

**STATE OF NEW HAMPSHIRE**  
**DEPARTMENT OF REVENUE ADMINISTRATION**

**FINANCIAL AUDIT REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2022**





MICHAEL W. KANE, MPA  
Legislative Budget Assistant  
(603) 271-3161

CHRISTOPHER M. SHEA, MPA  
Deputy Legislative Budget Assistant  
(603) 271-3161

*State of New Hampshire*  
OFFICE OF LEGISLATIVE BUDGET ASSISTANT  
State House, Room 102  
Concord, New Hampshire 03301

STEPHEN C. SMITH, CPA  
Director, Audit Division  
(603) 271-2785

*To The Fiscal Committee Of The General Court:*

We have audited the financial statement of the New Hampshire Department of Revenue Administration (Department) for the fiscal year ended June 30, 2022 and have issued our report thereon dated June 12, 2023.

This financial audit report presents information related to our audit in two sections: a management letter section and a financial section. The management letter section, prepared by the auditors, is a byproduct of the audit of the Department's financial statement. This section contains an auditor's report on internal control over financial reporting and on compliance and other matters and related audit findings.

The financial section of this report, with the exception of the independent auditor's report on the Department's financial statement, was prepared by the financial management of the Department, with assistance from the Department of Administrative Services, Bureau of Financial Reporting. In addition to the auditor's report, the financial section of the report includes the financial statement and notes to the financial statement.

This report can be accessed in its entirety on-line at:

<http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>

*Office of Legislative Budget Assistant*  
Office Of Legislative Budget Assistant

June 12, 2023

**THIS PAGE INTENTIONALLY LEFT BLANK**

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF REVENUE ADMINISTRATION  
FINANCIAL AUDIT REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

**MANAGEMENT LETTER SECTION**

---

**TABLE OF CONTENTS**

	<u>PAGE</u>
<b>TRANSMITTAL LETTER</b> .....	i
<b>INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b> .....	1
<b><i>INTERNAL CONTROL COMMENTS *</i></b>	
<b><i>SIGNIFICANT DEFICIENCIES</i></b>	
Observation No. 1: Adhere To Risk Management Policies And Procedures .....	3
Observation No. 2: Monthly Revenue Reconciliation Control Should Be Strengthened .....	4
Observation No. 3: Fiscal Year-End Reporting Process Should Be Improved .....	6
Observation No. 4: Policies And Procedures Supporting Department Operations Should Be Updated.....	8
Observation No. 5: Controls Over Accounts Payable Processing Should Be Strengthened .....	9
<b><i>CURRENT STATUS OF PRIOR AUDIT FINDINGS</i></b> .....	11

---

\* No comments suggest legislative action may be required.

**ABBREVIATIONS USED**

ACFR	State of New Hampshire Annual Comprehensive Financial Report
CARES Act	Coronavirus Aid, Relief, and Economic Security (CARES) Act
DAS	Department of Administrative Services
Department	Department of Revenue Administration
NHFirst	New Hampshire State Government Accounting and Financial Reporting System
RIMS	Revenue Information Management System



MICHAEL W. KANE, MPA  
Legislative Budget Assistant  
(603) 271-3161

## State of New Hampshire

OFFICE OF LEGISLATIVE BUDGET ASSISTANT  
State House, Room 102  
Concord, New Hampshire 03301

STEPHEN C. SMITH, CPA  
Director, Audit Division  
(603) 271-2785

CHRISTOPHER M. SHEA, MPA  
Deputy Legislative Budget Assistant  
(603) 271-3161

### **Independent Auditor's 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***

*To The Fiscal Committee Of The General Court:*

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 statement of the New Hampshire Department of Revenue Administration (Department) which comprise the Statement of Revenues and Expenditures – Governmental Funds for the fiscal year ended June 30, 2022, and the related notes to the financial statement, and have issued our report thereon dated June 12, 2023. Our report on the financial statement was modified as the Statement of Revenues and Expenditures – Governmental Funds does not purport to and does not constitute a complete financial presentation of the Department in the Governmental Funds in conformity with accounting principles generally accepted in the United States of America.

#### **Report On Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Department'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 opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in Observations No. 1 through No. 5, that we consider to be significant deficiencies.

### **Report On Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Department's financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, and contracts, noncompliance with which could have a direct and material effect on the financial statement. 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*.

### **Department of Revenue Administration's Responses To Findings**

*Government Auditing Standards* require the auditor to perform limited procedures on the Department's responses to the findings identified in our audit and described in the accompanying observations. The Department's responses to the findings identified in our audit are included with each reported finding. The Department'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 results of that testing, and not to provide an opinion on the effectiveness of the Department'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 Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Office of Legislative Budget Assistant*

Office Of Legislative Budget Assistant

June 12, 2023



*INTERNAL CONTROL COMMENTS*  
*SIGNIFICANT DEFICIENCIES*

**Observation No. 1**

---

---

**Adhere To Risk Management Policies And Procedures**

---

---

The Department has not adhered to its Risk Management Plan.

In fiscal year 2020, the Department established a Risk Management Plan (Plan) to identify, assess, and mitigate potential threats arising from all areas of the Department's operations, including unauthorized access, use, disclosure, disruption, modification, or destruction of Department information.

The Plan requires a Core Risk Management Team (Core Team) of Department personnel to meet annually to identify, assess, and select several risks for Project Teams to perform a comprehensive risk analysis, and create and implement a risk control plan for those risks exceeding the Department's risk tolerance. The Project Teams are required to provide progress updates to the Department's Internal Auditor and meet with the Core Team on a quarterly basis to discuss progress and address concerns. The Plan further requires risk assessment results to be documented in a risk management report for annual review by senior leadership. The Plan procedures also require an annual review.

The following instances of noncompliance with Plan requirements were noted during the audit:

- The Core Team did not identify risks for which the Project Teams would perform a comprehensive risk analysis.
- The risk assessment results for fiscal year 2022 were not documented in a risk management report for review by senior leadership.
- The Department was unable to provide documentation or details of: 1) each quarterly meeting held and 2) the annual Plan review for fiscal year 2022.

A similar comment was noted in our prior 2014 financial audit report of the Department.

**Recommendation:**

**We recommend the Department:**

- **Adhere to the requirements established in the Risk Management Plan to ensure it appropriately recognizes, evaluates, and responds to risks that could affect its ability to achieve its financial accounting, reporting, and compliance objectives.**

- **Formally document and retain meeting notes and reviews to evidence performance of the risk assessment procedures.**

Auditee Response:

*We concur.*

*As part of the annual Plan, the Risk Management Team met and identified risks on December 9, 2021. In the subsequent quarterly meeting conducted on February 16, 2022, those risks were scored to identify areas in need of a comprehensive analysis and control plan. However, a final set of risks for a comprehensive analysis and control plan were not formally identified, and the risk assessment results for fiscal year 2022 were not fully documented for review by senior leadership.*

*The Internal Auditor position was vacated as of March 25, 2022, as well as the Assistant Commissioner on May 19, 2022, interrupting the Risk Management Team's process and subsequent analysis of the identified risks. The Internal Auditor position was not filled again until after the end of fiscal year 2022.*

*The prior audit in 2014 noted that the Department did not have a formal risk assessment process. Since that audit, the Department has developed a Risk Assessment Plan and generally followed that plan. Given the vacancy challenges, the 2022 plan was delayed into fiscal 2023; however, the Department has since conducted several quarterly meetings in fiscal year 2023 and does not expect further interruption.*

## **Observation No. 2**

---

---

### **Monthly Revenue Reconciliation Control Should Be Strengthened**

---

---

The Department's monthly reconciliation of revenues recorded in the Revenue Information Management System (RIMS) to the State accounting system, NHFirst, is incomplete and lacks a formal review and approval.

The Department began the implementation of RIMS, an integrated tax processing system, several years ago with the rollout of the system completed in three phases. Phase I was implemented in fiscal year 2020, phase II was implemented in fiscal year 2021, and phase III was implemented in fiscal year 2022. RIMS houses and consolidates all New Hampshire taxpayer data and is used by taxpayers, practitioners, and Department staff to administer the tax laws of the State and collect the proper amount of taxes due. RIMS includes entries for incoming payments, payment adjustments, outgoing tax refunds, general ledger maintenance, and interfaces with NHFirst via an automated daily upload process. During fiscal year 2022, approximately \$2.5 billion in tax revenues was processed through RIMS.

Auditors reviewed the July 2021 and June 2022 reconciliations and noted the following deficiencies in the reconciliation process:

- The June 2022 reconciliation omitted the 13<sup>th</sup> period journal entries recorded in NHFirst that are critical in reconciling RIMS to NHFirst at the close of the fiscal year. Omissions included the following:
  - Prior year accounts receivable reversals totaling \$88 million in the General Fund and \$26.9 million in the Education Trust Fund
  - Current year accounts receivable accruals totaling \$97.3 million in the General Fund and \$33 million in the Education Trust Fund
  - Entries totaling \$4 million to recognize increased revenues from the automation of the integrated tax processing system
- The June 2022 reconciliation omitted certain revenues that were recorded in both systems during fiscal year 2022, including private railroad car taxes, tobacco enforcement penalties, and miscellaneous taxes and penalties, totaling approximately \$117,000 in the General Fund.
- Reconciliations were not subject to an independent review and approval process performed by Department management, contrary to the Department's monthly reconciliation policy for RIMS which requires the Financial Analyst and Business Administrator to leave a note in the RIMS general ledger documenting the performance of the reconciliation and review and approval procedure.

The Department's Financial Analyst reconciles revenues recorded in RIMS to NHFirst monthly. The Financial Analyst position was vacant for several months during the end of fiscal year 2022 and, as a result, the Department's Internal Auditor or Project Manager were tasked with performing the reconciliation.

**Recommendation:**

**We recommend the Department:**

- **Perform a thorough review of the monthly reconciliations to ensure that all revenue accounts and 13<sup>th</sup> period closing entries that should be included in the reconciliation process are included.**
- **Implement a formal review and approval control procedure for monthly revenue reconciliations between RIMS and NHFirst. Reconciliations, including supporting documentation and data, should be reviewed and approved by a knowledgeable employee in a management position, who is independent of the preparation process. The review should include steps to ensure the accuracy and completeness of the Department's revenues and satisfactory resolution of outstanding differences between the two systems. The preparer and approver should evidence completion of their respective roles in the process via signature and date in the RIMS general ledger, in accordance with established RIMS reconciliation policies.**

*Auditee Response:*

*We concur.*

*In fiscal year 2022, the Department's Financial Analyst reconciled revenues monthly using RIMS and the legacy system TIMS until their departure from the Department. At the same time, the Senior Financial Analyst position was also vacant. To cover the gap through June 30, 2022, the Department's Assistant Project Manager assisted with completing the reconciliation through June 30, 2022. Continual updates, as well as a final reconciliation, were simply communicated via email to the Department's Business Administrator, who then reviewed the reconciliation for any errors before closing the period in RIMS. To prevent a future gap, the Department has developed a procedure to perform the monthly revenue reconciliation that includes a formal review and approval process via signature and date in the RIMS general ledger and has relied on the procedure for fiscal year 2023.*

*While the 13<sup>th</sup> month reconciliation was performed in prior fiscal years, it was not completed for fiscal year 2022 due to the timing of the vacancies of the Financial Analyst and Senior Financial Analyst. Again, the Department has documented a procedure for the RIMS reconciliation process, including the evidencing of completion in the RIMS general ledger, which will include the 13<sup>th</sup> period.*

### **Observation No. 3**

---

#### **Fiscal Year-End Reporting Process Should Be Improved**

---

The Department did not adequately review and approve significant year-end tax accounts receivable information provided to the Department of Administrative Services (DAS) for inclusion in the State's Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2022. Additionally, DAS inadvertently omitted from the ACFR the Department's corrections to the original submission.

The State uses the budgetary basis of accounting to record transactions in the State accounting system throughout the fiscal year. At the end of each fiscal year, State agencies are required to provide DAS with the necessary information to record off-book journal entries to adjust the budgetary basis financial statements to a modified accrual basis for financial reporting purposes in accordance with Generally Accepted Accounting Principles.

The year-end accruals were compiled for business, tobacco, real estate transfer, meals and rooms (rentals), communications services, and interest and dividends (I&D) taxes following the procedures performed in prior years by a preparer who was new to the position in July 2022. This off-book information was submitted via email to DAS for inclusion in the ACFR, without an independent review and approval process performed by a knowledgeable employee in a management position. After learning a more detailed analysis of certain taxes was needed to ensure quarterly estimates were charged to the proper accounting period, the preparer submitted revised information, reducing the business and I&D taxes accrual by \$21.8 million, to DAS via email. This revision was omitted from the ACFR as noted above.

The omission of the revised accrual estimates from the ACFR resulted in a \$13.6 million overstatement to the General Fund tax accounts receivable and a \$8.2 overstatement to the

Education Trust Fund tax accounts receivable. The Department's financial statement includes the corrected information and properly reflects accounts receivable in the General and Education Trust Funds for the fiscal year ended June 30, 2022.

**Recommendation:**

**We recommend the Department:**

- **Implement a formal review and approval control procedure for year-end reporting to DAS. All information compiled by the Department in support of year-end journal entries processed by DAS should be subjected to review and approval by a knowledgeable employee in a management position, who is independent of the preparation process. The preparer and approver should evidence completion of their respective roles in the process via signature and date to demonstrate accountability for the duties performed and document performance of the control procedure.**
- **Work with DAS to develop a more formal reporting process for communicating year-end accrual information, and subsequent corrections, to effectively alert all parties to act and reduce the risk of omission. Consideration could include the development of a more recognizable format, such as a template or exhibit, for State agencies to submit, and DAS to receive, corrections to previous submissions.**

*Auditee Response:*

*We concur.*

*To prevent a future gap in the review process of fiscal year end accounts receivable accruals, the Department has developed and documented a procedure for calculating year end accruals, which includes a formal review and approval process via signature and date. This procedure has been adopted beginning with fiscal year 2023. Further, DAS updated the MOP 2400 Annual Closing Review to include a central financial reporting email address to submit fiscal year end exhibits. This will prevent email communications from being missed during the financial closing period. The Department will also confirm receipt by DAS of year end accrual information, and any subsequent corrections. Finally, the Department will adhere to any additional procedures that DAS puts in place for the year-end reporting process.*

*Department of Administrative Services Response:*

*DAS concurs. Beginning with the FY23 audit, agencies will submit all audit exhibits/deliverables to a new group email, [DASBOAFinancialReporting@das.nh.gov](mailto:DASBOAFinancialReporting@das.nh.gov). Members of the financial reporting team, including the Deputy Comptroller and the Director of Financial Reporting, will monitor this email. Additionally, agencies have been instructed to include the text "REVISED" in the email subject and file name when submitting revised exhibits to DAS. This will allow for additional oversight of agency submissions and reduce the risk of a missed revision in the future.*

**Observation No. 4**

---

---

**Policies And Procedures Supporting Department Operations Should Be Updated**

---

---

Policies and procedures supporting Department operations have not been kept current to assist staff and others in the performance of their job responsibilities.

The following policy and procedure manuals maintained by each major Division within the Department were largely out of date in their current form during fiscal year 2022, increasing the risk of disruption in operations with the departure of key employees:

- The Audit Division manual, intended to provide auditors with an understanding of their responsibilities in the conduct of audit assignments, was last substantially updated in 2015 with further partial revisions occurring in 2020 at the onset of the COVID-19 pandemic when the responsible employee for the update was reassigned to perform other duties.
- The Collections Division manual, intended to outline the authority and responsibilities of the Department to enforce the timely filing of tax returns and the timely payment and collection of unpaid taxes, interest, penalties, and related administrative expenses, was partially updated in 2019 but revision efforts were halted due to the implementation of the Revenue Information Management System (RIMS) which concluded in August 2021.
- The Taxpayer Services Division maintains policies and procedures intended to communicate acceptable practices for processing tax returns and related payments, maintaining and reconciling taxpayer accounts, and providing assistance to the public. The Division reported it was updating its policies during fiscal year 2022 as time permitted, including making policy changes for Coronavirus Aid, Relief, and Economic Security (CARES) Act recoupments relative to the Main Street Relief Fund and Self-Employed Livelihood Fund. Auditors note many of the Division's policies are not dated and, as a result, we were unable to determine if the policies were current.
- The Municipal and Property Division publishes an Equalization manual, intended to describe the annual equalization process for the statewide education property tax, and a Municipal Matters manual, intended to provide technical assistance for tax collectors in the state. The Equalization and Municipal Matters manuals used by the Department and posted on the Department's website during fiscal year 2022 were last updated by the Department in 2020 and 2019, respectively.

**Recommendation:**

**We recommend the Department:**

- **Work towards performing a thorough review and revision of policies and procedures supporting Department operations to reduce the risk of disruption in operations due to the departure of key employees. Policies and procedures should reflect necessary changes in practice due to the implementation of RIMS and new or ongoing**

initiatives, such as the COVID-19 relief programs or the “Monitor Forward” program allowing the review of a single tax period, rather than an entire year, piloted by the Department’s Audit Division.

- Document revision dates on written policies to aid in the process of determining when policies have become outdated. The Department should implement a monitoring control to help ensure policies and procedures remain up to date and reflect current practices.

*Auditee Response:*

*We concur.*

*Due to the 3-year implementation of RIMS and the COVID-19 pandemic, all or parts of each division’s procedural manuals were not reviewed and/or revised appropriately. While the Department’s policies were updated regularly and reviewed by the Policy and Procedure Committee, we agree our internal procedures should have also been documented and reviewed in a timely fashion.*

*The Assistant Commissioner will begin a thorough review of each division manual beginning in fiscal year 2024, including any references to systematic procedures documented in the Help section of RIMS. Annual reviews with each division Director will continue to ensure updates are completed.*

**Observation No. 5**

---

---

**Controls Over Accounts Payable Processing Should Be Strengthened**

---

---

The Department does not consistently record expenditures in the correct accounting period.

The Department of Administrative Services’ *Annual Closing Review* includes policies and procedures for the accrual of unrecorded liabilities (recording of accounts payable). The policies and procedures generally direct State agencies to identify and code expenditure transactions that should be accrued as accounts payable of the prior period.

Testing of three Capital Projects Fund invoices revealed two instances where the Department did not follow the *Annual Closing Review* accounts payable policy resulting in misstatements to fiscal year 2022 expenditures. The following accounts payable errors were noted:

- One invoice totaling \$40,907, covering the period September 1, 2020 through June 14, 2021, was charged to fiscal year 2022 in error, resulting in a \$40,907 overstatement of fiscal year 2022 expenditures.
- One invoice totaling \$519,402, covering the period April 1, 2022 through June 30, 2022, was charged to fiscal year 2023 in error, resulting in a \$519,402 understatement of fiscal

year 2022 expenditures. The Department reported it was unable to properly accrue this expenditure since the invoice was not received timely.

The errors were subsequently corrected in the Department's financial statement when the auditors proposed, and the Department accepted, a correcting journal entry.

A similar comment was noted in our prior 2014 financial audit report of the Department.

**Recommendation:**

**We recommend the Department:**

- **Establish controls to improve the accuracy of the financial accounting process for accounts payable. Department management should consider reviewing the *Annual Closing Review* accounts payable policy with staff members in the Department's Business Office to ensure a proper understanding of the requirements and reinforce compliance with the policy.**
- **Require vendors with significant contracts to remit invoices timely, especially prior to the State's June 30 fiscal year-end, to allow for timely processing by the Department in accordance with State accounting policies.**

**Auditee Response:**

*We concur.*

*The Department will encourage vendors to remit year-end invoices timely to allow the Business Office to code payments for the correct fiscal year. According to DAS, the current 60-day accounts payable review will be extended, starting fiscal year 2023, to a 90-day accounts payable review. This extension should reduce the risk of receiving an invoice after the accounts payable review has ended. The Assistant Commissioner will review the Annual Closing Review issued by DAS with the Business Office to ensure all fiscal year end procedures are met.*



## CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary of the status, as of June 12, 2023, of the observations contained in financial audit of the New Hampshire Department of Revenue Administration for the fiscal year ended June 30, 2014. This report can be accessed at, and printed from, the Office of Legislative Budget Assistant website: [www.gencourt.state.nh.us/lba/auditreports/financialreports.aspx](http://www.gencourt.state.nh.us/lba/auditreports/financialreports.aspx)

<i>Internal Control Comments</i>	<u>Status</u>	
<i>Significant Deficiencies</i>		
<b>1. Establish Formal Risk Assessment Policies And Procedures</b> <i>Establish a formal risk assessment process, regularly review financial and operational activities for indicators of risk exposure, and establish and monitor controls that appropriately address those risks. (See current year Observation No. 1)</i>	●	○
<b>2. Establish Disaster Recovery And Business Continuity Plans</b> <i>Complete the updating of disaster recovery and business continuity plans. Plans should be distributed to employees with plan roles and responsibilities, and those employees should be appropriately trained. Regularly test the plans to ensure the plans remain relevant and effective, and employees are practiced in implementing the plans.</i>	●	●
<b>3. Obtain And Evaluate Understanding Of Relevant Controls At Service Provider</b> <i>Regularly obtain and evaluate SOC 1 reports for the service organizations that process significant financial activity on its behalf, consider the contents of the reports to determine if controls at the service organizations are adequate and that all complementary controls required at the Department to support the service organization's operations are in place. Follow up on any errors or concerns noted in the reports that affect the Department's operations and controls.</i>	●	●
<b>4. Planning For Acquisition Of New Tax Information System Should Continue</b> <i>Continue to build case for implementing a new tax information system that would be more adaptable to the Department's and State's needs and more efficient for taxpayer interaction and ensure that a replacement system has been fully designed, vetted, and acquired before the limitations in TIMS become too much of a burden on the operations of the Department.</i>	●	●

- |   | <u>Status</u> |   |
|---|---------------|---|
|   | ○             | ● |
| <p><b>5. Review Accounts Payable Practices</b><br/> <i>Review with the Department of Administrative Services the appropriate accounts payable policies and procedures that should be employed to report accounts payable at the end of each fiscal year. This review should consider whether the adoption of a split invoice policy would better ensure Department expenditures are reported in the proper fiscal year. (See current year Observation No. 5.)</i></p> | ○             | ○ |
| <p><b>6. Monitor Compliance With Filing Of Statements Of Financial Interests</b><br/> <i>Monitor the filing status of attached board members to promote compliance with the statute and reduce the risk, if any, that the Department’s decision-making authority may be subject to challenge for noncompliance with the statute.</i></p>  | ●             | ● |
| <p><b>7. Facilitate Compliance With Municipal Reporting Statute</b><br/> <i>Take additional steps to assist the municipalities to file timely annual financial reports. If the Department deems compliance with the requirements of RSA 21-J:34, V, to be unfeasible or unenforceable, the Department should seek to have the statutes appropriately amended.</i></p>   | ●             | ● |

**Compliance Comments**

*State Compliance*

- |  |   |   |
|--|---|---|
| <p><b>8. Adopt Required Administrative Rules</b><br/> <i>Adopt, and keep current, statutorily required administrative rules. If it is determined that rules are not necessary, pursue a timely change in statute to eliminate the requirement for the rules.</i></p> | ● | ● |
|--|---|---|

**Status Key**

	<u>Status</u>		<u>Count</u>
	●	○	
Resolved	●	●	6
Remediation In Process (Action beyond meeting and discussion)	●	○	1
Unresolved	○	○	1

**STATE OF NEW HAMPSHIRE**  
**DEPARTMENT OF REVENUE ADMINISTRATION**

**AUDITED FINANCIAL STATEMENT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

**THIS PAGE INTENTIONALLY LEFT BLANK**

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF REVENUE ADMINISTRATION**

**AUDITED FINANCIAL STATEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

**TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
<b><u>Financial Section</u></b>	
<b>Independent Auditor's Report.....</b>	<b>4</b>
<i>Financial Statement</i>	
Statement Of Revenues And Expenditures – Governmental Funds.....	7
Notes To The Financial Statement .....	8

**THIS PAGE INTENTIONALLY LEFT BLANK**

## **FINANCIAL SECTION**



MICHAEL W. KANE, MPA  
Legislative Budget Assistant  
(603) 271-3161

CHRISTOPHER M. SHEA, MPA  
Deputy Legislative Budget Assistant  
(603) 271-3161

## State of New Hampshire

OFFICE OF LEGISLATIVE BUDGET ASSISTANT  
State House, Room 102  
Concord, New Hampshire 03301

STEPHEN C. SMITH, CPA  
Director, Audit Division  
(603) 271-2785

### **Independent Auditor's Report**

*To The Fiscal Committee Of The General Court:*

#### **Report on the Audit of the Financial Statement**

##### ***Qualified Opinion***

We have audited the financial statement of the New Hampshire Department of Revenue Administration (Department), which comprises the Statement of Revenues and Expenditures – Governmental Funds for the fiscal year ended June 30, 2022, and the related notes to the financial statement, which collectively comprise the Department’s basic financial statement.

In our opinion, except for the matter described in the Basis for Qualified Opinion on the Governmental Funds paragraph, the Statement of Revenues and Expenditures – Governmental Funds referred to above presents fairly, in all material respects, the respective revenues and expenditures of the Department’s portion of the State of New Hampshire’s Governmental Funds for the fiscal year ended June 30, 2022, in accordance with accounting principles generally accepted in the United States of America.

##### ***Basis for Qualified Opinion on the Governmental Funds***

As discussed in Note 1, the Statement of Revenues and Expenditures – Governmental Funds referred to above does not purport to, and does not, constitute a complete financial statement presentation of the Department in the Governmental Funds in conformity with accounting principles generally accepted in the United States of America.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.



### ***Emphasis of Matter***

As discussed in Note 1, the Statement of Revenues and Expenditures – Governmental Funds referred to above reports certain financial activity of the Department. It does not purport to, and does not, present fairly the financial activity of the State of New Hampshire in the Governmental Funds as of June 30, 2022, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Management has omitted the management’s discussion and analysis information and the budget to actual schedules for the Governmental Funds that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statement is not affected by this missing information.

#### ***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department’s ability to continue as a going concern for one year after the date the financial statements are issued.

#### ***Auditors’ Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2023 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, and contracts, and other matters. The purpose of that report is solely 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 the effectiveness of the Department's 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 Department's internal control over financial reporting and compliance.

  
Office Of Legislative Budget Assistant

June 12, 2023

**State of New Hampshire Department of Revenue Administration  
Statement of Revenues and Expenditures – Governmental Funds  
For the Fiscal Year Ended June 30, 2022**

	General Fund	Capital Projects Fund	Education Trust Fund	Total Governmental Funds
<b>Revenues</b>				
<b>Unrestricted Revenues</b>				
Statewide Property Tax (Note 2)	\$ -0-	\$ -0-	\$ 363,283,230	\$ 363,283,230
Business Profits Tax (Note 3)	646,379,187	-0-	161,097,131	807,476,318
Business Enterprise Tax (Note 3)	32,013,059	-0-	268,086,591	300,099,650
Meals and Rooms/Car Rentals Tax (Note 3)	406,317,742	-0-	9,138,695	415,456,437
Tobacco Tax	142,985,857	-0-	89,005,994	231,991,851
Interest and Dividends Tax	155,674,058	-0-	-0-	155,674,058
Communications Services Tax	29,891,675	-0-	-0-	29,891,675
Real Estate Transfer Tax (Note 3)	160,200,457	-0-	77,376,962	237,577,419
Utility Property Tax	-	-0-	43,257,670	43,257,670
Other Unrestricted Revenues	881,790	-0-	-0-	881,790
<b>Total Unrestricted Revenues</b>	<b>1,574,343,825</b>	<b>-0-</b>	<b>1,011,246,273</b>	<b>2,585,590,098</b>
<b>Restricted Revenues</b>				
Medicaid Enhancement Tax (Note 4)	285,000,223	-0-	-0-	285,000,223
Nursing Facility Quality Assessment (Note 4)	39,928,515	-0-	-0-	39,928,515
Revenue Information Management System (Note 5)	4,000,000	-0-	-0-	4,000,000
Other Restricted Revenues	11,296	-0-	-0-	11,296
<b>Total Restricted Revenues</b>	<b>328,940,034</b>	<b>-0-</b>	<b>-0-</b>	<b>328,940,034</b>
<b>Total Revenues</b>	<b>1,903,283,859</b>	<b>-0-</b>	<b>1,011,246,273</b>	<b>2,914,530,132</b>
<b>Expenditures</b>				
Salaries and Benefits	12,792,878	-0-	-0-	12,792,878
Property Tax Relief	-0-	-0-	1,392,226	1,392,226
Current Expenses	591,113	-0-	-0-	591,113
Transfers to General Services-Rent	587,561	-0-	-0-	587,561
Information Technology	2,924,693	4,545,002	-0-	7,469,695
Flood Control	745,438	-0-	-0-	745,438
Other Expenditures	271,402	-0-	-0-	271,402
CARES Act Recoupments (Note 6)	(23,679,111)	-0-	-0-	(23,679,111)
CARES Act Relief for Hotels and Lodging (Note 6)	9,347,402	-0-	-0-	9,347,402
<b>Total Expenditures</b>	<b>3,581,376</b>	<b>4,545,002</b>	<b>1,392,226</b>	<b>9,518,604</b>
<b>Excess (Deficiency) Of Revenues Over (Under) Expenditures</b>	<b>1,899,702,483</b>	<b>(4,545,002)</b>	<b>1,009,854,047</b>	<b>2,905,011,528</b>
<b>Other Financing Sources (Uses)</b>				
Transfers to the Municipal Revenue Fund (Note 3)	(100,143,752)	-0-	-0-	(100,143,752)
Transfers to School Building Aid Debt Service (Note 3)	(8,070,192)	-0-	-0-	(8,070,192)
Transfers to Affordable Housing Fund (Note 3)	(5,000,000)	-0-	-0-	(5,000,000)
Transfers to Health And Human Services (Note 4)	(324,928,738)	-0-	-0-	(324,928,738)
Revenue Information Management System Uplift (Note 5)	(1,755,400)	-0-	-0-	(1,755,400)
Net Appropriations (Note 7)	3,570,080	4,545,002	1,392,226	9,507,308
<b>Total Other Financing Sources (Uses)</b>	<b>(436,328,002)</b>	<b>4,545,002</b>	<b>1,392,226</b>	<b>(430,390,774)</b>
<b>Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses</b>	<b>\$ 1,463,374,481</b>	<b>\$ -0-</b>	<b>\$ 1,011,246,273</b>	<b>\$ 2,474,620,754</b>

The notes to the financial statement are an integral part of this statement.

**State of New Hampshire  
Department of Revenue Administration  
Notes to the Financial Statement  
For the Fiscal Year Ended June 30, 2022**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. REPORTING ENTITY**

The financial activity of the Department is accounted for and reported in the State's General Fund, Education Trust Fund, and Capital Projects Fund in the State's Annual Comprehensive Financial Report (ACFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the ACFR. The Department, as an organization of the primary government, accounts for only a small portion of the General Fund, Education Trust Fund, and Capital Projects Fund and those assets, liabilities, and fund balances as reported in the ACFR that are attributable to the Department cannot be determined. Accordingly, the accompanying General Fund, Education Trust Fund, and Capital Projects Fund financial statement is not intended to show and does not report the financial position or fund balances of the Department in those respective funds.

**B. FINANCIAL STATEMENT PRESENTATION**

The State of New Hampshire and the Department use funds to report on their financial position and results of their 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 Department reports its financial activity in the funds 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 the other funds are charged to the General Fund.

*Education Trust Fund:* The Education Trust Fund was created in accordance with Chapter 17:41, Laws of 1999, to distribute adequate education grants to municipalities' school districts and pursuant to RSA 198:42, to provide low and moderate income homeowners property tax relief under RSA 198:56-198:61, and to fund kindergarten programs as may be determined by the general court. Funding for the grants comes from a variety of sources including the statewide

property and utility taxes, incremental portions of existing business, real estate transfers and tobacco taxes, along with other non-Department revenue sources.

*Capital Projects Fund:* The Capital Projects Fund is used to account for certain capital improvement appropriations which are or will be primarily funded by the issuance of State bonds or notes, other than bonds or notes for highway or turnpike purposes, or by the application of certain federal matching grants.

### **C. REPORTING PERIOD**

The State's and the Department's fiscal year is the 12 months ended June 30. The accompanying financial statement of the Department is presented for the fiscal year ended June 30, 2022.

### **D. 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. Under this method, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers revenues to be available if they are collected within 60 days after year end. Receivables not expected to be collected within 60 days are offset by deferred inflows of resources. An exception to this policy is federal grant revenue, which generally is considered to be available if collection is expected within 12 months after year 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 when available.

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.

### **E. 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 General Fund or other fund balance upon recording in the State's accounting system. Pursuant to the State's operating budget, unrestricted 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.

Unused restricted revenues at year end are either lapsed or generally recorded as committed or assigned fund balance. When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the State's general policy to use restricted resources first. In the governmental funds, when expenditures are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of

these unrestricted classifications could be used, it is the State's general policy to spend committed resources first followed by assigned and unassigned resources, respectively.

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

## **F. RECEIVABLES**

In the governmental fund financial statement, taxes receivable are taxpayer-assessed revenues where the underlying exchange has occurred in the period ended June 30 or prior which are received by the Department of Revenue Administration within 60 days after period end. Tax revenues are susceptible to accrual in accordance with measurable and available criteria under the modified accrual basis of accounting.

## **G. ENCUMBRANCES**

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of good or services, the encumbrance is liquidated and the expenditure and liability are recorded.

## **H. BUDGET CONTROL AND REPORTING**

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 governmental funds, with the exception of the Capital Projects Fund. The Capital Projects Fund budget represents individual projects that extend over several fiscal years.

In addition to the enacted biennial operating budget, state departments may submit to the Legislature and Governor and Council, as required, supplemental budget requests necessary to meet expenditures during the current biennium. Appropriation transfers can be made within a department with the appropriate approvals; therefore, the legal level of budgetary control is generally at the expenditure class level within each accounting unit within each department.

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 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 generally 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 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.

## **I. USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

## **2. STATEWIDE PROPERTY TAX**

The Commissioner of the Department of Revenue Administration, pursuant to RSA 76:8, calculates the portion of the Statewide Education Tax to be raised by each municipality by multiplying the Uniform Education Property Tax rate by the municipality's tax base. The Commissioner issues a warrant to the selectmen or assessors of each municipality directing them to assess such sum and pay it to the municipality. The Department reports the total amount of Statewide Property Tax raised by the municipalities as unrestricted revenue.

## **3. ANTICIPATED REFUND LIABILITIES AND TRANSFERS**

While the State continues to experience strong results in unrestricted revenues from Business taxes, Real Estate Transfer tax, and Meals and Rentals tax, these taxes were also impacted by adjustments due to anticipated refund liabilities and transfers. In fiscal year 2022, the Department recorded \$59.3 million in anticipated refund liability to the General Fund and \$37.3 million in anticipated refund liability to the Education Trust Fund for the Business Profits and Business Enterprise taxes. The Department transferred 30 percent or \$100.1 million of Meals and Rentals tax to the Municipal Revenue Fund in accordance with RSA 78-A:26, III, and \$8.1 million of Meals and Rentals tax to the School Building Aid Debt Service in accordance with RSA 78-A:26, I (a). The Department also transferred \$5.0 million of Real Estate Transfer taxes to the Affordable Housing Fund in accordance with RSA 78-B:13, III.

## **4. TRANSFER TO DEPARTMENT OF HEALTH AND HUMAN SERVICES**

During fiscal year 2022, the Department collected and processed \$285.0 million in Medicaid Enhancement Tax and \$39.9 million in Nursing Facility Quality Assessments. The revenue was collected as tax revenue by the Department and transferred to the Department of Health and Human Services for financial reporting in the Department of Health and Human Services' Medicaid Enhancement Fund and Nursing Facility Trust Fund accounts. In fiscal year 2021, the Department of Health and Human Services returned \$1.0 million to the Department due to an overpayment and the Department issued the refund in fiscal year 2022.

## **5. REVENUE MANAGEMENT INFORMATION SYSTEM UPLIFT**

During the 2017 Legislative Session, the State's Capital Budget (HB 25, Chapter 228, Section 1, XIX) appropriated \$30.2 million to the Department for the establishment of a new back-end technology system to process, house, and consolidate all taxpayer data (Revenue Information Management System or RIMS) and a new front-end taxpayer portal (Granite Tax Connect or GTC) to facilitate efficient tax administration. \$24.2 million of the total appropriation for the project was financed through the issuance of bonds, which pursuant to RSA 21-J:1-b, are to be paid from a non-lapsing revenue information management system account. The revenue information management system account shall be funded with the yearly transfer of revenue increases from existing taxes attributable to RIMS in an amount not greater than \$4.0 million each fiscal year, beginning with the fiscal year ending June 30, 2020, and ending when total deposits equal \$40 million.

A contract for the project was approved by the Executive Council on October 31, 2018, and the first of three rollouts of RIMS and GTC functionality went live on October 28, 2019, for the Meals & Rentals Tax, Nursing Facility Quality Assessment, and Medicaid Enhancement Tax. The second of three rollouts of RIMS and GTC functionality went live on October 5, 2020, for the Business Profits Tax, Business Enterprise Tax, Interest & Dividends Tax, and Communications Services Tax, and the third and final rollout went live on August 9, 2021, adding to that the Real Estate Transfer Tax, Utility Property Tax, Tobacco/Smokeless Tobacco Taxes, Railroad/Private Railcar Taxes, Gravel Tax, Timber Tax, and the Low & Moderate Income Homeowner's Property Tax Relief Program. This third and final phase of the project brought together all 16 tax types administered by the Department, eliminating the need for about 20 disparate systems that were formerly used in the day-to-day administration of these taxes.

The added security and functionality of RIMS made it possible for the Department to not only automate a "Reminder to Pay Letter", but to also download Federal Tax Information (FTI) automatically from the IRS into the RIMS "data warehouse" to issue tax assessments. In addition, new audit programs created solely through the availability of FTI were created. The automation of the "Reminder to Pay Letter" and FTI downloads resulted in a material increase in revenue, which the Department was able to successfully measure by establishing a base year using an average of past statistics for comparison. As the Department's traditional audit program was never able to utilize FTI in its assessment process, all revenues generated as a result of the new audit programs constitutes uplift.

In accordance with the requirements of the RIMS contract, a total of \$4.0 million of FY 2022 revenue increase was transferred to the revenue information management system account in July 2022 of which \$1.8 million was transferred to the RIMS debt service account.

## **6. EMERGENCY RELIEF AND RECOVERY AND RECOUPMENT**

In June of 2020, Governor Chris Sununu authorized the allocation and expenditure of \$400 million in emergency funding from the Coronavirus Aid, Relief, and Economic Security (CARES) Act Coronavirus Relief Fund to provide emergency financial relief to small New Hampshire for-profit businesses due to economic disruption caused by COVID-19 via the Main Street Relief Fund (MSRF).



MSRF applications were submitted online between June 5th – 12th, 2020. All applications were reviewed, determinations of eligibility were made, and applicants who did not receive an award were allowed to appeal on or before July 2, 2020. In June of 2020, the Department issued over \$322.1 million in relief funds. In fiscal year 2021, an additional \$20.4 million was awarded.

In July of 2020, the Governor authorized the Department to expend the remaining balance of the \$400.0 million MSRF money for the newly created Self-Employed Livelihood Fund (SELF) program, to eligible and approved applicants. Applications were submitted online between July 6th – 17th, 2020. All applications were reviewed, and determinations were made. On July 28, 2020, the Department issued \$25.9 million in relief funds. Additional relief was awarded throughout the rest of the fiscal year totaling \$15.2 million.

In June of 2021, the Governor authorized the Department to issue up to \$10.0 million for the Hotels and Lodging Relief Program, a mini Main Street Program. Applications were submitted online between June 22nd – July 13th, 2021. The Department issued \$9.3 million in relief funds in fiscal year 2022.

At the conclusion of the year, all applicants were required to report to the Department the actual tax year 2020 gross receipts. If the actual business loss was not at least as much as was represented on the application, the awarded amount was subject to recoupment in whole or in part.

Monies recouped were returned to the Department and deposited back to MSRF and SELF. Entities were notified that they could either remit payment to the Department within 30 days, or they could request a 3-month repayment plan. The funds will be repurposed via authorizations to sweep the funds back to the Governor's Office for Emergency Relief and Recovery (GOFERR) unallocated accounting unit and authorization to reallocate them to other COVID related losses or expenditures as permitted under the CARES Act and/or any subsequent federal legislation governing the use of these funds.

Applicants who were subject to making recoupment payments, mailed their checks directly to the Department, who upon receipt deposited the funds into the relief accounts originally set up to award emergency funding through the CARES Act. In fiscal year 2022, the Department recouped \$35.1 million. As the available balance increased, GOFERR requested a transfer in the amount of \$11.5 million which was completed on November 5, 2021.

## **7. NET APPROPRIATIONS**

Net appropriations reflect appropriations for expenditures in excess of restricted revenues.

## **8. RISK MANAGEMENT AND INSURANCE**

The State and the Department are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; and natural disasters. As a general operating rule, the State self-insures against all damages, losses and expenses except to the extent that provisions of law require the purchase of commercial insurance, or a risk assessment has indicated that commercial insurance is economical and beneficial for the State or the general public. In such instances, the State may elect to purchase commercial insurance. There are approximately 26 such commercial insurance programs in effect.

These include, but are not exclusive to, state owned real property insurance, fleet automobile liability, watercraft insurance, foster parent liability, ski area liability for Cannon Mountain, and a fidelity and faithful performance bond. As of June 30, 2022, there are no outstanding fleet claims that are currently expected to exceed the policy coverage. The State's exposure per claimant is limited by law to a total of \$475 thousand under RSA 541-B:14 and the State's current fleet policy coverage is \$250 thousand per claimant.

Claim liabilities not covered by commercial insurance are recorded by the State when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Claim liabilities not covered by commercial insurance relate primarily to workers' compensation claims and health benefit claims.

## **9. EMPLOYEE BENEFIT PLANS**

### **NEW HAMPSHIRE RETIREMENT SYSTEM**

**Plan Description:** The New Hampshire Retirement System is the administrator of a cost-sharing multiple-employer Public Employee Retirement System ("NHRS") 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. NHRS is a contributory defined-benefit plan providing service, disability, death, and vested retirement benefits to members and beneficiaries. NHRS 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. NHRS 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 (1.667%) 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 as of January 1, 2012 and five years for members not vested as of January 1, 2012. At age 65, the yearly pension amount is recalculated at 1/66 (1.515%) 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). A member who

began service on or after July 1, 2011 shall not receive a service retirement allowance until attaining age 52.5 but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service. However, the allowance will be reduced by  $\frac{1}{4}$  of one percent for each month prior to age 52.5 that the member receives the allowance.

Group II members hired prior to July 1, 2011 who have non-vested status as of January 1, 2012 are subject to graduated transition provisions for years of service required for regular service retirement, the minimum age for service retirement, and the multiplier used to calculate the retirement annuity, which shall be applicable on January 1, 2012.

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.

All covered Department employees are members of Group I.

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

NHRS issues publicly available financial reports 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:** NHRS is financed by contributions from the members, the State and local employers, and investment earnings. By statute, Group I members contributed 7.0% of gross earnings. Group II firefighter members contributed 11.80% of gross earnings and group II police officers contributed 11.55% 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 NHRS actuary using the entry age normal funding method and are expressed as a percentage of gross payroll. The State contributed 14.53% of gross payroll for Group I employee members, 32.99% of gross payroll for Group II firefighter members, and 33.88% of gross payroll for Group II police officer members.

The Department's required and actual contributions for the fiscal year ended June 30, 2022 were \$1.3 million, which included an amount for other postemployment benefits of \$67,210.

## **OTHER POSTEMPLOYMENT BENEFITS**

The State also participates in two other postemployment benefit (OPEB) plans - (1) a funded plan administered by NHRS, hereafter referred to as the Trusted OPEB Plan, and (2) a nonfunded plan, hereafter referred to as the Non Trusted OPEB Plan. The actuarial liabilities and expenses of the OPEB plans do not flow to the Department level financial statement.

### **General Information about the Trusted OPEB Plan**

**Plan Description:** Pursuant to RSA 100-A:52, RSA 100-A:52-a and RSA 100-A:52-b, NHRS administers a cost-sharing multiple employer defined benefit postemployment medical subsidy healthcare plan designated in statute by membership type. This plan has been previously defined

as the Trusted OPEB plan but is also commonly referred to as “medical subsidy plan”. The membership groups are Group II Police Officers and Firefighters and Group I State Employees.

NHRS issues publicly available financial reports 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>

**Benefits Provided:** The Trusted OPEB Plan provides a medical insurance subsidy to qualified retired members. The medical subsidy is a payment made by NHRS to the former employers of its members, or their insurance administrator, toward the cost of health insurance for a qualified retiree, spouse, and certifiably dependent children with a disability who is living in the household and being cared for by the retiree. Under specific conditions, the qualified beneficiaries of members who die while in service may also be eligible for the medical subsidy. The eligibility requirements for receiving Trusted OPEB Plan benefits differ for Group I and Group II members. Eligibility for the medical subsidy payment is determined by the relevant RSA’s, however, the medical subsidy plan is closed to new entrants. The State is a recipient of these medical subsidy payments on behalf of its former employees.

**Contributions:** Pursuant to RSA 100-A:16, III, and the biennial actuarial valuation, funding for the medical subsidy payment is via the employer contribution rates set forth by NHRS. Employer contributions required to cover that amount of cost not met by the members’ contributions are determined by a biennial actuarial valuation by the NHRS actuary using the entry age normal funding method and are expressed as a percentage of gross payroll. The State contributed .78% of gross payroll for Group I employee members and 3.21% of gross payroll for Group II police officer and firefighter members. Employees are not required to contribute to the Trusted OPEB Plan.

The State Legislature has the authority to establish, amend, and discontinue the contribution requirements of the medical subsidy plan. Employer contributions made by the State to NHRS for the medical subsidy component amounted to \$67,210 for the fiscal year ended June 30, 2022.

### **General Information about the Non Trusted OPEB Plan**

**Plan Description:** RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses through a single employer (primary government with component units) defined postemployment benefit plan, previously defined as the Non Trusted OPEB Plan. These benefits include group hospitalization, hospital medical care, surgical care, and other medical 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 benefits. During fiscal year 2011, legislation was passed that requires Group II employees to have 20 years of State service to qualify for retiree health benefits. Additionally, during fiscal year 2012, legislation was passed requiring Group I employees hired after July 1, 2011 to have 25 years of State service and increased the normal retirement age for Group I and Group II employees hired after July 1, 2011. These and similar benefits for active employees and retirees are authorized by RSA 21-I:30 and provided through the Employee and Retiree Benefit Risk Management Fund, a single-employer group health fund, which is the state’s self-insurance internal service fund for active state employees and retirees. The Fund covers the cost of medical and prescription drug

claims by charging actuarially developed working rates to State agencies for participating employees, retirees, and eligible spouses. An additional major source of funding for retiree benefits is from the NHRS medical subsidy payment described earlier.

## **10. SUBSEQUENT EVENTS**

### *Rand v. State of New Hampshire*

In July 2022, several taxpayers filed a second school-funding lawsuit against the State of New Hampshire, alleging that the manner in which public education is costed and funded violates the State Constitution. The State has answered the complaint and the parties have structured the case. The plaintiffs seek declarations that various aspects of the State's school-funding apparatus are unconstitutional and corresponding injunctive relief. The plaintiffs contend that the Statewide Education Property Tax (the "SWEPT") violates Part II, Article 5 of the State Constitution because certain communities are permitted to retain any revenues generated by the SWEPT, in excess of what those communities receive in adequacy payments from the State. The plaintiffs contend that this results in the SWEPT being levied at a non-uniform rate. They also ask the court to declare that the cost of a constitutionally adequate education is the state average per-pupil cost. Trial is scheduled for September 2023. In September 2022, the plaintiffs moved for a preliminary injunction with respect to the operation of the SWEPT. They initially sought to enjoin the collection of the SWEPT in its entirety, but ultimately modified their request to be limited to permitting communities to retain excess revenues generated by the SWEPT in the manner described above. In November 2022, the trial court denied the motion without weighing in on the merits of the plaintiffs' claim, concluding instead that the requested injunction was against the public interest and not supported by the balance of the equities. At the same time, the trial court allowed a coalition of former "donor towns" to intervene limited to the constitutionality of the SWEPT. At this time, it is not possible to predict the outcome of this case or any direct impact on the Department's financial statement.

**THIS PAGE INTENTIONALLY LEFT BLANK**