



KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

**Independent Auditors' Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of New Hampshire (the State) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 22, 2020. Our report includes a reference to other auditors who audited the financial statements of the Liquor Commission, Lottery Commission, the aggregate discretely presented component units (University System of New Hampshire, Business Finance Authority of the State of New Hampshire, Community Development Finance Authority, Pease Development Authority, Community College System of New Hampshire), New Hampshire Retirement System, New Hampshire Judicial Retirement Plan and the New Hampshire Public Deposit Investment Pool, as described in our report on the State's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the New Hampshire Public Deposit Investment Pool and the Business Finance Authority of the State of New Hampshire were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the New Hampshire Public Deposit Investment Pool and the Business Finance Authority of the State of New Hampshire.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the 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. 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.



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The State's Response to Finding

The State's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The State's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Boston, Massachusetts
December 22, 2020

Schedule of Findings and Questioned Costs

2020-001 Department of Administrative Services (DAS) and Department of Revenue Administration (DRA) Credit Carryovers

Background

At the time a tax return is filed, a credit carryover obligation (CCO) represents the amount of overpaid Business Profit Taxes (BPT) and/or Business Enterprise Taxes (BET), a taxpaying entity elects to apply to future tax obligations rather than request a refund. Based on tax returns filed through June 30, 2020, the State estimated a gross CCO balance of approximately \$269.9 million.

Observation

Based on a recommendation from KPMG, the Department of Revenue Administration (DRA) amended its policy for calculating credit carryovers. The new policy analyzes historical trends to identify the amount of CCO that will be applied towards a taxpaying entity's current fiscal tax obligation, the remainder representing a tax refund liability.

Of the \$269.9 million gross credit carryovers, DRA estimates \$203.5 million will be applied towards fiscal 2020 tax obligations, leaving the State with a liability due to taxpayers of \$66.4 million as of June 30, 2020.

The State, however, has not recorded this liability as of June 30, 2020.

Recommendation

We recommend the State record an estimated tax refund payable at year-end based on DRA's analysis. Additionally, we recommend consideration be given to expanding the credit carryover analysis to include the impact on both the General Fund and the Education Trust Fund as BPT and BET taxes are reported in both of those funds.

Management Response

Since fiscal year 2011, the State has conducted a detailed analysis which calculates the expected amount of overpaid taxes to be refunded, however, the State historically has not adjusted the cash basis tax revenues for this potential liability for refundable taxes. The State allows taxpayers to leave overpayments "on balance" with the Department of Revenue Administration (DRA), and extensive past history has shown that taxpayers do not generally request these funds to be refunded, but typically utilize credit carryovers to satisfy future quarterly estimate payments.

During the course of the fiscal 2020 audit, DAS consulted with DRA to determine the estimated credit carryover liability at the end of the fiscal year. This included certain assumptions based on taxpayer reported data as of fiscal year-end, as well as subsequent taxpayer filing patterns based on a multi-year historical analysis. The result of this analysis is viewed by the State as a potential liability for credit carryovers, however, the State believes that much of this remaining liability remains "on balance" at the taxpayer's choice. There is a low probability this balance would be utilized or paid out, thus it does not meet the criteria for recording as a liability in the General Fund or Education Trust Fund, under the State's statutory accounting policy.

While the State's accounting policy was discussed with legislative leadership based on a similar audit finding for fiscal year 2019, DAS will continue to evaluate the impact to the reported balances in the General Fund and Education Trust Fund and work with the DRA and legislative policy makers to determine the value of leaving credit carryovers on account, for an indefinite timeframe. Limiting this would help to minimize the long-term, unknown nature of the liability and provide consistency with the State's budget methodology, which measures obligations on General and Education Trust Fund surplus that are going to be satisfied from current financial resources. The State will also need to continue to evaluate if sufficient data can be obtained in order to determine

the amount of credit carryover liability that would be attributable, separately, to the General Fund and Education Trust Fund.

The State expects to conduct its review by June 30, 2021, and if warranted, would consider any changes in accounting policy for implementation in fiscal year 2021.



STATE OF NEW HAMPSHIRE

Management Letter

For the Fiscal Year Ended June 30, 2020



KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

April 2, 2021

Management of the Department of Administrative Services
Honorable Members of the Fiscal Committee of the General Court
State of New Hampshire
Concord, New Hampshire

Ladies and Gentlemen:

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, 2020, 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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the 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 material weaknesses and/or significant deficiencies and therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with *Government Auditing Standards*, we issued our report dated December 22, 2020 on our consideration of the State's internal control over financial reporting.

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. During our audit, we identified the deficiencies in internal control as summarized in the accompanying attachment.

The State's responses to our comments and recommendations are described in the accompanying attachment. The State's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

This purpose of this letter is solely to describe the deficiencies in internal control identified during our audit. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

**Observation 2020-1: Department of Health and Human Services
Drug Rebates**

Background

The Medicaid Drug Rebate Program (MDRP) offsets the Federal and State costs of most outpatient prescription drugs dispensed to Medicaid patients. The Department of Health and Human Services (DHHS) is responsible for overseeing the State's drug rebate program which includes billing and collections of drug rebates. At fiscal year-end, DHHS compiles a calculation of drug rebates accounts receivable for Annual Comprehensive Financial Report (ACFR) financial reporting purposes.

Observation

During our testwork over the year-end receivable related to drug rebates we noted that DHHS inadvertently excluded certain invoices from its calculation and as a result the General Fund gross receivable was understated by \$5.7 million. The Department of Administrative Services recorded a post-closing audit adjustment to correct the receivable recorded in the State's ACFR.

Recommendation

We recommend DHHS review its process for capturing all receivables required to be reported under generally accepted accounting principles (GAAP) and institute a review process to ensure receivables are properly captured and recorded.

Management Response

The Department of Health and Human Service – Division of Medicaid Services (DMS) agrees with the observation and has identified processes that need to be updated. DMS added a second level internal reviewer to the process to ensure accurate recording of invoiced amounts. DMS has changed the timing of the calculation of the ACFR APG 10.5.C (Drug Rebate receivable estimate for federal/local share) from the first of September until after the Rx supplemental invoices have been issued during the second week of September. These supplemental invoices are for QE 6/30 of the reporting fiscal year.

**Observation 2020-2: Department of Environmental Services
State Revolving Fund – Unreconciled Variances**

Background

The State Revolving Fund (SRF), administrated by the Department of Environmental Services (DES), is reported as a major enterprise fund in the State's Annual Comprehensive Financial Report (ACFR). The SRF operates to provide loans to public water systems and local governments for wastewater treatment and safe drinking water systems. Funding for the SRF is obtained from the U.S. Environmental Protection Agency with matching funds provided by the General Fund, as well as from interest on outstanding loans. The State established the SRF as a separate enterprise fund in fiscal 2014 through a cash transfer from the General Fund.

Observation

DES utilizes a sub-financial reporting system, Loan and Grants Tracking System (LGTS), to record detailed activity related to the SRF and on a monthly basis reconciles the LGTS activity to the State's general ledger, NH First. The LGTS system is used for financial statement reporting purposes in the ACFR. At June 30, 2020, the two systems did not agree by approximately \$2.1 million. The DES staff continues to report the cause of the difference as unknown. While the amount of the unreconciled difference has varied from year to year, an unreconciled difference has existed since June 30, 2018.

Recommendation

We recommend DES work with the Department of Administrative Services (DAS) to investigate the root cause of the differences and to adjust the accounting records as necessary.

Management Response

DAS and DES have collectively made efforts to identify transactions which may have resulted in cumulative differences between ending balances reflected in the LGTS system and the NH First general ledger. The NH First system incorporates a series of intercompany automated transactions which DAS believes have impacted the ending balances reflected in the NH First general ledger as of June 30, 2020. While the exact cause of the difference has not been identified, the Department of Environmental Services will continue to work with the Department of Administrative Services to resolve this NH First issue. Adjusting entries will be made in FY 2021 to alleviate the variance between the two systems.

**Observation 2020-3: Department of Transportation
Department of Administrative Services
Treasury
Unapplied Cash**

Background

The State did not properly record on its official books and records (NHFirst) certain cash receipts at June 30, 2020.

Observation

During testwork, KPMG noted the State did not timely record approximately \$33.2 million of cash received in its books and records because the Department of Transportation did not timely establish a receivable for certain highway funds. It should be noted that the 'unapplied cash' was deposited timely.

The Department of Administrative Services (DAS) recorded a post-closing audit adjustment to properly record the above noted activity in the State's ACFR.

Recommendation

We recommend the Treasury Department promptly notify DAS of any 'unapplied cash'. Any 'unapplied cash' should be recorded on the State's accounting system either in a tailings or suspense account until such time as it is properly applied.

Further, we recommend the Department of Transportation monitor its cash draws and work with Treasury to ensure cash is applied timely and therefore properly recorded as of year-end.

Management Response

Management concurs with the recommendation and offers the following:

DOT: The Department of Transportation will review its current processes and ensure that receivables are posted timely. The Department will collaborate with the State Treasury to ensure communications and processes occur within a reasonable time frame and that guidance provided by the State Treasury is implemented within our procedures.

Treasury: The State Treasury will report any unidentified cash (cash in the bank, but with no corresponding accounting document) to the Department of Administrative Services to be recorded in the State's accounting system. In addition, the State Treasury will review current statewide and internal deposit procedures, and will amend as necessary, to ensure cash received is promptly identified and recorded. The State Treasury will provide training to the Treasury staff and will communicate procedure changes to all State agencies to ensure consistent guidance is provided.

Administrative Services: DAS will work with State agencies to emphasize the importance of the timely recording of bank activity in the State's accounting system, NH FIRST. While State policies require an accounting document to be initiated by the agency upon funds being deposited, delays can occur when third party electronic deposits arrive prematurely or commingled. While Treasury has managed this process directly with agencies in the past, as noted, a centralized notification will be developed to alert DAS to any amounts remaining unapplied at fiscal year-end, for proper accounting in NH FIRST.

**Observation 2020-4: Department of Health and Human Services
New Heights – General Information Technology Controls**

Background

The State of New Hampshire uses the New Heights application for eligibility determinations for programs that are in part funded by Federal awards. As part of our audit, we tested the General Information Technology Controls (GITC) related to the New Heights application for the following domains: Access to Programs and Data; Change Management; Computer Operations; Program Development.

Observation

The GITC testwork over the New Height application identified certain controls were not operating effectively for the period of July 1, 2019 – June 30, 2020, as noted below:

Access to the New Heights application and related infrastructure should be removed in a timely manner. During our review, we noted that access to the New Heights application was not removed in a timely manner for 1 of the 25 samples, with a duration of time between the date of termination and the removal of access of 20 days. We compared a list of terminated employees for the audit period to an active user listing for the New Heights application and noted no additional exceptions. Furthermore, we obtained and reviewed systematic evidence to determine the user account related to the 1 identified exception was not accessed subsequent to the individual's date of termination.

Recommendation

Management should reinforce policies and procedures relative to de-provisioning controls to ensure access rights for terminated employees are removed in a timely manner for all applications, related infrastructure and tools and that privileged access rights to applications and related infrastructure and tools are restricted to current employees based on job roles and responsibilities.

Management Response

New HEIGHTS agrees with the recommendation to reinforce the policies and procedures surrounding the controls for terminated employees as they relate to New HEIGHTS access. New HEIGHTS was not notified by either the DHHS Human Resources or the Bureau of Family Assistance of the individual's termination until after the termination occurred.

To reinforce the surrounding policies related to terminated employees, the New HEIGHTS Project Manager will share this audit finding and recommendation including details of the specific terminated employee to both the Bureau Chief of the Bureau of Family Assistance and the Administrator IV of DHHS Human Resources reminding and requesting that they adhere to these policies and procedures requiring timely notification to New HEIGHTS prior to an employee's termination date.

**Observation 2020-5: Department of Education
Grants Management System (GMS) – General Information Technology Controls**

Background

The State of New Hampshire uses the Department of Education GMS application for eligibility determinations for programs that are in part funded by federal awards. As part of our audit, we tested the General Information Technology Controls (GITC) related to the GMS application for the following domains: Access to Programs and Data; Change Management; Computer Operations; and Program Development.

Observation

The GITC testwork over the Grants Management System (GMS) application identified certain controls not operating effectively for the period of July 1, 2019 – June 30, 2020, as noted below:

- A Access to the GMS application and related infrastructure should be removed in a timely manner. During our review, we noted access to the GMS application was not removed in a timely manner for 1 of the 8 samples, with a duration of time between the date of termination and the removal of access of 48 days. We compared a list of terminated employees for the audit period to an active user listing for the GMS application and noted no additional exceptions. Furthermore, we obtained and reviewed systematic evidence to determine that the user account related to the 1 identified exception was not accessed subsequent to the individual's date of termination.
- B A periodic review of active users and users access rights for in-scope systems is performed to identify and remove inappropriate system access. During our review, we noted management limited the review to administrative privileged access and not the entire population of users with access to the GMS application. The audit team compared a list of terminated employees for the audit period to an active user listing for the GMS application and noted no additional exceptions.
- C On an annual basis, a full disaster recovery is completed to determine that data can be restored completely and accurately. During the current audit period, a full restore was not completed for the GMS application. The audit team reviewed system configurations to determine backup jobs were being completed daily and monitored by management. Furthermore, the audit team inquired with management and noted no disasters occurred during the period that would have required a full restore of the GMS application.

Recommendation

- A Management responsible for the GMS application should reinforce policies and procedures relative to de-provisioning controls to ensure access rights for terminated employees are removed in a timely manner for all applications, related infrastructure and tools and that privileged access rights to applications and related infrastructure and tools are restricted to current employees based on job roles and responsibilities.
- B Management responsible for the GMS application should establish and enforce policies/procedures to ensure that all users with access to the GMS application are reviewed annually and inappropriate access identified is removed/modified in a timely manner.
- C Management responsible for the GMS application and related infrastructure should establish and enforce policies/procedures to ensure that a disaster recovery plan is created and tested on an annual basis to verify that data can be restored completely and accurately.

Management Response

- A The New Hampshire Department of Education (NHDOE) management responsible for the GMS application will establish and enforce policies/procedures to ensure that notification of termination for users of the GMS application occurs in a consistent and timely manner, resulting in timely removal of access rights. The NHDOE currently has an undocumented process in place between Human Resources and the NHDOE IT team to check for GMS access for employees who have been hired, terminated, transferred or promoted on a monthly basis. The IT team checks to make sure that the GMS access for that employee has been turned off. The NHDOE anticipates proper written policies and/or procedures will be in place no later than September 30, 2021.

- B NHDOE management responsible for the GMS application will establish and enforce policies/procedures to ensure that all users with access to the GMS application are reviewed annually and inappropriate access identified is removed/modified in a timely manner. The NHDOE currently performs a period review of active users and users access rights for in-scope systems to identify and remove inappropriate system access. However, the NHDOE currently limits the review to administrative privileged access and not the entire population of users with access to the GMS application. The planned policies and procedures will build on the current process to include the entire population of users with access to the GMS application. The NHDOE anticipates comprehensive written policies and/or procedures will be in place no later than September 30, 2021.

- C NHDOE management responsible for the GMS application and related infrastructure will establish and enforce policies and/or procedures to ensure that a disaster recovery plan is created and tested on an annual basis to verify that GMS data can be restored completely and accurately. The NHDOE staff will coordinate with the Department of Information Technology (DoIT) lead for the NHDOE to develop and implement a GMS disaster recovery plan no later than September 30, 2021.