STATE OF NEW HAMPSHIRE
MCAULIFFE-SHEPARD DISCOVERY CENTER

FINANCIAL AUDIT REPORT
FOR THE NINE MONTHS ENDED
MARCH 31, 2011

STATE OF NEW HAMPSHIRE
MCAULIFFE-SHEPARD DISCOVERY CENTER

TABLE OF CONTENTS

* No audit comments suggest legislative action may be required.

This report can be accessed in its entirety on-line at www.gencourt.state.nh.us/lba/audit.html

STATE OF NEW HAMPSHIRE
MCAULIFFE-SHEPARD DISCOVERY CENTER

Reporting Entity And Scope

The reporting entity of this audit and audit report is the McAuliffe-Shepard Discovery Center, excluding the related nonprofit organization, Touch the Future, Inc. The scope of this audit and audit report includes the financial activity of the McAuliffe-Shepard Discovery Center for the nine months ended March 31, 2011. Unless otherwise indicated, reference to the Discovery Center or Center refers to the McAuliffe-Shepard Discovery Center. Reference to the Commission refers to the McAuliffe-Shepard Discovery Center Commission.

Organization

Chapter 12-L of the New Hampshire Revised Statutes Annotated (RSA) addresses the organization and operation of the McAuliffe-Shepard Discovery Center. RSA 12-L:3 establishes the McAuliffe-Shepard Discovery Center Commission which is responsible for the management and operation of the Discovery Center, including the planetarium and related buildings and grounds. RSA 12-L:8 provides for the Commission's employment of a Discovery Center Director and such staff as may be necessary to perform the duties assigned by the Commission. The Director is nominated by the Commission, confirmed by the Governor and Council, and serves at the pleasure of the Commission.

The Discovery Center at March 31, 2011 was staffed with the Director, an unclassified employee, and 12 full-time and 30 part-time classified employees.

The Discovery Center is located at 2 Institute Drive, Concord, New Hampshire.

Responsibilities

Pursuant to RSA 12-L:2, the McAuliffe-Shepard Discovery Center is the official State memorial for Sharon Christa McAuliffe, the Concord, New Hampshire social studies teacher who was chosen to be America's first teacher in space and for Alan B. Shepard, the Derry, New Hampshire native who was the first American in space. The Discovery Center's mission is to educate, incite, and entertain learners of all ages in the sciences and humanities by actively engaging them in the exploration of astronomy, aviation, and earth and space science through the operation of a planetarium and related exhibits.

Funding

The financial activity of the McAuliffe-Shepard Discovery Center is accounted for in the General and Capital Projects Funds of the State of New Hampshire.

Pursuant to RSA 12-L:10, all fees received by the Commission and all monetary gifts, grants, and donations received pursuant to RSA 12-L:9 are deposited into the McAuliffe-Shepard

Discovery Center Fund (Fund), an account in the State's General Fund. The Fund is established in RSA 12-L:10 to pay for the operational expenses of the Discovery Center and the Commission.

During the nine months ended March 31, 2011, the Discovery Center also had expenditures in the Capital Projects Fund supporting the expansion of the Discovery Center.

A summary of the Discovery Center's revenues and expenditures for the nine months ended March 31, 2011 is shown in the following schedule.

Summary of Revenues and Expenditures
Nine Months Ended March 31, 2011

	General Fund	Capital Projects Fund	Total Governmental Funds
Total Revenues	$ 727,340	$ -0-	$ 727,340
Total Expenditures	1,299,200	69,574	1,368,774
Excess (Deficiency) Of Revenues			
Over (Under) Expenditures	**$ (571,860)**	**$ (69,574)**	**$ (641,434)**

Prior Audit

The most recent prior audit of the Discovery Center was the financial audit of the Christa McAuliffe Planetarium, as it was then known, for the nine months ended March 31, 1999. The appendix to this report on page 49 contains a summary of the current status of the observations contained in that prior report. A copy of the prior audit report can be accessed in its entirety on-line at http://www.gencourt.state.nh.us/lba/PDF/planet99.pdf.

Audit Objectives And Scope

The primary objective of our audit was to express an opinion on the fairness of the presentation of the financial statement of the McAuliffe-Shepard Discovery Center for the nine months ended March 31, 2011. 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 Discovery Center and tested its compliance with certain provisions of applicable State and federal laws, rules, regulations, and contracts. Major accounts or areas subject to our examination included, but were not limited to, revenues and 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, the financial statement, and supplementary information 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 the Statement of Revenues and Expenditures - General and Capital Projects Funds, of the McAuliffe-Shepard Discovery Center (Discovery Center) for the nine months ended March 31, 2011, and have issued our report thereon dated September 14, 2011 which was qualified as the financial statement does not constitute a complete financial presentation of the Discovery Center and as the financial statement does not include the Discovery Center's legally separate blended component unit. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Discovery Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Discovery Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Discovery Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be 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 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 Discovery Center's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in Observation No. 1 to be a material weakness.

A *significant deficiency* is a deficiency or 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 describe in Observations No. 2 through No. 15 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Discovery Center's financial statement is free of material misstatement, we performed tests of the Discovery Center's compliance with certain provisions of laws, rules, regulations, and contracts, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.* However, we noted immaterial instances of noncompliance which are described in Observations No. 16 through No. 18.

The Discovery Center's response is included with each observation in this report. We did not audit the Discovery Center's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management of the McAuliffe-Shepard Discovery Center and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.

Office Of Legislative Budget Assistant

September 14, 2011

Internal Control Comments
Material Weakness

Observation No. 1: Operating Relationship With Nonprofit Should Be Better Defined

Observation:

The relationship between the Discovery Center and the nonprofit corporation organized to promote the welfare of the Discovery Center, Touch the Future, Inc. (TTF), has not been sufficiently developed and defined to promote the efficient and controlled operation of the Discovery Center.

TTF describes itself in its bylaws as an organization to promote the welfare of the Discovery Center by assisting in developing interest and participation in the Discovery Center's approved projects and activities and assisting the Discovery Center in such social, official, or fund-raising activities, or in other ways, as may be requested by the Discovery Center and approved by TTF's Board of Trustees. During the nine months ended March 31, 2011, TTF reported it collected approximately $278,000 from its fundraising efforts for the Discovery Center.

TTF's fundraising activities on behalf of the Discovery Center are generally described in a memorandum of agreement (MOA), most recently updated February 2011, between the Discovery Center and TTF. While the February 15, 2011 MOA provides broad information on TTF's Capital Campaign, Annual Fund Campaign, and other fundraising activities, the MOA does not fully describe how and when funds will be held by TTF, provide for an efficient process for the Discovery Center to access available funds, or address how the financial operations of TTF should be considered and reported by the Discovery Center.

Funds raised by TTF on the Discovery Center's behalf, including proceeds from the fundraising activities noted above, are deposited into a TTF bank account from which TTF also pays the cost of its fundraising activities. While the Discovery Center becomes aware of information related to donations and fundraising efforts through its employees' direct involvement in those activities, quarterly financial reports received from TTF, data in the information system it shares with TTF, and regular communications with TTF, the Discovery Center does not have real-time access to all of the TTF fundraising information, including donor directives and conditions that might be associated with acceptance of the donated funds.

The Discovery Center requests grants in the form of invoices to TTF to fund bond payments, operating costs, and other project costs from fundraising proceeds. The Discovery Center prepares the invoices based upon the amount needed, without regard to whether TTF has available funds on hand for that purpose. For example, on May 14, 2010, the Discovery Center invoiced TTF for $176,520 to pay the Discovery Center's May 1, 2010 bond payment, even though the Discovery Center understood TTF did not have sufficient available funds for that purpose. The Discovery Center received only $50,000 of that amount prior to June 30, 2010 and posted the $126,520 net amount unpaid by TTF as an accounts receivable at June 30, 2010, overstating the fiscal year 2010 revenues and understating revenues of the audit period by that amount. The misstatement was corrected in the financial statement included in this report.

A combination of an unclear understanding of available funds, along with the pending MOA update, delayed the Discovery Center from drawing funds during the audit period. The Discovery Center invoiced TTF for most of the expected funds related to the first nine months of fiscal year 2011 in April 2011.

The financial activity performed by TTF, including the funds collected, held, expended, and transferred on the Discovery Center's behalf, is not subject to audit or review by the Discovery Center. Other than an annual financial statement that is reviewed (but not audited) by a certified public accountant, the Discovery Center has no formal assurance that TTF maintains reasonable financial controls over the money collected for the benefit of the Discovery Center.

Recommendation:

The Discovery Center should continue to work with TTF to more clearly define the operating relationship between the Discovery Center and TTF and further improve communication of important financial and operational information, as the donations collected by TTF represent a primary funding source for the Discovery Center.

The Discovery Center has a responsibility to ensure funds donated to the Discovery Center through TTF are appropriately safeguarded. The Discovery Center should improve its understanding of the nature and effectiveness of the financial controls in place over the fundraising responsibilities delegated to, and services provided on its behalf by TTF, including financial controls over funds collected, held, and disbursed by TTF.

As recommended in Observation No. 2, the Discovery Center and TTF should ensure that information related to donor conditions and requests are completely and timely communicated to the Discovery Center to ensure that the use of donated funds complies with those conditions and requests.

The Discovery Center should confer with the Department of Administrative Services (DAS) as to the proper financial reporting between TTF, the Discovery Center, and the State.

DAS should establish policies and procedures directing State agencies to report to DAS Bureau of Financial Reporting all related organizations, including organizations considered separate legal entities. The Bureau of Financial Reporting, in conjunction with the agencies, should determine whether the financial relationships between the State agencies and the related organizations identify the related organizations as component units. The State should report the financial activity of those organizations determined to be component units in the State's comprehensive annual financial report. DAS should also ensure that it has established guidance to assist State agencies in establishing and maintaining appropriate responsibilities and controls in their financial relationships with related organizations.

Auditee Response:

We concur in part. The nonprofit, Touch the Future, Inc. is an independent private sector organization. In layperson's terms, it is not a "component unit" of the Discovery Center. It is legally separate from the Discovery Center, it is not a component of State government, it is registered with the Secretary of State's office and New Hampshire Department of Justice, Division of Charitable Trusts, as an independent private sector nonprofit corporation, and it has been designated by the federal Internal Revenue Service as a public charity with 501(c)(3) status. However, it may or may not fit the definition of a professional accountant's view of "component unit" for financial reporting purposes. We are not yet familiar enough with the accounting definition to agree or disagree in this case.

Touch the Future raises funds to benefit the Discovery Center, but it is our understanding that legally, those funds are not "Discovery Center funds until such time as they are awarded to the Discovery Center or expended, and it is Touch the Future's responsibility to report on the collection and expenditure of these funds to the federal Internal Revenue Service (IRS) and the New Hampshire Department of Justice Charitable Trusts Division. It is Touch the Future's legal responsibility, not the Discovery Center's, to ensure that the funds are expended in a manner according to the donors' wishes and in the manner in which Touch the Future asserted to the donors that it would expend the funds.

That being said, it is in the Discovery Center's interests to ensure that funds raised on its behalf are indeed managed, expended, and reported on in a manner that benefits the Discovery Center, in order to maintain its good reputation and in order to encourage future donations. It is in the interests of both organizations to continue to improve communications regarding operational and financial information.

Inclusion of Touch the Future financials in the Discovery Center's financial statement would be to some degree redundant, as the funds raised by Touch the Future that are awarded to the Discovery Center are already included in the Discovery Center's financial statement.

The auditor's opinion is that the consideration of Touch the Future as a component unit of the Discovery Center and inclusion of its financial statement as a fund within the Discovery Center's financial statement is essentially a financial consideration. The Discovery Center's current opinion is that this is primarily a legal consideration, and both the financial and legal considerations deserve further study.

<u>Plan</u>

The Discovery Center has begun review of the "component unit" concept with the Department of Justice. The Discovery Center will continue this review with the Department of Justice, and will also review this matter with the Department of Administrative Services.

Going forward, the Discovery Center will request that Touch the Future provide copies of/access to requests to donors and donor responses that include expectations vis-à-vis use of donated funds, so that the Discovery Center can assist Touch the Future in meeting donor intent with its use of funds awarded by Touch the Future to the Discovery Center. The Discovery Center will continue working with Touch the Future to ensure optimal transparency between the two organizations.

Department of Administrative Services Response:

The Department concurs in principle with the recommendations of the Legislative Budget Assistant auditors that "DAS should establish policies and procedures directing State agencies to report to DAS Bureau of Financial Reporting all related organizations, including organizations considered separate legal entities."

The Department will draft communications to agencies:

1. To advise agencies of entity inclusion requirements for reporting by State, and request agencies to report affiliations as described in guidance.
2. Include the same guidance as part of the Annual Closing Manual prepared by DAS for agency closing guidance.
3. DAS will consider the need to develop specific policies and procedures for the reporting by agencies of relationships with related parties.

The Department will take such actions by June 30, 2012.

Significant Deficiencies

Observation No. 2: Controls To Promote Compliance With Donor Requirements Should Be Improved

Observation:

During the nine months ended March 31, 2011, the Discovery Center did not have policies and procedures in place to ensure that donations received through its related nonprofit, Touch the Future, Inc. (TTF), were used as intended by the original donor.

The Discovery Center, as authorized by RSA 12-L:9, has delegated to TTF its authority to solicit and receive gifts, grants, or donations of any kind, made for the development or operation of the Discovery Center. TTF solicits and accepts these donations on behalf of the Discovery Center, and holds or invests the donations pending the Discovery Center's requests for amounts to fund related expenditures. The Discovery Center invoices TTF to request funds for bond payments and for funding projects and operations consistent with donors' intent, as reported by TTF. Funds which the Discovery Center has not requested are held or invested by TTF.

During revenue testing, we noted only one of the five payments received from TTF included documentation (letters of promise from various donors) specifying how the donors intended the funds to be used. We noted one instance where the use of funds did not appear to meet the donor's intent. According to the letter of promise attached to the invoice the Discovery Center used to draw the funds from TTF, the donor specified the $10,000 donation was to be used exclusively in support of the Discovery Center's astronomy programs and further directed a report be provided on the measurable impact of the grant at the completion of the program or within 12 months from the date of the letter, whichever came first. The letter of promise was dated September 9, 2009. The Discovery Center requested the funds from TTF in October of 2010, more than one year later. Based on notations on the Discovery Center's invoice and subsequent review of a posting in the State's accounting system (NHFirst), it appears the donated funds were included with funds destined to make a Discovery Center bond payment and not for the purpose specified by the donor. According to the Discovery Center, it did not have the letter of promise available at the time it generated the bond payment invoice to TTF.

As of March 31, 2011, the report concerning the impact of the astronomy programs grant, required by the letter of promise, had not been submitted. The Discovery Center reported it considers the reporting requirement to be the responsibility of TTF.

Recommendation:

Controls to promote compliance with donor requirements should be improved.

The Discovery Center should implement policies and procedures to ensure it is aware of, and able to comply with, all donor conditions and intentions prior to expending donated funds.

The Discovery Center should ensure that its related nonprofit TTF has the information systems in place to properly identify, communicate, and track compliance with the conditions and intentions of the original donors.

The Discovery Center should confirm its understandings with TTF regarding the responsibility for generating reports required by donors. The Discovery Center should ensure its donors' expectations for receiving reports are met.

Auditee Response:

We concur. It is the legal responsibility of Touch the Future, Inc., to manage donations awarded to Touch the Future in accordance with donor restrictions and requirements, not the Discovery Center's legal responsibility.

<u>Plan</u>

As noted above, going forward, the Discovery Center will request that Touch the Future provided copies of/access to requests of donors and donor responses that include expectations vis-à-vis use of donated funds, so that the Discovery Center can assist Touch the Future in meeting donor intent with its use of funds awarded by Touch the Future to the Discovery Center.

Additionally, the Discovery Center will also offer to have the Executive Director and/or Development Director review all of Touch the Future's donor files, determine which donors require reports, and submit draft reports to Touch the Future, Inc., who may then submit the reports to donors or request that the Discovery Center submit them directly.

Observation No. 3: Federal And Private Grant Accounting Should Be Improved

Observation:

The Discovery Center does not have policies and procedures for documenting personnel and other direct and indirect costs charged to federally and privately funded programs and projects in order to support the accuracy of those charged costs.

The Discovery Center is a recipient of direct and indirect federal program grants, as well as private grants, for programs and projects. The Discovery Center has not established an accounting information system that can accurately determine and report the direct costs of these grants and the Discovery Center's costs to administer these grants. While the Discovery Center can demonstrate work was performed on these grant activities during the nine months ended March 31, 2011, because Discovery Center employees did not prepare timesheets, time certifications, or other time records that support time worked on specific grants, it cannot be determined that the Discovery Center's personnel costs charged to those grants are accurate or that invoices supporting the expenditures were related to the specific grant. For example:

1. We reviewed approximately $57,600 of invoices submitted by the Discovery Center to a grantor for reimbursement of program expenditures during the period of July 1, 2010 through March 31, 2011. We were able to trace and agree approximately $27,400, or 48%, of the expenditures included on the invoices to supporting documentation provided by the Discovery Center. While the documentation supported the amounts charged, it was not consistently apparent that the expenditure related to the particular grant or program to which it was charged. The remaining $30,200 of expenditures included unsupported personnel costs or expenditures for which the Discovery Center could not locate supporting documentation.

2. The Discovery Center drew approximately $7,200 of federal program revenues during the nine months ended March 31, 2011 in reimbursement of fiscal year 2010 expenditures. The Discovery Center provided documentation that supported approximately $4,600 of the amount drawn. Again, the support provided did not specifically identify that the expenditures pertained to the federal program being charged. According to the Discovery Center, the remaining $2,600 charged to the program represented the employee costs for administration and oversight of the project. The Discovery Center did not have timesheets or other support for that time and those costs charged to the program.

Recommendation:

The Discovery Center should implement policies and procedures that will allow it to adequately and accurately identify, track, and report reimbursable and allowable expenditures by grant as required by federal grant guidelines including Title 2 Code of Federal Regulations (CFR) Part 225, *Cost Principles For State, Local And Indian Tribal Governments*, also known as Office of Management and Budget (OMB) Circular A-87. The Discovery Center should prepare and maintain sufficient appropriate supporting documentation to demonstrate compliance with federal grant requirements as well as the requirements and expectations of other grantors.

Auditee Response:

We concur. We would like to note that the Discovery Center has not billed any grantor until we are confident that we have met all of the requirements of the grant, and no granting organization has complained to us about the content or specificity of our grant reporting. For any program for which we charged employee time against a grant, staff members have typically expended an estimated two to ten times that amount of time on the program. Additionally, many grants required no specific expenditure of time. For example, a $9,600 grant from the NASA STEREO program required only that we hold a solar symposium – no application was required, no amount of time or materials were required or specified, the grant simply required that we complete the symposium and bill the grants office. We did. Our private sector grants typically do not require that we specify the amount of time or specific personnel we will dedicate to a project. For the direct federal grant noted in the auditors' comments, we spent three years and hundreds of hours overseeing this program and interacting with the prime contractor - $15,000 was a small amount to charge for the amount of work we did on this project, and were we to do it again, we would charge considerably more. We do not feel that the $2,600 charged during the auditing period as part of the $15,000 oversight cost was problematic; if anything, it significantly undervalues our time spent. That being said, we understand that it may be helpful to/required by our grantors, third party reviewers, and Discovery Center management to have a clear accounting of time and personnel dedicated to grant-funded projects.

Plan

We will discuss with our grantors what sort of record-keeping they require to track hours spent on a project, and comply with their needs.

The Executive Director will discuss with other state agencies that receive grant funding how they typically record time spent on a project, to see if there are ways for a small agency whose staff must each fulfill a wide variety of duties and work on a wide variety of projects each day, to have job tracking not be an overly burdensome requirement. The Discovery Center's Executive Director, Education Director and Financial Manager will work together on policies and procedures to track time dedicated to projects, and implement the policies and procedures by June 2012.

After completion of our report of our future status to the Fiscal Committee of the Legislature and Governor and Council in December 2011, if it is determined that we remain a state agency, we will take training in the NH FIRST Grants Unit by April 2012. If it is determined that we will instead become a private not-for-profit in the future, we will invest instead in grants management software by April 2012, pending funding.

Observation No. 4: Controls Over Discovery Center Revenues Should Be Strengthened

Observation:

The Discovery Center's revenue processes contain weaknesses that increase the risk that errors or frauds could occur and not be detected and corrected in a timely manner.

1. Responsibilities for the handling and processing of revenues in the Discovery Center's accounting office are not sufficiently segregated.

   Two employees in the accounting office have access to accumulated cash and checks and also have access and authority to make changes in the systems (VISTA and Retail Pro) that initially recorded the sales transactions. These employees have the ability to change the sales record to adjust for overages or shortages in the accumulated receipts. While overages are credited to a donation account, shortages are not recorded in the accounting system as such.

2. Checks received through the mail at the front desk are restrictively endorsed upon receipt but then may be transferred to Visitors Services or the accounting office to record the sales. The checks are then returned to the front desk for recording the collection of that sales revenue. The transfer of checks among employees to support the recording of transactions increases the risk that checks may be lost or misdirected.

3. The Discovery Center does not perform a periodic reconciliation of its revenue transaction systems to the State's accounting system (NHFirst) reports to ensure revenues collected and processed in the Discovery Center's revenue systems were properly recorded in the State's accounting system. Such reconciliations are required by the Department of Administrative Services' Manual of Procedures.

   The Discovery Center reported the lack of reconciliation between its ticketing system and NHFirst is due in part to the lack of ability to generate data by account in the ticketing system, making the reconciliation of the two systems cumbersome.

Similar issues were noted in our prior audit report.

Recommendation:

The Discovery Center should improve controls over its revenue process.

1. The Discovery Center should establish formal procedures to ensure that duties related to collection, deposit, and recording of revenue are properly segregated. Employees with accounting responsibilities should not also have access to collected cash and checks without sufficient compensating controls. The Discovery Center should consider providing accounting personnel read-only access to systems that initially record sales revenue. If further segregation of duties is not deemed possible, the Discovery Center should take steps to implement appropriate mitigating controls including increased management oversight and review of transactions and reports.

   Shortages and overages should not be adjusted in the initial record of receipts but should be tracked and monitored for further management consideration and possible action as well as to facilitate periodic reconciliation of collections between the ticketing system and the State's accounting system.

2. Checks should not be transferred among employees for use as source documents for data entry. Checks and cash should be segregated for deposit upon receipt. Other documents or records supporting the receipt such as listings of checks, or system reports should generally be used to support subsequent data entry of revenue transactions.

3. The Discovery Center should periodically reconcile its ticketing and science store revenue systems to NHFirst to ensure that all revenues recorded in those systems are properly recorded in NHFirst.

Auditee Response:

We concur.

Plan

1. We instituted a policy beginning August 1, 2011 that the Financial Team does not make any corrections or entries into the VISTA system. The Director of Special Events and Visitor Services or her designee make any needed changes. When we install the Discovery Center's VISTA upgrade in Fall of 2011, we will change access so that the Financial Team has read-only access, if that allows for all functionality needed for their work. Whether or not this is possible, the policy will still stand.

   Shortages and overages are tracked on a daily log. Adjustments to the record are now requested the following business day by the Financial Team and completed by the Director of Special Events and Visitor Services or her designee on the Visitor Services Team.

2. Beginning August 1, 2011, mail is delivered to and opened by the Visitor Services Team on the first floor, instead of at the front desk, to minimize transport of checks. The Visitor Services Team processes the transactions and prepares the checks for deposit. For grants and donations and other cases in which it is preferable for the Financial or Development Teams to see the information on the check rather than just reviewing a log, the Visitor Services team will provide the appropriate team a photocopy/scan of the check.

3. We will endeavor to program reports/data in the VISTA upgrade in Fall 2011 and the prospective Retail Pro Upgrade in December 2011 so that it is easier to reconcile them with NH FIRST than in the past. We will do spot checks to reconcile the systems, beginning in November 2011.

Observation No. 5: Controls Over The Use Of Promotional Pricing Incentives Should Be Improved

Observation:

The Discovery Center has not developed management information systems to allow it to regularly review and evaluate the results of its use of promotional incentives, such as discounts and complimentary passes, to ensure the use of such incentives is efficient and effective in achieving the Discovery Center's goals for those programs. Unmonitored use of promotional incentives may affect the Discovery Center's ability to meet its budget expectations and also increase the Discovery Center's risk for error or fraud.

1. Prior to December 2010, the Discovery Center maintained gift certificate and complimentary pass templates on a shared network drive which did not strictly limit access to the templates to authorized employees. Since December 2010, gift certificate and complimentary pass templates are better secured. However, complimentary passes continue to be unnumbered.

2. The Discovery Center has not established policies and procedures for tracking and evaluating the use of complimentary passes. A complimentary pass allows the holder free general admission into the exhibit area. Each month, full-time, part-time, and volunteer staff each receives six, three, and two complimentary passes, respectively, to use or give away as they see fit. In addition, upon request, the Discovery Center may donate complimentary passes to organizations holding fundraising activities.

   One Discovery Center employee is responsible for manually tracking complimentary pass activity in a complimentary ticket log. During the nine months ended March 31, 2011, according to the log, approximately 2,150 complimentary passes with value of $25,800 at the $12 adult admission price had been given out. Discovery Center management does not regularly review the complimentary pass log to ensure the complimentary pass activity remains within the anticipated levels and continues to serve the intended purposes.

3. During the nine months ended March 31, 2011, the Discovery Center's ticketing system reported total gross ticket sales of approximately $506,600, while the State's accounting system (NHFirst) reported approximately $360,600 of ticket revenue, a difference of $146,000. Approximately $74,700 of the difference appears related to promotional discounts and programs offered by the Discovery Center. Discounts and programs include complimentary passes, employee and other discounts, library passes sold to cities and towns, as well as a number of other incentives. The remainder of the difference is related to other factors such as no-fee attendance for individuals or families with membership passes.

   The Discovery Center records discounts applied in a discount log; however, the log does not indicate the number of individuals who benefited from the discount; therefore, we were unable to verify whether discounts from memberships, library passes, or other type of group benefits was properly granted and revenue properly collected.

The lack of detailed reported information on the use of gift certificates, complimentary passes, and promotional and other discounts makes it difficult to evaluate, establish, and demonstrate these pricing policies are effective for achieving their intended purpose.

Similar issues were noted in our prior audit report.

Recommendation:

Controls over the use of promotional pricing incentives should be improved.

The Discovery Center should improve its management information systems for the use of promotional pricing incentives to ensure management receives the necessary information to reasonably ensure the discounts offered through those programs achieve the intended results without jeopardizing the financial security of its operations.

The Discovery Center should establish improved policies and procedures that describe the application of the Discovery Center's promotional pricing programs and also provide for appropriate controls that would limit the possible misuse of the incentive programs.

Auditee Response:

We concur in part. We will number the complimentary passes, as this is a good means to avoid unauthorized duplication or issuance, and the Financial Team and/or the Executive Director will review the complimentary pass log on a monthly basis.

But we would like to note that we *do* have policies for issuance ("awarding") of the passes:

(a) Organizations requesting passes must be not-for-profit organizations, must request the passes via a signed letter on the organization's letterhead, and must be using them for a fundraising purpose for which the Discovery Center will be publicly acknowledged, verbally or in writing. We notify all requestors of this policy, and remind them of our expectation of public acknowledgement in the letter we send with the complimentary passes. If an organization meets these requirements, they will be issued two complimentary passes. If there is a reason why it would benefit the Discovery Center to award more than two complimentary passes, approval must be received from the Executive Director before more than two passes can be issued; the executive director reviews requests from the Visitor Services team to issue more than two free passes, on a case-by-case basis.
(b) The number of passes to be issued for employees and volunteers was set in 1991, and is still followed. Employees are told during their orientation that they may give the passes to people to enable them to visit the Discovery Center, but that they may not use the passes to trade for favors, e.g. they cannot give them to their auto mechanic to try to get a lower price on auto repair. Employees are reminded periodically by the Executive Director at staff meetings and/or via email of this caveat regarding pass usage. They are also instructed during orientation that they cannot save up the passes to bring in large groups of people at one time.
(c) The marketing coordinator is authorized to issue passes for marketing purposes to traveling journalists and others who plan to consider publicizing the Discovery Center. As the definition of "journalist" is evolving with on-line blogs, our policies have evolved as well. We determined in fiscal year 2011 that our policy for traveling writers requesting passes for several members of their party will only receive passes for themselves and one photographer.
(d) The development director and assistant are authorized to issue complimentary passes to prospective donors who they are in the process of cultivating for gifts to the Discovery Center.
(e) The Director of Special Events and Visitor Services and her assistant are authorized to issue complimentary passes to prospective rental customers who they are in the process of cultivating for private rentals at the Discovery Center, and to issue the appropriate amount of complimentary passes to new or renewing members for their levels of membership.

The bookkeeper reviews the free and reduced admission information in the VISTA visitor reservations and ticketing system and the free admission/discount log on a daily basis.

<u>Plan</u>

The complimentary pass template is kept on a secure drive. We will begin numbering the complimentary passes by October 1, 2011. We will institute monthly review of the complimentary pass log by the Financial Team and/or Executive Director in October 2011.

The Executive Director requested to remove her access to the VISTA visitor reservations and ticketing system in fiscal year 2010 for PCI compliance reasons. However, now that all credit card information has been removed from the system, the Executive Director will regain access to VISTA in Fall 2011, when the new update is installed, and will be active in determining priorities in the upgrade of the reporting features, so that she and the Financial Team will be able to better analyze the effectiveness of the various discounts/promotional pricing.

For passes that can be used for admission of more than one individual (e.g. library passes, membership cards), the daily log has been amended as of July 22, 2011 to note the number of individuals using any particular pass, rather than just the signature of the primary pass user.

Observation No. 6: Compliance With Payment Card Industry Data Security Standard Requirements Should Be Documented

Observation:

The Discovery Center, at March 31, 2011, was not in full compliance with the Payment Card Industry Data Security Standard (PCI DSS). The PCI DSS is an information security standard for organizations that handle cardholder information for the major debit, credit, prepaid, e-purse, automated teller machine (ATM), and point of sale (POS) cards. Compliance with that standard is required for entities processing transactions using information contained on those cards.

Under Department of Administrative Services' guidance, State agencies that process payment or credit card transactions to complete annual self-assessment questionnaires describing their credit card processing procedures and activity. As part of the State's application of the PCI DSS, completed questionnaires are subject to an annual validation of compliance performed by a State-contracted qualified security assessor.

The Discovery Center's PCI DSS documentation was noncompliant as it did not address transactions processed over the internet and policies and procedures for managing and monitoring services providers, including having agreements in place with all service providers.

Recommendation:

The Discovery Center should perform and prepare all appropriate documentation of appropriate PCI DSS control activities. The Discovery Center should review its PCI DSS requirements with the Department of Administrative Services to reasonably ensure that all required activities are performed and any necessary plans for corrective actions are timely and completely addressed.

The Discovery Center should establish and maintain agreements with its providers of encryption and web-hosting services, as required by PCI-DSS, and by the Discovery Center's recently revised PCI-DSS Security Policy and Procedures Manual, to promote awareness of the rights and responsibilities of all parties to the agreements.

Auditee Response:

We concur. We thought we were compliant, but did not understand that the way we manage online purchases of memberships required additional documentation/reporting.

<u>Plan</u>

We filed the appropriate report to the Department of Information Technology in June 2011 for fiscal year 2011. We discontinued online sales of memberships on June 26, 2011, and will not reinstate any online sales until we can find a way to do so that does not involve third-party scanning, which is not something we can afford. As this is impacting us financially, we will seek a State-approved, PCI-compliant solution to online sales over the next few months that does not involve third-party scanning.

Observation No. 7: Controls Over Store Operations Should Be Improved

Observation:

Weaknesses in the science store operations increase the risk that the store will not operate as intended and information on the store's operation will not be sufficiently detailed to support management's decision-making.

The Discovery Center operates a science store/gift shop that offers a range of products for sale to Discovery Center visitors. While many of the items for sale are relatively low-value, souvenir-type products, other items for sale include higher valued products such as moderately priced telescopes. At March 31, 2011, the Discovery Center reported approximately $32,600 of merchandise inventory on hand in its science store, valued at cost.

The Discovery Center's documented policies and procedures for the science store operations are not sufficiently comprehensive and current to reasonably ensure employees have the necessary guidance to consistently and accurately perform their responsibilities. Available store policies and procedures are maintained in a folder and include numerous handwritten notes and outdated policies. There are significant aspects of store operations without current policies or procedures, such as how to determine what and how much merchandise to buy; how to value on-hand inventory, including how to include shipping costs and account for changes in product cost; and how to price product for sale, including when to markup and markdown inventory for efficient sales.

Having well-designed policies and procedures is fundamental to controlled operations, especially when the relative small size of an operation such as the science store makes the efficient and effective segregation of responsibilities difficult. For example, markups and markdowns of product pricing are done by one employee without any other employee reviewing the price changes for appropriateness. While the Discovery Center did implement a manual log to record price changes subsequent to audit inquiry, the Discovery Center has not instituted a process for a management review of the log. While well-designed policies and procedures alone cannot ensure controlled operations, they can help mitigate risks.

A similar comment was issued in our prior audit report.

Recommendation:

The Discovery Center should establish improved controls over science store operations, including establishing formal policies and procedures for the store that will promote control, continuity and consistency of operations, and reliability of reported operating results.

As recommended in Observation No. 10, the Discovery Center should pursue an updated, vendor supported point of sale system for the science store.

Auditee Response:

We concur.

Plan

A comprehensive, updated Science Store Manual of Policies and Procedures will be created by March 31, 2012.

A new, vendor-supported Point-of-Sale system will be purchased by December 31, 2011, provided store sales are sufficient to afford this investment by then.

Observation No. 8: Only Store Activity Should Be Charged To Store Accounts

Observation:

The accounting unit in the State's accounting system (NHFirst) that records the Discovery Center's science store operation includes expenditures for travel that are unrelated to the operation of the science store. During the nine months ended March 31, 2011, approximately $1,300 of Discovery Center employee travel costs, unrelated to the science store operations, were charged to this account.

Approximately $2,000 was appropriated in fiscal year 2011 for travel expenditures in the science store accounting unit, even though there were no planned travel expenses related to the operation of the store. The Discovery Center reported it also occasionally uses science store equipment appropriations to purchase equipment needed in other areas of the Discovery Center, although no such purchases occurred during the nine months ended March 31, 2011.

RSA 12-L:12 states, "The discovery center may operate a gift store in conjunction with and in support of its mission. Revenues from the sale of store inventory shall be used for inventory replacement…Revenues from sales which exceed the cost of inventory replacement shall be used for discovery center operations.” While RSA 12-L:12 provides for excess revenues to be used to support Discovery Center operations, combining science store and non-science store appropriations in one accounting unit identified as reporting the accounting activity of the science store distorts the reporting and understanding of the results of the store’s operations.

Recommendation:

The Discovery Center’s accounting structure should reflect Discovery Center operations. Only financial activity related to the science store should be recorded in the accounts established for the store.

If the Discovery Center wishes to use excess funds from the science store’s operations to support Discovery Center activities as allowed by statute, the Discovery Center should transfer the excess revenues from the science store’s accounting unit to the accounting unit to be supported. In this manner, the result of the science store operations will be clearly and accurately reported.

Auditee Response:

We concur in part. Our actions have been consistent with State law, so we do not agree that any purchases made with store funds were incorrectly made. However, we understand that it would be easier for an observer to understand the actual cost of running the retail store operation if all costs were store-related. Because we have made changes in our Agency accounting units beginning in fiscal year 2012, we will be able to take action to follow the audit recommendations.

RSA 12-L:12 provides authority for the Discovery Center to make non-store purchases with store funds. We have on occasion made purchases of non-store-related travel and equipment out of the store funds because our main accounting unit consisted of mixed General Funds and Agency Income. All General Fund purchases of out-of-state travel and equipment have been frozen since 2008, no matter the percentage of General Funds involved. While it is possible to request waivers to the freeze, it is the Discovery Center’s understanding that the State of New Hampshire does not want to expend General Funds on these items if it can be avoided, so that purchase of these items with non-General Funded dollars would be preferable to the State. Transfer of store revenue into our main accounting unit to pay for equipment or out-of-state travel would have been ineffective, as the revenues would have been transferred into accounts which, because they were in part General Funded, were frozen by executive order/law. So, as allowed by RSA 12-L:12, we purchased these items out of our store revenues, which were 100% Agency Income.

<u>Plan</u>

We have created a new accounting unit for our main operation (010-061-31720000), beginning in fiscal year 2012, that is 100% Other Funded (Agency Income and Federal Funds). So there will no longer be a need for us to make non-store-related purchases out of the store funds, as we now have an accounting unit for our main operation that involves no General Funds. All store purchases from July 1, 2011 forward, will be for store-related items.

Observation No. 9: Food Concession Operation Should Be Reviewed

Observation:

The Discovery Center's contract for the operation of the Discovery Center's café and provision of catering services has returned only minimal revenue to the Discovery Center to support the Discovery Center's cost for those food services operations. During the nine months ended March 31, 2011, the Discovery Center reported approximately $3,100 in revenues from its contract for these food services operations.

The Discovery Center contracts with a catering company to operate the Discovery Center's café and to provide catering services for events held at the Discovery Center. While the contract provides for the Discovery Center to receive a commission on the contractor's catering proceeds, the Discovery Center does not receive any revenues or proceeds related to the caterer's daily operation of the Discovery Center's café. The Discovery Center provides the caterer with the use of the Discovery Center's food preparation equipment and space, café eating area and furniture, utilities, routine janitorial services, and maintenance and replacement of the Discovery Center's equipment in the event of its failure due to normal wear and tear.

The Discovery Center could not demonstrate that it had formally reviewed and analyzed the net costs incurred in having a café service available to Discovery Center visitors. The contract provides for the caterer to provide the Discovery Center with an annual statement of gross sales, expenditures, and net profits for both the café and catering operations and an audited financial statement of the caterer with a certificate by a certified public accountant as to the accuracy of the revenue reported to the Discovery Center. As of June 16, 2011, the contractor had not provided, and the Discovery Center had not requested, these reports which could provide support for a review and analysis of food services costs and revenues due to the Discovery Center.

Recommendation:

The Discovery Center should formally review its food services operations for efficiency and effectiveness. The Discovery Center should consider all costs incurred in providing those services as well as revenues recovered.

The Discovery Center should request the contractor provide the required financial reports to allow the Discovery Center to have complete and accurate information relevant to its review of the Discovery Center's food services operations.

Auditee Response:

We concur. It is important to note that the primary purpose for a museum or science center to have a food concession is as a service to its visitors. Typically, the museum or science center does not make money on the café concession operations, but on the catering. This is standard for the industry.

Plan

The Discovery Center will request that the café contractor provide all reports contractually required of it be delivered to the Center by October 31, 2011.

Observation No. 10: Information Technology Controls Should Be Improved

Observation:

General information technology (IT) controls over the Discovery Center's revenue collection and processing applications are not in accordance with State IT policies and generally recognized IT control practices.

Discovery Center IT users are not periodically forced to change passwords, users share passwords, and IT backup data is stored at an employee's private residence, all contrary to generally recognized IT control practices.

In addition, the Discovery Center's science store IT application, which includes a point of sale system, has not been supported by the software vendor for approximately six years. The Discovery Center's IT manager reports the lack of vendor support for the application increases the likelihood the Discovery Center's version of the application could not be recovered if it was to fail.

The lack of effective password, vendor support, and backup control processes for these systems increases the risk that the systems will not operate, and data will not be safeguarded, in the controlled and consistent manner intended by management.

Recommendation:

Discovery Center IT controls should be improved.

The Discovery Center should require that user passwords are regularly changed to lessen the likelihood that passwords may become known to unauthorized parties. If the IT systems can not be programmed to require users to periodically change passwords, the Discovery Center should regularly direct employees to change passwords through the use of general staff notices.

The Discovery Center should confer with the Department of Information Technology to determine appropriate IT system backup policies and procedures, including secure off-site storage location. Discovery Center data should not be stored at an employee's residence.

The Discovery Center should review its risks to operations resulting from its continued use of an unsupported IT application at its science store. The Discovery Center should plan for obtaining a current, supported application for its store as soon as practical. The Discovery Center should ensure that its IT disaster recovery plan appropriately addresses the risks resulting from this IT weakness at the Discovery Center.

Auditee Response:

We concur. While staff have all been trained in and have to sign statements annually promising to adhere to proper IT policies and procedures, it appears that a few staff do not understand the requirements or their serious nature. It is the policy of the Discovery Center that no password sharing is allowed except in the case of our shared Education Team laptops (see explanation in Plan section), and that passwords must be changed every 90 days. The fact that some staff are not changing their passwords despite this long-standing policy indicates that routine checks must be made by the Discovery Center Executive Director and Engineer to ensure compliance.

The Retail Store software systems upgrade will cost approximately 9% of the store's gross revenues. As the store only nets 6% of its gross revenues, it has not been possible in the past to afford this upgrade.

The Discovery Center Engineer has been storing back-up media at his residence because off-site back-up storage is required. He has been storing the items in a fire-retardant lock-box, in an area that is outfitted with a sprinkler system.

<u>Plan</u>

Routine checks by the Discovery Center Executive Director and Engineer will begin in the Fall of 2011 to ensure compliance in changing and non-sharing of passwords.

While passwords are shared for the Education Team laptops, no sensitive/confidential data is stored on these laptops, and they are for general educator use. It is not practical to disallow sharing of passwords for these devices.

We hope to be able to purchase a new, supported Point-of-Sale System for the Science Store by December 31, 2011 – this is pending availability of sufficient store sales to afford this purchase.

We plan to transition from off-site storage at the Engineer's residence to have data backed up over our network (electronically) by a third party secure storage contractor, ensuring that this contractor and process meet all State requirements. If this solution does not work out for the Discovery Center, we will seek guidance from the NH Department of Information Technology for alternatives. We intend to have this off-site storage solution in place by December 31, 2011.

Observation No. 11: Current Business, Disaster Recovery, And Business Continuity Plans Should Be Established

Observation:

The Discovery Center has not maintained a current business plan or implemented disaster recovery and business continuity plans for its financial operations. The lack of these plans places the controlled and efficient operations of the Discovery Center at risk, especially if a disaster or other disruption of operations occurs affecting its location or systems or those of its vendors and other organizations on which it relies.

1. The Discovery Center's most recent business plan, dated November 2007, was completed prior to the expansion of the Discovery Center's facilities and operations. Since the expansion, the Discovery Center has encountered economic and political conditions, and related business risks and impacts, that were not previously apparent. The Discovery Center's responses to those risks have been somewhat ad hoc, without the benefit of supporting planning documents. For example, the Discovery Center has experienced reductions to appropriations and fewer visitors than originally anticipated by the 2007 business plan resulting in hiring freezes. The business plan had envisioned an expansion of staff during this period. The Discovery Center's responses to the current business environment have included increases in fees to meet budget expectations and using volunteers and part-time employees to reduce costs, further impacting the Discovery Center's ability to meet its business plan.

2. According to the Discovery Center, there are no comprehensive business continuity or disaster recovery plans for the Discovery Center. Although the Discovery Center believes it could restore its information technology systems from back-up files if there was a data loss, there are no formal plans in place, and the Discovery Center agrees its staff may not know what to do in the event of a serious business disruption.

   A similar comment regarding the need for a business continuity and disaster recovery plan was included in our prior audit report.

Recommendation:

The Discovery Center should update its business plan and establish disaster recovery and business continuity plans. Once done, the Discovery Center should regularly test the plans and train its employees in relevant aspects of the plans.

Integral to the implementation of these plans is the establishment and operation of effective risk assessment policies and procedures that formalize the Discovery Center's risk assessment process, which provides for regular and continuous consideration of, and response to, the risks faced by the Discovery Center in its operations.

Auditee Response:

We concur. We would, however, like to note progress in these areas since our last audit. (a) The Discovery Center created a business plan that was in effect through December 31, 2010. As circumstances have changed significantly, merely updating this plan is not sufficient, so the Discovery Center is in the process of creating new strategic and business plans. The first meeting to start this process occurred on March 10, 2011. (b) With regard to business continuity and disaster recovery, the Discovery Center made a significant upgrade to its formerly failing planetarium system in fiscal years 2006-2007. The new system is supported by a company in Nashua, NH and is used by many other planetariums, so rental of a wide variety of shows is possible. The expansion of the Discovery Center allows for alternative activities and revenue streams should any part(s) of the facility be down. The Discovery Center's servers are all equipped with a Redundant Array of Independent Disks (RAID) to provide for hard drive content redundancy. All data resides on a three-hard drive, RAID 5 set-up which provides the ability to replace a damaged drive without losing data. The two domain controllers (which provide authentication to users, PCs, etc.) have a RAID 1, two-disk configuration and the primary Domain Controller replicates to the secondary Domain Controller for redundancy. All back-ups are done daily to the file server, weekly to the back-up tapes. The back-up tapes are stored in a fireproof box on site and once/month a back-up tape is secured off-site. The Discovery Center has a contact list for emergencies and disasters, and as a start to creating an in-depth disaster plan, the Executive Director attended a training session on disaster planning at the New England Museum Association's annual meeting and conference in Springfield, Massachusetts in early November 2010.

We would also like to note that the State of New Hampshire has a Bureau of Emergency Management. As many - possibly most - State agencies do not have the in-house expertise to do their own disaster planning and can not all afford to pay consultants to assist them, this may be an area in which it may be more cost-effective for the State to centralize its disaster and business continuity planning in the future, through the Bureau of Emergency Management.

Plan

The Discovery Center began its process of strategic and business planning for 2011 and beyond in March, 2011. A consultant has been selected to work with Discovery Center Commissioners, staff, and community volunteers on a plan to submit to the Fiscal Committee of the State Legislature and the Governor and Council by December 15, 2011 outlining how the Discovery Center will go forward as a fiscally independent organization. Once this plan is submitted and approved, the Discovery Center will continue work on a more detailed business plan; completion is anticipated by June 30, 2012.

Business Continuity and Disaster Planning: We will begin work on a disaster and business continuity plan in Fall 2011. However, as our priority must be completion of the above plan due by law on December 15, we will not be able to complete the continuity/disaster plan until 2012. Our target date for completion will be June 30, 2012.

Observation No. 12: Agreement With Primary Vendor Should Be Formalized

Observation:

The Discovery Center has not formalized a service agreement with its planetarium projection system vendor for maintenance of the Discovery Center's projection system and associated software. The Discovery Center has an informal agreement with the system vendor that provides for the Discovery Center granting access to the system and shows for the vendor's sales and marketing purposes in exchange for free or discounted system maintenance.

The Discovery Center reports the system vendor maintains and upgrades the software for the Discovery Center, often without charge, and provides other general system maintenance. The Discovery Center receives free telephone support and on-site problem diagnosis by vendor technicians. If, upon diagnosis, the service is something the Discovery Center will be charged for, the technician provides a service cost estimate. In exchange for the services provided, the vendor is able to demonstrate the vendor's technology in use at the Discovery Center to prospective buyers through scheduled demonstrations of the Discovery Center's system and unpaid admissions to the Discovery Center's shows.

Service agreements define the rights and obligations of parties involved, even if no monetary exchange takes place. Documented service agreements protect both parties to the agreement by clearly defining each party's responsibilities, expectations, rights, ownership, and limitations in the transaction. The implementation of a formal service agreement to provide for the maintenance of one of the Discovery Center's primary assets, its projection system and associated software, would protect the Discovery Center by documenting the provision of service the Discovery Center needs to ensure continued efficient operations.

Recommendation:

The Discovery Center should establish a formal agreement with its planetarium projection system vendor and document the scope and cost of services provided pursuant to the agreement.

The agreement should promote a mutually beneficial relationship that both ensures regular and reliable service and also maintains good working relationships with the system vendor.

Auditee Response:

We concur.

<u>Plan</u>

We will begin discussions with the vendor in Fall 2011, and have an agreement in place by March 2011.

Observation No. 13: Annual Personnel Performance Evaluations Should Be Prepared

Observation:

The Discovery Center has not consistently prepared annual performance reviews for its employees. Documented annual performance reviews for employees are a key management control activity and are required by State statute and personnel rules. While the Discovery Center prepares forms indicating a timely evaluation has been completed in order to support the granting of employee salary increments, according to the Discovery Center, formal annual employee performance evaluations are not always completed.

RSA 21-I:42, XIII, provides for a written, annual performance evaluation system for all classified employees. In addition:

- Personnel Rule, Per 901.03, *Salary Increments*, states, "(a) Upon the recommendation of the appointing authority, the director shall process salary increments for all classified employees within their established range of pay, provided satisfactory work performance is documented by the annual performance evaluations required under Per 801."
- Personnel Rule, Per 801 details the various requirements for the annual evaluation and indicates the evaluation should be documented and specific in indicating whether the employee's performance is meeting or below expectations.
- Personnel Rule, Per 801.06, *Frequency of Evaluation*, states, "(a) Each appointing authority shall be responsible for conducting at least one evaluation per year for each full-time classified employee pursuant to RSA 21-I:42, XIII."

The personnel files of the 12 full-time classified Discovery Center employees were reviewed for evidence of a timely performance evaluation. The files for six (50%) of the full-time employees did not contain documentation of a formal performance evaluation during the prior 12-month period. The personnel file for one employee did not have evidence that a documented performance evaluation had been conducted during the past nine years. The lack of documentation of annual satisfactory work performance evaluations required under Per 801 did not prevent the employees from receiving salary increments.

According to the Discovery Center, the need for formal documented staff evaluations is a lessened priority, given the Discovery Center's relatively small staff and the regular performance feedback supervisors provide to employees on a daily basis.

Recommendation:

The Discovery Center should institute policies and procedures to ensure each employee is given a formal documented annual review as required by statute and personnel rule.

The Discovery Center should not allow supervisors to indicate on State forms that evaluations have been completed when the evaluations have not been performed.

Auditee Response:

We concur.

<u>Plan</u>

We will complete annual reviews for all employees due an annual review on or before October 31, 2011, by October 31, 2011, and ensure timely completion of all future required employee performance evaluations by maintaining an annual calendar that will alert us to when performance evaluations are due. Supervisors will be encouraged to begin the process at least one month prior to the due date, to ensure timely completion of all performance evaluations, and State forms will not indicate an evaluation has been completed if it has not been completed. Both the Executive Director and financial manager will check that the evaluation has been completed before filing the state form indicating its completion.

Observation No. 14: Equipment Inventory Controls Should Be Improved

Observation:

A review of the Discovery Center's equipment inventory noted two significant equipment items purchased during fiscal years 2009 and 2010 that were not included on the Center's inventory. The items, a $34,000 reception desk area and a $71,000 outdoor exhibit, were left off both the Discovery Center's June 30, 2010 P-16 annual inventory report and "Exhibit E" (Long-Term Asset Roll-Forward). The Discovery Center indicated uncertainty over whether the assets should be classified as equipment or real property contributed to these assets not being reported.

In addition, auditors noted 11 pieces of equipment purchased in fiscal year 2011 which were collectively under-valued in the Discovery Center's equipment inventory listing by approximately $1,200, due to shipping costs not being included in the inventory value. This issue was not noted by the Discovery Center's normal transaction review and approval procedures.

Similar issues were noted in our prior audit report.

Recommendation:

The Discovery Center should strengthen its controls over accounting for and reporting equipment to ensure that its equipment inventory records are complete and accurate. The Discovery Center should consider:

- Providing additional training in State equipment accounting and reporting policies and procedures to its employees to ensure that responsible employees remain current with those requirements.
- Instituting an effective review and approval control over equipment accounting and reporting to promote the timely detection and correction of errors that might occur in the Discovery Center's equipment accounting and reporting.
- Directing project managers to periodically review the Discovery Center's equipment inventory listings to ensure that all new equipment purchased or constructed has been properly identified and reported. This review should be performed at least annually and at the end of each project.

Auditee Response:

We concur in part. Control over inventory is very important. But we do not have adequate staff to be able to review the Discovery Center's equipment inventory listings more frequently than on an annual basis. Our annual review in most cases captures any errors. The State does not have clear policies on whether or not shipping is to be included as part of the value of an item.

Plan

We have updated our inventory to reflect the reception desk and outdoor exhibit in our end-of-year inventory report, provided to the State in July 2011. We will seek clarification on the shipping cost issue from the Department of Administrative Services by October 2011. We will invite the person in charge of State inventory reporting to meet with the primary individuals involved with inventory in Fall 2011, to answer our questions and give advice on managing significant inventory with a small staff.

Observation No. 15: Procedures Should Be Established To Remind Commission Members Of Filing Requirements For Statements Of Financial Interests

Observation:

The Discovery Center does not have controls in place to ensure individuals associated with the Discovery Center who are required to file statements of financial interests by RSA 15-A remain current with those filing requirements.

Three of the 16 active Discovery Center Commission members had not, as of April 27, 2011, filed statements of financial interests which by statute were due to be filed by the third Friday in January, 2011.

Pursuant to RSA 15-A:7, “Any person who knowingly fails to comply with the provisions of this chapter or knowingly files a false statement shall be guilty of a misdemeanor.”

Recommendation:

The Discovery Center should implement policies and procedures to ensure individuals associated with the Discovery Center file required annual statements of financial interests timely. In addition to its current practice of sending out reminders, the Discovery Center should notify the Commission of individuals who have not complied with the statutory filing requirement.

Auditee Response:

We concur. There is a process in place to remind the Commissioners each December of their obligation to file. However, we were unaware that we would be able to look up the information on the Secretary of State’s website and remind Commissioners who had not yet filed to do so.

Plan

We will continue our practice of alerting Commissioners each December to their obligation to file and giving them the link to the filing documents. We will institute a practice of checking in early January to be sure they have filed, and to remind them of their obligation, providing hard copy forms for them at the first Commission meeting of the year if they have not filed yet. We will enlist the aid of the Chair of the Commission in getting late filers to comply.

The Executive Director notified Discovery Center Commissioners about the filing issue at the Commission's July 18, 2011 meeting. Via an email message on July 20, 2011, the Discovery Center sent all Commissioners a list of who has and who has not filed, and provided them a link to the online form. The Executive Director will check filing status prior to the September Commission meeting, and enlist the aid of the Commission chair in notifying any Commissioners who have not yet filed, of their obligations.

State Compliance Comments

Observation No. 16: Fee Changes Should Be Supported By Formal Commission Votes

Observation:

The Discovery Center instituted a fee increase in February 2010 without having the increase formally adopted by the McAuliffe-Shepard Discovery Center Commission (Commission) contrary to RSA 12-L:7, II(a) which provides that the Commission shall set fees.

The Discovery Center's fee increase in February 2010 was supported by an informal email vote of less than a quorum of the Commission. While the Discovery Center indicated it had intended to have the vote ratified at the next Commission meeting, due to oversight, the fee increase was not brought to the Commission for formal vote until after the issue had been raised by the auditors.

The Discovery Center's voting by email with less than a quorum in this instance is contrary to provisions of RSA 91-A.

Subsequent to the auditor's inquiry, the Commission voted to approve the February 2010 fee increases at its May 16, 2011 Commission meeting.

Recommendation:

The Discovery Center and Commission should comply with the provisions of RSA 91-A when changing fees.

Auditee Response:

We concur. The Commission took an email vote on a fee change due to extenuating circumstances (the change needed to happen as soon as possible after a meeting by the Commission Chair and Executive Director with the Governor's budget director in order to prevent a major end-of-year budget deficit, it could not wait until the next Commission meeting), with the expectation that the vote would be ratified at the next Commission meeting. When a quorum of Commissioners (8) had voted on approval, the Discovery Center instituted the change. However, we forgot to take the ratifying vote at the next Commission meeting. The auditors alerted us to this error, and we took the vote to ratify this fee change at the May 16, 2011 Commission meeting.

<u>Plan</u>

The Discovery Center will increase its diligence in ensuring that any future fee changes are ratified in compliance with the Provisions of RSA 91-A.

Observation No. 17: Required Rules Should Be Adopted

Observation:

The Discovery Center does not have current administrative rules required by statute.

- The Discovery Center's administrative rules required by RSA 12-L:7, including N.H. Admin. Rules, CMP 200 series (Procedural Rules) and N.H. Admin. Rules, CMP 300 series (Responsibilities of Patrons), expired in September 2008.
- N.H. Admin. Rules, CMP 100 series, the Discovery Center's organizational rules, have also expired under the provisions of RSA 541-A:17, as the Discovery Center was re-established in July 2001 as an agency separate from what is now the Community College System of New Hampshire. That significant change in the Discovery Center's organization caused the Discovery Center's organizational rules to become void one year later, July 2002.

At March 31, 2011, the Discovery Center reported it had initiated discussions related to the readoption of its administrative rules.

A similar comment was included in our prior audit report.

Recommendation:

The Discovery Center should adopt the administrative rules required by statute.

The Discovery Center should establish policies and procedures to ensure adopted rules remain current. The Discovery Center's policies and procedures for maintaining current rules should allow realistic timeframes for the timely readoption of rules.

Auditee Response:

We concur.

<u>Plan</u>

We began updating our Administrative Rules in November 2010. Due to extensive work on our fiscal year 2012-2013 budget during the legislative session, we were unable to dedicate adequate time to complete this project in fiscal year 2011. We anticipate finishing the updating of our Administrative Rules by December 31, 2011, with adoption by March 2012.

While the next update would be due in eight years, our status as a state agency is uncertain at this point. Should we remain a state agency, we anticipate beginning the process of updating our Administrative Rules in March 2019, for adoption by December 2020.

Observation No. 18: Biennial Reports Should Be Prepared And Submitted

Observation:

The Discovery Center has not filed biennial reports required by RSA 20:6 and RSA 20:7.

RSA 20:7 requires specific agencies to file annual reports and all other agencies and institutions of the State to file biennial reports. As a nonlisted agency, the Discovery Center should file a biennial report. RSA 20:6 requires all agencies and institutions of the State to “submit their reports to the governor and council, who may limit the amount of matter to be published in each.” According to the statute, the reports should be printed and filed in the agencies’ offices as public documents.

The State’s Manual of Procedures, MOP 2500, provides guidance on the preparation and submission of annual and biennial reports.

Recommendation:

The Discovery Center should comply with RSA 20:6, RSA 20:7, and MOP 2500 and prepare and submit a biennial report to the Governor and Council.

Auditee Response:

We concur. We were unaware of this requirement.

<u>Plan</u>

The Discovery Center will file a biennial report on fiscal years 2010-2011 by March 31, 2012, and, should it remain a state agency, will stay current in its future biennial reporting.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying Statement of Revenues and Expenditures of the McAuliffe-Shepard Discovery Center (Discovery Center) for the nine months ended March 31, 2011. This financial statement is the responsibility of the management of the Discovery Center. Our responsibility is to express opinions 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Discovery Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statement of the Discovery Center is intended to present certain financial activity of only that portion of the State of New Hampshire that is attributable to the transactions of the Discovery Center. The Statement of Revenues and Expenditures does not purport to and does not constitute a complete financial presentation of either the Discovery Center or the State of New Hampshire in conformity with accounting principles generally accepted in the United States of America.

The financial statement referred to previously does not include financial data for the Discovery Center's legally separate blended component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the Discovery Center. The amount by which this departure would affect the revenues and expenditures of the Discovery Center is not reasonably determinable.

In our opinion, except for the matters discussed in the third and fourth paragraphs, the financial statement referred to above presents fairly, in all material respects, certain financial activity of the Discovery Center for the nine months ended March 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statement of the Discovery Center. The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

In accordance with *Government Auditing Standards,* we have also issued a report dated September 14, 2011 on our consideration of the Discovery Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Office Of Legislative Budget Assistant

September 14, 2011

STATE OF NEW HAMPSHIRE
MCAULIFFE-SHEPARD DISCOVERY CENTER
STATEMENT OF REVENUES AND EXPENDITURES
GENERAL AND CAPITAL PROJECTS FUNDS
FOR THE NINE MONTHS ENDED MARCH 31, 2011

Revenues	**General Fund**	**Capital Projects Fund**	**Total**
Restricted Revenues			
Donations And Other Grants (Note 2)	$ 456,104	$ -0-	$ 456,104
General Admission Planetarium	174,820	-0-	174,820
Science Store	89,233	-0-	89,233
Federal Program Funds	7,183	-0-	7,183
Total Restricted Revenues	**727,340**	**-0-**	**727,340**
Total Revenues	**727,340**	**-0-**	**727,340**
Expenditures			
Salaries And Benefits	901,194	-0-	901,194
Current Expenses	139,761	-0-	139,761
Debt Service	120,878	-0-	120,878
Maintenance	59,580	-0-	59,580
Goods For Resale	47,506	-0-	47,506
Equipment	8,583	-0-	8,583
Travel	7,352	-0-	7,352
Information Technology	5,482	-0-	5,482
Consultants	3,000	-0-	3,000
Other	5,864	-0-	5,864
Alan B. Shepard Memorial Wing	-0-	69,574	69,574
Total Expenditures	**1,299,200**	**69,574**	**1,368,774**
Excess (Deficiency) Of Revenues Over (Under) Expenditures	**(571,860)**	**(69,574)**	**(641,434)**
Other Financing Sources (Uses)			
Net Appropriations (Note 3)	571,860	69,574	641,434
Total Other Financing Sources (Uses)	**571,860**	**69,574**	**641,434**
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	**$ -0-**	**$ -0-**	**$ -0-**

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

STATE OF NEW HAMPSHIRE
MCAULIFFE-SHEPARD DISCOVERY CENTER

NOTES TO THE FINANCIAL STATEMENT
FOR THE NINE MONTHS ENDED MARCH 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statement of the McAuliffe-Shepard Discovery Center 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 reporting entity of this audit and audit report is the McAuliffe-Shepard Discovery Center (Discovery Center). The Discovery Center is an organization of the primary government of the State of New Hampshire. The accompanying financial statement reports certain financial activity of the Discovery Center.

The financial activity of the Discovery Center is accounted for and reported in the General and Capital Projects Funds 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 Discovery Center, as an organization of the primary government, accounts for only a small portion of the General and Capital Projects Funds and those assets, liabilities, and fund balance as reported in the CAFR that are attributable to the Discovery Center cannot be determined. Accordingly, the accompanying Statement of Revenues and Expenditures - General and Capital Projects Funds is not intended to show the financial position or fund balance of the McAuliffe-Shepard Discovery Center in the General or Capital Projects Funds.

B. Financial Statement Presentation

The State of New Hampshire and the Discovery Center use funds to report on their financial position and the 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 Discovery Center reports its financial activity in the funds described below.

Governmental Funds:

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.

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 and notes for highway or turnpike purposes, or by the application of certain federal matching grants.

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, except for federal grants, the State generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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 period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, 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 General Fund or other 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. The Discovery Center had no unrestricted revenue during the nine months ended March 31, 2011.

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). Footnote I to the State Operating Budget generally requires agencies to reduce appropriations (authorizations to expend funds) in the event restricted revenues are anticipated to be less than the amount of budgeted restricted revenue.

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.

Pursuant to RSA 12-L:10, all fees received by the Commission and all monetary gifts, grants, and donations received pursuant to RSA 12-L:9 are deposited into the McAuliffe-Shepard

Discovery Center Fund (Fund), an account in the State's General Fund. The Fund is established in RSA 12-L:10 to pay for the operational expenses of the Discovery Center and the Commission. Also pursuant to RSA 12-L:10, moneys in the McAuliffe-Shepard Discovery Center Fund are nonlapsing and continually appropriated.

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

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 governmental funds, with the exception of the Capital Projects Fund and certain proprietary funds. The Capital Projects Fund budget represents individual projects that extend over several fiscal years. Since the Capital Projects Fund comprises appropriations for multi-year projects, it is not included in the budget and actual comparison schedule in the State CAFR.

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 undesignated 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 reservation of 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.

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 Discovery Center's unliquidated encumbrance balances in the General and Capital Projects Funds at March 31, 2011 were $45,447 and $29,436, respectively.

A Budget To Actual Schedule - General Fund and a Schedule Of Budget And Expenditures - Capital Projects Fund are included as supplementary information.

NOTE 2 - CORRECTION OF A PRIOR OVERSTATEMENT OF REVENUE

Revenues for the nine months ended March 31, 2011 include the correction of a fiscal year 2010 revenue accrual estimate that proved unavailable for collection within the State's governmental fund reporting timeframe of 60 days after June 30, 2010. The correction resulted in the recognition of $148,882 of revenue being moved from fiscal year 2010 revenue to revenue of the nine months ended March 31, 2011.

NOTE 3 - 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 4 - EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The McAuliffe-Shepard Discovery Center, as an organization of the State government, participates in the New Hampshire Retirement System (Plan). The Plan is a contributory defined-benefit plan and covers all full-time employees of the Discovery Center. The Plan qualifies as a tax-exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. RSA 100-A established the Plan and the contribution requirements. The Plan, which is a cost-sharing, multiple-employer Public Employees Retirement System (PERS), 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 all members.

Group I members at age 60 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 AFC multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. 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 ten or more years of creditable service who are between ages 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 at least 20 years of creditable service can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years.

All covered Discovery Center 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.

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the nine months ended March 31, 2011, Group I members were required to contribute 5%, except for state employees whose employment began on or after July 1, 2009, contribute 7% and Group II members were required to contribute 9.3% of gross earnings. The State funds 100% of the employer cost for all of the Discovery Center's employees enrolled in the Plan. The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years based on the Plan's actuary.

The Discovery Center's payments for normal contributions for the nine months ended March 31, 2011 amounted to 9.09% of the covered payroll for its Group I employees. The Discovery Center's normal contributions for the nine months ended March 31, 2011 were $42,897.

A special account was established by RSA 100-A:16, II (h) for additional benefits. During fiscal year 2007, legislation was passed that permits the transfer of assets into the special account for earnings in excess of 10.5% as long as the actuary determines the funded ratio of the retirement system to be at least 85%. If the funded ratio of the system is less than 85%, no assets will be transferred to the special account.

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

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 after July 1, 2003 to have 20 years of State service in order to qualify for health insurance 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, 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 these benefits on a pay-as-you-go basis by paying actuarially determined contributions into the fund. The New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees also contributes to the fund. The Discovery Center's Medical Subsidy normal contribution rate for the nine months ended March 31, 2011 was 1.96% of the covered payroll for its Group I employees. The Discovery Center's normal contributions for the Medical Subsidy for the nine months ended March 31, 2011 were $9,249.

The cost of the health benefits for the Discovery Center's retired employees and spouses is a budgeted amount paid from an appropriation made to the administrative organization of the New Hampshire Retirement System. The Discovery Center contributed approximately $2,000 toward the future costs of those benefits.

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 Governmental Accounting Standard Board (GASB) Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the 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 Discovery Center.

STATE OF NEW HAMPSHIRE
MCAULIFFE-SHEPARD DISCOVERY CENTER
BUDGET TO ACTUAL SCHEDULE - GENERAL FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2011

Revenues	Original Budget	Actual	Favorable (Unfavorable) Variance
Restricted Revenues			
Donations And Other Grants	$ 11	$ 456,104	$ 456,093
General Admission Planetarium	1,071,470	174,820	(896,650)
Science Store	293,424	89,233	(204,191)
Federal Program Funds	11	7,183	7,172
Total Restricted Revenues	**1,364,916**	**727,340**	**(637,576)**
Total Revenues	**1,364,916**	**727,340**	**(637,576)**
Expenditures			
Salary And Benefits	1,259,164	901,194	357,970
Current Expenses	371,237	139,761	231,476
Debt Service	-0-	120,878	(120,878)
Maintenance	91,202	59,580	31,622
Goods For Resale	160,000	47,506	112,494
Equipment	18,857	8,583	10,274
Travel	10,011	7,352	2,659
Information Technology	48,324	5,482	42,842
Consultants	3,533	3,000	533
Other	10,275	5,864	4,411
Total Expenditures	**1,972,603**	**1,299,200**	**673,403**
Excess (Deficiency) Of Revenues Over (Under) Expenditures	**(607,687)**	**(571,860)**	**35,827**
Other Financing Sources (Uses)			
Net Appropriations (Note 2)	607,687	571,860	35,827
Total Other Financing Sources (Uses)	**607,687**	**571,860**	**35,827**
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	**$ -0-**	**$ -0-**	**$ -0-**

The accompanying notes are an integral part of this schedule.

Notes To The Budget To Actual Schedule - General Fund
For The Nine Months Ended March 31, 2011

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 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 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 operating budget for fiscal year 2011 as passed by the Legislature in Chapter 143, Laws of 2009.

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 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 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 fund balance and be available for future appropriations unless they have been encumbered or are legally defined as non-lapsing accounts.

Variances - Favorable/(Unfavorable)

The variance column on the Budget To Actual Schedule highlights differences between the original operating budget and the actual revenues and expenditures for the nine months ended March 31, 2011. For budgetary purposes, General Admission Planetarium budgeted revenues include certain budgeted grants and donations which have been reclassified as Donations and Other Grants Revenues on the financial statement (actual column on this schedule). Actual revenues exceeding budget or actual expenditures being less than budget generate a favorable variance. Actual revenues being less than budget or actual expenditures exceeding budget cause an unfavorable variance.

Unfavorable variances are expected for revenues and favorable variances are expected for expenditures when comparing nine months of actual revenues and expenditures to an annual budget.

Note 2 - Net Appropriations

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

STATE OF NEW HAMPSHIRE
MCAULIFFE-SHEPARD DISCOVERY CENTER
SCHEDULE OF BUDGET AND EXPENDITURES – CAPITAL PROJECTS FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2011

Chapter Law, Program	Budget	Expenditures July 1, 2010 - March 31, 2011	(Unaudited) Prior Period Expenditures	(Unaudited) Total Expenditures	(Unaudited) Unexpended
Chapter 264:21, III, H, Laws Of 2007					
Alan B. Shepard Memorial Wing	$ 5,019,000	$ 15,631	$ 4,819,326	$ 4,834,957	$ 184,043
Chapter 264:1, IV, L, Laws Of 2007					
Alan B. Shepard Memorial Wing	4,263,167	53,943	3,485,968	3,539,911	723,256
Total	**$ 9,282,167**	**$ 69,574**	**$ 8,305,294**	**$ 8,374,868**	**$ 907,299**

The accompanying note is an integral part of this schedule.

Note To The Schedule Of Budget And Expenditures - Capital Projects Fund
For The Nine Months Ended March 31, 2011

Note - Capital Budget

Prior to May 2004, capital projects appropriations lapsed at the end of the biennium unless extended into the subsequent capital budget. Chapter 138, Laws of 2004 changed the two-year capital budget by establishing a six-year capital budget and amending sections of RSA 9. RSA 9:18 provides that all unexpended portions of capital appropriations made by the six-year capital budget are to lapse at the end of six-years from the date the appropriation took effect. However, legislative practice has been to continue extending the lapse dates for all approved projects through the subsequent biennium.

The original appropriation for the Alan B. Shepard Memorial Wing contained in Chapter 240:1, III, H, Laws of 2003 was $6.2 million. Chapter 264:21, III, H, Laws of 2007 reduced the appropriation to $5.019 million.

During the 2009 legislative session each of the projects initially budgeted in a previous biennium was extended through June 30, 2011, or consisted of obligations incurred by contract, in which case there was no lapse until the satisfaction or fulfillment of such contractual obligations.

Obligations incurred by contract are recorded as encumbrances when the contract is executed. Upon satisfactory fulfillment of the contracted services, the encumbrance is liquidated and the expenditure and liability are recorded. Subsequently, capital projects that have been allowed to legislatively lapse, will record expenditures in the following fiscal period to the extent contractual obligations were entered into prior to the project's lapse date.

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX - CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of September 14, 2011, of the current status of the observations contained in the financial audit report of the McAuliffe-Shepard Discovery Center, then known as the Christa McAuliffe Planetarium, for the nine months ended March 31, 1999. The prior audit report can be accessed on-line at http://www.gencourt.state.nh.us/lba/PDF/planet99.pdf.

	Status		
Internal Control Comments			
Material Weaknesses			
1. Lack Of Controls Over Planetarium Ticketing And Admission Process *(See Current Observations No. 4 And No. 5)*	●	○	○
2. Controls Over Equipment Need Strengthening *(See Current Observation No. 14)*	●	●	○
Other Reportable Conditions			
3. Controls Not Established To Mitigate Segregation Of Duties Risks Over Revenue *(See Current Observation No. 4)*	●	○	○
4. Controls Over Gift Shop Operations Need Strengthening *(See Current Observation No. 7)*	●	○	○
5. Gift Shop Policies And Procedures Manual Needed *(See Current Observation No. 7)*	●	●	○
6. Controls Over Electronic Data Processing Systems Need Strengthening *(See Current Observation No. 10)*	●	○	○
7. Facility Maintenance Agreement Needs To Be Documented	●	●	●
8. Policies And Procedures Regarding Changes In Dental Insurance Coverage Need Improvement	●	●	●
Compliance Comments			
9. Administrative Rules Need To Be Adopted *(See Current Observation No. 17)*	○	○	○
10. Information Technology Plan Needs To Be Filed	●	●	●
11. Filings Of Statements Of Financial Interests Need To Be Monitored *(See Current Observation No. 15)*	●	●	○
Management Issues Comments			
12. Business And Disaster Contingency Plan Needed *(See Current Observation No. 11)*	●	○	○
13. Year 2000 Compliance Status	●	●	●
14. Preparation Of Consumable Inventory Form Should Be Made More Efficient	●	●	●

Status Key				Count
Fully Resolved	●	●	●	5
Substantially Resolved	●	●	○	3
Partially Resolved	●	○	○	5
Unresolved	○	○	○	1

THIS PAGE INTENTIONALLY LEFT BLANK