

**STATE OF NEW HAMPSHIRE
BOARD OF MEDICINE**

**FINANCIAL AUDIT REPORT
FOR THE NINE MONTHS ENDED
MARCH 31, 2013**

**STATE OF NEW HAMPSHIRE
BOARD OF MEDICINE**

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This report can be accessed in its entirety on-line at:
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**STATE OF NEW HAMPSHIRE
BOARD OF MEDICINE**

Reporting Entity And Scope

The reporting entity of this audit and audit report is the Board of Medicine, an organization of the State of New Hampshire. The period covered is the nine months ended March 31, 2013.

The Board of Medicine (Board) is established in RSA 329:2. Paragraph IV of that statute provides authority for the Board to retain an administrator, executive director, investigators, and other technical and clerical staff to run the Board's business in an efficient manner.

The following report describes the financial activity of the Board including its administrative office, as it existed during the period under audit. Auditee responses were prepared by the administrative office of the Board.

Organization

The Board is comprised of 11 members, 10 of which are appointed by the Governor to five-year terms with the advice and consent of the Executive Council. The Commissioner or the Medical Director of the Department of Health and Human Services also serves as a voting member of the Board. The Board, pursuant to RSA 329:2, III, is an administratively attached agency, under RSA 21-G:10, to the Department of Health and Human Services. The Board's administrative office is in Concord, New Hampshire. At March 31, 2013, the Board's administrative office operated with six full-time classified employees and one part-time executive director.

Responsibilities

The Board of Medicine's stated mission is to protect the public from the unprofessional, incompetent, or impaired practice of medicine. The Board of Medicine issues licenses to qualified allopathic and osteopathic physicians and physician assistants based on nationally recognized credentialing standards. The Board regulates the minimum standards for professional conduct and continued competence and takes disciplinary action against licensees who fail to meet these standards.

The Board is an independent decision-making entity. It employs a full-time administrative staff and contracts with other state agencies to provide investigation and legal support. The Board is served by a Medical Review Subcommittee.

The Board grants licenses to qualified applicants. It is responsible for monitoring its licensees to ensure that they maintain a level of current medical knowledge and skill and that they practice safely and ethically. If a licensee or applicant fails to meet these requirements, the Board is authorized to deny the application or to impose disciplinary sanctions against that licensee. Disciplinary sanctions may range in severity from a reprimand to the revocation of all rights to practice in the state.

The Board's duties, as identified in RSA 329:2, II, are to:

- a. Evaluate persons who apply for the authority to practice medicine in New Hampshire and license those who are found qualified under the standards of the chapter.
- b. Investigate and evaluate existing licensees through the Medical Review Subcommittee and commence disciplinary action concerning licensees in accordance with the standards of the chapter.
- c. Investigate and prepare reports on any matter within the scope of the chapter.
- d. Assess, compromise, and collect civil penalties against persons engaged in the unauthorized practice of medicine or other violations of the chapter.
- e. Establish fees for licenses and for renewal of licenses to practice medicine, including late fees, and fees for transcribing and transferring records and other services.

Funding

The financial activity of the Board of Medicine is accounted for in the General Fund of the State of New Hampshire. The Board was budgeted to recover approximately 123% of its General Fund appropriations during fiscal year 2013, primarily from licensing fees and fines assessed to licensees.

A summary of the Board's General Fund revenues and expenditures for the nine months ended March 31, 2013 is shown in the following schedule.

Summary Of Revenues And Expenditures

Nine Months Ended March 31, 2013

	General Fund
Total Revenues	\$ 305,160
Total Expenditures	<u>616,185</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>\$ (311,025)</u>

Prior Audit

There has not been a prior financial audit of the Board of Medicine. The appendix to this report on page 37 contains a summary of the current status of the observations contained in a performance audit report dated April 2008 that addressed financial reporting issues. That performance audit report can be accessed on-line in its entirety at:

<http://www.gencourt.state.nh.us/LBA/AuditReports/performance-reports.aspx>.

Audit Objectives And Scope

The primary objective of our audit is to express an opinion on the fairness of the presentation of the financial statement of the Board of Medicine for the nine months ended March 31, 2013. As part of obtaining reasonable assurance about whether the financial statement is free of material misstatement, we considered the effectiveness of the internal controls in place at the Board of Medicine and tested the Board's compliance with certain provisions of applicable State and Federal laws, rules, regulations, contracts and grant agreements. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Revenues
- Expenditures

Our report on internal control over financial reporting and on compliance and other matters, the related observations and recommendations, our independent auditor's report, and the financial statement, notes, and supplementary information of the Board of Medicine are contained in the report that follows.

Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters

To The Fiscal Committee Of The General Court:

We have audited 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 the accompanying financial statement of the Board of Medicine (Board) for the nine months ended March 31, 2013 and the related notes to the financial statement as listed in the table of contents and have issued our report thereon dated July 30, 2013, which was modified as the financial statement was not intended to present the Board's financial position, fund balance, or changes in fund balance in the General Fund and therefore does not constitute a complete financial presentation of the Board in the General Fund.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board'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 or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented,

or detected and corrected on a timely basis. We consider the deficiencies described in Observations No. 1 through No. 4 to be material weaknesses.

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 described in Observations No. 5 through No. 11 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Observations No. 12 through No. 14.

Board's Responses To Findings

The Board's response to the findings identified in our audit are included with each reported finding. The Board's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Office Of Legislative Budget Assistant

July 30, 2013

Internal Control Comments
Material Weaknesses

Observation No. 1: Additional Assistance With Designing And Establishing Appropriate Internal Controls Should Be Sought

Observation:

The Board's limited size and administrative structure makes the Board's effective and efficient management and performance of its financial responsibilities, including financial controls, challenging. The Board is administratively attached to the Department of Health and Human Services and shares certain business office resources and services with other Boards. While these relationships assist the Board in some aspects of its operations, these relationships also tend to obfuscate the financial responsibilities of Board employees and accountability for financial transactions. As discussed in the following observations, the lack of training and expertise in financial matters, including internal control concepts, standard State policies, and training in the State's accounting system, NHFirst, has hampered the Board in designing and implementing reasonable internal controls to support its financial operations.

Recommendation:

The Board should seek additional assistance from the Departments of Administrative Services and Health and Human Services in designing and establishing appropriate internal controls for its financial operations. The Board should be provided with appropriate guidance and training to enable it to design and implement controls over its financial operations to promote accountability and assurance that financial transactions are recorded and reported completely, accurately, and in the proper account and period.

Auditee Response:

We concur.

The Board will work with its Financial Manager at the Department of Health and Human Services and its Business Supervisor at the Department of Administrative Services to implement additional controls over its financial operations. In order to fully address the recommendations in this report, the Board will need to hire additional staff, a task that it cannot accomplish until fiscal years 2016-2017.

Observation No. 2: Security Over The Storage And Transfer Of Confidential Information Should Be Improved

Observation:

The Board's use of information technology (IT) has not been adequately supported by implemented policies and procedures and other controls intended to reasonably protect its systems and information from disruption, loss, and inappropriate use and disclosure.

1. The Board has not established or adopted an employee computer use policy to define to employees their responsibilities for the controlled use and security of Board IT systems.
2. Confidential data, including information related to licensee investigations, is regularly stored on flash drives and mailed to members of the Board's Medical Review Subcommittee (MRSC). The data stored on the flash drives is not encrypted or password protected.

The loss of any of the MRSC's 11 flash drives could result in a serious breach of confidential information.

Recommendation:

The Board should support its use of IT with policies and procedures intended to reasonably protect its systems and information from disruption, loss, and inappropriate use and disclosure.

1. The Board should establish and regularly review with employees appropriate IT policies and procedures for the controlled and secure use of the State's IT assets. Board employees should be required to sign the agreement to document their understanding and acceptance of the Board's IT policies.
2. The Board should not use unencrypted and non-password protected flash drives for the storage and transfer of confidential information. The Board should review with the Department of Information Technology (DoIT) more secure modes of storing and transferring that confidential information.

Auditee Response:

We concur.

The Board has reviewed the DoIT policy with regard to computer usage and will have its employees review and sign a similar policy to document their understanding and acceptance of the State's IT policies.

The Board has ordered encrypted flash drives for its MRSC members. As soon as the encrypted flash drives are received, Board administrative staff will distribute them to MRSC members for their use.

Department of Information Technology Response:

1. Concur with recommendation. DoIT's Computer Use Policy was sent to the Board of Medicine on August 23, 2013 upon their request to use as an example of a Computer Use Policy that they can edit/modify for use within their Board. There is no State-Wide Computer Use Policy in force at this time. Furthermore DoIT has no statutory authority to impose such policies. In practice, DoIT employees must review and sign this Computer Use Policy each year upon their annual review.
2. Concur with recommendation. DoIT was not aware of the purchase or use of unencrypted and non-password protected flash drives for the storage and transfer of confidential information at the Board of Medicine. Our standard flash drives are encrypted and password protected and are listed on the State of New Hampshire's Standard Equipment List which is found on the Agency Intranet of the DoIT website. Prices range from \$20.00 - \$37.18 depending on storage amounts. Further, DoIT has a secure, encrypted File Transfer Protocol (FTP) server that can be used to disseminate confidential documents to Board Members, the public, staff, etc....and accessed via the internet; a Group for the Board of Medicine can be created upon their request. Many other agencies utilize the FTP server for this purpose.

Observation No. 3: Board Management Should Regularly Review Financial Activity Reports

Observation:

Board management does not regularly review State accounting system, NHFirst, reports for errors or unexpected results in the Board's reported financial activity. According to the Board, it presumes any errors or irregularities in its financial activity reports will be detected by other agencies that provide assistance to the Board, including the Department of Health and Human Services (DHHS), to which it is administratively attached, and the Departments of Information Technology (DoIT) and Administrative Services (DAS).

1. DHHS staff processes the Board's biweekly payroll based on work hours input into the State's Time Management System (TMS) by Board employees and subsequently approved by Board supervisors. During the audit period, the Board did not receive or have access to any TMS payroll reports that would allow the Board to review its payroll for accuracy. Payroll processing errors noted during auditor review of TMS data that may have been detected and corrected by a Board review of payroll included:
 - Per-diem payments for two Board members incorrectly charged to the Board of Optometry's account.
 - Per-diem payments for a Nursing Home Administrators Board Member incorrectly charged to the Board's account.
2. DAS and DoIT charge postage and telecommunication costs directly to Board accounts. While support for the charges is available upon request, the Board does not receive or review

any invoices or other detail supporting the charges. Certain other charges from partner agencies, including the Department of Justice, can either be posted directly to Board accounts by DHHS or submitted on invoices for Board processing of the payments, increasing the risk for duplicate or other incorrect charges.

Because the Board does not regularly review financial activity reporting, including NHFirst reports, the Board may not be aware of erroneous or unusual financial activity posted to its accounts by others.

Recommendation:

Board management should regularly review its reported financial activity, including NHFirst reports, to look for erroneous or unusual financial activity reported in its accounts. The review procedures should be sufficiently detailed to provide management with reasonable assurance that significant errors or irregularities would be identified and corrected timely.

Auditee Response:

We concur.

The occurrences referenced at number 1 were beyond the Board's control but corrected by the Board's Financial Manager and the money was transferred prior to the closing of the fiscal year.

The Board will take steps to regularly review Board reported financial activity. However, some of the review that is being proposed will need to be done by an additional staff member that the Board cannot hire before fiscal year 2016.

Observation No. 4: Internal Controls Over Revenue Processing Should Be Strengthened

Observation:

Weaknesses in the Board's internal controls for processing revenues place the Board at risk that material revenue errors or fraud could occur without detection in the normal course of business.

The Board collects revenues primarily from licensing physicians and physician assistants, fines assessed against licensees, and sale of informational materials. During the nine months ended March 31, 2013, the Board recorded approximately \$305,000 of revenue. During that period, there were insufficient internal controls in the Board's revenue process to reasonably ensure that revenues owed to the Board were securely collected, recorded, and deposited.

1. The Board's usual business practice does not compare and reconcile business transacted, for example, licenses issued to revenues collected and deposited. The Board has no policies and procedures to review for licenses issued or other revenue transactions, that did not result in bank deposits, whether due to error or fraud. The Board's limited business office resources,

as well as its office practices, hamper the Board's ability to ensure all revenue items are recorded and deposited. For example:

- The Board does not prepare an initial listing of revenue items as they are received. Checks may remain clipped to applications, unrecorded, pending an initial review of the application for completeness. Upon separation from applications, checks are placed in an envelope to await deposit. Accumulated revenue items contained in the envelope are periodically deposited, without reference to the source document or when the items were initially received. Because the Board does not prepare an initial listing or other initial record of receipt, the Board has limited ability to track and identify undeposited revenue items.
 - The design of the Board's licensing system does not include a transaction date field that could assist in the efficient aggregation of licensing activity to compare and reconcile to deposited revenue.
 - Assigned responsibilities during the audit period lacked effective segregation of duties, further increasing the risks that errors and fraud could occur and not be detected in a timely manner.
 - The limited number of Board revenue accounts in NHFirst results in the Board recording revenues from several business activities in one account, further complicating reviews for and identification of errors or other unusual items.
 - The Board does not maintain documentation supporting the sale of informational items, such as publications, pocket licenses, wall certificates, and listings of licensees. The Board reports that the documentation is generally destroyed after several months if there is no further customer contact related to the purchase.
2. While most revenue received by the Board is in the form of checks, some cash is also received. The Board provides cash receipt forms, upon request, to individuals who make cash payments to the Board. The forms do not provide an accountability control for the accepted cash as they are not numerically controlled and the Board does not retain copies of the issued receipts.
 3. The Board does not effectively secure checks awaiting deposit. Auditors on one occasion observed checks left overnight on a desk. While checks are generally kept in an envelope in a closet, all employees have access to the unlocked closet during business hours and have access to the office and closet key outside of business hours when the closet is locked. Employees of another State agency with adjacent offices also can access the Board's office through an unsecured connecting door at any time. Failure to adequately secure and maintain accountability for checks increases the risk they may be lost or stolen.
 4. The Board did not consistently deposit accumulated cash and checks in a timely manner during the audit period.
 - In a detailed test of initial license applications, revenue items from 14 out of 16 selections tested (88%) were deposited from 6 to 17 days after the Board determined the application to be complete.

- In a detailed test of physician assistant license renewal applications, revenue items from 5 out of 5 selections tested (100%) were deposited from 4 to 12 days after the Board determined the license renewal application to be complete.

According to State Treasury policy, “State agencies should daily prepare and deposit receipts into State bank accounts; law requires that agencies deposit any amounts on hand in excess of \$500.” RSA 6:11-a, II, does allow an agency to hold receipts unprocessed and undeposited until the agency determines related applications are complete and to return checks directly to the sender, if the agency determines an application is incomplete or otherwise noncompliant.

Delays in processing revenue items increase the risk that those items could be subject to loss or theft.

5. The Board issues temporary licenses to allow physicians licensed in another state to work in the State of New Hampshire, pending the Board’s issuance of full licenses. The Board does not deposit the \$50 temporary license fee until the start of the period covered by the temporary license. If the Board approves the full licensure application prior to the physician starting work under the temporary licensure, the temporary license fee is returned to the physician.

Recommendation:

The Board should strengthen its internal controls over revenue processing to lessen the risks of undetected and uncorrected errors and fraud.

1. The Board should implement an effective reconciliation process that periodically compares business activity with revenue collected, deposited, recorded, and reported. This review and reconciliation process should be performed by someone who does not also record the Board’s licensing and other activity in its database to ensure the review and reconciliation controls are independent. To aid in this effort, the Board should consider preparing an initial recording of revenue items upon receipt, adding control-data fields to its licensing system, improving its documentation systems, as well as increasing the number of available revenue source accounts in NHFirst. Due to the relatively small Board business office, it may be necessary for Board management to become more involved with the review and reconciliation of the Board’s financial activity to achieve adequate segregation of responsibilities.
2. The Board should improve its controls over documenting the receipt of cash. The Board should consider implementing a more automated cash receipt process, such as a cash register or computerized spreadsheet, that could provide improved accountability and security controls for cash received.
3. The Board should better secure cash and checks against loss, both during and after business hours. The Board should implement policies and procedures to ensure those items are secured in a manner that establishes and maintains accountability for the cash and checks pending deposit.

4. The Board should deposit cash and checks timely to lessen risk of loss, improve the State's cash flow, and promote accuracy and efficiency of financial reporting.
5. The Board should consider the appropriateness of returning temporary license fees in instances where the Board has taken action to approve the temporary license.

Auditee Response:

We concur.

1. The optimal review and reconciliation process that is being recommended will most likely have to be performed by an additional employee not currently employed by the Board. Thus, implementation of such a process would begin once the Board is able to hire another employee which could occur during fiscal year 2016. If the Board were to hire another employee, it would most likely also need to increase its licensing fees.

While the Board does not prepare a separate list of revenue items received, it tracks the date received for each item on the application and is able to track and identify undeposited revenue items based on the information recorded on the application.

Whether or not having a transaction date field in the Board's licensing system would assist in the licensing process, the Board currently does not have the funds to make any changes to its system as that would require the work of an outside consultant.

The Board understands that requests have been made in the past for additional revenue accounts but that the requests have been denied. Pursuant to this observation and the Board's request, the Department of Administrative Services, Bureau of Accounts, has agreed to establish separate revenue accounts for fines, locum tenens licenses, resident licenses, camp licenses, temporary licenses, visiting professor licenses and renewals.

Obtaining separate revenue accounts will assist the Board in performing a periodic review and comparison of licensing activities to revenues recorded, pending the Board's establishment of a more optimal reconciliation process, as discussed above.

2. To better track its cash receipts, the Board will maintain a copy of pre-numbered receipts.
3. During the audit period the Board changed the location of checks awaiting deposit. They are now kept in a locked file drawer in a private office and only the Administrator and Executive Director have keys. The Board is unaware of any instance of a check being lost or stolen because it was improperly secured.
4. For some portion of the audit period, because of staffing issues, the Board did not make daily deposits. Since at least February 2013 to the present, the Board makes daily deposits of all checks received and does not keep checks in the office that are part of an application that is complete.

5. The Board believes that the practice of returning the checks for temporary licensing fees in instances where the applicant is granted a full license is the best, most efficient way to handle the issue.

Significant Deficiencies

Observation No. 5: Accounting And Recording Policies And Procedures For Board-Assessed Fines Should Be Improved

Observation:

The Board's processes for accounting for and recording assessed fines are inefficient and lack controls to ensure fines and other disciplinary assessments are accurately tracked, collected, deposited, and recorded.

During the nine months ended March 31, 2013, the Board assessed \$6,000 in fines and collected \$10,500 in fine revenue. At March 31, 2013, one fine, a \$2,000 fine assessed by the Board on November 7, 2012, remained outstanding.

During the audit period, the Board used note cards to track and account for the assessment and subsequent collection of fine revenue. The Board did not maintain an accounts receivable ledger, an aging of outstanding fines, or otherwise reconcile fines assessed and fine revenue collected.

While NHFirst has an invoicing function that allows agencies to bill clients, track accounts receivable, and generate an aging report to prompt timely collections on those receivables, the Board did not utilize that function during the audit period.

Recommendation:

The Board should improve its accounting and recording policies and procedures for Board-assessed fines by utilizing the NHFirst Billings and Receivables module to invoice and account for the issuance of fines, the amounts received in payments on those fines, and amounts outstanding.

To improve reporting, the Board should consider requesting the establishment of a separate revenue account in NHFirst to specifically report fine revenue.

The Board should periodically review and reconcile fine activity to ensure that all assessed fines are collected in a timely manner and that payments are accurately deposited and reported in NHFirst.

Auditee Response:

We concur.

The Board will explore whether it is possible to track fines in the NHFirst system.

Observation No. 6: Agreement With The Department Of Justice Describing The Scope And Extent Of Anticipated APU Services Should Be Established

Observation:

The Board does not have a memorandum of agreement with the Department of Justice (DOJ) Administrative Prosecutions Unit (APU) covering the work the APU performs in support of the Board. The Board does have a memorandum of agreement with the DOJ Civil Bureau covering the work the Civil Bureau performs for the Board. The lack of a memorandum of agreement or other documentation of the agreed-to scope, extent of services to be provided, and the costs of those services increases the risk that disagreements over those services may affect Board operations.

During the audit period, the Board paid approximately \$84,000 for APU services. When asked, the Board was unable to describe the basis for the costs it is charged by the APU.

Recommendation:

The Board should establish a formal agreement with the Department of Justice describing the scope and extent of anticipated services to be provided by the APU and the cost for those services.

Auditee Response:

We concur.

The Board has an agreement with the DOJ Civil Bureau because the work the attorneys do for the Board is work that is outside the scope of normal legal services that the DOJ provides as Board counsel. For example, the attorney from the DOJ Civil Bureau attends all monthly Board meetings. APU, on the other hand, is required by statute to provide prosecutorial services to the Board, and has done so since the establishment of the APU in the early 1990's. As part of the audit process, the Board provided the auditors with an e-mail from DOJ which outlined how the Board is billed based on the hours APU has spent on the Board in the previous biennium.

Nonetheless, the Board has requested that Board counsel prepare an agreement for it to enter into with the APU.

Observation No. 7: More Detailed Agreement For Services Provided By DHHS Should Be Established

Observation:

The Board's agreement with the Department of Health and Human Services (DHHS), to which it is administratively attached by RSA 329:2, III, does not address all of the services DHHS provides to the Board.

RSA 21-G:10, II, states, “The department to which an agency is administratively attached shall: (a) Provide budgeting, recordkeeping and related administrative and clerical assistance to the agency, if mutually agreed to in writing, provided that the agency shall pay the department on a cost allocation basis for such services.”

The Board has an agreement with DHHS for the provision of payroll services at an annual cost of \$500. DHHS’s Board Financial Manager also provides administrative and clerical assistance and guidance to the Board. The Board’s agreement with DHHS does not describe the scope of services or costs for those services provided by the DHHS Board Financial Manager.

Recommendation:

The Board should establish a more detailed agreement with DHHS, which describes in more specificity the scope and cost of DHHS services available to the Board.

Auditee Response:

We concur.

The Board has an agreement with DHHS that covers all aspects of services available to the Board provided by DHHS. The agreement will be presented for approval at the September Board meeting.

Observation No. 8: Adherence To The State’s Financial Period Closing Procedures Should Be Improved

Observation:

Due to an apparent misunderstanding of State policy, the Board did not report approximately \$46,000 of undeposited June 2012 cash receipts as cash-in-transit (accounts receivable) at the end of fiscal year 2012, contrary to the State’s policies and procedures. The policy is included in the Department of Administrative Services (DAS) Fiscal Year 2012 *Annual Closing Review, MOP 2400*. While the Board reported it was familiar with the *Annual Closing Review*, it stated it was not aware of the specific requirements for recording cash in transit at the end of the fiscal year.

Recommendation:

The Board should adhere to the State’s financial period closing procedures. The Board should request assistance from DAS, as necessary, to interpret and implement the required policies and procedures described in the *Annual Closing Review*.

Auditee Response:

We concur.

Because the Board was short-staffed at the end of fiscal year 2012, some cash receipts were not timely reported.

At the end of fiscal year 2013, the Board was fully-staffed and all processing of cash receipts was current.

Observation No. 9: Formal Risk Assessment Process Should Be Established

Observation:

The Board does not have a formal risk assessment process. As a result, the Board is susceptible to addressing risk in a reactive mode, as opposed to a proactive mode.

Risk assessment is a process for identifying and responding to business risks and the results thereof. A prerequisite to an effective risk assessment is the establishment and recognition of an organization's objectives and the risks that may put achieving those objectives in jeopardy. The Board has not periodically and formally reviewed its operations to assess where and how things could go wrong, evaluated the likelihood of those occurrences, and established reasonable responses to those potential occurrences. Without a risk assessment process, the identification and response to risk occurs in a reactive mode, often after a risk has been realized and a loss incurred.

Examples of risks that the Board should consider include operational risks, compliance risks, strategic, and reputation risks.

Recommendation:

The Board should establish and document a formal risk assessment process to continuously review Board operations for exposure to risk and to plan for and reasonably respond to the identified risk through risk elimination, mitigation, or acceptance, as appropriate.

Auditee Response:

We concur.

The Board will take steps to consider whether there is a need for the Board to establish a formal and documented risk assessment process if we are able to do it without financial cost as our current budget does not have any additional funding.

Observation No. 10: Disaster Recovery And Business Continuity Plans Should Be Established

Observation:

The Board has not established disaster recovery and business continuity plans.

The purpose of a disaster recovery plan is to document procedures in the event of a disaster, including disaster recovery strategies and essential resources necessary to implement a recovery. The purpose of a business continuity plan is to document procedures in the event of a significant disruption in the way an organization conducts its daily business functions.

The lack of effective plans places the Board at increased risk that its response to a business disaster or disruption will not be planned and coordinated to mitigate the impact of those events.

Recommendation:

The Board should establish formal disaster recovery and business continuity plans with a focus toward areas of the Board's operations that are vulnerable to various risks. The plans should be coordinated and regularly updated by a risk assessment process, implemented, and tested to ensure the plans remain relevant and employees are trained in their responsibilities in the event the plans are implemented.

Auditee Response:

We concur.

The Board will review this recommendation with the Department of Information Technology (DoIT) and any other appropriate State agency and take whatever additional steps are needed.

Observation No. 11: Formal Fraud Prevention And Detection Program Should Be Established

Observation:

The Board has not established a formal fraud prevention and detection program. A formal fraud prevention and detection program should make employees aware of the importance of controls in the organization, typical indicators of fraud often referred to as "red flags," and appropriate actions for employees to take if fraud is suspected.

Based on discussions with Board employees, it is not clear that employees have been provided with appropriate training and direction regarding fraud awareness and reaction to fraud. For example, some employees reported they were not aware of the process of how and where to report suspected fraud.

Recommendation:

The Board should establish a formal fraud prevention and detection program that includes fraud reporting policies and training that will promote the timely detection and reporting of suspected fraudulent activity.

Auditee Response:

We concur.

The Board will take steps to establish a formal fraud prevention and detection program.

At least since the mid 1980's to the present, the Board is unaware of any case of fraud or misappropriation of State funds.

State Compliance Comments

Observation No. 12: Executive Director Should Be Paid In Accordance With Provisions Of RSA 94:1-a

Observation:

The Board's Executive Director was employed as a part-time classified employee and paid on an hourly basis on the classified labor grade 35 pay scale during the audit period even though RSA 94:1-a states the part-time Executive Director should be an unclassified employee paid on a per-diem basis on the unclassified labor grade GG pay scale. While the hourly rates of both pay scales calculated on a 37.5 hour week are approximately the same (\$48.29 versus \$46.46), it would be difficult to calculate the net difference in pay received by the Executive Director due to pay being calculated on an hourly versus per-diem basis during the audit period.

Recommendation:

The Board's Executive Director should be paid in accordance with the provisions of RSA 94:1-a.

If the Board determines that payment in accordance with the current statute is not in the interests of the Board or the State, the Board should request the statute be appropriately amended.

Auditee Response:

We concur.

When the part-time Executive Director position was requested, it was requested through the Hay Group as GG. When the position was established by Division of Personnel, per Board request, it was established as a Labor Grade 35 Step 8. At that time \$70,000 was budgeted in Class 050 to pay the salary of the Executive Director. It is the intention of the Board in the fiscal year 2016-2017 Budget to establish a Class 011 or 012, and have the Executive Director's position transferred to an Unclassified Step GG part-time position.

Department of Administrative Services Response:

We concur.

The Board requested and received authorization from the Division of Personnel in November 2010, for a part-time position to be established, with the Board planning to make the position permanent through the State budget process. Until such time as the funding for the unclassified position is approved in an unclassified expenditure appropriation line by the legislature, the Board could not complete the hiring process for a full-time Executive Director.

Funding is included in the Board of Medicine's operating budget for the FY 2014-2015 Biennium for the salary of the incumbent in the classified position to continue in a part-time

capacity. The Board of Medicine's budget does not include funding for an expenditure class line 011 or 012, Personal Services-Unclassified, and as a result of that omission, the unclassified full-time Executive Director position is not authorized to be filled during this biennium.

We believe that the board should act to establish the full-time unclassified Executive Director position during the next biennial budget process at the salary level assigned pursuant to RSA 94:1-a, or as the recommendation above states, they should determine whether payment in accordance with the current statute is not in the interests of the Board or the State, and request that the statute be appropriately amended.

Observation No. 13: Medical Review Subcommittee Investigator Should Be Employed

Observation:

The Board has not employed a physician as a medical review subcommittee investigator. Employment of a physician as a medical review subcommittee investigator is required by RSA 329:17, V-a. The statute also provides the salary for that position to be established by RSA 94:1-a; however, RSA 94:1-a does not mention a salary for a Board medical review subcommittee investigator.

The statutory provisions for a medical review subcommittee investigator and for a salary for that position were included in Chapter 21:4 and Chapter 21:5 of the Laws of 2008, effective July 11, 2008.

During the audit period, the Board contracted with a physician for investigation support. The contract with the physician covered the period of July 1, 2011 through June 30, 2013 and provided the contracted physician to be paid \$40 per hour for 20 to 30 hours of services to be provided each month.

Recommendation:

The Board should employ a physician as a medical review subcommittee investigator with a salary established by RSA 94:1-a, as required by RSA 329:17, V-a.

If the Board determines that employing an investigator is not in the Board's or State's best interests, the Board should request an appropriate amendment to the statute.

Auditee Response:

We concur.

The Board did at one point try to create a part-time physician investigator position but was unsuccessful. Currently the position is a contracted one and the Board's contract with the current physician investigator was approved by Governor and Council on June 19, 2013 for an additional 2-year period from July 1, 2013 through June 30, 2015. The Board will discuss this finding with

the Division of Personnel to determine whether the physician investigator position can become an employed part-time position once the current contract expires.

Observation No. 14: Fees Required By Administrative Rules Should Be Charged

Observation:

The Board has not established, and the Board does not charge, a fee to applicants whose renewal application forms are returned to the Board by the post office due to a wrong address.

N.H. Admin. Rules, Med 401.03 (d) states, “An applicant whose renewal application form is returned to the board by the post office due to a wrong address shall pay a fee as specified by Med 306.01, Table 3.6.1.” However, no relevant fee has been established in N.H. Admin. Rules, Med 306.01.

Recommendation:

The Board should charge fees required by administrative rules.

If the Board determines that charging certain fees required by administrative rule is not in the best interests of the Board and State, the Board should request that the relevant administrative rules be appropriately revised.

Auditee Response:

We concur.

The Board will remove the fee requirement the next time it submits rule changes for consideration by the Joint Legislative Committee on Administrative Rules, JLCAR.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

Report On The Financial Statement

We have audited the accompanying financial statement of the Board of Medicine for the nine months ended March 31, 2013, and the related notes to the financial statement as listed in the table of contents.

Management's Responsibility For The Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting

policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis For Qualified Opinion

As discussed in Note 1 to the financial statement, the financial statement referred to above does not purport to and does not constitute a complete financial presentation of the Board of Medicine in the General Fund in conformity with accounting principles generally accepted in the United States of America.

Opinion

In our opinion, except for the matter described in the “Basis for Qualified Opinion” paragraph, the financial statement referred to above presents fairly, in all material respects, certain financial activity of the Board of Medicine for the nine months ended March 31, 2013 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statement referred to above. The Budget to Actual Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statement.

The Budget to Actual Schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budget to Actual Schedule is fairly stated, in all material respects, in relation to the basic financial statement as a whole.

The Introductory and Constructive Service Comments Sections and the Appendix, as listed on the table of contents, is information developed by the auditors during the course of the audit and, as auditor work product, the auditor’s opinion cannot extend to that information.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2013 on our consideration of the Board of Medicine’s internal control over financial

reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

Office Of Legislative Budget Assistant

July 30, 2013

**STATE OF NEW HAMPSHIRE
BOARD OF MEDICINE
STATEMENT OF REVENUES AND EXPENDITURES
FOR THE NINE MONTHS ENDED MARCH 31, 2013**

Revenues

Unrestricted Revenues

Registration In Medicine (Note 3)	\$ 226,250
Physician Assistant Fees (Note 3)	29,980

Total Unrestricted Revenues 256,230

Restricted Revenues

Physician Effectiveness Program (Note 3)	43,665
Sale Of Publications	5,265

Total Restricted Revenues 48,930

Total Revenues 305,160

Expenditures

Salaries And Benefits	353,875
Physician Effectiveness Program	112,500
Legal Services - Department Of Justice	86,268
Current Expenses	27,083
Contracted Physician Investigator	10,800
Rents/Leases Other Than State	10,300
In-State Travel	5,213
Organizational Dues	3,676
Telecommunications	3,446
Information Technology	1,141
Other	1,883

Total Expenditures 616,185

Excess (Deficiency) Of Revenues

Over (Under) Expenditures (311,025)

Other Financing Sources (Uses)

Net Appropriations (Note 2)	567,255
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Total Other Financing Sources (Uses) 567,255

Excess (Deficiency) Of Revenues And

Other Financing Sources Over (Under)

Expenditures And Other Financing Uses \$ 256,230

The accompanying notes are an integral part of this financial statement.

**STATE OF NEW HAMPSHIRE
BOARD OF MEDICINE**

**NOTES TO THE FINANCIAL STATEMENT
FOR THE NINE MONTHS ENDED MARCH 31, 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statement of the New Hampshire Board of Medicine (Board) has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

A. Financial Reporting Entity

The Board is an organization of the primary government of the State of New Hampshire. The accompanying financial statement reports certain financial activity of the Board.

The financial activity of the Board of Medicine is accounted for and reported in the State's General Fund in the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the CAFR. The Board, as a department of the primary government, accounts for only a small portion of the General Fund, and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to the Board cannot be determined. Accordingly, the accompanying financial statement is not intended to show the financial position or fund balance of the Board in the General Fund nor the change in its fund balance for the General Fund.

B. Financial Statement Presentation

The State of New Hampshire uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The Board reports its financial activity in the fund described below.

Governmental Fund Type:

General Fund: The General Fund is the State's primary operating fund and accounts for all financial transactions not specifically accounted for in any other fund. All revenues of governmental funds, other than certain designated revenues, are credited to the General Fund. Annual expenditures that are not allocated by law to other funds are charged to the General Fund.

C. Measurement Focus And Basis Of Accounting

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay the liabilities of the current period. For this purpose the State generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. An exception to this policy is federal grant revenue, which generally is considered to be available if collection is expected within 12 months after the nine month period end. Taxes, grants, licenses, and fees associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service and other long-term obligations including compensated absences, other post-employment benefits, pollution remediation obligations, and claims and judgments are recorded only when payment is due.

D. Revenues And Expenditures

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either “unrestricted” (general purpose) or “restricted”. Unrestricted revenues are credited directly to the appropriate fund balance upon recording in the State’s accounting system. Pursuant to the State’s operating budget, unrestricted or general purpose revenues collected by an agency are not used as a direct source of funding for agency operations but are available to fund any activity accounted for in the fund. The recording of unrestricted revenues has no effect on an agency’s authorization to expend funds.

Restricted revenues are either by State law or by outside restriction (e.g. federal grants), available only for specified purposes and are credited to the agency’s accounting unit to which the restricted revenue is budgeted upon recording in the State’s accounting system. Restricted revenues recorded by an agency are direct sources of funding for budgeted agency operations (appropriations).

Unused restricted revenues at year end are either lapsed or generally recorded as a committed or assigned fund balance. When both unrestricted (general purpose) and restricted funds are available, it is the State’s policy to use restricted revenues first.

Other Financing Sources – these additions to governmental resources in the fund financial statements result from financing provided by net appropriations.

In the governmental fund financial statements, expenditures are reported by character.

E. Budget Control And Reporting

General Budget Policies

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature for adoption. This budget, which includes a separate budget for each year of the biennium, consists of three parts: Part I is the Governor's program for meeting all expenditure needs and estimating revenues. There is no constitutional or statutory requirement that the Governor propose, or the Legislature adopt, a budget that does not resort to borrowing. Part II is a detailed breakdown of the budget at the department level for appropriations to meet the expenditure needs of the government. Part III consists of draft appropriation bills for the appropriations made in the proposed budget.

The operating budget is prepared principally on a modified cash basis and adopted for the General Fund and other governmental funds, with the exception of the Capital Projects Fund and certain proprietary funds.

In addition to the enacted biennial operating budget, the Governor may submit to the Legislature supplemental budget requests necessary to meet expenditures during the current biennium. Appropriation transfers can be made within a department without the approval of the Legislature; therefore, the legal level of budgetary control is at the departmental level.

Both the Executive and Legislative Branches of government maintain additional fiscal control procedures. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State's financial operations, needs, and resources, and to maintain an integrated financial accounting system. The Legislative Branch, represented by the Joint Legislative Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

Unexpended balances of appropriations at year-end will lapse to assigned or unassigned fund balance and be available for future appropriations unless they have been encumbered or legally defined as non-lapsing, which means the balances are reported as a restricted, committed, or assigned fund balance. The balance of unexpended encumbrances is brought forward into the next fiscal year. Capital Projects Fund unencumbered appropriations lapse in two years unless extended or designated as non-lapsing by law.

F. Encumbrances

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services, the encumbrance is liquidated and the expenditure and liability are recorded. The Board's unliquidated encumbrance balance at March 31, 2013 in the General Fund was \$48,970.

NOTE 2 - NET APPROPRIATIONS

Net appropriations reflect appropriations for expenditures in excess of restricted revenue. Net appropriations are made from the fund balance of the respective fund.

NOTE 3 – REVENUES

Registration In Medicine - Physician application and licensing fees, license verification fees, and fines are credited to the registration in medicine account. The Board issues biennial licenses to physicians that are subject to renewal on June 30.

Physician Assistant Fees - Physician assistant application and licensing fees, license verification fees, and fines are credited to the physician assistant fees account. The Board issues annual licenses to physician assistants that are subject to renewal on December 31.

Physician Effectiveness Program - \$50 of each physician's license fee and \$15 of each physician assistant's license fee are credited to the physician effectiveness program account, established in RSA 329:13-b (Professionals' Health Program). The Professionals' Health Program assists physicians and physician assistants who are impaired or potentially impaired because of mental or physical illness including substance abuse or disruptive behavior.

NOTE 4 - EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The New Hampshire Retirement System is the administrator of a cost-sharing multiple-employer Public Employee Retirement System (The Plan) established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The Plan is a contributory defined-benefit plan providing service, disability, death, and vested retirement benefits to members and beneficiaries. The Plan covers substantially all full-time state employees, public school teachers and administrators, permanent firefighters, and police officers within the state of New Hampshire.

Full-time employees of political subdivisions, including counties, municipalities, and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation. The Plan is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. All assets are in a single trust and are available to pay retirement benefits to its members and beneficiaries.

Group I members at age 60 (age 65 for members beginning service on or after July 1, 2011) qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is $1/60$ (1.67%) of average final compensation multiplied by years of creditable service ($1/66$ of AFC times creditable service for members beginning service on or after July 1, 2011). AFC is defined as the average of the three highest salary years for members vested prior to January 1, 2012 and five years for members not

vested on January 1, 2012. At age 65, the yearly pension amount is recalculated at 1/66 (1.5%) of AFC multiplied by years of creditable service.

Members in service with 10 or more years creditable service who are between age 50 and 60 or members in service with at least 20 or more years of service, whose combination of age and service is 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

Group II members who are age 60, or members who are at least age 45 with a minimum of 20 years of creditable service (age 50 with a minimum of 25 years of creditable service or age 60 for members beginning service on or after July 1, 2011) can receive a retirement allowance at a rate of 2.5% of AFC for each year of service not to exceed 40 years (2% of AFC times creditable service up to 42.5 years for members beginning service on or after July 1, 2011).

All covered Board employees are members of Group I.

Members of both groups may qualify for vested deferred allowances, disability allowances, and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation, service, or both.

Pursuant to RSA 100-A:52, RSA 100-A:52-a and RSA 100-A:52-b, the New Hampshire Retirement System also provides a postretirement medical premium subsidy for Group I employees and teachers and Group II police officers and firefighters.

A special account was established by RSA 100-A:16, II(h) for additional benefits. Prior to fiscal year 2007, the account was credited with all of the earnings of the account assets in the account plus the earnings of the remaining assets of the plan in excess of the assumed rate of return plus 1/2 of 1 percent.

In 2007, legislation was passed that permits the transfer of assets into the special account for earnings in excess of 10 1/2 percent as long as the actuary determines the funded ratio of the consolidated retirement system to be at least 85 percent. If the funded ratio of the system is less than 85 percent, no assets will be transferred to the special account.

In fiscal year 2011, two pieces of legislation passed that impacted the special account. The first required an \$89 million transfer from the special account to the state annuity accumulation fund effective May 11, 2011. The other, required the balance remaining in the special account, less funds set aside to comply with the temporary supplemental allowances required by RSA 100-A:41-d,III, to be transferred to the respective components of the State annuity accumulation fund, effective June 30, 2011. This resulted in an additional transfer from the special account to the State annuity accumulation fund totaling \$167.3 million.

In fiscal year 2012, legislation was passed that repealed the special account.

The New Hampshire Retirement System issues a publicly available financial report that can be obtained by writing to them at 54 Regional Drive, Concord, NH 03301-8507 or from their web site at <http://www.nhrs.org>.

Funding Policy

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. In fiscal year 2013, by statute, Group I members contributed 7.0% of gross earnings. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the system's actuary using the entry age normal funding method and are expressed as a percentage of gross payroll. The State funds 100% of the employer cost for all of the Board's employees enrolled in the Plan.

The Board's normal contribution rate was 8.48% of the covered payroll for its Group I employees from July 1, 2012 through March 31, 2013 and the Board' normal contributions for that period were \$16,546.

Other Postemployment Benefits

In addition to providing pension benefits, RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses within the limits of the funds appropriated at each legislative session. These benefits include group hospitalization, hospital medical care, and surgical care. Substantially all of the State's employees who were hired on or before June 30, 2003 and have 10 years of service, may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires State Group I employees hired on or after July 1, 2003 to have 20 years of State service in order to qualify for health care benefits. These and similar benefits for active employees are authorized by RSA 21-I:30 and provided through the Employee and Retiree Benefit Risk Management Fund, a single-employer defined benefit plan, which is the State's self-insurance fund implemented in October 2003 for active State employees and retirees. The State recognizes the cost of providing benefits by paying actuarially determined contributions into the fund. An additional major source of funding for retiree benefits is from the New Hampshire Retirement System's medical premium subsidy program.

The cost of the health benefits for the Board's retired employees and spouses is a budgeted amount paid from an appropriation made to the administrative organization of the New Hampshire Retirement System and is not included in the Board's financial statement.

GASB Statement 45 requires that the long-term cost of retirement health care and obligations for other postemployment benefits (OPEB) be determined on an actuarial basis and reported similar to pension plans. GASB Statement 45 does not mandate the pre-funding of postemployment benefit liabilities. However, any pre-funding of these benefits will help minimize or eliminate the postemployment benefit obligation that will be required to be reported in the State's financial statements.

The State Legislature currently plans to only partially fund (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The ARC and contributions are reported for the State as a whole and are not separately reported for the Board.

**STATE OF NEW HAMPSHIRE
BOARD OF MEDICINE
SUPPLEMENTARY INFORMATION
BUDGET TO ACTUAL SCHEDULE
FOR THE NINE MONTHS ENDED MARCH 31, 2013**

<u>Revenues</u>	<u>Original Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Unrestricted Revenues			
Registration In Medicine	\$ 1,000,000	\$ 226,250	\$ (773,750)
Physician Assistant Fees	<u>28,000</u>	<u>29,980</u>	<u>1,980</u>
Total Unrestricted Revenues	<u>1,028,000</u>	<u>256,230</u>	<u>(771,770)</u>
Restricted Revenues			
Physician Effectiveness Program	150,000	43,665	(106,335)
Sale Of Publications	<u>455</u>	<u>5,265</u>	<u>4,810</u>
Total Restricted Revenues	<u>150,455</u>	<u>48,930</u>	<u>(101,525)</u>
Total Revenues	<u>1,178,455</u>	<u>305,160</u>	<u>(873,295)</u>
<u>Expenditures</u>			
Salaries And Benefits (Note 3)	582,758	364,675	218,083
Physician Effectiveness Program	150,000	112,500	37,500
Legal Services - Department Of Justice	128,255	86,268	41,987
Current Expenses	41,500	27,083	14,417
Rents/Leases Other Than State	16,050	10,300	5,750
In-State Travel	9,500	5,213	4,287
Organizational Dues	4,000	3,676	324
Telecommunications	4,000	3,446	554
Information Technology	8,349	1,141	7,208
Other	<u>11,066</u>	<u>1,883</u>	<u>9,183</u>
Total Expenditures	<u>955,478</u>	<u>616,185</u>	<u>339,293</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>222,977</u>	<u>(311,025)</u>	<u>(534,002)</u>
Other Financing Sources (Uses)			
Net Appropriations (Note 2)	<u>805,023</u>	<u>567,255</u>	<u>(237,768)</u>
Total Other Financing Sources (Uses)	<u>805,023</u>	<u>567,255</u>	<u>(237,768)</u>
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	<u>\$ 1,028,000</u>	<u>\$ 256,230</u>	<u>\$ (771,770)</u>

The accompanying note is an integral part of this schedule.

Notes To The Budget To Actual Schedule For The Nine Months Ended March 31, 2013

Note 1 - General Budget Policies

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature for adoption. This budget, which includes annual budgets for each year of the biennium, consists of three parts: Part I is the Governor's program for meeting all expenditure needs and estimating revenues. There is no constitutional or statutory requirement that the Governor propose, or the Legislature adopt, a budget that does not resort to borrowing. Part II is a detailed breakdown of the budget at the department level for appropriations to meet the expenditure needs of the government. Part III consists of draft appropriation bills for the appropriations made in the proposed budget.

The operating budget is prepared principally on a modified cash basis and adopted for the General Fund and other governmental funds, with the exception of the Capital Projects Fund, and certain proprietary funds.

The New Hampshire biennial budget is composed of the initial operating budget, supplemented by additional appropriations. These additional appropriations and estimated revenues from various sources are authorized by Governor and Council action, annual session laws, and existing statutes which require appropriations under certain circumstances.

The budget, as reported in the Budget To Actual Schedule, reports the initial General Fund operating budget for the Board of Medicine for the fiscal year ended June 30, 2013 as passed by the Legislature in Chapter 223, Laws of 2011.

Budgetary control is at the department level. In accordance with RSA 9:16-a, notwithstanding any other provision of law, every department is authorized to transfer funds within and among all program appropriation units within said department, provided any transfer of \$2,500 [revised to \$75,000, by Chapter 247:2, Laws of 2012, effective August 17, 2012] or more shall require approval of the Joint Legislative Fiscal Committee and the Governor and Council. Additional fiscal control procedures are maintained by both the Executive and Legislative Branches of government. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State's financial operations. The Legislative Branch, represented by the Joint Legislative Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

Unexpended balances of appropriations at year end will lapse to assigned or unassigned fund balance and be available for future appropriations unless they have been encumbered or are legally defined as non-lapsing, which means the balances are reported as a restricted, committed, or assigned fund balance. The balance of unexpended encumbrances is brought forward into the next fiscal year.

Variances - Favorable/(Unfavorable)

As noted above, the original budget column on the Budget to Actual Schedule for the nine months ended March 31, 2013 represents the 12 month budget approved by Chapter 223, Laws of 2011. The variance column highlights the difference between this original 12-month operating budget and actual revenues and expenditures for the nine months ended March 31, 2013.

Revenue variances are caused by actual revenue exceeding budget, generating a favorable variance, or actual revenue being less than budgeted, generating an unfavorable variance. A favorable expenditure variance results from actual expenditures for the reporting period being less than the amount budgeted for the fiscal year. The favorable expenditure variances represent a combination of available balances and unliquidated encumbrances. Unfavorable expenditure variances represent actual expenditures for the reporting period exceeding the amount budgeted for the fiscal year.

Unfavorable variances are expected for revenues and favorable variances are expected for expenditures when comparing nine months of actual revenues and expenditures to a 12-month annual budget.

Note 2 - Net Appropriations

Net appropriations reflect appropriations for expenditures in excess of restricted revenue. Net appropriations are made from the fund balance of the General Fund.

Note 3 - Salaries And Benefits

Salaries and benefits reported in the actual column on the Budget to Actual Schedule for the nine months ended March 31, 2013 include \$10,800 paid to a contracted Physician Investigator from the Board's budgeted appropriations for salaries and benefits. Salaries and benefits and contracted physician investigator expenditures are reported on separate lines on the Board of Medicine's Statement of Revenues and Expenditures for the nine months ended March 31, 2013.

APPENDIX

CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of July 30, 2013, of the current status of the observations contained in the performance audit report of the Board of Medicine dated April 2008. The prior audit report can be accessed on-line at:
<http://www.gencourt.state.nh.us/LBA/AuditReports/performance-reports.aspx>.

	<u>Status</u>		
3. Improve Compliance With Statute Requiring Members Submit Statements Of Financial Interests	●	●	●
27. Improve Management Controls Over Cash And Check Handling, Revenue, And Fees (<i>See Current Observation No. 4</i>)	●	○	○
28. Improve Consultant Procurement Practices	●	●	●
29. Improve Technology Service Procurement	●	●	●
30. Operate The Physician Health Program According To Statute	●	●	●
31. Improve Physician Effectiveness Program Fund Administration	●	●	●
33. Improve Information Technology Management (<i>See Current Observation No. 2</i>)	●	○	○
34. Develop A Business Continuity And Contingency Plan (<i>See Current Observation No. 10</i>)	○	○	○

<u>Status Key</u>	●	●	●	<u>Count</u>
Fully Resolved	●	●	●	5
Substantially Resolved	●	●	○	0
Partially Resolved	●	○	○	2
Unresolved	○	○	○	1

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