year 2016. However, we feel our current staffing levels are not adequate to effectively complete all of the financial reporting duties statutorily required. We will focus our efforts on the timely completion of the CAFR, but we plan to undergo a thorough examination of staffing and other resources within the division of accounting services in an effort to ascertain the resource levels necessary to meet all of our statutory requirements. We will use the results of this examination during our preliminary planning phase for the fiscal year 2018/2019 biennial budget process to put forward a budget request that allows the division to be better equipped to handle all of these required duties, including those recently added.

SECTION II

OTHER COMMENTS

2015-003

NH First – Terminated Users

Observation:

The State of New Hampshire uses the NHFIRST Lawson System (Lawson or System) for the Financial Reporting and Human Resource/Payroll function. As a result of testing performed of Lawson, we determined that certain General Information Technology Controls (GITC) related to the System to be ineffective.

Specifically, for terminated users, access to Lawson should be removed in a timely manner after the date of termination of the employee. For access rights to Lawson (specific to the Human Resource/Payroll function), employees either have view-only access to their payroll and benefit information, or elevated user access, which includes additional access rights such as the ability to approve timecards. Upon date of termination, agency Human Resources initiates a transaction that notifies the Department of Administrative Services (DAS), including security management of Lawson, that the employee has been terminated, at which point the access rights for the employee are modified such that all access rights other than view-only access to the individual's payroll and benefit information, are disabled.

During our review, we noted, that for 40 out of 40 sample selections, evidence supporting the timely removal of elevated user access rights (if applicable), was not available. Further, we noted, that for 32 out of 40 sample selections, the duration from the date of termination to the date of HR notification to Lawson management was not considered timely (greater than 3 days). The duration ranged from 4 days to 1,103 days.

The policies and procedures in place, including the notifications that trigger removal of elevated user access for terminated employees, are decentralized across the various State agencies, for which management of the Lawson application has no control over. As such, in order to remove a terminated individual from the Lawson application in a timely manner, they must rely on notification from the various state agencies, and the completeness, accuracy, and timeliness of these notifications is not consistent across the State.

When accounts for terminated employees are not disabled and/or removed in a timely manner, there is a risk that terminated users may obtain access to the Lawson application.

Recommendation:

Management of the Lawson application should establish policies and procedures to ensure that notification of termination for users of the Lawson application occurs in a timely manner, and that evidence of that timely removal is retained. Further, procedures should be established that allow management of the Lawson application the ability to enforce policies and procedures relative to timely notification of terminated employees.

Management's Response:

DAS Financial Data Management

We concur. As of 11/20/15, a new NH FIRST Security access policy and procedure was put in place to conduct a daily review for all back office employees moving into a termination status, e.g., T1, R1, etc. and to retain a screen image, including a date time stamp, made from the security administrator software displaying current security access roles and then security access roles following removal of all back office roles. This policy addressed employees with elevated/enhanced back office access.

Following recent discussions and clarifications relating to Supervisors with the Time Approver role and most State of New Hampshire employees with the Time Reporter role, a similar elevated/enhanced access removal policy and procedure as that for back office security access will be put in place by NH FIRST Security as of 3/31/16.

DAS Division of Personnel

We concur, the Division of Personnel will complete a review of the termination process and implement a policy that at a minimum requires agencies to notify the NHFIRST security team in Financial Data Management of the termination within three days of the employee's final date of employment so that all access beyond basic employee can be removed.

2015-004

Xerox

Observation:

The Department of Health and Human Services uses Xerox to host the MMIS application which is used to process claims and enrollment information. DHHS uses Xerox as the vendor for the application and state agencies employees needing access to the application are provisioned by role which is determined based on the employee's job function and responsibility.

During our review, we noted, that for 1 out of 15 modification sample selections, required documentation relative to the request and approval of modification of access was not available. Further, we noted that access rights for this individual were determined, by management, to be non-commensurate with the user's job functions and responsibilities. Required documentation relative to the removal of the access determined to be inappropriate was also not available.

Lack of adherence to processes and policies relative to provisioning of access rights can result in individuals receiving access rights that are not commensurate with their job titles or responsibilities.

Recommendation:

Management for the MMIS application should enforce policies and procedures relative to access provisioning with requestors/approvers to ensure that access provisioned to employees is commensurate with their job titles and responsibilities.

Management's Response:

The Department takes seriously the review of user access requests and has processes in place to ensure, to the extent possible, that user privileges requested and granted are commensurate with the user's job title and responsibility based on business need. If it is recognized after assignment that a user's privileges are not commensurate with actual need, then steps are taken on the system as soon as possible to reduce the user's access privileges to the appropriate level of need.

In the case cited above, appropriate action was taken to eliminate a user role from the user's access profile when it was determined that that role was not commensurate to the user's responsibilities and was not needed by the user to perform daily operations on the MMIS. However, the Department agrees that the action taken to appropriately remove the privilege should have been documented in a corresponding user access request form, noting the change.

The procedures for managing MMIS user access requests will be reviewed and modified to ensure that there is corresponding documentation for any changes to user profiles

2015-005

Succession Planning

Observation:

Public sector organizations, such as the State's, find themselves in a time in which the demand for services has increased, the expectation for quality service is high, and the accountability for results is exceptional. These forces will continue to apply pressure to governments while they face perhaps their biggest challenge, the impending departure of some of the best, brightest and most tenured employees.

We have presented this observation and recommendation to the State previously, however, the issue of succession planning continues to present challenges now and into the foreseeable future for both the Sate and the government industry at large. According to the Center for State & Local Government Excellence 2015 workforce survey, at least 80% of survey respondents indicated that (a) recruiting and retaining qualified personnel with needed skills to public service (b) workforce succession planning, and (c) staff development are important workforce issues to their organizations. Additionally 47% of respondents indicated that 2014 retirements were in excess of 2013 retirements.

Recommendation:

KPMG recommends that the State continue to develop its process for managing succession planning. The Government Finance Officers' Association (GFOA) has published its Generational Change Task Force Report in an effort to assist governments to mitigate the risks of turnover of experienced employees. In this report, 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. Several workforce development and statewide training initiatives are underway in the Department of Administrative Services. From July 2007 to October 2011, a multi-agency team prepared and launched a workforce development strategy and toolkit for all state agencies. The goals of this Committee were the following:

- Every agency will implement a viable workforce development plan.
- The state of NH will successfully recruit and retain skilled workers.
- Career development programs will be in place for personnel at all agencies.

This toolkit created by this committee to support Workforce Development is recognized in New Hampshire and other states as an example of best practices on the subject matter.
This toolkit includes:

- 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

These materials are available to all state agencies from the Division of Personnel's Human Resources website. Unfortunately, in 2011, DAS lost the staff position leading the Workforce Development efforts due to budget cuts, which has hindered promotion of the use of these tools and support for agency-level planning.

In October 2015, the Department of Administrative Services and the Division of Personnel re-established the statewide Workforce Development Committee, now called the Talent Acquisition and Management Committee (TAM), with committed representatives from more than a dozen state agencies participating. The TAM Committee is working to define focused priorities based on the analysis of statewide data and assessment of agency needs. One objective is to provide regular reports and measures on staffing, including retirement rates, turnover rates, vacancy rates, and staff productivity. In addition, this group will analyze the current recruitment process and explore an integrated approach to knowledge transfer and succession planning. Because it is a top priority for all state agencies, we are doing our best to leverage our workforce and move forward in the absence of a dedicated staff to lead the effort.

Additionally, the Division of Personnel's Bureau of Education and Training is re-vamping its programming:

- Implementing mandatory Foundations of Supervision training for all supervisors in state service, per directive of the Governor's Office;
- Implementing statewide on-line training and education initiatives, such as Moodle-based trainings, to provide new opportunities for standardized training in an on-line learning environment; and
- Providing Lean process improvement training, including workflow process mapping and process improvements by state agencies and Lean summits to highlight process improvement gains.

Also, a task force within the Department of Administrative Services recently completed a project to update the state's intranet, Sunspot, to document businesses process and facilitate knowledge management and knowledge transfer for statewide procedures. The group is now working on an Employee portal to provide easy access links and information on Career and Development as well as topics such as employee benefits, compensation, and health and wellness.

Finally, the Division of Personnel will continue to pursue support for a new, full-time Talent Management Coordinator to implement the following workplan:

1. Enhance current training and workforce development programs across state agencies, including training on:
    a. Leadership
    b. Strategic Planning
    c. Knowledge Management

    d. Lean Process Improvement
    e. Change Management.
2. Track turnover numbers and new/current employees trained at each agency along with when the training occurred in employee life cycle. Ensure that training occurs prior to need for the training, i.e. leadership training prior to becoming a manager.
3. Instill communities of practice to ensure best practices are communicated across agencies and to break down silos.
4. Establish communities of excellence using Baldrige or similar criteria.
5. Increase standardized processes across agencies to include terminology. Initial focus will be on hiring on-boarding process and the transition of employees out of the workforce.
6. Synchronize key organizational calendars to improve communication.
7. Enhance cross agency communication with a systematic blog and reporting process located on Sunspot.
8. Investigate a "bell curve" retirement, which will allow retirement eligible employees to go part time up to a year prior to fully retiring. Encourage implementation of plans for knowledge transfer.

2015-006

New GASB OPEB Standards

Observation:

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities to the extent applicable. This Statement is effective for fiscal years beginning after June 15, 2017.

This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to OPEB. In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, an employer participating in single-employer plan that does not have a special funding situation, similar to the State's circumstance, is required to recognize a net OPEB liability, representing the difference between the total OPEB liability (the present value of future benefits attributed to past periods of service) and the fiduciary net position of the OPEB plan established for funding such benefits, if any. Changes in the net pension liability will be reported as deferred outflows of resources or deferred inflows of resources, or pension expense, depending on the nature of the change.

In governmental fund financial statements, a single employer is required to recognize a net OPEB liability to the extent the liability is normally expected to be liquidated with expendable available financial resources. OPEB expenditures are required to be recognized equal to the total of (1) amounts paid by the employer to the OPEB plan, including amounts paid for OPEB as the benefits come due, and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

This Statement also requires that notes to financial statements of single employer include descriptive information about the OPEB plans through which the OPEB is provided, along with the discount rate and assumptions made in the measurement of the net OPEB liability. Sources of changes in the current year net OPEB liability also will be required to be disclosed in the notes to the financial statements. Sources of changes in the net OPEB liability and components of the net pension liability and related ratios over the most recent ten years will be provided as required supplementary information.

Recommendation:

The State should review the issued OPEB Statement to preliminarily evaluate the impact of the standard on the financial reporting of the State's OPEB obligation.

Management's Response:

We concur. We will continue to review the standard and will work with the relevant State agencies and component units in an effort to ensure proper implementation of the standard for the State's financial statements in the fiscal year ending June 30, 2018.

2015-007

New Tax Abatement GASB Standard

Observation

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures.* The objective of this Statement is to make the nature and magnitude of a government's tax abatement transactions more transparent to a user of the financial statements. This Statement is effective for fiscal years beginning after June 15, 2017.

For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. For purposes of this Statement, tax abatements include (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

For a reporting government's own tax abatement programs, the Statement will require disclosures about the programs, including:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients;
- The gross dollar amount of taxes abated during the period; and
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, the Statement will require disclosures, including:

- The names of the governments that entered into the agreements;
- The specific taxes being abated; and
- The gross dollar amount of taxes abated during the period.

Recommendation:

The State should review the issued Tax Abatement Statement among the various departments that have access to the required information for the State's tax abatement programs to preliminarily evaluate the impact of the standard on the financial statement disclosures and to develop policies and procedures related to the accumulation of such disclosure information.

Management's Response:

We concur. We will continue to review the standard and will work with the relevant State agencies and component units in an effort to ensure proper implementation of the standard for the State's financial statements in the fiscal year ending June 30, 2018.

2015-008

New GASB Standard on Fair Value

Observation:

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application.* The Statement provides a definition of fair value, along with guidance on how fair value should be determined using certain valuation techniques. It also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement is effective for fiscal years beginning after June 15, 2015.

The guidance on the application of fair value measurement to various investment types will likely result in little change to the State's accounting policies. However, the Statement will require additional disclosures related to the objectivity of the inputs used in determining fair value of investment securities. This will likely require the State to gather additional information as to how their investments are priced. The majority of investments measured at fair value for which such new disclosures would be required are held in the State's general fund, University System of New Hampshire, Community College System of New Hampshire, turnpike system, and fiduciary funds.

Recommendations:

The State should review the issued Fair Value Statement among the various departments and component units that have access to the required information for the required fair value measurements and related disclosures to evaluate the impact of the standard on the State's financial statements and to develop policies and procedures related to the accumulation of such disclosure information.

Management's Response:

We concur. We will continue to review the standard and will work with the relevant State agencies and component units in an effort to ensure proper implementation of the standard for the State's financial statements in the fiscal year ending June 30, 2016.