KPMG LLP
Two Financial Center
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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, 2021, 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, 2021. Our report includes an emphasis of matter paragraph regarding the State adopting the provisions of Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. 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.

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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 2021-001 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, 2021

Schedule of Findings and Questioned Costs

2021-001 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, 2021, the State estimated a gross CCO balance of approximately $243.1 million.

Observation

Based on a prior year recommendation from KPMG, the Department of Revenue Administration (DRA) amended its policy for calculating credit carryovers. The amended 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 $243.1 million gross credit carryovers, DRA estimates $179 million will be applied towards fiscal 2021 tax obligations, leaving the State with a liability due to taxpayers of $64.1 million as of June 30, 2021. For comparative purposes, the prior liabilities were $66.4 million and $85.0 million for fiscal years ending June 30, 2020 and 2019, respectively.

The State, however, does not record a CCO tax refund liability in its annual financial statements.

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

The State has a long-standing policy which 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.

DRA performs an analysis utilizing 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 continues to believe 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 current accounting policy.

However, given that the size of this potential liability, discussions with legislative policy makers have resulted in legislative changes to manage the growth over time. The FY22-23 budget trailer bill (HB2) established a commission to study limiting the Business Tax Credit Carry Over, as well as instituted a future "cap" on the credit carryover liability as follows: amending the BPT and the BET to limit the amount of any overpayment that a taxpayer may claim as a credit to 500% of the total tax liability for the taxable period (periods ending on or after December 31, 2022); 250% of the total tax liability for the taxable period (periods ending on or after December 31, 2025); and 100% of the total tax liability for the taxable period (periods ending on or after December 31, 2027), with the remainder of any overpayment refunded to the taxpayer.

DAS will also continue to work with DRA 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.

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STATE OF NEW HAMPSHIRE

Management Letter

For the Fiscal Year Ended June 30, 2021

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

May 5, 2022

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, 2021, 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, 2021 on our consideration of the State's internal control over financial reporting in which we communicated a deficiency in internal control that we consider to be a significant deficiency.

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 2021-1: Department of Environmental Services
State Revolving Fund – Uncorrected Differences

Background

The State Revolving Fund (SRF), administered 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 (EPA) 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 year 2014 through a cash transfer from the General Fund.

The SRF uses the Loans and Grants Tracking System (LGTS) as its primary system to account for and report the SRF loan program, including generating and supporting SRF financial statements and reporting SRF program activity to the U.S. EPA. While the State accounting system, NHFirst, also accounts for certain SRF financial information contained in the LGTS, NHFirst does not contain certain loan balance and related non-cash financial information that is accounted for in the LGTS.

Observation

Since the SRF was designated as a separate enterprise fund at the start of fiscal year 2014, the SRF has not been successful in reconciling the LGTS accounting and reporting information system to similar information contained in the State's accounting system, NHFirst. Certain transactions like principal repayments and loan interest are accounted for differently in the two systems and require reconciliation. For fiscal year 2021, the SRF reports a $2.2 million difference between the cash balance in the LGTS and NHFirst. The DES staff continues to report the cause of the cash difference as unknown. While the amount of the unreconciled cash difference has varied from year to year, an unreconciled difference has existed since *June 30*, 2018. Also, in fiscal 2021, we noted differences between the two systems for operating revenues, specifically a difference of $2.5 million in loan interest and $3.0 million in management fee revenue. These differences are most likely due to the differences in reporting for the two systems, these differences were not reconciled.

Reconciliation of financial information in parallel systems is a primary control to ensure that systems report consistent information to reduce the risk of inaccurate and incomplete recording of transactions.

Recommendation

We again 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. DES and DAS should also consider migrating all SRF financial activity to NHFirst to ensure the grant accounting system (LGTS) is consistent with the State's financial accounting system record (NH First)..

Management Response

DAS and DES have collectively made efforts to identify transactions that 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 that DAS believes may have affected the ending balances reflected in the NH First general ledger as of June 30, 2021. While the exact cause of the difference has not been identified, DES will continue to work with DAS to determine if this stems from NH First automated intercompany transactions. Every effort will be made in FY22 to complete adjusting entries to alleviate the variances between the two systems and establish ongoing monitoring procedures. While several agencies use separate subsystems to track grant activities and in the case of DES, compile financial statements, agencies are required to demonstrate that financial subsystems reconcile to the State's system of record, NH First. DAS will assist DES in adjusting its reconciliation process in order to identify and explain variances at a sufficient level of detail.

Observation 2021-2: Department of Employment Security
Financial Statement – Unreconciled Differences

Background

The New Hampshire Unemployment Compensation Trust Fund (UCTF), administered by New Hampshire Employment Security (NHES), is reported as a major enterprise fund in the State's Annual Comprehensive Financial Report (ACFR). The UCTF receives contributions from employers and provides benefits to eligible unemployed workers, consistent with legislation and regulations which govern federal programs. NHES compiles UCTF financial data on an annual basis for inclusion in the ACFR using various spreadsheets and reports.

Observation

NHES experienced difficulty in reconciling UCTF Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position data to the figures reported in the Statement of Cash Flows and were unable to produce a cash flow statement compliant with generally accepted accounting standards. Insufficient reconciliation procedures led to several revisions of each of the UCTF statements.

Reconciliation of financial information is a primary control to ensure the information is reported consistently to reduce the risk of inaccurate and incomplete recording of transactions.

Recommendation

We recommend that NHES work with DAS to restructure the presentation of the Statement of Cash Flows to facilitate the ACFR presentation under the direct method. NHES and DAS should also work to ensure that the UCTF Statement of Cash Flows reconciles to source data with a goal of reducing financial reporting risk and helping to ensure the accurate reporting of UCTF financial information.

Management Response

NHES and DAS agree with the recommendation. The difficulty experienced by NHES over the past year was that several historically state funded unemployment benefit programs became federal funded during the pandemic. The Statement of Cash Flows has been based on data sourced from a Federal report that does not make the distinction of state/federal funding in these programs.

NHES is in the process of and will consult with DAS on designing a new Statement of Cash Flows to be run directly from the NHES accounting sub-system from which all other financial statements are produced. This change plus additional reconciliation steps will help to ensure consistency among the reports.

Observation 2021-3: 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 HEIGHTS application identified certain controls were not operating effectively for the period of July 1, 2020 - June 30, 2021, as noted below:

A. 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 3 of the 25 samples, with a duration of time between the date of termination and the removal of access of 6 to 20 days. The audit team 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, the audit team obtained and reviewed systematic evidence to determine that the user account related to the 3 identified exceptions were not accessed subsequent to the individuals' date of termination.

B. Access to the New HEIGHTS application and related infrastructure should be reviewed in a timely manner. During our review, we noted that access to the New HEIGHTS Application was not reviewed in a timely manner for 1 out of the entire population. The audit team obtained management's review of the one user's access and noted that access appeared to be appropriate based on job function and responsibility.

Recommendation

A. 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.

B. Management should review and emphasize the logical access policies and procedures with key personnel responsible for the timely communication of reviewing, provisioning and de-provisioning of users to the IT department.

Management Response

A. To reinforce the surrounding policies related to terminated employees, the New HEIGHTS Project Manager will share this audit finding to management staff. This recommendation will be shared, including details of the specific terminated employees, reminding and requesting that they review with appropriate staff to adhere to these policies and procedures requiring timely notification to New HEIGHTS prior to an employee's termination date.

B. The finding on the user not having a review within the period was actually due to a typo in the Review date field. A review was done on 6/21/2021 and there was no change to that user's status. After this issue was identified, the system was modified by introducing an edit on the date field. This modification moved to production on 8/2/2021 and is documented in our JIRA tracking system.

Observation 2021-4: Department of Education
Grants Management System (GMS) - General Information Technology Controls

Background

The State of New Hampshire uses the Department of Education (DOE) 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, 2020 - June 30, 2021, as noted below:

- Access to the GMS application and related infrastructure should be removed in a timely manner. During our review, we noted the user access review was not completed in a timely manner for one out of ten reviews. The audit team obtained and reviewed management's assessment and noted that none of the access reviewed, was identified as inappropriate.

Recommendation

Management should review and emphasize the logical access policies and procedures with key personnel responsible for the timely completion of the user access review.

Management Response

DOE and the Department of Information Technology (DOIT) acknowledge the finding. DOE, in coordination with DOIT, will set the quarterly review schedule a year at a time. The user access reports will be generated no more than one week prior the quarterly meeting. Meeting notes will be recorded and archived for later review/audit purposes. This process will be defined in a newly drafted policy/procedure.

Observation 2021-5: Department of Health and Human Services
MMIS – Complementary User Entity Controls

Background

The State of New Hampshire uses the Medicaid Management Information System (MMIS) for Medicaid claim payment processing. As part of our audit, we tested certain Complementary User Entity Controls (CUEC) as outlined in the Conduent System and Organization Controls (SOC) 1 Report related to MMIS for the following domains: Change Management, Logical Security, Computer Operations, Claims Processing, Provider Enrollment, and Prior Authorizations.

Observation

The GITC testwork over the MMIS application identified certain controls were not operating effectively for the period of July 1, 2020 - June 30, 2021, as noted below:

- Access to the MMIS application and related infrastructure should be reviewed in a timely manner. During our review, we noted that access to the MMIS Application was not reviewed in a timely manner for 246 out of 7,777 users.

Recommendation

Management should review and emphasize the logical access policies and procedures with key personnel responsible for the timely communication of reviewing, provisioning and de-provisioning of users to the IT department.

Management Response

Effective January 16, 2022, a new attestation process was implemented, which reviews all DHHS users' non-inquiry roles twice within the fiscal year and is attested to by their lead or senior supervisors. This process will assure appropriate access to systems and data. All changes required because of this process will be updated in the MMIS system.

Observation 2021-6: Department of Employment Security
New Hampshire Unemployment Information System (NHUIS)- General Information Technology Controls

Background

The State of New Hampshire uses the NHUIS 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 this application for the following domains: Access to Programs and Data; Change Management; Computer Operations; Program Development.

Observation

The GITC testwork over the NHUIS application identified certain controls were not operating effectively for the period of July 1, 2020 - June 30, 2021, as noted below:

- Access to the NHUIS application and related infrastructure access should be removed in a timely manner. During our review, we noted that access to the application was not removed in a timely manner for 1 out of 5 samples, with a duration of time between the date of termination and the removal of access of 151 days. The audit team compared a list of terminated employees for the audit period to an active user listing for the NHUIS application and noted no additional exceptions. Furthermore, the audit team 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.

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

NH Employment Security (NHES) and the Department of Information Technology (DOIT) acknowledge this finding. NHES will continue to reinforce the policy and procedures relative to de-provisioning controls as detailed in NHES Directive 2100-17: Access Control and Account Maintenance Policy with NHES management and supervisory staff. This policy clearly outlines the procedures supervisors must follow to request access for a new user, to request a change in the access permissions assigned to a current user, and to immediately notify the Assistant to the Commissioner when a user becomes permanently or temporarily separated from NHES to ensure access is removed in a timely manner. The policy and procedures further direct supervisors to include as part of their "Exit Checklist" the specific steps required to request the removal of an employee's access privileges when an employee becomes permanently or temporarily separated from the agency.