

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CORRECTIONS**

**FINANCIAL AUDIT REPORT
FOR THE NINE MONTHS ENDED
MARCH 31, 2010**

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CORRECTIONS**

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY SECTION	
Reporting Entity And Scope	1
Organization.....	1
Responsibilities	2
Funding	2
Prior Audit	2
Audit Objectives And Scope.....	3
 CONSTRUCTIVE SERVICE COMMENTS SECTION	
Auditor’s Report On Internal Control Over Financial Reporting And On Compliance And Other Matters	4
 <i>Internal Control Comments</i>	
<i>Significant Deficiencies</i>	
<u>Payroll And Employee Arrangements¹</u>	
1. Payroll Process Should Be More Efficient And Controlled	6
2. Payroll Controls Should Be Made More Effective	9
3. Variations In Employee Workdays Should Be Subject To Approved Agreements.....	10
4. Telework Agreements Should Be In Place	11
<u>Correctional Information System²</u>	
* 5. Policies And Procedures For Correctional Information System Account Maintenance Should Be Established	13
6. Change And User Access Controls In The Correctional Information System Should Be Strengthened.....	14
7. The Correctional Information System Should Be Updated Timely	16
8. Reporting From The Correctional Information System Should Be Improved.....	18
9. Controls Over Offender Information In The Correctional Information System Should Be Improved	19
<u>Revenue</u>	
10. Revenues And Other Receipts Should Be Regularly Reconciled To State Accounting System.....	20
11. Policies And Procedures Should Be Established For Unclaimed And Refused Restitution Maintenance	21
12. Financial Controls At Transitional Housing Units Should Be Improved.....	23
13. Revenue Controls At The Financial Services Office And Division of Field Services Collections Unit Should Be Strengthened	26

¹ Comments in this section deemed collectively to be a material weakness over payroll.

² Comments in this section deemed collectively to be a material weakness over information and communication.

14. Controls Over Annulment Investigation Fees And Interstate Compact Fees Should Be Improved	28
15. Coordination Of Offender Information With The Courts Should Be Improved.....	29
Other Control Topics	
16. Fraud Policies Should Be Established	30
17. Disaster Recovery And Business Continuity Plans Should Be Established	32
18. Equipment Inventory Should Be Performed Annually.....	33
19. Agreements With Counties Should Be In Place For Housing Inmates	35
20. Perpetual Inventory System Should Be Established For Pharmaceutical Drug Inventory	35
21. Expenditures Should Be Charged To Correct Accounting Units.....	37
22. Controls Over Contracted Financing Agreements Should Be Established.....	38
23. Pharmaceutical Drug Contract Payment Options Should Be Reviewed	40
24. Controls To Recognize And Report Accounts Payable Should Be Improved.....	41
25. Timely Payment Discounts Should Be Taken	41

State Compliance Comments

26. Receipts Should Be Provided To Payers	43
* 27. Clarification Of Statutory Allocation Of Offender Payments Should Be Requested	43
28. Supervision Fees Should Be Established By Courts And Parole Board	44
29. Rules Should Be Established For All Fees	46
30. Information Technology Plan Should Be Prepared.....	47
31. Compliance With RSA 15-A:4 Should Be Improved	47
* 32. Capital Project Status Reporting Should Be Reviewed.....	48

FINANCIAL SECTION

Independent Auditor's Report	49
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Financial Statement

Governmental Fund Financial Statement

Statement Of Revenues And Expenditures - General Fund And Capital Projects Fund	51
Notes To The Financial Statement	52

Supplementary Information

Budget To Actual Schedule - General Fund	59
Notes To The Budget To Actual Schedule	60
Schedule Of Budget And Expenditures - Capital Projects Fund	62
Note To The Schedule Of Budget And Expenditures	64

APPENDIX - Current Status Of Prior Audit Findings	65
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* Audit comment suggests 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
DEPARTMENT OF CORRECTIONS**

Reporting Entity And Scope

The reporting entity of this audit and audit report is the New Hampshire Department of Corrections, including the administratively attached Parole Board, and excluding the Department's trust funds, agency funds, and Correctional Industries and Vocational Training Accounts. The scope of this audit and audit report includes the financial activity of the Department of Corrections reporting entity described above for the nine months ended March 31, 2010. Unless otherwise indicated, reference to the Department or auditee refers to the Department of Corrections.

Organization

The Department of Corrections (Department) was established on July 1, 1983 pursuant to RSA 21-H. The Department is headed by a Commissioner who is appointed by the governor and serves as the Department's chief administrative officer. The Commissioner is responsible for the management of all Department operations, including the administration and enforcement of all laws by which the Department is governed.

The Office of the Commissioner is responsible for the overall administration and operation of the Department. The Office oversees the four Divisions of: Administration, Field Services, Medical and Psychiatric Services, and Community Corrections.

The Department manages three State prisons (New Hampshire State Prison for Men - Concord, New Hampshire State Prison for Women - Goffstown, and Northern New Hampshire Correctional Facility - Berlin), three transitional housing units (Calumet House, North End House, and Shea Farm), and eleven district Probation/Parole offices. All of the Department's facilities are fully accredited by the American Correctional Association. As of March 31, 2010, the Department was staffed with 11 unclassified employees, 862 full-time classified employees, and 18 part-time employees.

Adult Parole Board

RSA 651-A:3 established the Adult Parole Board (Board), consisting of seven members appointed by the Governor and approved by the Executive Council. The Board is responsible for paroling prisoners from State prisons and is legal custodian of all parolees until they are discharged or recommitted. RSA 651-A:24 administratively attaches the Board to the Department of Corrections. The Department is to provide budgeting, recordkeeping, and related clerical assistance to the Board. The Board operates independently of the Department and reports directly to the Governor.

Responsibilities

Pursuant to RSA 21-H:3 the Department is responsible for providing for, maintaining and administering State correctional facilities and programs for the custody, safekeeping, control, correctional treatment and rehabilitation of inmates. In addition, the Department is responsible for the supervision of all individuals placed on probation or released on parole and acts as an advisor to law enforcement agencies and communities in the prevention of crime and delinquency.

The Department's stated mission is "to provide a safe, secure, and humane correctional system through effective supervision and appropriate treatment of offenders, and a continuum of services that promote successful re-entry into society for the safety of our citizens and in support of crime victims."

Funding

The financial activity of the Department is accounted for in the General Fund and Capital Projects Fund of the State of New Hampshire. A summary of revenues and expenditures for the General Fund and Capital Projects Fund for the nine months ended March 31, 2010 is shown in the following schedule.

Summary Of Revenues And Expenditures For The Nine Months Ended March 31, 2010

	General Fund	Capital Projects Fund	Total
Total Revenues	\$ 1,951,649	\$ -0-	\$ 1,951,649
Total Expenditures	<u>72,537,873</u>	<u>1,757,866</u>	<u>74,295,739</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>\$ (70,586,224)</u>	<u>\$ (1,757,866)</u>	<u>\$ (72,344,090)</u>

Prior Audit

The most recent prior financial audit of the Department was the audit of the Department of Corrections (excluding Correctional Industries and Department Trust and Agency Funds) for the nine months ended March 31, 1995. The appendix to this report on page 65 contains a summary of the current status of the observations contained in that report. Copies of the prior audit report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

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 Department of Corrections for the nine months ended March 31, 2010. 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 Department and tested its compliance with certain provisions of applicable State 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 Fund and Capital Projects Fund, of the New Hampshire Department of Corrections (Department) excluding the Department's trust funds, agency funds, and Correctional Industries and Vocational Training Accounts for the nine months ended March 31, 2010 and have issued our report thereon dated November 16, 2010 which was qualified as the financial statement does not constitute a complete financial presentation of the Department. 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 Department'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 Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 certain deficiencies in internal control over financial reporting that we consider to be material weaknesses 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 and correct, misstatements on a timely basis. A *material weakness* is a

deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Department's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the combined effects of the significant deficiencies under the caption of payroll and employee arrangements, Observations No. 1 through No. 4, and the combined effects of the significant deficiencies under the caption of correctional information system, Observations No. 5 through No. 9, to be material weaknesses.

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 described in Observations No. 1 through No. 25 to be, individually, significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statement is free of material misstatement, we performed tests of the Department'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. 26 through No. 32.

The Department's response is included with each observation in this report. We did not audit the Department'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 Department of Corrections, others within the Department, 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

November 16, 2010

Internal Control Comments
Significant Deficiencies

Payroll And Employee Arrangements

Observation No. 1: Payroll Process Should Be More Efficient And Controlled

Observation:

The Department's payroll process is cumbersome, inefficient, and prone to error.

The Department processes payroll for approximately 900 Department employees working at three prisons, three transitional houses, eleven district offices, and a central administrative office. The prison and transitional housing locations operate on a 24 hour, seven day per week schedule, requiring Department employees to work varying shifts with associated wage differentials, complicating the payroll process. The Department's payroll process is paper-based, labor-intensive, and subject to error, abuse, and fraud.

Department employees post hours worked and leave taken on paper timesheets. Employees submit leave slips and authorization requests for overtime work to supervisors who approve or disapprove the requests. Employees also submit timesheets to the supervisor for approval. A timekeeper, typically Corrections Officers for the prison locations, summarizes their assigned employees' timesheets by total hours worked each day on individual employee Green Cards. The timekeeper forwards completed Green Cards to the Department's central payroll office for keying into the State's payroll system (GHRIS) and files the timesheets and leave slips at the timekeeper location.

Structural concerns noted in the Department's payroll process include the following issues.

- In many areas of the Department's operation, the control intended by supervisory review of leave and overtime slips is lessened, as supervisors often return the control copy of the documents to the employee for safekeeping and attachment to the relevant bi-weekly timesheet. There is a risk that missing or altered leave and overtime slips would not be detected in the normal preparation of the Department's payroll. This is especially true for Corrections Officers (the majority of Department employees), as Shift Commanders who approve leave overtime slips, typically do not review and approve employee timesheets.
- Timekeepers responsible for preparing Green Cards and reviewing for completion of supervisors' review of timesheets are typically at the same or lower rank than the supervisor, making it structurally unlikely for a timekeeper to question a supervisor's judgment on a timekeeping issue. Reportedly, this hierarchy structure has resulted in instances where supervisors have delegated their responsibility for requesting leave slips and overtime forms from employees to timekeepers, which lessens the effect of the intended segregation of duties control.
- Timekeepers are responsible for transcribing their own timesheets onto Green Cards, supervisors are responsible for ensuring the timekeeper has correctly transcribed their

(supervisor's) Green Card, and in some situations, the timekeeper and the supervisor can be the same person. Each of these situations results in segregation of duties concerns.

- There is no regular comparison made between hours reported worked on an employee's timesheet and the employee's work schedule maintained on the Shift Commanders Log (a central schedule tracking tool for officers). A comparison would disclose, for example, if an employee timesheet indicated a "Worked" status while the Shift Commanders Log had the employee scheduled for "Out-Annual Leave" in response to a previously submitted leave slip. This comparison could detect instances where leave taken was not accurately reflected on a timesheet.
- Green Cards containing employee information such as social security numbers are kept in books that physically travel back and forth from the payroll office to the timekeeping location increasing the risk that the security over confidential employee information may be compromised.
- Original timekeeping records including timesheets and leave slips are maintained at each timekeeping location, increasing their exposure to loss or theft. During audit testing, the Department was unable to provide certain requested timekeeping records, presumably, as the records had been misplaced or stolen.
- There is no review of the bi-weekly exception keying process in the Payroll Area, which may allow clerical errors made by payroll staff to go unnoticed.

A similar comment was made in the prior audit of the Department.

Recommendation:

The Department should consider both short term and intermediate term solutions to its payroll issues.

1. In the short term, the Department should improve the structural design of its payroll process at the prisons and transitional houses to institute effective controls and eliminate redundancy and other inefficiencies.
2. Employees should be advised of management's requirement for employee adherence to the control processes inherent in the Department's current payroll system. Forms should be completed, control documents should be used for that purpose and safeguarded, and reconciliations should be performed. Control procedures should not be delegated but should be performed by the assigned personnel. Where possible, effective segregation of duties controls should be in place.
3. In the intermediate term, the Department should review automated alternatives to its current paper-based and labor-intensive payroll system. An effective and efficient payroll system for an organization as large and dispersed as the Department should not be based on redundant paper records compiled by corrections officers or other line personnel.

Auditee Response:

1. We concur in part. The Department of Corrections currently has no automated method to provide a more effective reporting system. Due to the limited staffing in the Department's payroll section with only two full-time employees performing the data entry into the State's payroll system, the Department must rely upon other support and line personnel and corrections officers at the institutions to perform the necessary reporting requirements. The issues raised in the Auditor's observations are associated with a paper time and attendance reporting system. Part of this process is a result of collective bargaining and personnel rules requiring authorized leave slips (which are paper documents). The bi-weekly paper timesheets are internal documents where the Department has built in a review of the employee's report of time and attendance and the supervisor attests to the employee's attendance of hours worked, leave taken as well as any overtime authorized. This builds in one level of review to assist in minimizing errors. The green payroll card is a document that is used to report the authorized hours approved by the supervisor. Information authorized is transferred onto the Green Card for data entry purposes and is also reviewed and verified by the assigned timekeeper (which is another level of review). The Green card document serves multiple purposes and is a tool not only for data entry into the States GHRS payroll system, but for time and attendance tracking on a given individual; FMLA [Family Medical Leave Act of 1993] pattern of use; sick leave pattern of use and is utilized by outside agencies for worker's compensation hearings and other litigation matters that involved an employee's attendance at work.
2. Concur. Department policy does establish controls on the reporting and review of time and attendance. A memorandum will be issued to remind supervisors and employees that adherence to that policy is required. Also, training will be developed to provide both the supervisors, employees and timekeepers information as to how to report time and attendance as well as informing them of their responsibility to ensure accurate and timely reporting for payroll purposes.
3. Concur in part. Due to funding restrictions automated alternatives are not available. As mentioned in our response to paragraph number 1, the recommendation to reduce the responsibilities of line personnel or corrections officer duties associated with the reporting of time and attendance would require an additional increase of support personnel at each facility and/or work locations. Whether it is an automated system or a paper system, resources are needed to prepare, maintain, and audit attendance records to ensure that controls are maintained and enforced. Also, an automated system would not lessen the paper requirements or storage of backup documents due to the above mentioned Collective Bargaining Agreement and personnel rules. At the present time there is limited funding for the additional resources needed. However, the Department will consider finding a solution to automate time and attendance reporting when preparing its 2014-2015 Capital Budget request.

Observation No. 2: Payroll Controls Should Be Made More Effective

Observation:

As noted in Observation No. 1, weaknesses were observed in the Department's payroll process. These weaknesses are indicative of significant deficiencies in the Department's payroll controls, especially its control environment. It appears the employee culture at the Department has become such that intended payroll controls are not followed, with undetected errors resulting. The numerous errors noted during payroll testing are indicative of employees not following intended control functions and apparent disregard for accurate timekeeping.

The following are examples of those payroll errors noted during the audit.

- Leave slips were not completely filled out in five of the 67 instances (7%) where leave slips accompanied employees' timesheets selected for audit tests. Information missing from the reviewed slips included sick leave certification, authorizing signature, and date of authorization.
- Leave slips were missing and could not be produced by the Department for six of the 67 payroll items (9%) which had leave recorded on the tested timesheet.
- Timesheets for three of 116 (3%) payroll selections were missing from Department records, and were not available to substantiate time worked.
- Due to the various missing documents noted above and the presence of conflicting documentation, auditors could not determine the appropriateness of the payroll costs for three selected test items, as it was not clear whether the employees actually worked the hours reported on the timesheets. Total unsupported costs for these three test items were \$1,279, which represents one half of one percent of the sample tested. If extrapolated to the Department's total payroll, the error represents a potential \$200,000 of unsupported payroll costs during the nine months ended March 31, 2010.
- Clerical errors were noted on eight of 116 (7%) employee timesheets reviewed. The employee, the supervisor, and the timekeeper, who were all required to review the timesheet by Department timekeeping policies, had not previously detected the errors. The noted errors resulted in a net total underpayment to employees of \$89. If the error is projected to the Department's total payroll as a whole, the error represents a potential \$13,800 underpayment during the nine months ended March 31, 2010.
- A clerical error was noted in one of 116 items tested that had resulted in an employee being paid \$428 for ten hours of overtime they had not worked.
- In four out of 41 instances tested (10%) where overtime was paid, there was no support to evidence the overtime was preapproved. In five other instances (12%), the associated Authorized Additional Time Worked form did not contain one or both of two required approval signatures.
- In two of 116 payroll transactions tested (2%) the employee was paid an incorrect shift differential due to a supervisor's misunderstanding of when the respective shift started and stopped. The error resulted in \$224 of overpayments for the tested transactions. When projected to the entire payroll population, the error reflects a potential \$35,000 overpayment during the nine months ended March 31, 2010.

- In 22 of the 116 selections tested (19%), there was no signature indicating a review of the respective time book for the pay period tested.
- The Department reported that during an internal investigation of suspected payroll fraud, it found payroll documents for one area of the men's prison for the period 2006 through September 2009 were missing. The missing documents affected two out of the 116 samples selected for audit testing (2%). The Department reported its investigation resulted in employee reprimand.

A similar comment was made in the prior audit of the Department.

Recommendation:

As noted in Observation No. 1, the Department should review its controls over payroll. The Department should ensure its payroll activities are supported by all components of a strong control structure including a strong control environment, risk assessment and response, control activities, information and communication, and monitoring of control compliance and effectiveness. Employees should be reminded through directives and training of the importance and necessity to comply with the intended controls.

Auditee Response:

We concur. As noted in our response in Observation No. 1, the Department concurs with the need for strong controls. Department policy outlines the responsibilities of employees, supervisors and timekeepers and that the communication of the policy must occur as well as enforcement of accountability to the policy which could result in disciplinary action. The Department concurs that training needs to occur on a regular basis informing and reminding supervisors, employees and timekeepers of their responsibilities to the requirements associated with the accurate reporting of time and attendance.

Observation No. 3: Variations In Employee Workdays Should Be Subject To Approved Agreements

Observation:

The Department does not require or maintain documentation of agreements with employees working flexible schedules, including employees whose schedules allow for working full workdays without reflecting an unpaid meal break. Without documentation of flexible work schedule agreements, it is unclear whether the flexible work schedules have received management's approval.

Section 6.3 of the Collective Bargaining Agreement Between The State Of New Hampshire And The State Employees' Association Of New Hampshire, Inc., 2010-2011 (CBA) states: "Every employee shall receive a lunch period of not less than one half hour nor more than one hour. Such lunch periods shall not be considered working time. However, exceptions to this provision may be made upon mutual agreement of the employee and the Employer."

- During payroll testing, auditors noted instances where, according to employee timesheets, some Department employee work schedules did not include a regular unpaid lunch break. The noted instances did not include Corrections Officers, who by the CBA are not required to take unpaid lunch breaks or unclassified employees and Parole Board members who are not required to work set schedules. The Department did not have any documented agreements to establish if there was a mutual agreement between the employer and the employee to allow the employees to regularly schedule a seven and a half or eight hour workday, without taking an unpaid lunch break.
- The Department reports it allows Probation and Parole Officers (PPOs) to “flex” their work schedules and does not require the PPOs to take unpaid meal breaks. However, there are no documented agreements between the Department and the PPOs to describe the degree of schedule flexibility the Department authorizes. For example, auditors reviewed timesheets for 14 PPOs as part of payroll testing. The timesheets for 12 of the PPOs did not reflect any unpaid meal breaks for the payperiods reviewed, even though PPOs are expected to work in the office two days a week. In one instance, a PPO reported 12 straight hours worked, without reflecting an unpaid meal or other break.

Without criteria provided by documented agreements, it is unclear whether the lack of regular reported meal breaks is reflective of a work schedule intended to benefit the Department or reflective of abusive employee time reporting.

Recommendation:

The Department should document agreements with its individual employees for work schedules that vary from the standard workday and workweek schedule. The agreements should be approved by a Department supervisor at least one level higher than the employee’s immediate supervisor.

Auditee Response:

We concur.

The Department will examine whether meal breaks will be paid or unpaid depending whether these three criteria can be met: (1) can the employee consume a meal or use the meal break for his/her own purposes-for a 30 minute period; (2) the employee is uninterrupted during the lunch period and (3) the employee is relieved from duty during the lunch period.

Observation No. 4: Telework Agreements Should Be In Place

Observation:

The Department has not established telework agreements with its two employees authorized to work outside their primary workplace.

The Department allows two employees who perform research for the Department to regularly work from their homes. The Department reported it was unaware the State had a Telework Assistance Manual and did not know that State policy required a formal agreement with employees on a telework schedule.

The Department of Administrative Services' Division of Personnel's Telework Assistance Manual (TAM) provides a policy regarding telework arrangements between the State and its employees. According to the TAM, "Telework is an authorized work arrangement in which some or all work is performed at a location other than the employee's primary (usual and customary) workplace."

The Manual addresses such items as:

- Employees being mindful of the image presented during the workday and not being involved in activities during the workday that will reflect negatively on the State;
- Telework employees having an established work schedule;
- Positions that are eligible for Telework;
- Telework eligibility criteria;
- Maintaining an inventory of State-owned equipment at the employee's worksite;
- Security and confidentiality of the State's information;
- Worker's compensation;
- Manager's or supervisor's responsibilities (e.g. maintain inventory of department owned equipment, continue normal supervisory activities, prepare an amendment to employee's Supplemental Job Description; and perform site visit(s) as necessary); and
- Reporting of Telework data to the State's Division of Personnel each month.

The Manual includes a Telework Agreement that establishes terms and conditions of the Teleworking arrangement that is to be signed by both the employee and a Department Manager or Supervisor.

Recommendation:

The Department should follow the policies as provided in the Division of Personnel's Telework Technical Assistance Manual. The Department should ensure that it has current telework agreements with all employees allowed to work these schedules. The Department should also have sufficient, properly designed controls in place to ensure that employees working telework schedules are adequately supervised to provide confidence the work arrangement is secure, efficient, and effective for the State, Department, and employee.

Auditee Response:

We concur. The Department will review the job descriptions and duties of the two individuals mentioned in the above observations and determine whether their duties would fall under the Division of Personnel's Telework Technical Assistance Manual guidelines.

The Department will comply with the elements of the State's Telework guidelines when all conditions can be met should those positions identified require the need to work from home.

Correctional Information System

Observation No. 5: Policies And Procedures For Correctional Information System Account Maintenance Should Be Established

Observation:

The Department does not have policies and procedures for the maintenance of offender accounts in its Correctional Information System (CORIS). CORIS is utilized Department-wide to record offender status and location, offenses, account balances for incarcerated offenders, amounts owed for fines, restitution, and supervision and other fees. The Department has used CORIS since 2006.

Department users access and enter CORIS information on a daily basis. Monthly, the Department generates a CORIS report that provides detail of certain financial information including the allocation of receipts entered into CORIS to State revenue source accounts and the disbursements of previously collected restitution to victims.

The lack of policies and procedures for account maintenance increases the risk that inefficient practices will develop that could jeopardize the value and accuracy of the information in the system.

1. The Department does not have policies and procedures regarding the refunding of trivial amounts. We noted in one month the Department generated 21 refund checks for one dollar or less, some for as little as one cent. These checks were to refund offenders for overpayments of obligations.
2. The Department does not have policies and procedures to facilitate the write-off of uncollectible and trivial accounts. According to the Department, significant resources are expended seeking collections on minor amounts owed (such as 30 cents), due to the lack of policy as to when these efforts are no longer necessary. The Department also reported there are amounts that it will likely never collect which remain in the system, such as supervision fees for offenders now off probation or parole.
3. The Department does not have policies and procedures to address errors it may make in forwarding offender payments to victims. An instance was noted during audit planning where the Department incorrectly applied an offender's restitution check to another offender's account and paid the restitution to an incorrect victim. According to the Department, its practice is not to attempt to recover an erroneous restitution payment in order to not further traumatize a victim. However, the Department has no mechanism to correct such errors. The Department states it will offset the error if and when the benefited offender makes a

subsequent payment. However, if that payment is never made, the original offender's account will remain open indefinitely, unless closed through an overpayment.

Recommendation:

The Department should establish appropriate policies and procedures for CORIS offender account maintenance.

Policies and procedures should address the handling of de minimus amounts, writing off uncollectable accounts, and the correction of Department errors.

If deemed necessary, the Department should request appropriate legislative authority for its account maintenance activities.

Auditee Response:

We concur. The Department will establish policies and procedures for CORIS account maintenance.

We will seek guidance from the Attorney General's office to see if we can develop a policy that will establish a de minimis threshold, and provide the ability to address write offs and errors.

Statute requires that we pay victims regardless of how much money they are owed. Restitution orders come to us in varying random amounts. Some orders may be for as little as one dollar, plus 17% administrative fee. If the Department is holding money that is due to victims or to defendants because of overpayment or a subsequent change in court order, the Department must pay the money, regardless of how small the amount is.

Observation No. 6: Change And User Access Controls In The Correctional Information System Should Be Strengthened

Observation:

The Department has not established appropriate controls over its Correctional Information System (CORIS) to reasonably ensure CORIS information is secure, accurate, and processed as intended.

1. The Department has not fully tested and documented CORIS to ensure that it processes information as intended by the Department's statutes, rules, and policies and procedures.

Generally, the Department does not document minor changes to CORIS that do not require the involvement of the CORIS vendor. When more significant changes are made in conjunction with the vendor, the changes are generally documented, however any associated testing of the change may be limited and usually is not documented.

While the Department assumes the monthly CORIS report is accurate, it has not sufficiently tested CORIS to establish the accuracy of the report.

During audit testing, it was noted that CORIS did not apply the receipts from certain offender cases in accordance with the Department's policies and procedures. Per discussions with the Department, when CORIS converted multiple cases of one offender from the old information system to CORIS, it combined all the surcharges from all the offenders' cases into one case. The effect of this combination was to under-allocate the amount from the offender's subsequent payment to be disbursed to the victim, and over-allocate the amounts paid to the General Fund and Department of Justice for the combined case. Based on a review of CORIS, it appears approximately 60 of these cases from the prior system continue to be active in CORIS. According to the Department, the inaccurate allocations by CORIS to the State's and victims' accounts will eventually self-correct, if the offender pays their account in full. However, until that occurs, the victims' accounts will be shorted.

2. User access levels are not properly managed resulting in the Department not being in compliance with its own internal policy.

Policy and Procedure Directive (PPD) 11.02 (Database, Computer Access, & Control) specifies that "Prior to being granted access to any of the department's computer systems and services, staff must carefully read the Computer Use and Access Agreement form.....This agreement must be signed by the requesting staff member, supervisor and the Warden/Division Director. Signing this agreement signifies that the employee understands the provisions of this policy and agrees to abide by them."

- The Department does not maintain access authorization documentation. Emails, including supervisor emails supporting changes to user access authorities, are periodically purged from the email system.
- The Department does not periodically review employee access levels to ensure access authority remains appropriate for the user's current job functions. According to the Department, reports can be generated that list all users; however, there is no current report that also indicates the access authorities of those users. Employee access authority can currently only be reviewed by viewing each user account individually.
 - The Department estimates there are approximately 1,000 user accounts in CORIS; more accounts than Department employees. According to the Department, CORIS administrators are not always notified when an employee leaves Department service. As a result, CORIS access authority may not be appropriately removed when an employee terminates Department service.
 - Another example of problems with access authority noted during testing included two Department employees who had incompatible access authorities, allowing them to both post payments and adjustments in CORIS. This authority presents a segregation of duties risk, as there are no mitigating controls, such as a review of adjustments posted by these individuals.
- The Department does not require employees who have access to the Department network or CORIS to sign a computer use agreement, contrary to PPD 11.02. While, according to the Department, employees sign a document that incorporates the employee's agreement

to all Department policies upon initial hiring, it is not clear if this agreement addresses the requirements in PPD 11.02.

Recommendation:

The Department should improve its controls over CORIS.

1. The Department should implement an appropriate change management process that requires full documentation of all changes made to CORIS including change request, evaluation, authorization, build and test, implementation, and final test and acceptance. The Department should maintain accessible CORIS change documentation to establish system changes are appropriate and successful and to have complete documentation of the CORIS application.
2. The Department should improve its controls over user access to CORIS.
 - The Department should maintain documentation supporting each employee's access authority in CORIS.
 - The Department should periodically review for continued appropriateness employees' CORIS access authority. Employee access should be revised timely upon an employee's change in status, including termination from Department service.
 - The Department should comply with its PPD 11.02 and require employees who have access to the Department network or CORIS to sign a computer use agreement. The Department should also periodically remind employees of allowable uses of the systems.

Auditee Response:

We concur.

1. The Department will establish a change management process for the CORIS system.
2. The Department will review and revise all information technology policies and procedures and include documentation and steps for updating CORIS accounts and computer use agreements.

Observation No. 7: The Correctional Information System Should Be Updated Timely

Observation:

The Department does not consistently update offenders' records for supervision fees in the Correctional Information System (CORIS) in a timely manner. The lack of timely update in CORIS increases the risk that supervision fees may not be properly established and collected.

RSA 504-A:13, I states, "The court shall establish a supervision fee for probationers, and the parole board shall establish a supervision fee for parolees. The fee shall not be less than \$40 a month, unless waived in whole or in part by the court, board or commissioner, and may be any

greater amount as established by the court or board. This fee shall be considered a condition of release, and failure to satisfy this obligation shall be grounds for a violation hearing, unless the probationer or parolee has been found to be indigent and, for that reason, unable to pay the fee....”

In the absence of the court or parole board having established supervision fees, as discussed in Observation No. 28, the Department has established supervision fees at \$40 per month through its Policy and Procedure Directive (PPD) 3.05. The PPD also provides guidelines for reducing or waiving the fee based on the offender’s monthly income and specific instructions for setting up new parole/probation cases subject to supervision fees within CORIS.

Auditors reviewed a random sample of 31 offender files related to offenders released from prison during the nine months ended March 31, 2010 to determine whether supervision fees were accurately and timely recorded in CORIS.

- Seventeen of the reviewed files related to offenders who were not subject to supervision fees either pursuant to a specific waiver granted by the Parole Board or other circumstances clearly defined in the Department’s policies.
- Fourteen of the reviewed files indicated the offender owed supervision fees and should have a record of those fees established in CORIS.
 - In three (21%) of the 14 reviewed files where supervision fees were indicated, supervision fees were properly and timely recorded in CORIS.
 - In the remaining 11 (79%) reviewed files, there was no record of supervision fees posted in CORIS as of July 2010, the date of the review.
 - For four files, file records indicated the District Offices waived the supervision fees; however, there was no record of the fees or waivers recorded in CORIS.
 - For three files, file records indicated the supervision fees were communicated to the offenders released in July, September, and December 2009, respectively; however, there were no records of the fees in CORIS.
 - For four files, there were no notes in the file or in CORIS that indicated the status of supervision fees. The related inmates were released to supervision in July and December 2009 and two in February 2010, respectively.

The lack of timely recording of the status of supervision fees in CORIS increased the risk that errors or frauds that may occur in the collection of those fees may not be detected and corrected in a timely manner.

Recommendation:

The Department should require the timely posting of supervision fees in CORIS. The Department should review with the Division of Field Services the causes of the delays in establishing and posting supervision fee information in CORIS to determine whether changes in process and policies and procedures would assist in posting timely information.

Supervisors should periodically review CORIS to monitor for timely and accurate posting of information, including the establishment of appropriate supervision fees.

Auditee Response:

We concur. The Department will establish a monthly tracking system to measure the number of new supervision cases opened, and the number of supervision fee forms submitted, to ensure the numbers are balanced.

The Department will create and utilize additional IT [information technology] reports, and/or reports built into CORIS, to provide supervisors with the data needed to ensure timely and accurate posting of supervision fee information.

The Department will review the applicable policies and procedures to see what areas can be improved.

Observation No. 8: Reporting From The Correctional Information System Should Be Improved

Observation:

Current Correctional Information System (CORIS) reports do not provide management with information necessary to effectively review and monitor its collection efforts and collection of amounts due from offenders under its supervision.

The Department of Corrections' Division of Field Services (Division) collects various fees, fines, and restitution amounts from offenders as they progress through the Department's control and supervision systems. Largely, these amounts are collected by the Division during the period offenders are on supervised probation or parole. Offender payments are sent directly to the Division of Field Services Central Office in Concord. The Probation and Parole Officers assigned to the Division's District Offices are responsible to encourage, motivate, and monitor offenders to ensure payments are current. The Department uses CORIS to account for the fees, fines, and restitution owed by offenders and track the Division's efforts to collect those amounts.

During the course of the audit, we requested certain basic information including total amounts paid by offenders reported by assigned Probation and Parole Officers, as well as by District Office. We were informed there were no current CORIS reports that would provide the requested information and, while the Division reported it would like this information as well, the Division has not designed these reports in CORIS.

Recommendation:

The Department and Division should continue to improve collections by obtaining appropriate CORIS reports that would allow for better monitoring and focusing of collection efforts.

Auditee Response:

We concur. The Department will work with the CORIS vendor, and the Department of Information Technology, to create additional reports to provide improved monitoring of collection efforts and fiscal reporting. The Department is constrained by the availability of funds under the contract and by in-house availability of information technology resources.

Observation No. 9: Controls Over Offender Information In The Correctional Information System Should Be Improved

Observation:

The Department has not established reasonable control activities to promote compliance with policies for the establishment and accurate input of offender payment plans in the Correctional Information System (CORIS).

The Department's Policy and Procedure Directive, Field Services Collection Procedures, Statement Number 3.05, p.2 section IV. A., describes the Department's process for recording Court-ordered and Parole Board-ordered fees, fines, and restitution in CORIS and for executing a payment plan for those offender payments. The policy and procedure directive does not include provisions for review and approval controls to ensure the entry of account information in CORIS is complete and accurate and that payment plans are supported by documentation such as a pay stub or other verification of offender income, as required by the policy and procedure directive.

In reviewing the Department's processes, we noted the following:

- Data Entry Clerks at certain District Offices and at the Department's Division of Field Services (DFS) Collections Unit are responsible for entering Court-ordered obligations into CORIS. The Department does not have a review and approval control over the accuracy and completeness of the information entered.
- Probation and Parole Officers (PPOs) are authorized to adjust offender supervision fees and balances owed without a review and approval control. PPOs submit changes in accruals of supervision fees or accrued balances to the central DFS office in Concord to be input into CORIS. There is no approval or authorization control required for these adjustments.
- During review of an example record, we noted there was no documentation of income verification to support the offender's monthly payment plan. According to the District Office responsible for supervision of the subject offender, that District Office typically does not require verification of income when determining payment plans, contrary to the Department's Policy and Procedure Directive noted above.

The lack of an effective review and approval control over entry of offender payment plans in CORIS may contribute to CORIS data not being in agreement with similar Court information discussed in Observation No. 15.

Recommendation:

The Department should establish reasonable control activities to ensure CORIS remains an accurate source for offender information and that offender payment plans are appropriately supported.

1. The Department should establish a review and approval control for CORIS data entry, to promote the accurate posting of Court-ordered obligations.
2. Adjustments made to offender financial records in CORIS should be subject to a review and approval control to ensure that only authorized changes are made.
3. The Department should periodically monitor compliance with its Policy and Procedure Directives related to offender financial activity, including the establishment of payment plans.

Auditee Response:

1. We concur but do not have the resources to perform this procedure beyond the controls we currently have in place. We maintain a paper record of all ordered obligations.
2. We concur but do not have the resources to perform this procedure. Fee adjustments have an authorization and approval process in CORIS and we do this to the extent possible within our current resources.
3. We concur. We will remind staff to comply with the policy to establish and maintain a payment plan. We will also plan to incorporate the payment plan into CORIS to make it an electronic document in order to provide improved continuity and accessibility. This will be a cost item for a software change.

Revenue

Observation No. 10: Revenues And Other Receipts Should Be Regularly Reconciled To State Accounting System

Observation:

The Department does not periodically reconcile receipts recorded in the Correctional Information System (CORIS) to receipts and deposits recorded in the State's accounting system (NHFirst). During the nine months ended March 31, 2010, the Department reported the Division of Field Services processed \$2.4 million of receipts through CORIS.

The Department's Division of Field Services (DFS) collects offender payments for restitution, supervision and other fees, and fines. The DFS records amounts collected in CORIS, indexed by

offender. DFS processes the collections in batches and generates a CORIS Deposit Group Details Report to support the amount deposited from each batch.

The DFS forwards the Detail Group Details Report, along with the deposit slip, to the Department's fiscal office and relevant data is uploaded into NHFirst. The fiscal office does not periodically reconcile the collections posted to CORIS and revenue reported in NHFirst. While available information would allow the fiscal office to track and account for the deposits to ensure all batch deposits generated by CORIS are accounted for, deposited, and recorded in NHFirst, the fiscal office does not perform this important control activity.

Recommendation:

The Department should establish an appropriate reconciliation process to ensure receipts collected by the DFS and initially recorded in CORIS are completely and accurately deposited in the bank and reported in NHFirst.

The Department's CORIS reconciliation process should be supported by policies and procedures that establish the mechanics of the reconciliation procedures, including the documents to be reviewed, the timing of the review, the personnel proficiencies required, and appropriate resolution and review activities to correct any noted differences.

Auditee Response:

We concur. The Department will establish a reconciliation process as stated, and establish policies and procedures for the reconciliation process.

Observation No. 11: Policies And Procedures Should Be Established For Unclaimed And Refused Restitution Maintenance

Observation:

The Department does not have rules or policies and procedures for the secure handling and distribution of unclaimed and refused restitution payments.

The Department is responsible for collecting restitution from offenders under its supervision and forwarding the restitution to the victims of those offenders. Occasionally, the victims either cannot be located or refuse acceptance of the amounts offered in restitution. According to RSA 651:63, III, refused or unclaimed restitution payments should be forwarded to the Victims' Assistance Fund administered by the Department of Justice, pursuant to RSA 21-M:8-i.

Neither the Department's current rules nor its policies and procedures address the handling of unclaimed and refused restitution payments. The Department's current process is to allow the refused or undeliverable restitution payments to be held indefinitely in the Department's Division of Field Services Holding Account. Checks returned as undeliverable to the Department

are not securely held during the period the Department researches address changes, prior to the deposit of the checks into the Holding Account.

The Department does not maintain documentation to support a victim's refusal of restitution or to support the Department's attempts to contact the victims owed unclaimed restitution. A schedule prepared by the DFS reported approximately \$500,000 of the July 20, 2009 balance in the DFS Holding Account was attributable to unclaimed or refused restitution received through 2006. The status of an additional \$500,000 received by the Department since 2006 was unclear. These funds have accumulated in the Holding Account for a number of years without the Department forwarding any funds to the Victims' Assistance Fund.

In February 2010, the Department of Justice (DOJ) issued advice to the Department indicating the Department should pay the unclaimed and refused restitution to the Victims' Assistance Fund. The DOJ further advised the Department to establish policies and procedures for determining when restitution payments are determined to be unclaimed or refused and further advised the Department to immediately undertake rulemaking under RSA 541-A concerning unclaimed or refused restitution payments.

As of October 13, 2010, the Department had not forwarded unclaimed and refused amounts to the Victims' Assistance Fund or established relevant policies and procedures or rules.

Recommendation:

The Department should develop policies and procedures and, where appropriate, institute rules for its management of refused or unclaimed restitution. Policies and procedures should include the secure holding of refused or unclaimed amounts and documentation of Department efforts to forward restitution to victims, including documentation evidencing victim refusal or efforts made to locate current addresses. The policies and procedures should include control procedures to reduce the risk of errors and fraud.

The Department should comply with RSA 651:63, III, and forward refused or unclaimed restitution payments to the Victims' Assistance Fund.

As recommended by the DOJ, the Department should establish procedures for determining when restitution payments are to be deemed unclaimed or refused, and the timing of when these amounts should be forwarded to the Victims' Assistance Fund.

Auditee Response:

We concur. Policy and Procedure Directive (PPD) 3.05 was reissued in September 2010 and addresses all of these recommendations. Unclaimed or refused restitution funds are disbursed as part of the standard check run process. The issue of administrative rules will be addressed.

The transfer to the Victims' Assistance Fund has occurred on November 8, 2010 in the amount of \$480,904.

Observation No. 12: Financial Controls At Transitional Housing Units Should Be Improved

Observation:

Financial activity at the Department's transitional housing or halfway housing units is not subject to clear and comprehensive policies and procedures. As a result, inconsistent practices have developed at the transitional housing units that appear to compromise controls over that financial activity.

The Department's policies and procedures regulating financial activity for the transitional housing units are contained primarily in the Department's Community Corrections Center Handbook of Rules and Regulations, dated October 2002; and Policy and Procedure Directive (PPD) 3.06, Resident Accounts - Halfway Houses.

During the audit, auditors observed instances where the Department had certain policies and procedures in place, but failed to effectively monitor compliance with those policies and procedures. For example:

1. According to PPD 3.06, IV, C. Budget Plan: "1. The resident and counselor shall agree upon and document a budget plan allocating the resident's wages for room and board, restitution, living allowance, savings, etc.... 2. The unit manager must approve all budget plans." Residents' budgets are documented on Resident Individual Budget Sheets (RIBS).

Auditors observed RIBS at one of the three halfway houses visited that were unapproved, incomplete, and inaccurate. Some RIBS requested for auditor review could not be located by the halfway house.

2. According to PPD 3.06, IV, C. Budget Plan: "4. The account clerk posts all expenditures, receipts, and ledger card balances onto each resident's ledger sheet.... 7. The resident will sign the ledger entries acknowledging the disbursement of their funds. Staff is responsible for ensuring that the resident signs each entry."

Auditors observed residents ledger sheets at each halfway house that did not include the resident's acknowledgment to disbursement transactions. The transaction entries that were signed were often completed in pencil, providing a less than secure record of the acknowledged entry.

3. According to PPD 3.06, IV, C. Budget Plan: "9. The account clerk summarizes the week's activity (receipts, disbursements, and ledger card balances) on a Reconciliation Sheet.....10. The account clerk ensures that the total of the Individual Ledger Sheets, the total of the ending balances on the Reconciliation Sheet...and the balance in the checkbook are all the same amounts. The Unit Manager will then review the Master Ledger... and sign the Master Ledger indicating approval."

- One halfway house had not completed a weekly Reconciliation Sheet since June 2008, reportedly due to a lack of time.
 - Auditors noted errors on Reconciliation Sheets prepared by another house that should have been identified by an effective reconciliation process. In one instance, room and board fees collected from a resident did not agree to the amount that was submitted on his behalf. In another instance, room and board fees collected for the week ended July 16, 2009 were not submitted to the Department Fiscal Office until April 2, 2010, subsequent to an auditor's inquiry.
 - Many discrepancies were identified in room and board amounts submitted by one halfway house. Auditor concerns about inconsistent records were referred to the Department and to the Department of Justice for their consideration and action.
4. The scope of the financial responsibilities described in the PPD and performed by the account clerk at each halfway house result in segregation of duties concerns that are expected, given the small size of the accounting staff in those locations. The lack of mitigating controls such as effective management monitoring and review and approval of the work performed by the account clerks presents a significant risk that errors or frauds could occur without timely detection and correction.

Examples include:

- Halfway house account clerks can issue credits to resident room and board accounts for work performed by the inmates at the halfway house. Inappropriate granting of work-off credits can be used to disguise lost or stolen room and board revenue.
 - Department management does not request and does not receive periodic activity reporting of accounts receivable, credits for work-offs, or amounts written-off as uncollectible from the halfway houses that would allow management to review for unusual financial activity.
 - According to PPD 3.06, IV, F. Reconciliation of Resident's Checking Account: "1. The resident's checking account will be reconciled on a monthly basis by Fiscal Management staff." The Department reported it was not performing timely account reconciliations during the nine months ended March 31, 2010.
5. According to the Department's Community Corrections Center Handbook of Rules and Regulations, H. Finances: "3. Work-offs: Unemployed residents or residents determined to be eligible by staff may be allowed to work off their room and board. The Unit Manager may assign work-offs to be completed around the center (painting, mowing, cleaning, etc) or in the community (food banks, Habitat for Humanity, Salvation Army, etc.)....A minimum of two hours of work is required to compensate for room and board for a given day."
- a. Based on a review of documents and discussions with Department personnel, unit staff, as well as Unit Managers, grant work-off credits. During document reviews, auditors noted many work-offs awarded by staff, including corrections officers. The documentation supporting the credit awarded regularly did not document the actual hours worked or the tasks performed. While some work-offs were supported by a completed form that contained the date, work performed, and authorizing staff, other work-off

documentation consisted of notepaper, often lacking the name and title of the authorizing staff person. While some work-off credits were described to the auditors as questionable, the lack of formal policies and procedures by which to evaluate the granting of work-off credits made it difficult for accounting staff to challenge the appropriateness of the credit.

During the audit, auditors also observed instances where the Department did not have clear policies and procedures to support its financial operations at its transitional housing or halfway house units. For example:

- b. The policies do not address when room and board charges should begin to apply. Auditors observed one transitional housing unit charging some residents room and board effective the day of their arrival at the unit and other residents being charged effective on the day the of the residents' orientation at the unit, which may occur a few days later.
- c. The policies do not address authorization for the waiver of room and board charges. Auditors observed the unit manager at one transitional housing unit waived room and board fees for various reasons such as a resident having a medical condition and a resident being enrolled as a student.
- d. The policies do not address the treatment of room and board owed at the time of a resident's departure from transitional housing. Auditors observed in some instances an offender's balance owed was forgiven and in other instances, residents were held fully accountable for their balance owed.
- e. The policies do not provide adequate guidance for work-offs of room and board. Auditors observed inconsistent application of the Department's policy allowing residents to "work-off" room and board balances. According to the Handbook, "A minimum of two hours of work is required to compensate for room and board for a given day." There were inconsistencies both within the facilities and between facilities in the nature of tasks that qualified for work-offs and how much credit for work-offs could be accrued in a week. Additionally, at one unit residents classified in a C-2 status, who are not charged room and board until they have changed to a C-1 status, are allowed to earn and bank work-off credits to be applied when the residents are in a C-1 status.

Recommendation:

The Department should establish appropriate controls over the financial operations at its transitional housing units. Clear and comprehensive policies and procedures for the financial activities should be established that describe relevant and reliable control activities intended to assist the transitional housing units process financial transactions in a controlled and secure manner. Once in place, the Department should actively monitor the continued relevance of the policies and procedures and the performance of the related control activities to ensure they remain in place and effective.

Integral in this process of establishing appropriate controls is management's demonstration of its commitment to controlled financial operations. Management should respond when expected control activities do not take place. Employees should be reminded of the expectation of strict compliance with policies and procedures and that management needs to be informed when employees become aware of control activities that are unperformed or become ineffective.

Auditee Response:

The Department concurs in part.

- Unit Managers will be reminded of the requirement for approving budget sheets and support staff shall improve their filing systems to help guard against lost forms.
- Support staff will be reminded of the requirement for ledger sheets to be signed by residents.
- Support staff will be retrained in the completion of weekly reconciliation sheets.
- The Department will clarify the policy so that only Unit Managers will allow work-offs, thereby re-establishing a segregation of duties.
- While the Department feels that the review of activity reports related to the status of work-offs can be managed at the Unit Manager level and reviewed by the Director of Community Corrections, the Department will address procedures related to the production of accounts receivable reports and the subsequent write-off of uncollectible funds, as resources allow.
- The Department will clarify the policy for when room and board charges commence and will inform staff so that the policy is applied fairly to all residents.
- The Department will clarify in PPDs when amounts owed can be waived.

However, the goal of employing a system of work-offs is to get residents who have not yet obtained employment to contribute to the operation of the house. Unit Managers need flexibility to identify tasks that will produce a tangible benefit to the house and assign them to residents. A goal of the Transitional Housing Unit (halfway house) concept is to assist residents in becoming self sufficient. For example, allowing a C-2 inmate credit for work that is over-and-above their regular inmate job assignment is a reward for being industrious and should not be discouraged.

Observation No. 13: Revenue Controls At The Financial Services Office And Division of Field Services Collections Unit Should Be Strengthened

Observation:

Weaknesses exist in the Department's processing of revenues at its Financial Services Office (FSO) and at the Division of Field Services (DFS) Collections Unit.

1. The FSO and DFS current revenue processes do not result in checks and other noncash receipts being restrictively endorsed immediately upon receipt. While the risk presented by a delay in applying a restrictive endorsement is lessened somewhat, as checks are not transferred between employees prior to deposit, there is still a risk that a check may be misplaced or lost prior to deposit. A restrictive endorsement would lessen the risk that such a check could be successfully negotiated by an unauthorized individual.
2. The FSO and DFS photocopy every check and money order received in payment to provide a record of all receipts. The photocopies of the documents are filed at the FSO and DFS to provide reference, if a question ever arises regarding the application of the receipt. Certain of the checks include confidential information such as birthdates. In addition to being a labor

intensive activity of questionable utility, it is not clear that the Department is properly safeguarding this information.

3. A segregation of duties weakness exists at the DFS, as two employees have regular access to receipts and access in the Correctional Information System (CORIS) to enter receipts and adjustments to offender records. Access to both accumulated receipts and authority to adjust offender receivable accounts is a significant control deficiency that presents an opportunity for an employee to perpetrate and conceal errors or frauds.
4. No one at the Department reviews the monthly DFS Holding Account revenue redistribution keyed by an employee at the FSO into the State's accounting system (NHFirst). Revenue initially recorded in the Holding Account is redistributed to other State accounts, including Department and other State agency accounts, based on a CORIS report. Once the data is input into NHFirst, no further Departmental review and approval is applied.

A similar comment was made in the prior audit of the Department.

Recommendation:

The Department should reevaluate and strengthen the controls in its revenue processes at the FSO and DFS to ensure that appropriate and effective controls are in place and operating as intended.

1. All checks and money orders should be restrictively endorsed upon receipt and deposited in a timely manner.
2. The Department should consider the inefficiencies and risk incurred in photocopying all checks and money orders received at the FMO and DFS. If the Department is to continue with this practice, it should ensure that all confidential information is properly safeguarded.
3. The Department should segregate responsibilities over access to receipts and posting adjusting entries to accounts receivable balances.
4. The Department should establish a review and approval control over revenue distributed from the DFS Holding Account.

Auditee Response:

1. We concur. We will purchase the stamps needed to provide a restrictive endorsement at all locations that may receive funds and will implement this practice.
2. We concur. We now electronically scan all checks and money orders to maintain a record of these instruments. Copies are maintained in the event there is a payment discrepancy. The data will be entered into a password protected file to provide additional data security.
3. We concur. The Department will make every effort to segregate duties with the limited number of employees we have available to perform these functions, and we will continue to

pursue separation of duties to the extent it is possible. We currently have one and a half employees available to perform these tasks.

4. We concur. The Department will obtain NH First aggregate reports on a monthly basis and reconcile these with the CORIS file.

Observation No. 14: Controls Over Annulment Investigation Fees And Interstate Compact Fees Should Be Improved

Observation:

The Department does not have an effective system of controls for the collection, recording, and depositing of investigation fees, related to requests for annulments of convictions, and interstate compact fees, related to transfers of probation and parole supervision responsibility. District Offices collect annulment and compact fees and forward the amounts collected to the Concord Division of Field Services (DFS) central office for initial recording of the revenue. The fees collected at the Department's DFS District Offices are not subject to reasonable controls to ensure that all required fees are collected, accurately recorded, and deposited in the Department's accounts. Department employees acknowledged that lost or stolen fees may not be detected.

- Employees at the District Offices perform incompatible functions of receiving applications, waiving or collecting and submitting the applicable fees to the DFS central office, and initially recording the application in the Correctional Information System (CORIS). The District Offices do not provide receipts to clients to document the receipt of a payment and do not formally document the waiver of any fees. It is unclear whether the DFS or Department would recognize if a District Office did not forward all of the fees collected, as the DFS central office receives insufficient information to allow for an effective reconciliation of the revenue received for deposit to the related annulment and interstate compact activity.
- The ability to perform an effective reconciliation is further hampered by: 1) District Offices that do not consistently record annulment petitions in CORIS when the applications are received, contrary to the Department's policy and procedure directive, and 2) Data Entry Clerks at the central DFS office that do not check to ensure that a petition request has been recorded in CORIS, when posting the related cash receipts in CORIS.
- The District Offices do not restrictively endorse checks collected in payment of annulment and compact fees upon receipt. The District Offices forward the checks to the DFS central office without restrictive endorsement.

Recommendation:

The Department should establish appropriate policies and procedures that would provide controls over annulment investigation fees and interstate compact fees collected and fees waived to ensure that all fees are appropriately levied, collected, recorded, and deposited, unless waived by an authorized individual acting in compliance with Department policies and procedures.

The District Offices should record and initially process and deposit all receipts at the point of acceptance. The District Offices should not forward unrecorded, unendorsed checks to the DFS central office.

The Department should segregate duties that allow access to receipts from duties that allow the waiving of fees. The Department should monitor to ensure that staff understand and follow the policies and procedures for the recording of application requests, processing fees, and granting waivers of fees. Supervisors should perform periodic reconciliations of applications to receipts recorded in CORIS to ensure that revenue is accurately collected and deposited. The Department should also monitor the level of fee waivers to ensure fee waivers are appropriately granted.

Auditee Response:

We concur. All deposits for fines, supervision fees, and restitution are done at one centralized location, the collections unit. The Department will change policy and procedures to direct all payments to the collections unit, including payments made for the compact application and annulment investigation fees. The Department will ensure all checks received are restrictively endorsed.

The Department will modify policy and procedure language to ensure waivers or reductions are granted appropriately and consistently.

Observation No. 15: Coordination Of Offender Information With The Courts Should Be Improved

Observation:

The Department does not periodically communicate offender account receivable balances with the Courts to review for and correct account information recorded in its Correctional Information System (CORIS) that does not agree with the Courts' records. At March 31, 2010, CORIS reported that \$2.1 million of fees and fines were due from 2,157 individuals under the Department's supervision. The Court reported the balance to be \$2.6 million.

The Department's Division of Field Services (DFS) collects Court-imposed fees and fines from offenders under the Department's supervision. The DFS records the fees and fines collected on the Courts behalf to the credit of the offenders' accounts in CORIS, and then forwards the amounts collected along with related offender payment information to the Courts.

The DFS does not periodically compare its offender account information recorded in CORIS to similar information from the Courts to ensure the records agree.

The DFS reported that in April 2009, one Superior Court provided an account summary of outstanding balances for 47 offender accounts and requested the DFS review its records for discrepancies. The DFS reviewed the requested accounts and determined of the 47 offender records in the Court's inquiry, the information for seven accounts agreed and the information for

the remaining 40 accounts did not agree. The DFS reported it requested additional information from the Court in October 2009 but, as of October 20, 2010, DFS had not taken further action to resolve the difference.

Because the DFS does not have a process for effectively coordinating and maintaining accurate account information with the Courts, there is an increased risk that offender account receivable balances in CORIS are not accurate and the DFS may not have accurate account information on which to base its collections efforts.

Recommendation:

The Department should improve its coordination of offender account information with the Courts, through improved communication and information sharing, to ensure that information available to the DFS for offender collections is accurate. Offender account information at the DFS and Courts should be periodically compared and reconciled to ensure DFS has current and accurate information on which to base its collection efforts.

Auditee Response:

We concur. The Division of Field Services will provide the Administrative Office of the Courts with a quarterly report of all docket numbers with active fines, and include the original amount ordered and the balance due.

Other Control Topics

Observation No. 16: Fraud Policies Should Be Established

Observation:

The Department has not established a formal fraud assessment, prevention, deterrence, and detection program and has not established a fraud reporting policy.

An entity with a diverse financial operation such as the Department is at constant risk from fraud. Fraud can encompass an array of irregularities and illegal acts characterized by intentional deception. Persons outside or inside the organization can perpetrate fraud for the benefit of or to the detriment of the organization. Fraud runs the spectrum from minor employee theft and unproductive behavior to misappropriation of cash or other assets, fraudulent financial reporting, and intentional noncompliance with a law or rule leading to an undue benefit. All these acts could have a significant effect on the Department and its operations.

A formal fraud assessment, prevention, deterrence, and detection program allows an organization to be proactive in dealing with fraud. The establishment of appropriate controls including awareness training and activities can assist an organization to manage its fraud risk and respond appropriately if fraud activity is identified.

A fraud reporting policy³ is intended to provide employees and others clear and safe avenues to make appropriate responsible individuals aware of suspected fraud activity. The effectiveness of a fraud reporting policy is enhanced when employees have a clear understanding of fraud indicators and what constitutes a fraudulent act. It is important that the reporting procedure is secure and non-threatening for the reporter and provides for the reasonable protection of all parties. The security of the reporter has to be of paramount concern in an organization operating in an environment such as the Department's.

Recommendation:

The Department should establish a formal fraud assessment, prevention, deterrence, and detection policy to help limit the Department's exposure to fraud and to promote early detection of fraud that might occur. The Department should take measures to foster a high degree of control consciousness among its employees and ensure through appropriate training, policies, and procedures that employees understand it.

The Department should establish a formal fraud reporting policy and provide relevant periodic training to its employees. The Department should take measures to ensure that the policy facilitates and encourages reporting and protects all parties involved.

Auditee Response:

The Department concurs. The Department concurs that it could benefit from having established fraud policies in place. Establishing a fraud policy would come under the purview of the Agency Audit Manager position. This position is currently unfunded and vacant. The Department will consider establishing a fraud policy in the future should resources improve to the point that funding for this position is restored.

³ The attributes of an effective fraud reporting policy include:

- The policy is in writing,
- The policy describes fraudulent activities and the activities and actions required when fraud is suspected or detected,
- The policy is communicated to all employees, and
- Management obtains written assurance from each employee that the policy and related reporting mechanism is understood.

Observation No. 17: Disaster Recovery And Business Continuity Plans Should Be Established

Observation:

The Department has not completed a disaster⁴ recovery and business continuity plan for its financial operations. The lack of a reasonable disaster recovery and business continuity plan places the controlled and efficient operations of the Department at risk if a disaster or other disruption of operations occurs affecting its location or systems or the locations or systems of its vendors and service organization on which it relies.

While the Department has not conducted a formal risk assessment and does not have risk assessment policies and procedures in place to continually review for and assess risks facing its financial operations, the Department did cite its dependence on current employees' knowledge of the operation of the Correctional Information System (CORIS) as a risk facing the Department's continuity of operations.

While the Department reports it is participating in a cooperative effort with the Department of Information Technology to formulate a disaster recovery plan for the Department, the Department did not have any aspects of a formal plan in place as of March 31, 2010.

Recommendation:

The Department should continue in its efforts to develop disaster recovery and business continuity plans. The Department should regularly test the plans and train its employees in relevant aspects of the plans.

Integral to the implementations of disaster recovery and business continuity plans is the establishment and operation of effective risk assessment policies and procedures that formalize the Department's risk assessment process, which provides for regular and continuous consideration of the risks faced by the Department's operations.

Auditee Response:

We concur but lack the resources to accomplish this.

⁴ While disasters are often thought of in terms of fires and floods destroying facilities or information systems, disaster recovery plans also should consider the risk of and recovery from other incidents such as the loss, release, or corruption of confidential information housed on its own systems or systems on which it relies or the unexpected unavailability of critical vendors or service organizations.

Observation No. 18: Equipment Inventory Should Be Performed Annually

Observation:

The Department did not perform an annual physical equipment inventory during fiscal year 2010. State policy requires annual equipment inventories for all State agencies. The Department was unclear when it last completed and reported the results of a physical inventory of equipment.

State policy as described in the State's Annual Closing Review document requires all State agencies to annually perform at least one equipment inventory which shall be completed by the end of each fiscal year. The Department of Administrative Services (DAS) defines equipment for this purpose to be equipment with an original cost of \$100 or more with an expected useful life of greater than one year. In contrast, federal cost guidelines use the lesser of \$5,000 or the local government's capitalization threshold to define equipment purchased with federal program funds. For State financial reporting purposes, DAS capitalizes equipment with an original cost of \$10,000 or more with an expected useful life of greater than one year.

The Department reported that it did tag and add equipment items to its inventory when purchased and removed equipment items from its inventory when surplus during the nine months ended March 31, 2010.

The Department reported that it owned 13,980 items of equipment with a total original cost of \$11 million that meets the \$100 or more DAS equipment inventory criteria at June 30, 2010.

A similar comment was made in the prior audit of the Department.

Recommendation:

The Department should perform an annual physical inventory of equipment as required by State policy.

The Department should establish policies and procedures that will allow the Department to complete and report an annual physical inventory of equipment in compliance with State policy and within resources available to the Department.

The Department of Administrative Services should review the practicality, including the efficiency and effectiveness, of its \$100 criteria for agency physical counts of equipment and reporting. While the DAS's low equipment inventory cost threshold provides for a high level of accountability over equipment, the burden of such stringent criteria makes agency compliance costly and problematic.

Auditee Response:

We concur. We just completed an inventory of all information technology equipment and will attempt to accomplish a physical count of the remaining equipment within our current resources.

Department of Administrative Services Response:

Department of Administrative Services (DAS) concurs in part. DAS did receive the required reports from this agency, while DAS does not verify that items are physically inspected as indicated by the following rules. The requirement to physically inspect each item of inventory is the intent of the State of New Hampshire, Bureau of Purchase and Property, Fixed Assets Inventory Policies and Guidelines which states:

“All State agencies are required to annually perform at least one inventory, which shall be completed by the end of each fiscal year in accordance with the following procedures:

- One individual in each agency shall be delegated the responsibility of supervising the inventory to assure compliance with the requests of the section
- The results of the inventory shall be recorded on the P-16 form Equipment Inventory form
- When completed, the P-16 shall be checked against the P-15 forms
- Any discrepancy shall be investigated by an independent person delegated by the agency business office who shall report the discrepancy...”

This requirement is repeated as an instruction to agencies in preparation for the annual closing in the Closing Review published by the Division of Accounting.

DAS received the P-16 form from Corrections, as is required; however DAS does not confirm an agency’s compliance with the requirement to physically inspect every item on the inventory list. DAS does recognize that the level of effort has become significant for many agencies. DAS further recognizes that the presently established threshold of \$100 original cost of an item to be subject to these procedures is a very old requirement and this level of materiality should be reassessed, particularly considering the reduction in value of an asset over time. Further, some agencies have computerized systems to maintain control over supplies and inventory for resale. Accordingly, these rules may not be appropriate to all agencies. Therefore, DAS is presently re-evaluating procedures to include potentially the following:

1. Modifying the threshold cost value of items subject to inventory procedures.
2. Assessing controls of agencies with computerized systems to modify their control requirements.
3. Establishing categories of assets (such as firearms, computers and controlled substances) some of which may be subject to strict inventory controls while other categories have limited controls requirements.
4. The age of an item may determine whether it remains subject to inventory controls.
5. Items subject to an annual physical inspection may be required of all items which are deemed to have a higher risk of loss while other items may be subject to physical inspection of a sampling of items.

DAS intends to have such re-evaluation completed in time to convey modified procedures as part of the Closing Review for the FY close June 2011. This requires documentation and approval of modified procedures by the end of March for timely inclusion in this document.

Observation No. 19: Agreements With Counties Should Be In Place For Housing Inmates

Observation:

The Department does not have formal agreements for the temporary housing of Department inmates in county facilities or county inmates in Department facilities.

The Department and the county jail facilities allow the temporary housing of inmates in each other's facilities, generally for protective custody or disciplinary reasons. While the Department does have a formal contract with Strafford County for the housing of female inmates, the agreements between the Department and the other county jails are informal and do not result in any payment for that temporary housing. The Department does not track the numbers of bed days in and out of its facilities and there is no formal attempt to balance the activity. At June 30, 2010, there were 22 Department inmates at county facilities and 12 county inmates in the Department's facilities. The Department was unable to provide information on the number of bed days received from and provided to the counties during the nine months ended March 31, 2010.

While the Department and counties are responsible for the medical costs of its inmates regardless of their housing location, the daily cost of feeding and supervision of the temporarily housed inmates is borne by the facility providing the temporary housing.

A similar comment was made in the prior audit of the Department.

Recommendation:

The Department should document all agreements significant to its operations, including agreements that provide for the secure holding of inmates in and out of its facilities.

The Department should track and report the temporary housing of inmates to allow for recognition of true cost of operations.

Auditee Response:

We do not concur that agreements with the counties need to be formalized. Our present collaborative relationships with the counties work successfully under the present arrangement.

Observation No. 20: Perpetual Inventory System Should Be Established For Pharmaceutical Drug Inventory

Observation:

The Department does not maintain a perpetual inventory control system for its pharmaceutical drug inventory. While the Department reports its inventory software has a perpetual inventory component, the Department has not implemented that component of the software. According to the Department's pharmacy manager, a physical count of the pharmaceutical drug inventory is

completed annually; however, the results of the counts are not used to update inventory records, identify inventory variances, or value the inventory for financial reporting purposes. According to the pharmacy, the results of the inventory are filed without further action.

The Department does track the issuance of drugs, which it records with inventory software and does prepare receiving reports upon the receipt of drug deliveries, but it does not input those receipts into the inventory record system. During the nine months ended March 31, 2010, the Department purchased approximately \$1.4 million of drugs.

To calculate a year-end drug inventory balance, the Department performs a roll-forward calculation by adding its purchases to the prior year ending balance and subtracting the amount of issuances obtained from the inventory software. Due to the effect of the pharmacy reissuing previously issued drugs that have been returned to the pharmacy as unused, the Department's roll-forward determination of drug inventory generally results in an understated inventory balance.

According to the Department, the annual physical count of inventory at June 30, 2010 determined the value of the drugs on hand to be approximately \$150,000. The amount the Department reported for financial reporting purposes, based upon its roll-forward calculation, was \$58,000, a difference of \$92,000. In valuing its inventory, the Department uses current cost.

A similar comment was made in the prior audit of the Department.

Recommendation:

The Department should utilize the perpetual inventory system available in its pharmaceutical drug inventory software. The inventory system should establish accountability for the pharmaceutical drugs upon receipt and maintain accountability for the drugs through issuance to a patient. The system should also properly reflect and record previously issued drugs returned to the pharmacy as unused.

The Department should improve its physical inventory process by establishing policies and procedures for conducting periodic physical inventory counts, resolving discrepancies between the perpetual records and the periodic physical counts, and incorporating the results of the counts in the perpetual records.

Auditee Response:

We concur with the recommendation, but the Department does not currently have the necessary resources to implement it.

The Department can utilize the existing pharmaceutical software to meet this recommendation. However, in order to accomplish this, the Department would need to expend unbudgeted and unavailable overtime monies to perform an initial count of all medications and enter the inventory into the pharmacy software. A review and editing of existing Policy and Procedure Directives would be required as well.

Furthermore, the Department would lose the savings accrued through reuse of certain medications. The Department currently tracks all unused medications and in many instances is able to reuse these medications rather than disposing of them. This practice has resulted in a reduction in pharmaceutical costs. Full implementation of the perpetual inventory system would require that all unused medications be re-entered into the inventory software before being re-issued. The additional workload this process would not only require unbudgeted overtime, but also offset any savings achieved through reuse of unused medications and thus the Department would likely discontinue the practice.

The Department currently maintains a daily count of all Schedule IV medications and has policies in place for this function that comply with the requirements of the Board of Pharmacy.

Observation No. 21: Expenditures Should Be Charged To Correct Accounting Units

Observation:

During the audit, instances were noted where the Department did not allocate costs to the correct accounting unit.

- Two payroll test items out of a sample of 116 items tested noted overtime charged to inaccurate payroll accounts. In these two instances, overtime worked in the men's prison by employees budgeted in the Secure Psychiatric Unit (SPU) was charged to the SPU accounting unit, rather than to the men's prison accounting unit. According to the Department, due to the administrative burden, it rarely transfers payroll from one accounting unit to another accounting unit when employees perform work, including overtime shifts, in areas outside of their budgeted accounting unit.
- The Department does not budget class 21 (Food Institutions) expenditures for the transitional housing units. In aggregate, the transitional housing units house and feed approximately 155 inmates. The Department charges transitional housing food costs to the food class lines of one of its primary institutions, either the men's, women's, or Berlin prisons.
- A \$41,528 invoice paid in July 2009 for electricity provided to the Berlin Prison incorrectly charged \$2,299 of the amount to the women's prison and \$39,229 to the Lakes Region Facility, reportedly because there was insufficient appropriations in the Berlin Prison budget line to pay the invoice. The Department reported that it is common toward the close of a fiscal year to allocate expenditures that exceed budgeted appropriations within specific accounting units to accounting units with excess appropriations, without seeking Governor and Council or Fiscal Committee approval.

Posting expenditures to inappropriate accounting units can distort the actual reported costs of operations and essentially result in unapproved and unauthorized transfers of appropriations.

A similar comment was made in the prior audit of the Department.

Recommendation:

The Department should record expenditures in the accounting units in which the expenditures are made and budgeted. The Department should not mispost expenditures to avoid exceeding budgeted expenditure authority.

The Department should budget food costs to its transitional housing accounting units.

The Department should regularly review its budget and expenditure experience, especially near fiscal year end, to ensure that it can request timely transfers, if needed.

Auditee Response:

The Department concurs with the importance of allocating costs to the correct accounting unit. Regarding the charging of overtime to the proper accounting unit, the Department is hampered not only by the manual nature of its timekeeping system but also by the movement of staff between accounting units. When resources allow, the Department will work towards charging overtime to the accounting unit where the overtime was physically worked. Ideally a more comprehensive state-of-the-art computerized payroll system would address this finding. We will consider requesting a more suitable system in the 2014-2015 Capital Budget process.

Regarding the payment of budget class 021 (Food Institutions) expended for transitional housing units that are currently charged the accounting units of other institutions, the Department may budget this expenditure class at each transitional housing unit or work center in the 2014-2015 Operating Budget.

Regarding the charging of expenditures to accounting units with available appropriations vs. the accounting unit where the expenditure should be charged, the Department will review expenditures more closely and utilize Transfers of Appropriations where resources allow.

Observation No. 22: Controls Over Contracted Financing Agreements Should Be Established

Observation:

During fiscal year 2009, the Department, upon the reported advice of the Department of Administrative Services, entered into a financing agreement for the purchase of equipment costing \$250,000 to dispense and package drugs for the prison population. The financing agreement involved borrowing \$250,000 from a New Hampshire bank and the establishment of a loan and an escrow account under the State's tax identification number to process the related financial transactions.

The financing transactions and agreements were supported in part with a State standard-form contract document, Form P-37, signed by representatives of the Department of Administrative Services (DAS) and the bank. The Form P-37 indicated the agreement would become effective

“on the date the Governor and Council of the State of New Hampshire approve this agreement.” The agreement was not submitted to Governor and Council for approval. Additionally, while the State Treasury reports it was aware the transaction had occurred, it was unaware of the establishment of a bank account and the underlying details of the financing agreement.

Recommendation:

The Department, with the assistance of the DAS, should ensure the State Treasury is fully notified of the bank accounts, including the account balances and particulars of the transactions processed through those accounts. Going forward, the Department and DAS should formalize its notification to Treasury in advance of State transactions that include bank financing provisions.

The Department, with the assistance of the DAS and the Department of Justice, should determine whether the lack of Governor and Council approval to the Form P-37 affects the status of the financing agreement with the bank.

Auditee Response:

The Department concurs. This type of purchase/financing arrangement was new and unique to the Department. In the future the Department will ensure that State Treasury is made fully aware when bank accounts may need to be opened in this type of transaction. Also, the Department will provide all details of this transaction to DAS and await their answer as to whether the lack of Governor and Council approval to the Form P-37 affects the status of the financing agreement with the bank. If the Department is advised by DAS that Governor and Council action is necessary, the Department will seek Governor and Council approval.

Department of Administrative Services' Response:

The Department of Administrative Services concurs that the process of notifying the Treasury and seeking Treasury review should be formalized. We have met with the Treasurer's Office. The Department of Administrative Services and the Treasury have put in place procedures to document notification of and the review undertaken by Treasury. The Department of Administrative Services has also put procedures in place to ensure documentation is provided to Treasury detailing the terms of financing arrangements after they are entered into.

The Department does not concur that the lack of Governor and Council approval on the P-37 affects the status of the financing agreement with the bank. This practice has existed since at least 1986 whereby multiagency service contracts (and commodity contracts) obtained by the Department of Administrative Services have not been directly submitted to Governor and Council for contractual review. The Department of Justice reports this practice does not affect the enforceability of the contracts.

We will review with the Governor and Council on February 16, 2011 the criteria for State contracts that should be brought to them for review and approval. Those criteria will be incorporated into State policy and procedure documents.

Observation No. 23: Pharmaceutical Drug Contract Payment Options Should Be Reviewed

Observation:

The Department, at March 31, 2010, did not have a sufficient understanding of the contract terms with its pharmaceutical vendor that would allow the Department to manage the contract and perform the analysis necessary to take the best advantage of the contract terms.

The Department of Administrative Services (DAS), Bureau of Purchase and Property, arranged for the State to participate in a multistate alliance for purchasing pharmaceuticals. The alliance's vendor provides a discount based on the member state's monthly purchasing volume and selected payment option. Payment options include maintaining pre-paid balances of 30 days, 15 days, or 7 days expected usage and payments subsequent to invoicing such as next day net and 90 day net. While the State is a single entity in determining the purchase volume discount, each participating department in the State is able to select a payment-term option. During the nine months ended March 31, 2010, the Department paid for pharmaceuticals using the 30-day pre-pay option. Neither the Department nor DAS was aware of any analysis performed to support the selection of the 30-day pre-pay option. While Department employees were aware pharmaceutical purchases were subject to a pre-pay condition, no one at the Department was aware of how the 30-day option, which provides for a 2.54% discount, was selected or that other payment terms and discount options were available. In addition, no one at the Department was reviewing invoices to ensure that the invoice pricing accurately reflected the discount. In contrast, the New Hampshire Hospital, which is reported to purchase more pharmaceuticals under the contract than the Department, uses the 15-day pre-pay option, which provides for a 2.30% discount.

During the nine months ended March 31, 2010, the Department maintained an average credit balance of approximately \$306,000 with the vendor. Monthly balances ranged from \$455,000 to \$56,000. The Department's monthly net purchases averaged approximately \$171,000.

Recommendation:

The Department should establish a sufficient understanding of its pharmaceutical contract to allow the Department to ensure it is taking proper advantage of contract provisions. The Department should establish policies and procedures for the periodic review of relevant information such as pharmaceutical usage, budgets, and receive input from the State Treasury regarding the State's cash flow position to provide for the most cost effective way for the Department to pay for pharmaceuticals.

The Department should monitor its payments to the contractor to ensure that only the required balance is maintained.

Auditee Response:

The Department concurs in part. The Department concurs that it could improve its knowledge of the contract and will establish a better understanding of it so as to minimize maintaining unnecessary balances with the vendor. However during the audit period it should be emphasized

that the Department maintained payment terms with the vendor that allowed the Department to purchase pharmaceuticals at the lowest possible cost.

Observation No. 24: Controls To Recognize And Report Accounts Payable Should Be Improved

Observation:

The Department failed to recognize approximately \$367,000 of Capital Projects Fund accounts payable at June 30, 2009. As a result, an audit adjustment in that amount was proposed and accepted to correct the resulting overstatement of the Department's Capital Projects Fund expenditures for the nine months ended March 31, 2010.

The Department reported the error was likely due to employee inattention and inexperience with the State's new accounting system.

Recommendation:

The Department should review its policies and procedures for identifying accounts payable to ensure the process remains reasonable for the circumstances, including the changes in process with the new accounting system. The Department should ensure employees receive adequate training and supervision.

Auditee Response:

The Department concurs with the recommendation that it review its policies and procedures for identifying accounts payable regarding capital projects and will counsel the part time secretary responsible.

Observation No. 25: Timely Payment Discounts Should Be Taken

Observation:

The Department does not consistently monitor and manage its payments to take advantage of timely payment discounts and to avoid late payment charges.

Auditors noted two instances out of a random sample of 58 tested expenditures where vendors offered a timely-payment discount. The Department did not take advantage of either opportunity. In one instance, a vendor's \$992 invoice, dated February 12, 2010, offered a 2% discount if paid by the tenth of the following month. The Department processed the invoice March 1, and the State accounting system disbursed payment March 9, 2010. Although the Department made payment in time to take the discount, the Department neglected to take the allowed \$19.84 discount.

The auditors also noted the Department paid three late payment charges, totaling \$1,861, related to electrical service invoices for the Berlin Prison. A review of these late payment fees indicated the vendor appeared to have charged late-payment penalties in error.

- A review of the corresponding payments made on the two invoices noted the Department made payment on the invoices five and eight days prior to the invoice due dates, respectively.
- The third late fee to the same vendor appears to have resulted from the Department not receiving or misplacing the invoice. Once the missing invoice was recognized, the Department requested a copy and paid the vendor one day after the due date. The Department reported it did not request the vendor void the late charge.

The Department reported it was hesitant to take advantage of timely-payment discounts because of its uncertainty in the State's ability to process payments on schedule. The Department also reported the errors noted in paying unnecessary late charges were oversights.

Recommendation:

1. The Department should review its vendor payment processes to determine whether it needs to revise its related policies and procedures to take advantage of timely-payment discounts and avoid unnecessary late-payment charges on a more consistent basis. The Department should review with responsible employees its intention to take advantage of available discounts and its expectation that only valid vendor charges are to be paid.
2. The Department should review with the Department of Administrative Services opportunities to improve vendor payment efficiencies to allow taking advantage of more vendor discounts advantageous to the State and avoiding late-payment charges.

Auditee Response:

1. The Department concurs that it should review vendor payment policies and procedures to take advantage of timely payment discounts.
2. The Department concurs with the recommendation that it should review vendor payment processes to avoid unnecessary late payment charges. The Department will be more cognizant of this need going forward.

State Compliance Comments

Observation No. 26: Receipts Should Be Provided To Payers

Observation:

During the nine months ended March 31, 2010, the Department was not in compliance with N.H. Admin. Rules, Cor 310.01, (e), as the Department did not provide receipt documentation to individuals who made payments to the Department.

N.H. Admin. Rules, Cor 310.01, (e), states, "Upon receipt of any payment made, in full or in part, the payer shall be given a receipt and such payment shall be appropriately recorded."

The Department mails monthly payment reminder notices to offenders informing them of a current payment being due, detailed by obligation type, i.e. fee, fine, and restitution. The monthly payment notices do not provide the payer any information on total balances due, previously applied payments, or other account information that would allow the payer to have confidence that payments were being accurately applied.

Recommendation:

The Department should comply with N.H. Admin. Rules, Cor 310.01, and provide payers with receipts for payments made to the Department.

The Department should consider whether its current monthly payment reminder could be reformatted to include payment history information that could suffice for the required receipt.

If the Department determines providing receipts to payers is not necessary, the Department should propose an appropriate revision to the administrative rule.

Auditee Response:

We concur.

The Department will seek to modify the monthly statement to include balances and last payment date and amount.

Observation No. 27: Clarification Of Statutory Allocation Of Offender Payments Should Be Requested

Observation:

In August 2009, the Department changed its practices for allocating offender payments to multiple accounts. The Department has not updated its policies and procedures to document its

revised practices for applying offender payments and it is unclear whether the Department's revised allocation practice for applying offender payments complies with State statute.

Prior to the change, the Department first allocated offender payments between restitution and a 17% restitution administrative fee until the restitution was paid in full, then allocated payments amongst the other obligations, including fines and supervision and other fees. Effective August 2009, the Department allocates offender payments to first satisfy supervision fees due, then satisfy any restitution and restitution administrative fees owed, and finally allocates any remainder to other fines and fees. The effect of the change was to prioritize the collection of supervision fees over restitution and restitution administration fees. The Department reported it made the change subsequent to an internal review of the relevant statutes.

RSA 651:63, VI., states, “[r]estitution, administrative fines and fees, and other fees collected, except for supervision fees pursuant to RSA 504-A:13, shall be allocated on a pro-rata basis by the commissioner of corrections or his or her designee when payments are insufficient to cover the full amount due for each of these balances, except that restitution to victims shall have priority over all other allocations.”

Recommendation:

The Department should seek legislative clarification of the allocation of offender payments intended by RSA 651:63, VI.

The Department should ensure that its policies and procedures are current and reflect intended processes for Department operations.

Auditee Response:

We concur in part. The policy in question was reissued on September 1, 2010 and reflects our current practice.

The allocation of offender payments was implemented after consultation with the Attorney General's office who concurred with this interpretation.

The Department has requested a ruling from the Attorney General affirming our practice is in compliance with the statute.

Observation No. 28: Supervision Fees Should Be Established By Courts And Parole Board

Observation:

The Department has established the supervision fees charged to probationers and parolees even though by statute the authority to establish the fee rests with the Court for probationers and the Parole Board for parolees.

The monthly supervision fee charged to both probationers and parolees are identified in the Department's policy and procedure directive 3.05 Field Services Collection Procedures, as noted in the following table.

<u>Offender Gross Monthly Income</u>	<u>Monthly Supervision Fee</u>
\$0 to \$249.99	\$0.00
\$250.00 to \$499.99	\$10.00
\$500.00 to \$749.99	\$25.00
\$750.00+	\$40.00

RSA 504-A:13 states, "The court shall establish a supervision fee for probationers, and the parole board shall establish a supervision fee for parolees. The fee shall not be less than \$40 per month, unless waived in whole or in part by the court, board or commissioner, and may be any greater amount as established by the court or board."

The Department has not requested affirmation from the Court or Board on the fee schedule it established on their behalf.

Recommendation:

The Department should request direction on supervision fees from the Court and the Parole Board as provided for in statute.

The Department should maintain evidence of the Court's and Parole Board's establishment of the fees. The Department should periodically review these fees with the Court and Parole Board to ensure the amounts charged remain current and appropriate.

Auditee Response:

We concur. Pursuant to RSA 504:A-13, we have established the fee at \$40 per month or less, based on income level, absent a specific order by the Court or Parole Board. The fee is not less than \$40 unless waived in whole or in part by the Court, Parole Board or Commissioner. The Attorney General's office concurs with this interpretation.

The Department has forwarded a letter to the Chief Justice of the Superior Court, the Administrative Judge of the district courts, and the Parole Board Chairman to ensure they concur with our policy and corresponding fee schedule.

The Department has requested a letter from the Attorney General affirming our practice is in compliance with statute.

Observation No. 29: Rules Should Be Established For All Fees

Observation:

The Department has not adopted rules to address the payment and collection of all fees for which the Department is responsible, contrary to RSA 21-H:13. That statute directs that “[t]he commissioner shall adopt rules, pursuant to RSA 541-A, relative to:... V. Payment and collection of all fees for which the department is responsible.” While the Department has adopted N.H. Admin. Rules, Cor 310.01, relative to payments and collections of certain Department fees, the rule does not address the payment and collection of all of the Department’s fees.

Fees not covered by the Department’s rules include:

<u>Description</u>	<u>Fee Amount</u>
Room and board - halfway house	\$9 per day
Service charge for collection of fines and fees	10% additive
Copy fee	\$0.10 per page, \$1 per electronic media
Criminal investigation fees	\$100
Administrative fee - restitution	17% additive
Fee for inmate-initiated medical appointment	\$3 per appointment
Fee for missed medical appointment	\$5 per appointment
Lost and damaged goods	Reimbursement of cost

While the Department does not have the authority to establish supervision fees, the Commissioner has the authority to waive supervision fees in whole or in part. The Department does not have rules regarding the criteria and procedures for waiving supervision fees.

The Parole Board has not established rules for parolee supervision fees collected by the Department.

Recommendation:

The Department should establish rules relative to the payment and collection of all fees for which it is responsible.

The Department should, as appropriate, work with the Parole Board to establish rules for setting parolee supervision fees.

Auditee Response:

We concur. The Department will seek to modify the administrative rules to reflect the payment and collection of the fees noted. The Department will have periodic discussions with the parole board regarding supervision fees.

Observation No. 30: Information Technology Plan Should Be Prepared

Observation:

The Department did not prepare an information technology plan for the fiscal year 2010-2011 biennium. The Department reports it plans to submit a fiscal year 2010-2011 plan as an addendum to the Department's fiscal year 2012-2013 information technology plan, currently in process.

RSA 9:4-b states, "Each executive department, with the necessary assistance of the chief information officer, shall prepare an information technology plan and submit it to the information technology council. The portion of each plan which addresses the upcoming biennium shall define the capital and operating budgets necessary for implementing the plan."

According to the Department, lack of time and changes in Department personnel impacted the Department's ability to prepare the required plan.

Recommendation:

The Department should prepare and submit an information technology plan as required by statute.

Auditee Response:

We concur. The Department will create and submit an information technology plan as soon as the resources needed to do this become available.

Observation No. 31: Compliance With RSA 15-A:4 Should Be Improved

Observation:

As of the June 23, 2010 date of our review, 16 individuals associated with the Department who were required to file Statements of Financial Interests did not have current Statements on file. Those statements were due January 15, 2010. An additional six individuals filed from four to 84 days late.

Recommendation:

The Department should remind members of its associated organizations to file required Statements of Financial Interests in accordance with the statutory requirement. The Department should monitor the filing status of those individuals required to file Statements.

Auditee Response:

Concur in part. The Department will remind individuals under its authority to file Statements of Financial Interests. However, we can not enforce advisory committee members' compliance.

Observation No. 32: Capital Project Status Reporting Should Be Reviewed

Observation:

The Department did not submit Capital Project Status reports, which are due every 60 days by statute, to the Capital Projects Overview Committee.

RSA 17-J:4 requires each agency with capital budget projects to submit a status report on the projects every sixty days to the Capital Budget Overview Committee.

Information regarding the Department's Capital Budget projects is reported to the Capital Budget Overview Committee in a report furnished to the Committee by the Department of Administrative Services.

A similar comment was made in the prior audit of the Department.

Recommendation:

The Department should periodically review the information submitted on its behalf to confirm the Capital Budget Overview Committee is receiving the information required from the Department of Administrative Service's report.

The Legislature may want to revise the reporting requirement in the RSA 17-J:4, if it determines the reporting required by the statute is no longer necessary.

Auditee Response:

We concur. A Capital Project Status report for all agencies is prepared by the Division of Public Works in conjunction with the Department of Administrative Services. Their report is forwarded to the Capital Budget Overview Committee. The Department will ensure its capital projects are included within this report.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying Statement of Revenues and Expenditures - General Fund and Capital Projects Fund of the New Hampshire Department of Corrections (Department) excluding the Department's trust funds, agency funds, and Correctional Industries and Vocational Training Accounts for the nine months ended March 31, 2010. This financial statement is the responsibility of the management of the Department. 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 Department'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 Department 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 Department. The Statement of Revenues and Expenditures - General Fund and Capital Projects Fund, does not purport to and does not constitute a complete financial presentation of either the Department or the State of New Hampshire in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the matter discussed in the third paragraph, the financial statement referred to above presents fairly, in all material respects, certain financial activity of the Department for the nine months ended March 31, 2010, 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 Statement of Revenues and Expenditures - General Fund and Capital Projects Fund of the Department. 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 November 16, 2010 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, 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

November 16, 2010

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CORRECTIONS
STATEMENT OF REVENUES AND EXPENDITURES
GENERAL FUND AND CAPITAL PROJECTS FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2010**

<u>Revenues</u>	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Unrestricted Revenues			
Supervision Fees	\$ 422,338	\$ -0-	\$ 422,338
Transitional Housing Room & Board	202,482	-0-	202,482
Criminal Investigation Fees	90,600	-0-	90,600
Other	30,362	-0-	30,362
Total Unrestricted Revenues	<u>745,782</u>	<u>-0-</u>	<u>745,782</u>
Restricted Revenues			
Federal Funds	946,895	-0-	946,895
Restitution Administrative Fees	183,649	-0-	183,649
Other	75,323	-0-	75,323
Total Restricted Revenues	<u>1,205,867</u>	<u>-0-</u>	<u>1,205,867</u>
Total Revenues	<u>1,951,649</u>	<u>-0-</u>	<u>1,951,649</u>
 <u>Expenditures</u>			
Salaries And Benefits	53,928,581	-0-	53,928,581
Medical Expenditures To Providers	6,929,408	-0-	6,929,408
Heat - Electricity - Water	2,997,080	-0-	2,997,080
Food Institutions	1,535,869	-0-	1,535,869
Prescription Drugs	1,402,903	-0-	1,402,903
Current Expenses	1,333,986	-0-	1,333,986
Information Technology	999,932	-0-	999,932
Contracts For Program Services	859,277	-0-	859,277
Federal Programs	693,553	-0-	693,553
Inmate Payroll	606,872	-0-	606,872
Leases	550,047	-0-	550,047
Other	436,634	109,969	546,603
Maintenance	263,731	-0-	263,731
Roof Repairs - Men's Prison	-0-	78,046	78,046
Structural Wall And Beam Repair - Men's Prison	-0-	676,203	676,203
Residential Treatment Unit - Phase 1	-0-	667,041	667,041
Sewer Stormwater System Repairs - Lakes Region Facility	-0-	226,607	226,607
Total Expenditures	<u>72,537,873</u>	<u>1,757,866</u>	<u>74,295,739</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>(70,586,224)</u>	<u>(1,757,866)</u>	<u>(72,344,090)</u>
Other Financing Sources (Uses)			
Net Appropriations (Note 2)	(71,332,006)	(1,757,866)	(73,089,872)
Total Other Financing Sources (Uses)	<u>(71,332,006)</u>	<u>(1,757,866)</u>	<u>(73,089,872)</u>
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	<u>\$ 745,782</u>	<u>\$ -0-</u>	<u>\$ 745,782</u>

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

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CORRECTIONS**

**NOTES TO THE FINANCIAL STATEMENT
FOR THE NINE MONTHS ENDED MARCH 31, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statement of the New Hampshire Department of Corrections 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 New Hampshire Department of Corrections (Department) including the administratively attached Parole Board and excluding the Department's trust funds, agency funds, and correctional industries and vocational training accounts. The Department is an organization of the primary government of the State of New Hampshire. The accompanying financial statement reports certain financial activity of the Department.

The financial activity of the Department is accounted for and reported in the General Fund and Capital Projects Fund in the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the CAFR. The Department, as an organization of the primary government, accounts for only a small portion of the General Fund and Capital Projects Fund and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to the Department cannot be determined. Accordingly, the accompanying Statement of Revenues and Expenditures - General Fund and Capital Projects Fund is not intended to show the financial position or fund balance of the Department of Corrections in the General Fund or Capital Projects Fund.

B. Financial Statement Presentation

The State of New Hampshire and the Department 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 Department reports its financial activity in the funds described below.

Governmental Fund Type:

General Fund: The General Fund is the State's primary operating fund and accounts for all financial transactions not 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. 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 “general purpose” or “restricted”. General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction (e.g., federal grants), available only for specified purposes. Unused restricted revenues at year end are recorded as reservations of fund balance. When both general purpose and restricted funds are available, it is the State’s policy to use restricted revenues first. 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 that 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 of New Hampshire CAFR. Fiduciary Funds are not budgeted.

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. 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 prior approval of the Joint Legislative Fiscal Committee and the Governor and Council.

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 reservations 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. At March 31, 2010, the Department's unliquidated encumbrance balances in the General Fund and Capital Projects Fund were \$5,028,114 and \$1,225,422, 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 - NET APPROPRIATIONS

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

NOTE 3 - EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The Department of Corrections, 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 Department. 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 its members and beneficiaries.

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.

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, 2010, Group I members were required to contribute 5% of gross earnings, except for State employees whose employment began on or after July 1, 2009, contribute 7% of gross earnings. Group II members were required to contribute 9.3% of gross earnings. The State funds 100% of the employer cost for all of the Department'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 Department's payments for normal contributions for the nine months ended March 31, 2010 amounted to 9.09% of the covered payroll for its Group I employees and 17.34% of the covered payroll for its Group II employees. The Department's normal contributions for the nine months ended March 31, 2010 for Group I employees and Group II employees were \$420,049 and \$5,502,583, respectively.

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 insurance benefits for retired employees. 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 and retirees 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 Department's medical subsidy contribution rate for the nine months ended March 31, 2010 was 1.96% of the covered payroll for its Group I employees and 2.17% of the covered payroll for its Group II employees. The Department's contributions for the medical subsidy for the nine months ended March 31, 2010 for Group I employees and Group II employees were \$90,587 and \$688,442, respectively.

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

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, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*. 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 Department.

NOTE 4 – LITIGATION

Saulnier v. Bettez, et al and NHDOC; Ford v. Bettez, et al and NHDOC; Boothby v. Bettez, et al and NHDOC; Lawlor v. Bettez and NHDOC

These four federal court cases were filed in September 2010 alleging cruel and unusual punishment under § 1983 and various State torts based on alleged assaults by one common correctional employee, as well as, some additional and varying Department employees. The N.H. Attorney General's Office is still in the process of determining RSA 99-D representation for the individually named defendants thus it is premature to properly evaluate the likelihood of exposure in these cases although it could exceed \$250,000 in the aggregate.

Darren Starr v. Greg Moore

This is an action under § 1983 by an inmate alleging violation of his Eighth Amendment right to be kept safe in prison. The plaintiff claims retaliation against him for the exercise of his First Amendment Rights, and a State law claim for intentional infliction of emotional distress. Plaintiff claims the defendant (Department employee working in the kitchen of the Northern Correctional Facility) told other inmates that they were not receiving special holiday brunches because plaintiff had won a lawsuit against the Department. Plaintiff claims this put him in danger because angry inmates confronted him and started fights with him. The State has filed an appearance and answer on behalf of defendant and intends to defend against the claims. Discovery is in process. The State is unable to assess the likely outcome of the case at this time.

Whitaker v. State of NH, DOC et al

Plaintiff asserts gender discrimination and retaliation. The plaintiff claims various Department employees have subjected him to on-the-job sexual harassment. After complaining about the harassing behavior by fellow employees to his superiors, he claims he was retaliated against. This case has been filed in superior court. The State is unable to assess the likely outcome of this case at this time.

Jordan v. DOC et al

A correctional officer of the Department was suspended from duty without pay pursuant to the Rules of Personnel for allegedly assaulting a fellow correctional officer on State prison grounds. The allegations contained within the plaintiff's complaint, filed in State court, allege a violation of RSA 98-E, due to his union activities, and constructive discharge. The State is unable to assess the likely outcome of this case at this time.

DeMaio v. DOC

The plaintiff filed a discrimination action with the EEOC [Equal Employment Opportunity Commission] claiming discrimination based on his disability (mental health) and contrary to the ADA [Americans with Disabilities Act]. The plaintiff asserts wrongful discharge and a retaliation claim. Damages and fees in this case may exceed \$250,000. However, the State is unable to assess the likely outcome of this case at this time.

Laurielee Roy v. N.H. Department of Corrections and Kathleen Letts

The plaintiff has brought this action alleging that the defendants, the Department and Department employee Kathleen Letts, violated her right to public employee free speech under RSA 98-E and

constructively discharged her from her employment. Specifically, the plaintiff alleges that as a result of her unwillingness to allegedly violate the law with regards to improperly identifying certain inmates as disabled in a computer database and her filing a sexual harassment claim against Ms. Letts, she was subjected to a degree of harassment and retaliation that caused her to leave her employment. The plaintiff is seeking money damages, including enhanced compensatory damages, and attorney fees. A trial is scheduled for May of 2011.

Timothy Hallam and Joseph Laramie v. Shawn Stone and Todd Connor, Merrimack County Superior Court

This case is a wrongful termination action that was filed by two corrections officers against the Department of Corrections, the former warden of the state prison, and two corrections officers. Summary judgment was granted in favor of the Department and former warden, and the case proceeded to trial against two corrections officers. The plaintiffs asserted claims of intentional interference with employment relations and false light invasion of privacy, alleging that the defendants lied about them, causing them to be dismissed from employment with the Department. The jury found for the plaintiffs, awarding Timothy Hallam \$1.3 million and Joseph Laramie \$650,000 in damages. The defendants filed post-trial motions, including a motion for a new trial, motion for remittitur, and motion to apply the statutory cap of \$475,000 per claimant. The court denied these motions in October, 2008. The State has appealed the verdict to the Supreme Court. In June, 2010, the Supreme Court held that the \$475,000 per claimant cap applied to this type of jury award and ordered a new trial on several issues. As a result of the Supreme Court's decision, damages will be capped at a maximum of \$950,000.

The Department has not recorded liabilities for the fore-mentioned cases. Any liabilities that may arise as a result of litigation will not be charged to Department accounts but will be paid from State funds otherwise not appropriated.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CORRECTIONS
BUDGET TO ACTUAL SCHEDULE - GENERAL FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2010**

<u>Revenues</u>	<u>Original Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Unrestricted Revenues			
Supervision Fees	\$ 350,000	\$ 422,338	\$ 72,338
Transitional Housing Room & Board	280,000	202,482	(77,518)
Criminal Investigation Fees	110,000	90,600	(19,400)
Other	<u>26,000</u>	<u>30,362</u>	<u>4,362</u>
Total Unrestricted Revenues	<u>766,000</u>	<u>745,782</u>	<u>(20,218)</u>
Restricted Revenues			
Federal Funds	959,753	946,895	(12,858)
Resitution Administrative Fees	-0-	183,649	183,649
Other	<u>249,851</u>	<u>75,323</u>	<u>(174,528)</u>
Total Restricted Revenues	<u>1,209,604</u>	<u>1,205,867</u>	<u>(3,737)</u>
Total Revenues	<u>1,975,604</u>	<u>1,951,649</u>	<u>(23,955)</u>
<u>Expenditures</u>			
Salaries And Benefits	74,823,437	53,928,581	20,894,856
Medical Expenditures To Provideres	10,408,771	6,929,408	3,479,363
Heat - Electricity - Water	4,696,887	2,997,080	1,699,807
Food Institutions	2,417,644	1,535,869	881,775
Prescription Drugs	2,989,605	1,402,903	1,586,702
Current Expenses	2,402,503	1,333,986	1,068,517
Information Technology	2,028,217	999,932	1,028,285
Contracts For Program Services	2,119,718	859,277	1,260,441
Federal Programs	499,500	693,553	(194,053)
Inmate Payroll	1,143,914	606,872	537,042
Leases	689,999	550,047	139,952
Other	1,081,419	436,634	644,785
Maintenance	<u>996,927</u>	<u>263,731</u>	<u>733,196</u>
Total Expenditures	<u>106,298,541</u>	<u>72,537,873</u>	<u>33,760,668</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>(104,322,937)</u>	<u>(70,586,224)</u>	<u>33,736,713</u>
Other Financing Sources (Uses)			
Net Appropriations (Note 2)	<u>105,088,937</u>	<u>71,332,006</u>	<u>(33,756,931)</u>
Total Other Financing Sources (Uses)	<u>105,088,937</u>	<u>71,332,006</u>	<u>(33,756,931)</u>
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	<u>\$ 766,000</u>	<u>\$ 745,782</u>	<u>\$ (20,218)</u>

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, 2010

Note 1 - General Budget Policies

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature for adoption. This budget, which includes annual budgets for each year of the biennium, consists of three parts: Part I is the Governor's program for meeting all expenditure needs as well as estimating revenues to be received. 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 2010 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 undesignated 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, 2010. 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 reflect appropriations for expenditures in excess of restricted.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CORRECTIONS
SCHEDULE OF BUDGET AND EXPENDITURES - CAPITAL PROJECTS FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2010**

<u>Chapter Law, Program</u>	<u>Budget</u>
Chapter 259:1,IV,A, Laws 2005	
Electronic Security Upgrades - Men's Prison	\$ 775,000
Chapter 264:1,V,A, Laws 2007	
Electronic Security Upgrades - Men's Prison	350,000
Chapter 264:1,V,B, Laws 2007	
Chiller and Tower Replacement - Men's Prison	349,400
Chapter 264:1,V,C, Laws 2007	
Structural Wall and Beam Repair - Men's Prison	1,780,000
Chapter 264:1,V,D, Laws 2007	
Boiler Room Upgrades - Men's and Women's Prisons	370,000
Chapter 264:1,V,E, Laws 2007	
Roof Repairs - Men's Prison	1,300,000
Chapter 264:1,V,F, Laws 2007	
Sewer Stormwater Water System Repairs - Lakes Region Facility	1,300,000
Chapter 264:1,V,G, Laws 2007	
Residential Treatment Unit, Phase 1 - Concord	1,480,000
Chapter 264:1,V,I, Laws 2007	
HVAC and Water Upgrades - Community Corrections	410,000
Chapter 145:1,IV,A, Laws 2009	
Women's Prison & Transitional Housing Site Design	2,300,000
Chapter 145:1,IV,B, Laws 2009	
MSU, Dorms, CCU, SPU, MCS, MCN - Repair Bathrooms	325,000
Chapter 145:1,IV,C, Laws 2009	
Residential Treatment Unit, Phase 2	3,650,000
Chapter 145:1,IV,D, Laws 2009	
Admin East Wing-Upgrade Electric Wiring	79,000
Chapter 145:1,IV,E, Laws 2009	
MSU & Admin Building - Replace Sprinkler System	390,000
Chapter 145:1,IV,F, Laws 2009	
Stormwater/Sewer System - EPA order #05-13	575,000
Chapter 145:1,IV,G, Laws 2009	
SHU Tunnel-Replace & Move Sewer Lines & Duct Work	150,000
Total	<u>\$ 15,583,400</u>

The accompanying note is an integral part of this schedule.

<u>Expenditures July 1, 2009 - March 31, 2010</u>	<u>(Unaudited) Prior Period Expenditures</u>	<u>(Unaudited) Total Expenditures</u>	<u>Unexpended</u>
\$ 33,224	\$ 628,149	\$ 661,373	\$ 113,627
2,415	166,689	169,104	180,896
21,984	317,889	339,873	9,527
676,203	190,112	866,315	913,685
19,603	350,397	370,000	-0-
78,046	961,935	1,039,981	260,019
226,607	898,400	1,125,007	174,993
667,041	497,468	1,164,509	315,491
19,819	387,459	407,278	2,722
-0-	-0-	-0-	2,300,000
-0-	-0-	-0-	325,000
-0-	-0-	-0-	3,650,000
5,092	-0-	5,092	73,908
-0-	-0-	-0-	390,000
-0-	-0-	-0-	575,000
7,832	-0-	7,832	142,168
<u>\$ 1,757,866</u>	<u>\$ 4,398,498</u>	<u>\$ 6,156,364</u>	<u>\$ 9,427,036</u>

**Note To The Schedule Of Budget And Expenditures - Capital Projects Fund
For The Nine Months Ended March 31, 2010**

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.

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.

APPENDIX - CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of March 31, 2010, of the current status of the observations contained in the financial audit report of the Department of Corrections (excluding Correctional Industries and Department Trust and Agency Funds) for the nine months ended March 31, 1995. A copy of that report can be obtained from the Office of Legislative Budget Assistant, Audit Division, State House, Room 102, Concord, NH, 03301.

	<u>Status</u>		
<i>Internal Control Comments</i>			
<i>Reportable Conditions</i>			
1. Lack Of Segregation Of Duties: Invoice Payments	●	●	●
2. Lack Of Segregation Of Duties: Revenue Cycle (<i>See Current Observation No. 13</i>)	●	○	○
3. Allocation Of Expenditures (<i>See Current Observation No. 21</i>)	●	○	○
4. Adjustments To Hillsborough County Billings	●	●	●
5. Internal Controls Over The Payroll Process (<i>See Current Observations No. 1 and No. 2</i>)	○	○	○
6. Duplicate Payments To Vendors	●	●	●
7. Equipment: Absence Of Inventory Control Tags (<i>See Current Observation No. 18</i>)	●	○	○
8. Disposition Of Unclaimed Payroll Checks	●	●	○
<i>Compliance Comments</i>			
<i>State Compliance</i>			
9. Statements Of Financial Interests (<i>See Current Observation No. 31</i>)	●	●	○
10. Consumable Inventory: Absence Of Perpetual Records (<i>See Current Observation No. 20</i>)	●	●	○
11. Timeliness Of Receipt Processing	●	●	●
12. Real Property Records: Lakes Region Facility	●	●	●
13. Absence Of Capital Budget Project Status Reports (<i>See Current Observation No. 32</i>)	●	●	○
<i>Federal Compliance</i>			
14. Cash Management	●	●	●
15. Untimely Completion Of Federal Categorical Assistance Progress Reports	●	●	●
16. Untimely Submission Of Financial Reports	●	●	●
<i>Management Issues Comments</i>			
17. Daily Rate Charged For The Housing Of Hillsborough County Inmates And Detainees (<i>See Current Observation No. 19</i>)	●	●	●
18. Capital Expenditure Ledgers	●	●	●

<u>Status Key</u>	●	●	○	●	<u>Count</u>
Fully Resolved	●	●	●	●	8
Substantially Resolved	●	●	○	○	4
Partially Resolved	●	○	○	○	3
Unresolved	○	○	○	○	1
Issue not relevant to current operations	●	●	●	●	2

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