

**STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE VETERANS' HOME**

**FINANCIAL AUDIT REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2012**

**STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE VETERANS' HOME**

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This report can be accessed in its entirety on-line at:
<http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>

**STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE VETERANS' HOME**

Reporting Entity And Scope

The reporting entity of this audit and audit report is the New Hampshire Veterans' Home, an agency of the State of New Hampshire. The period covered is the fiscal year ended June 30, 2012.

The New Hampshire Veterans' Home, established by RSA 119:1, provides nursing-home level of care to veterans who have served on active duty. The Home is situated on approximately 30 acres of land on Winter Street in Tilton, New Hampshire.

The following report describes the financial activity of the New Hampshire Veterans' Home, as it existed during the period under audit. Unless otherwise indicated, reference to the Home refers to the New Hampshire Veterans' Home. Auditee responses were prepared by the Home.

Organization

A Board of Managers, consisting of officials from various veterans' organizations and private citizens, governs the operations of the Veterans' Home. The Home's Commandant, who is appointed by the Board of Managers, oversees the day-to-day administration of the Home. At June 30, 2012, the Home operated with 326 full-time and 95 part-time employees.

Responsibilities

The New Hampshire Veterans' Home was established for the support, care, and treatment of New Hampshire resident veterans who have been honorably discharged after having served on active duty in the armed forces of the United States or in reserve units or in the New Hampshire Army or Air National Guard. The care provided by the Home includes nursing care, assisted living, domiciliary, day care, dementia, chemical dependency and psychiatric services, and other related services and programs for any veteran otherwise eligible for admittance. Services and programs are provided at the Home or contracted through other organizations and facilities.

At June 30, 2012, the Home provided services to 191 residents.

Funding

The financial activity of the New Hampshire Veterans' Home is accounted for primarily in the General and Capital Projects Funds of the State of New Hampshire. The residents of the Home contribute toward their support by transferring a portion of their monthly income to the General Fund. Appropriations are also recovered through payments made to the Home by the United States Department of Veterans Affairs. The Home is budgeted to recover approximately 63% of its General Fund appropriations from these two sources.

A summary of the Home's General Fund and Capital Projects Fund revenues and expenditures for the fiscal year ended June 30, 2012 is shown in the following schedule.

**Summary Of Revenues And Expenditures
Fiscal Year Ended June 30, 2012**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Total Revenues	\$ 14,009,000	\$ 2,989,396	\$ 16,998,396
Total Expenditures	<u>26,901,195</u>	<u>4,630,740</u>	<u>31,531,935</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>\$(12,892,195)</u>	<u>\$(1,641,344)</u>	<u>\$(14,533,539)</u>

Prior Audit

The most recent prior financial and compliance audit of the New Hampshire Veterans' Home was for the nine months ended March 31, 2005. The appendix to this report on page 55 contains a summary of the current status of the observations contained in that report. The prior audit report can be accessed on-line at:

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

Audit Objectives And Scope

The primary objective of our audit is to express an opinion on the fairness of the presentation of the financial statements of the New Hampshire Veterans' Home for the fiscal year ended June 30, 2012. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we considered the effectiveness of the internal controls in place at the New Hampshire Veterans' Home and tested the Home's compliance with certain provisions of applicable State and Federal laws, rules, regulations, contracts and grant agreements. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Revenues,
- Expenditures,
- Cash and Investments, and
- Fiduciary Funds.

Our report on internal control over financial reporting and on compliance and other matters, the related observations and recommendations, our independent auditor's report, and the financial statements, notes, and supplementary information of the New Hampshire Veterans' Home 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 accompanying financial statements of the New Hampshire Veterans' Home (Home) as of and for the fiscal year ended June 30, 2012 as listed in the table of contents and have issued our report thereon dated April 17, 2013, which was qualified as the financial statements were not intended to present the Home's financial position, fund balance, or changes in fund balance in the General Fund or Capital Projects Fund and therefore do not constitute a complete financial presentation of the Home in the General Fund or Capital Projects Fund. 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

Management of the Home is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Home's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Home's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Home'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 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies identified in Observations No. 1, No. 14, No. 15, and No. 16 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. 2 through No. 13 and No. 17 through No. 21 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Home's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

April 17, 2013

Internal Control Comments

Observation No. 1: Policies And Procedures Should Be Established To Support Significant Accounting And Financial Reporting Activities

Observation:

The Home does not appear to have a formal process for vetting and approving policies and procedures supporting its daily financial operations. While during fiscal year 2012 the Home had a number of what it referred to as policies and procedures, most appeared to be descriptions of implemented processes that were not compiled into a manual or other indexed location. The documents contained no evidence that they had been reviewed and approved by an appropriate level of the Home's management and, based on discussions with employees, had not been consistently forwarded, with appropriate training, to responsible employees for implementation.

There is a hierarchy of compliance criteria that provides operational guidance within a State agency including State and federal law; administrative rules and other regulations; grants, contracts, and other agreements; policies and procedures; and general process. Each of these criteria has significance based on the authority of the enacting entities.

Policies and procedures are an organization's primary control process for ensuring that appropriate operating criteria are regularly met over time. As such, policies and procedures should be initiated, vetted, and reviewed and approved by appropriate levels of management to ensure the policies and procedures are appropriate for their purpose, are in alignment with the entity's goals and objectives, and provide for operational controls suitable to their purpose. To be effective, policies and procedures must be readily available to employees, employees must be trained in the application of the policies and procedures, and compliance with the policies and procedures must be monitored to ensure they remain in place and effective over time.

The Home's informal approach to the establishment of policies and procedures presents significant risk that appropriate policies and procedures will not be in place to support and direct the Home's critical financial operations.

Recommendation:

The Home should establish policies and procedures to support its employees in performing significant accounting and financial reporting activities. Employees should be trained in the application of the policies and procedures as needed. The Home should monitor the application of the policies and procedures to ensure continued compliance and effectiveness.

Auditee Response:

The Home concurs with this observation. The Home will establish policies and procedures on how policies and procedures are implemented in the accounting and financial areas. All employees will receive adequate training on these policies and procedures only after the policies

and procedures have been vetted through the proper channels. This policy will be in place by June 30, 2013.

Observation No. 2: Formal Fraud Prevention, Detection, And Reporting Policies And Procedures Should Be Established

Observation:

The Home has not established formal fraud prevention, detection, and reporting policies and procedures. The lack of these formal anti-fraud policies and procedures may delay the recognition and reporting of, and appropriate reaction to, fraudulent activity.

A formal fraud prevention, detection, and reporting program, supported by appropriate policies and procedures, should make employees aware of the importance of controls in the organization, typical indicators of fraud often referred to as “red flags,” and appropriate actions for employees to take if fraud is suspected.

According to the Home, while it has no formal anti-fraud program, the Home’s security staff investigates allegations of fraud and reports the same to the Home’s Human Resources Administrator and Business Administrator. The Home’s Commandant may or may not be advised of a fraud allegation, depending upon its apparent significance.

The absence of formal policies and procedures may delay the detection and reporting of fraudulent activity and result in a lost opportunity to bolster deterrence.

Recommendation:

The Home should establish formal fraud prevention, detection, and reporting policies and procedures and provide its employees with formal fraud awareness training. The Home should take measures to ensure the policies and procedures facilitate and encourage reporting and protect all parties involved.

Included in the Home’s policies and procedures should be:

- Provisions for the regular reporting to the Commandant of fraud allegations, investigations, and resulting actions,
- Provisions for management’s timely reporting to the Department of Justice all cases of fraud, suspected fraud, breaches of laws, or other irregularities, which may have a significant impact on the Home’s reputation and financial position, and
- Established communication channels, which allow employees to report any suspected fraudulent practices to senior officials.

Auditee Response:

The Home concurs with this observation. A fraud policy has been implemented at the Home. The Home will provide training to employees regarding this policy. All employees will be trained on this policy during new hire orientation and annual orientation. All employees will be trained by March 30, 2014.

Observation No. 3: Regular Reviews For Organizational Compliance With Nepotism Statute Should Be Performed

Observation:

The Home has not established policies and procedures for a periodic review of organizational compliance with the State's nepotism statute.

According to RSA 21-G:26-a, *Nepotism*,

No executive branch official shall directly hire, evaluate, set the compensation or salary for, supervise, or terminate the employment of any full-time or part-time employee, temporary employee, or member of a state board or commission if such employee or member is related to such official in one of the following ways:

- I. Spouse;
- II. Parent by birth or adoption;
- III. Son or daughter by birth or adoption;
- IV. Stepson or stepdaughter;
- V. Brother or sister by whole or half blood or by adoption; or
- VI. Mother-in-law, father-in-law, sister-in-law, brother-in-law, daughter-in-law, or son-in-law.

According to the Home, it has considered and applied RSA 21-G:26-a when hiring new employees since the July 2009 effective date of the statute. However, the Home reported it had not reviewed the organizational compliance of employees who were already on staff when the statute became effective.

A review of related employees at the Home identified two instances where supervisory relationships prohibited under RSA 21-G:26-a were in place during fiscal year 2012. In both instances, the organizational structure predated the effective date of the statute. Supervision in these two instances included approval of timesheets and approval of requests for leave from work.

Recommendation:

The Home should establish policies and procedures to regularly review for ongoing organizational compliance with RSA 21-G:26-a.

The Home should review the two noted instances of organizational noncompliance with RSA 21-G:26-a. The Home should gain organizational compliance by reassigning job or supervisory responsibilities.

Auditee Response:

The Home concurs with this observation. A nepotism policy has been implemented at the Home. The Home will provide training to employees regarding this policy. All employees will be trained on this policy during new hire orientation and annual orientation. All employees will be trained by March 30, 2014.

Observation No. 4: Controls Over Resident Room And Board Determination Should Be Improved

Observation:

The Home has not established controls to ensure that its policies and procedures for determining a resident's room and board are clearly defined and effectively communicated and implemented.

A prospective resident's assets are considered in determining eligibility for residency and the amount of room and board to be paid by the resident. To be eligible for residency, a veteran cannot have more than \$275,000 of assets. Residents with more than \$30,000 of assets pay the Home's full-pay room and board rate of \$7,200 per month. Residents with less than \$30,000 of assets pay a partial-pay room and board rate of 90% of the resident's monthly income remaining after the \$100 monthly income exemption. According to N.H. Admin. Rule Ve-H 301.01 (e), "Income" means any periodic payment from any source received by an applicant for residency in the home or by a resident."

If a resident owns a residential property and a spouse or dependent continues to live at that property, the value of the property is excluded from the resident's total assets used to determine financial eligibility and room and board rate status. If the resident pays the partial-pay room and board rate and the spouse or dependent subsequently leaves the property, the value of the property, or if sold, the sales proceeds, is evaluated by the Home to determine the effect, if any, on the resident's room and board rate status.

Upon application to the Home, and annually thereafter, the resident or the resident's representative completes a financial affidavit which includes a reporting of the resident's assets and income. There is no specific guidance or description of income provided to assist in completing the financial affidavit. The lack of specific guidance may result in inconsistent reporting by residents and collection of resident excess income by the Home. For example, the Home does not track which partial-pay residents report monthly income at gross versus net of federal tax. The Home expects residents that receive federal income tax refunds to report the refund as income to the Home. However, if a resident ends the year with a federal tax liability, the Home does not return any portion of that tax liability to the resident as an overpayment of previously reported resident income.

1. The Financial Affidavit form that was sent out by the Home to verify resident assets and income at the beginning of 2012 was an incorrect form for the purpose. The Home mistakenly sent out a Spousal Financial Affidavit form which, in addition to requesting information on the resident's income, requested information on the spouse's assets, not the resident's assets. The Spousal Financial Affidavit form is generally used when a spouse is seeking an allotment, or reduction in a resident's room and board payment in order to provide an income allocation to the spouse in cases of spousal hardship, in accordance with N.H. Admin. Rule Ve-H 304.06. The Home did not recognize it had used the incorrect form until auditors inquired about the correctness of the form utilized.
2. While the Home does request and receive documentation to support financial affidavit information, the Home does not request copies of residents' federal income tax returns. The Home relies upon the preparer of the affidavit to provide accurate and complete resident income information when determining room and board rates.

A similar comment was included in the prior audit report.

Recommendation:

The Home should improve its information sharing and communication controls over resident room and board revenues.

The Home should review criteria in its administrative rules, instructions for the completion of forms, and other information sources for determining and reporting resident financial information, including income. The Home should ensure that such information and criteria is consistent, complete, accurate, and sufficiently explicit to allow residents, their families, and legal representatives to understand and comply with reporting and other requirements.

The Home should improve its monitoring controls for verifying resident assets and income. Appropriate forms should be used for the purpose and information returned on the forms should be critically reviewed for accuracy, consistency with federal income tax returns, and concurrence with previously determined information. Information that is inconsistent with current account information or is otherwise unexpected should be addressed and resolved in a timely manner.

Auditee Response:

The Home concurs with this observation. The Home will improve the communication regarding resident room and board revenues. The Home will review criteria and clarify to residents, their families, and legal representatives the reporting requirements. The Home will improve its monitoring controls and will address questions in a timely manner. This will be done immediately going forward.

Observation No. 5: Review And Approval Controls Should Be Established Over Determining And Recording Room And Board Charges

Observation:

The Home has not established a review and approval control over the business office's determination and posting of resident room and board charges into the Home's room and board calculation spreadsheet.

One business office employee is responsible for inputting resident monthly income from financial affidavits or other available sources into the monthly room and board calculation worksheet. The results from the worksheet calculations determine residents' monthly room and board charges. The Home has not designed and established a review and approval control over the determination and billing of room and board. The results of the worksheet calculations are uploaded into NHFirst for billing purposes without supervisory review. Because there is no review and approval control in place, if an input or other error occurred that resulted in an incorrect charge for a resident's room and board, the error would likely not be detected and corrected unless the resident or the resident's representative noticed the error and informed the Home.

During fiscal year 2012, the Home billed residents \$6.5 million for room and board.

A similar comment was included in the prior audit report.

Recommendation:

The Home should establish a review and approval control for the completion of the monthly room and board calculation worksheet. The review and approval control should be suitably designed to mitigate the risk that resident income determination and input and resultant room and board calculation errors could go undetected and uncorrected.

Auditee Response:

The Home concurs with this observation. The Home has established a review and approval control over the room and board calculation worksheet. This has been implemented.

Observation No. 6: Risk Of Allowing Employees To Provide Banking Assistance To Residents Should Be Addressed

Observation:

At least one employee of the Home's business office assists residents with their personal banking activity in accounts maintained outside of the Home. The employee reports that certain of the residents have difficulty, for example, writing checks and reconciling accounts without assistance. While the employee is under the understanding the Home is fully aware of this

assistance provided to the residents, there is no official sanction of the work or other involvement by the Home to ensure that the residents are protected from any resulting error or fraud that may occur.

The Home estimates that approximately 55% of the residents maintain financial accounts outside the Home in addition to their resident account within the Home's Members' Administration Account (MAA). While residents are encouraged, they are not required to maintain all of their financial accounts within the Home's MAA.

Allowing a Home employee to be involved with resident banking activity, without appropriate policies, procedures, and other suitable controls in place, exposes the Home and residents to an increased risk of, and liability from, an error or fraud that may occur and not be detected and corrected timely. It also exposes the employee to the risk of allegations of mishandling resident funds.

Recommendation:

The Home should determine whether to continue to allow its employees to provide personal banking assistance to residents.

If the Home approves the continuation of this assistance, the Home should establish reasonable policies and procedures to formalize and control the activities that are appropriate for Home employees in providing personal financial assistance to residents in order to reasonably protect the resident, Home, and employee from associated risks.

If the Home determines it does not want employees to have any association with residents' personal accounts, the Home should establish policies and procedures forbidding this activity and work with residents, families, guardians, and others to ensure that those residents requiring assistance with these activities have competent and trustworthy resources from whom they can receive assistance.

Auditee Response:

The Home concurs with this observation. The Home has written a policy regarding employees providing assistance in financial matters to residents. The policy is currently under review for approval by the associated departments' leaders. The policy will be in place by June 30, 2013 with training provided to all employees.

Observation No. 7: Expanded Use Of Perpetual Inventory Accounting System Should Be Considered

Observation:

During fiscal year 2012, the Home reported its consumable inventory to the Department of Administrative Services for the State's year end closing purposes as follows:

<u>Description</u>	July 1, 2011			June 30, 2012
	<u>Balance</u>	<u>Purchases</u>	<u>Issues</u>	<u>Balance</u>
Linens	\$ 13,591	\$ 10,837	\$ 7,147	\$ 17,281
Food	37,040	568,510	576,650	28,900
Non-Medical Supplies	17,462	284,591	278,994	23,059
Medical Supplies	30,773	600,030	584,353	46,450
Pharmacy	95,956	1,138,467	1,140,124	94,299
Totals	<u>\$ 194,822</u>	<u>\$ 2,602,435</u>	<u>\$ 2,587,268</u>	<u>\$ 209,989</u>

During fiscal year 2012, inventory values for linens, medical supplies, and narcotic pharmaceuticals were accounted for on a perpetual basis with a periodic physical count compared to the perpetual records. Inventory values for food, non-medical supplies, and non-narcotic pharmaceuticals were determined at year end by a physical count; the Home did not maintain perpetual inventory records for these inventory classes. While the maintenance of perpetual inventory records has an associated cost of time and other resources, a significant benefit of perpetual inventory accounting is the ability to more closely identify and monitor inventory balances and changes in those balances, including inventory shrinkage.

Pharmacy inventory is maintained and controlled by a contracted vendor sited in-house. Narcotics are tracked by a perpetual inventory system as required by federal regulations. Non-narcotic inventories are not tracked perpetually. The Home's pharmaceutical (both narcotic and non-narcotic) inventory practices are determined by the contracted pharmacy vendor.

According to the Home, perpetual inventory records previously were prepared for all inventory classes; however, those practices changed over time. The Home was unaware whether an analysis was ever performed to determine whether perpetual inventory records would be a net benefit to the Home.

Recommendation:

The Home should review its policies and procedures for accounting for consumable inventories to determine whether the use of a perpetual accounting system for all of its consumable inventories would be of net benefit to the Home.

Auditee Response:

The Home concurs with this observation. The two inventory control clerks are now under one department. The Home is now tracking all consumable inventories in the same manner as the linen, and medical supplies, by using a perpetual accounting system. We will be writing formal policies and procedure and will have it in place by July 1, 2013.

Observation No. 8: Controls Over Processing And Accounting For Federal Revenues Should Be Improved

Observation:

Errors noted in the Home's fiscal year 2012 requests for federal per-diem contributions indicate controls over that process are weak and require improvement.

Testing of federal revenues revealed the Home was not consistent in preparing complete and accurate requests for federal per-diem contributions. The Home's requests for federal contributions during fiscal year 2012 were at times based on incorrect resident census numbers, included miscalculations of the Home's daily cost of care, misapplied the Home's daily rate, and credited amounts in the wrong revenue accounts and fiscal years. The net effect of the noted errors on the Home's revenues for fiscal year 2012 was an excess draw of approximately \$7,000 of federal funds and incorrect allocation of revenues. Revenues reported in the federal per-diem account were understated by approximately \$638,000 and revenues reported in the resident room and board account were overstated by approximately \$600,000 in the State accounting system, NHFirst. In addition, certain noted errors affected the Home's reporting of fiscal year 2011 revenues.

Ineffective design and implementation of the control process over the preparation and review and approval of requests for federal revenues contributed to the above noted problems. The control process in place did not consistently support the determination of accurate amounts, accurate fiscal year end cutoffs, or use of correct accounts. Compounding the ineffective control process was the extended absence of a key employee.

Recommendation:

The Home should establish more effective controls over its processing and accounting for federal revenues. The requests for federal per-diem contributions should be subject to an effective review and approval control that includes verification of significant information that affects amounts requested and accounts and fiscal periods impacted.

Auditee Response:

The Home concurs with this observation. The census numbers are now verified by the business office, before the billing process is completed. All the spreadsheets will be forwarded to the Commandant for review, before the invoice is forwarded to the Veterans Administration. The Veterans Administration has also changed their prevailing rate policy and a monthly flat rate is set. The Home's daily cost is no longer a factor in the formula.

Observation No. 9: Requests For Federal Program Contributions Should Be Timely

Observation:

The Home did not have policies and procedures in place to minimize the time between making a federal program expenditure and drawing federal contributions for the program expenditure during fiscal year 2012.

The Home participates in the State Home Construction Grant Program (Program) administered by the federal Department of Veterans Affairs (DVA). The Program assists States to acquire or construct State home facilities for veterans, and to expand, remodel or alter existing buildings for furnishing care to veterans. The federal participation rate for approved capital projects is 65% of allowable costs. There is no specific program criterion for how often reimbursements are to be requested. Title 38 CFR Part 59 at 59.100, *Payment of Grant Award*, states, "Such amount shall be paid by way of reimbursement, and in such installments consistent with the progress of the project...."

During the audit period, the Home requested and received \$3,925,001 for reimbursement of capital projects costs. The related capital projects were for facility upgrades and asbestos abatement, energy enhancements, life safety infrastructure upgrades, and a centralized shipping and receiving area and multi-purpose center. The Home reports its intention is to request federal reimbursement of capital projects costs on a quarterly basis but the frequency of the requests is impacted by availability of resources to prepare the requests.

As noted in the following table, requests for reimbursement covered time periods ranging from three to 12 months.

Period That Related Costs Were Incurred	Number Of Months Covered By Request For Reimbursement	Date Reimbursement Request Submitted To Department Of Veterans Affairs	Amount Requested For Reimbursement
07/01/10 to 06/30/11	12	8/11/2011	\$ 961,405
07/01/11 to 10/31/11	4	11/18/2011	1,152,373
11/01/11 to 01/31/12	3	2/15/2012	935,218
02/01/12 to 06/26/12	5	6/27/2012	876,005
		Total	\$ 3,925,001

At June 30, 2012, the Home had approximately \$25,800 in Program costs subject to federal reimbursements available, pending a request for reimbursement.

Untimely reimbursements have a negative cash flow effect on the Capital Projects Fund and can unnecessarily complicate their accounting in the correct accounting period.

Recommendation:

The Home should request from the DVA reimbursement of its Program costs as soon as practical after the Program expenditure.

The Home should work with the DVA to determine a reimbursement schedule to help ensure amounts due the Home are collected within a reasonable period of time and to minimize cash flow costs to the State.

Auditee Response:

The Home concurs with this observation. The Home should request reimbursement from ongoing projects more frequently. The Home is held to standards by the Department of Veterans Affairs (DVA) that states that at the end of a program the final request must be done once the program funds are at 10% remaining of the project. The Home can only make this request once and it is final. The Home works with the Department of Administrative Services, Bureau of Public Works to complete the final punch list before this final request is made, because if items are found they can then be corrected and included in the reimbursement request to the DVA. If items are found after the final request to the DVA then the Home has no way to obtain the additional funds. In conclusion, at the end of a capital project, the wrapping up of the final request can and does take months if not a year. The Home is fiscally responsible by waiting for the final numbers before making the final request from the DVA.

Observation No. 10: Controls Over Pharmacy Reimbursements Should Be Improved

Observation:

The Home's business office has not implemented controls over the monthly request for Department of Veterans Affairs (DVA) participation in the cost of residents' medications.

The Home contracts with a vendor for the provision of onsite pharmacy services. The scope of services provided by the vendor includes requesting reimbursement from the DVA for the cost of those residents' medications determined eligible for reimbursement by the DVA. On a monthly basis, the Home's business office provides the pharmacist with a list of residents who receive the DVA "aid and attendance benefit," a monthly supplement to a DVA pension. Receipt of this benefit is one of several criteria for DVA reimbursement of medication costs. The pharmacist reviews the aid and attendance list, identifies resident eligibility for DVA medication reimbursement, and notifies the business office of reasons for resident ineligibility. Monthly, the pharmacist requests reimbursement from the DVA for eligible medication costs.

1. The pharmacist determines and notifies the business office of the reimbursement request amount when the request is submitted to the DVA for reimbursement. However, the pharmacist does not provide the business office with a copy of the detail support for the request for reimbursement.

The business office posts the total requested reimbursement amount as an account receivable in the State accounting system. Because the business office is not provided with supporting documentation, the business office is unable to test the accuracy of the pharmacist's determination of the recoverable amount.

2. During testing of pharmacy reimbursements we noted inaccurate and untimely postings by the business office to the financial records that resulted in a net overstatement of approximately \$44,000 in the pharmacy reimbursement revenue account, and an overstatement of approximately \$20,000 in the members' excess income (resident room and board) revenue account. In certain noted cases, the Home made revenue postings that were untimely, as the postings were made a month after the identification of the amounts to post.

Recommendation:

The Home should implement controls over its program with the DVA for pharmacy reimbursements.

1. The Home should establish a more robust review and approval control over its pharmacy vendor's determination of DVA reimbursement requests. The business office should request and review for accuracy appropriately detailed documentation supporting amounts submitted to the DVA for reimbursement of pharmaceutical costs.
2. The Home should determine the cause of its mispostings of pharmaceutical reimbursements and implement controls to prevent future occurrences. The controls should support accurate and timely financial reporting relative to amount, account, and period and include a review of supporting documentation.

Auditee Response:

The Home concurs with this observation. The Home will establish a more robust review and approval control process over the DVA reimbursement requests. The pharmacy will provide to the business office the detailed documentation that supports the amounts requested. The Home will work with the DVA to establish tighter guidelines on which a veteran is eligible to receive pharmaceutical reimbursements and provide these guidelines to the pharmacy vendor. These guidelines will be in place by September of 2013.

Observation No. 11: Canteen Sales Documentation Should Be Maintained

Observation:

The Home has not been consistent in ensuring that documentation is maintained to support the daily sales of the Canteen, a Home-run store selling convenience items to the residents.

We tested Canteen sales documentation for a random sample of 10 days during fiscal year 2012. We identified problems in the documentation for each of the 10 days tested including missing

documentation or unresolved differences in total sales on the Daily Sales worksheet, Cash-Out form, or Cash-Out Register Tape.

- Canteen sales are rung into a cash register with the items sold concurrently posted on a Daily Sales worksheet. While a total of the daily sales from the Daily Sales worksheet is calculated, it is not routinely compared to the day's total sales recorded by the cash register. The Home was unable to locate the Daily Sales worksheets for four of the 10 days in the sample.
- At the close of each Canteen sales day, the total sales amount recorded on the cash register Cash-Out Tape is posted on a Cash-Out form. Overages and shortages between accumulated sales receipts and the activity recorded by the cash register are identified on the Cash-Out form; however, there is no further tracking or reporting of overage/shortage amounts. The Home was unable to locate the daily Cash-Out Register Tape for five of the 10 days in the sample.

The Home's inattention to the maintenance of documentation supporting the daily sales of the Canteen increases the risk that errors or frauds that may occur in the operation of the Canteen may not be detected and corrected in a timely manner.

A similar comment was included in the prior audit report.

Recommendation:

The Home should establish policies and procedures for the maintenance of appropriate documentation to support its Canteen sales. Cash overages and shortages should be tracked and reported to management to prompt appropriate action.

The Home should consider whether the preparation of the Daily Sales worksheet continues to serve a control or other purpose. While information on the worksheet could be used for inventory purposes, during fiscal year 2012, it was not used for that purpose. If the Daily Sales worksheet is determined not to have continuing value, the Home should consider discontinuing its preparation.

Auditee Response:

The Home concurs with this observation. The Home has implemented a practice and is currently working on a written policy and procedure which will support the practice by July 1, 2013.

The Home is now having the business office review, calculate, verify and document the sales. The records are now kept within the business office. We are now tracking the over and shorts in a sub account under the Canteen revenue through the Home's accounting software and it is reported to the Board of Managers on a quarterly basis.

Observation No. 12: Purchases Of Canteen Inventory Should Utilize State Purchasing Controls

Observation:

The Home did not utilize Department of Administrative Services, Bureau of Purchase and Property, or other State controls in selecting vendors, establishing pricing, and making purchases, even though State statute requires disbursements from trust funds, including the Home's Members' Benefit Fund, to use normal State purchasing controls. The Home purchased over \$16,000 of goods for resale in the Canteen during fiscal year 2012, including over \$11,000 of goods purchased from a single vendor.

Pursuant to RSA 11:7, "All disbursements made by state agencies and departments for trust fund purposes shall follow the laws, rules, and regulations applicable to said agencies and departments for normal operating and capital purposes." The State's purchasing rules generally require purchases greater than \$500 to be processed through the Bureau of Purchase and Property.

Because the Members' Benefit Fund is partially accounted for and reported in the State's accounting system, the Home would have the ability to fully utilize the State's control procedures outlined in statute and administrative rule in purchasing goods for the Canteen.

A similar comment was included in the prior audit report.

Recommendation:

The Home should utilize the normal State purchasing controls, outlined in statute and administrative rule, in purchasing canteen goods for resale. The Home should also request assistance from the Bureau of Purchase and Property in selecting a vendor and obtaining optimal pricing. Doing so will help document that the Home is meeting its fiduciary responsibility and exercising appropriate due diligence over its Members' Benefit Fund expenditures.

Auditee Response:

The Home concurs with this observation. Although we contacted various vendors, we were unable to find a vendor who was willing to make deliveries to the Home without a large delivery fee. In the future the Home will use the request for proposal (RFP) procedure to obtain a contract for the goods that are sold in the Canteen.

Observation No. 13: Controls Over Vending Services Should Be Established

Observation:

The Home has a long-standing informal agreement for vending machine services for the Home's staff and residents. The vending machine operator pays the Home a percentage of sales that is

split between an employee “sunshine account” and the Members’ Benefit Fund, pro-rata, based on the number of vending machines in staff break areas and resident areas at the Home.

The vending machine operator reports weekly sales as a grand total from the machines and pays commission to the Home based on the reported sale total. The amount reported as sales is not supported by any machine-based or other activity reports or supporting information. The Home accepts the reported sales and commission amount without question or further evidence. For example, for the four weeks of February 2012, the vendor reported weekly vending sales of \$760, \$560, \$700, and \$660. The sales amounts were reported on a slip of paper with no additional detail or support.

Without supporting information, the Home cannot detect if the vending provider erroneously reports vending machine sales and commission.

The Home should have controls, including policies and procedures, in place to ensure that the vending machine operations are operating as management intended.

A similar comment was included in the prior audit report.

Recommendation:

The Home should improve controls over the vending machines in place in the Home.

The Home should establish a formal agreement for vending machine services. The agreement should cover the rights and responsibilities of both the Home and the service provider. The agreement should also include provisions that allow the Home to gain reasonable assurance that it is receiving its proper share of revenues. If appropriate and reliable reporting is not available, the Home should periodically observe the collection of money from the machines to compare to amounts remitted.

The Home should also establish policies and procedures for its vending operations including the allocation of sales commission between the employee “sunshine account” and the Members’ Benefit Fund. Policies and procedures should be effectively communicated and compliance periodically monitored.

Auditee Response:

The Home concurs with this observation. The Home will establish policies and procedures for its vending operations. This policy and procedure will be effectively communicated and the Home will monitor compliance periodically.

Observation No. 14: Comprehensive Policies And Procedures Supporting Members' Benefit Fund Accounting And Reporting Should Be Established

Observation:

The Home does not have comprehensive policies and procedures to support its efforts to account for and report the financial activity in its Members' Benefit Fund (MBF), a private purpose trust fund.

Errors noted in the Home's reporting of financial activity in the MBF indicate that additional training, guidance, and accuracy is needed in the Home's financial management information and reporting efforts.

1. During fiscal year 2012, in its periodic reporting to the Board of Managers and in its year end reporting to the Department of Administrative Services, the Home incorrectly reported approximately \$150,000 of transfers between two MBF accounts as income and expense in the two accounts. Transfers of money between accounts within the same fund should not be reported as income and expense transactions as doing so can mislead financial statement users as to the actual fund activity. Overstating activity in income and expense accounts can distort the resources of the fund.
2. At June 30, 2012, the Home reported approximately \$130,000 of outstanding encumbrances as fund expenditures, even though the underlying purchasing transactions were not complete. The State's general policy is to not report encumbrances as expenditures until the transaction is complete, i.e. the service rendered, product received.
3. At June 30, 2012, the Home reported its MBF investments at cost and not at fair value, understating its investments by approximately \$40,000.
4. Generally, the Home accounts for and reports equipment purchased using MBF funding as MBF assets. In reviewing the Home's fiscal year 2012 MBF asset financial activity and reporting, we noted instances where the Home had not accurately accounted for and reported the purchase and disposal of MBF funded equipment, or determined depreciation expense.
 - The Home at June 30, 2012 reported three items of equipment as both MBF assets and as State-owned assets. These assets, with an original cost of \$96,000, were reported by the Home on its MBF balance sheet as Fund-owned assets and were also reported by the Home on its State-owned asset listing. The Home did not report depreciation expense on the MBF financial statements but does calculate and report depreciation expense in its reporting of the assets to the State.
 - The Home did not include ancillary costs when recording a theater system purchased with MBF funding at the end of fiscal year 2011. By excluding installation and other costs, the Home understated the cost value of the asset by approximately \$37,000 and also understated fiscal year 2012 depreciation expense by approximately \$7,000.

- The Home incorrectly recorded and reported approximately \$15,000 of equipment purchased with State General Funds and Employee Wellness Funds as MBF funded equipment.
- The disposals of MBF funded equipment during fiscal year 2012 were not consistently evidenced as surplused through State Surplus Property and there were no indications that proceeds from the ultimate sale of the surplused equipment were returned to the MBF.

A similar equipment controls comment was included in the prior audit report.

Recommendation:

The Home should establish formal policies and procedures to support its accounting for, and reporting of, the financial activity in the MBF. The Home should consider seeking assistance from the Department of Administrative Services on an appropriate accounting and financial reporting framework for the MBF.

Once appropriate policies and procedures are established, the Home will need to ensure that an appropriate control structure is in place to promote compliance with the policies and procedures and reasonably ensure their complete and accurate performance.

Auditee Response:

The Home concurs with this observation. The Home is in the process of expanding its MBF policies and procedures including writing a formal policy which will track transfers from the Members' Benefit Fund checking to the State Revolving Fund (MBF). That policy will be in place by July 1, 2013.

Observation No. 15: Options For Strengthening Controls In The Home's MAA And MBF Accounting And Reporting Software Should Be Explored

Observation:

As currently implemented, the Home's accounting and reporting information system used for its Members' Administration Account (MAA) and Members' Benefit Fund (MBF) does not have strong controls to prevent inadvertent or otherwise unauthorized postings of new transactions or changing of previously posted transactions to closed or previously reported accounting periods.

The Home uses a common off-the-shelf software package to account for and report financial activity in its MAA and MBF. In discussing the Home's use of the software, related general accounting procedures, and reviewed accounting transactions, we were informed that accounting periods are not subject to a strong closing control for accounting periods. As a result, transactions can be posted to closed accounting periods, contrary to general good practice. In addition, the number of Home employees who have full access to the system appears excessive for the needs of the Home. The combination of weak closing controls and excess access

authorities increases the risk that errors or frauds in these accounts could occur and not be detected and corrected in a timely manner.

Recommendation:

The Home should explore options for strengthening controls in its MAA and MBF accounting and reporting software.

The Home should determine whether closing controls for accounting periods can be implemented in the current version of the software. If available, period closing controls should be utilized to increase the security of posted transactions and reported financial information. If period closing controls are not available, the Home should consider replacing this accounting and reporting system.

Employee access levels should be commensurate with, and limited to, their specific current job responsibilities. Excess access authorities should be eliminated.

Auditee Response:

The Home concurs with this observation. The Home is exploring other software or updated programs that will strengthen our period closings and provide the ability to limit access levels to the specific responsibilities of the employees. The Home will have a solution to this observation by September 1, 2013.

Observation No. 16: Controls Over Cash And Investment Accounts Should Be Improved

Observation:

The Home's controls over its cash and investment accounts are not suitably designed and implemented to lessen the risk that errors or frauds could occur and not be detected and corrected in a timely manner.

The Home maintains a checking account for the Members' Administration Account (MAA) and a checking account for the Members' Benefit Fund (MBF). The Home also has investment accounts for each of these funds that are maintained by the State Treasury. At June 30, 2012, the accounts had the following book and bank balances. The bank balances for the investment accounts below are reported at market value.

June 30, 2012		
Description	Book Balance	Bank Balance
MAA Checking Account	\$ 413,552	\$ 417,375
MAA Investment Account	234,603	234,603
MBF Checking Account	3,417	4,218
MBF Investment Account	599,756	640,435
Total	\$ 1,251,328	\$ 1,296,631

As noted in the following numbered items, certain controls were either not properly designed or implemented to lessen the risk of undetected and uncorrected errors or frauds.

1. The Home has not designed controls to segregate responsibilities for reconciling bank accounts, as the employee responsible for reconciling the bank statements to the Home's financial records also has authority to post transactions to the electronic general ledger and has access to blank check stock.
2. The Home does not have a review and approval control process for bank account reconciliations to ensure the account activity appears reasonable, there are no unusual reconciling items, and that the reconciliations are completed timely. Had such a review and approval process been in place during fiscal year 2012, the Home should have recognized the reconciliations for the Home's checking accounts for December 2011 and January and February 2012 were prepared on March 16, 2012.
3. The Home lacks controls to safeguard its online banking activity. A business office employee, who is not an authorized signer on the accounts, has online banking authority generally restricted to account signers, including initiating electronic fund transfers to Home and non-Home accounts.
4. The Home does not limit access to the Business Office safe and the assets contained in the safe. Six employees have general access to the Business Office safe, which contains funds for several petty cash accounts, check stock for its MAA and MBF accounts, and a key to access a change machine.
5. The Home has not designed and implemented a reconciliation control process to formally reconcile the MAA and MBF investment account statements to its records.

A similar comment was included in the prior audit report.

Recommendation:

The Home should establish effective controls, including written policies and procedures, for safeguarding its cash and investments. The establishment of policies and procedures should include effective communication and periodic monitoring to ensure compliance.

1. The Home should effectively segregate the responsibility for preparing bank account reconciliations from the ability to initiate transactions on those accounts.
2. The Home should establish a review and approval control process for bank account reconciliations to ensure that reconciliations are accurate, complete, and timely.
3. The Home should determine and limit the business office employee's online banking authority to that which is appropriate for the employee's job responsibilities. Only authorized

signatories should have online account access authority to initiate and direct electronic fund transfers.

4. The Home should restrict access to the business office safe to only those employees necessary. Check stock, petty cash accounts, and keys should be locked or otherwise separately secured in the safe to further limit access to only those employees requiring access.
5. The Home should establish a formal reconciliation process for the statements received from investment institutions to the Home's records for the MAA and MBF investment accounts. The Home should also establish a review and approval control process for the investment account reconciliations to ensure that reconciliations are accurate, complete, and timely.

Auditee Response:

The Home concurs with the observation. The Home has segregated the responsibility of preparing bank account reconciliations from the ability to initiate transactions on those accounts. The Home has established the review and approval process for bank account reconciliations. The Home has limited the access to online banking only to that individual who is authorized to sign on the account. The Home has restricted access to the business office safe and has had the combination changed. The Home has established a formal reconciliation process for the statements received from the Treasury regarding investment accounts.

Observation No. 17: Accounting For Members' Benefit Fund Donations Should Be Improved

Observation:

During fiscal year 2012, the Home did not effectively account for and monitor the use of Members' Benefit Fund (MBF) donations to ensure the donations were spent in accordance with the donors' wishes.

During fiscal year 2012, the Home received approximately \$120,000 of cash donations for the MBF. Donors restricted the use of approximately \$54,000 of that total for specific purposes, such as Christmas presents for residents, computer program activities, building of a pavilion, and women's veterans' programs. The balance in the MBF at June 30, 2012 was approximately \$894,000.

During and prior to fiscal year 2012, the Home was inconsistent in its tracking of donations containing use restrictions. As a result, the Home reported it was unable to identify what portion of the June 30, 2012 balance in the MBF was restricted for donor-specified purposes and what portion was available for the MBF's general-purpose use. The Home reported it could determine the restricted balance in the fund, but it would take significant efforts to do so. Without complete records, the Home is at risk of spending donated funds for purposes other than those expressed by the donors.

A similar comment was included in the prior audit report.

Recommendation:

The Home should establish formal policies and procedures for the complete, timely, and accurate accounting of donations to the MBF including any conditions or restrictions placed on the use of the funds by the donors.

The acceptance and use of donated funds should be fully accounted for, reported, and monitored to ensure that the Home is fully informed on the availability of funds in the MBF and to ensure that commitments to donors are met.

The Home should review its available records to ensure that all restrictions on the use of donations currently in the MBF are identified and accounted for so the use of the donations can be appropriately monitored for compliance with the donors' wishes.

Auditee Response:

The Home concurs with this observation. The Home is now setting up individual income and expense accounts within the accounting system for restricted donations. We will also be writing a formal policy and procedure for these types of transactions. This policy and procedure will be in place by July 1, 2013.

Observation No. 18: Trust Fund Should Not Be Used To Supplant State Funds

Observation:

During fiscal year 2012, the Home used the Members' Benefit Fund (MBF) to purchase equipment and to cover expenses that otherwise would have been covered by the Home's General Fund appropriations.

During our detail test of payments made from the MBF, we noted:

- The purchase of approximately \$13,000 of medical equipment including a bladder scanner and rolling cart, an electrocardiograph machine, and an emergency CPR-AED kit. This equipment would appear integral to the operation of an institution like the Home.
- The purchase of \$1,400 of forms, reports, and envelopes of an administrative nature.
- The payment of \$1,000 toward the lease of photocopiers used for the Home's administrative functions.

In order for the MBF to continue to be classified and reported as a private purpose trust fund, according to governmental accounting standards, the MBF has to primarily benefit individuals, private organizations, or other governments and not the reporting government. If a substantial amount of the MBF activity is used to pay for costs normally covered by the General Fund, governmental accounting standards would require the fund to be reported within the General Fund.

A similar comment was included in the prior audit report.

Recommendation:

Fiduciary funds administered by the Home for the benefit of residents should not be used to supplant State funds. Funds donated to the Home for administrative purposes should be accounted for in the State's General Fund and not be accounted for in the MBF.

The Home should establish clear policies and procedures, including specific evaluation criteria, for establishing and maintaining a distinction between donated funds to be held and used in a fiduciary capacity, and donated funds intended for the Home's administrative use. The Home should ensure expenditures made using the MBF are within the intended purposes of the MBF.

Auditee Response:

The Home concurs with this observation.

- The purchase of approximately \$13,000 of medical equipment came from a charitable grant. Going forward, the Home will process administrative grants through the Home's administrative accounts.
- The purchase of forms to aid in the admissions process and the \$1,000 paid toward copier leases should have come from state funds and will be corrected with a transfer of expenditure immediately.

Observation No. 19: Members' Benefit Fund Account Reconciliation Procedures Should Be Improved

Observation:

Reconciliation controls over the Home's Members' Benefit Fund (MBF) are neither complete nor sufficiently documented to evidence an effective reconciliation control process.

The Home records cash and equipment donations in a database and also records the cash donations in a stand-alone accounting system, used by the Home to account for the MBF financial activity. Quarterly, the Home prepares a reconciliation of the donated cash recorded in the two systems to ensure the reported donations in the two information systems are in agreement.

During fiscal year 2012, the Home's MBF received cash donations of approximately \$120,000 and equipment donations valued at approximately \$7,000.

- Because the reconciliation process used by the Home does not include reconciliation of equipment donations, the Home did not notice that the \$7,000 of equipment donated during fiscal year 2012 was not also recorded in the accounting system.

- The Home has not established a review and approval process for the reconciliations. No one independent of the preparation of the reconciliation reviews and approves the reconciliation for completeness, accuracy, and timeliness.
- Completed reconciliations are discarded upon completion and are not maintained as part of the accounting records.

A similar comment relative to equipment accounting and reporting was included in the prior audit report.

Recommendation:

The Home should improve its MBF account reconciliation procedures to include a full reconciliation, including reconciliation of donated equipment, a formal review and approval process, and an appropriate retention policy.

Someone independent of the preparation of the reconciliation should review the completed account reconciliations for completeness, accuracy, and timeliness. Completed and approved reconciliations should be retained as part of the accounting records, in accordance with the State's and Home's document retention policies.

The Home should consider performing monthly reconciliations to promote the timely detection and correction of errors or frauds, should they occur.

Auditee Response:

The Home concurs with this observation. We are in the process of reviewing and writing formal policies regarding the tracking of equipment. The Home will maintain the reconciliations of equipment. The Home will have a policy and procedure in place by September 1, 2013.

Observation No. 20: Policies And Procedures For Handling Old Outstanding Checks Should Be Established

Observation:

The Home has not established policies and procedures for handling stale outstanding checks drawn on its fiduciary checking accounts. The Home reports its general practice is to cancel an outstanding check drawn on the account after six months and recredit the check amount to the account. The Home has no procedure to follow-up on stale dated checks to determine if the payee has lost or misplaced the check and whether the issuance of a replacement check is warranted.

The June 30, 2012 checking account reconciliation for the Members' Administration Account identified five checks drawn on the account that remained uncashed and outstanding for more than 90 days after issuance. The checks indicate they are void after 90 days. Three of the checks

were outstanding for more than six months at June 30, 2012, including one check issued in January 2011.

One of the stale outstanding checks at June 30, 2012 was a check issued to the spouse of a former resident closing the resident's account. The check, issued in July 2011, was reversed in July 2012, as a result of not being cashed. The Home did not attempt to contact the payee to determine if a replacement check was required.

Recommendation:

The Home should establish policies and procedures for monitoring and timely response to old outstanding checks drawn on its fiduciary accounts. The policies and procedures should include making reasonable attempts to contact payees to determine the status of uncashed checks, including the need to reissue lost or misplaced checks.

Auditee Response:

The Home concurs with this observation. The Home now has a formal policy and procedure in place.

Observation No. 21: Checking Accounts Should Be Maintained At Target Balances

Observation:

During fiscal year 2012, the Home did not maintain account balances in its local depository checking accounts at the amounts identified in its policies and procedures.

The Home's policies and procedures for the Members' Administration Account (MAA) and Members' Benefit Fund (MBF) checking account balances are intended to maintain balances sufficient for anticipated needs, while maintaining investment returns and minimizing risks.

According to the Home's policies and procedures, end of month balances in the MBF checking account in excess of \$25,000, excluding any large request waiting for payment, and the balance in the MAA checking account in excess of \$50,000, excluding the amount representing the monthly room and board payments, should be sent to the State Treasury for deposit into the MBF and MAA investment accounts. As noted in the monthly balances reported in the following tables, the Home did not consistently transfer funds to the investment accounts in accordance with the Home's standard procedures during fiscal year 2012.

Members' Benefit Fund (Target \$25,000)

	Bank Balance		Book Balance
	Low	High	Month-End
July, 2011	\$ 73,523	\$ 82,222	\$ 82,222
August	80,562	93,805	93,431
September	92,948	98,201	93,881
October	87,249	94,066	87,455
November	77,901	88,103	81,344
December	77,725	91,027	91,027
January	80,650	100,948	100,948
February	22,105	101,630	26,478
March	23,680	33,621	27,144
April	18,585	27,144	19,658
May	11,729	19,658	11,955
June, 2012	1,457	11,955	3,417
Average	\$ 54,010	\$ 70,198	\$ 59,913

Source: MBF bank statements and check register

Members' Administration Account (Target \$50,000)

	Bank Balance		Book Balance
	Low	High	Month-End
July, 2011	\$382,414	\$634,461	\$407,830
August	356,800	599,082	441,788
September	368,471	618,693	523,797
October	346,273	563,171	408,286
November	318,156	568,199	445,614
December	361,019	678,665	393,363
January	339,608	590,869	394,605
February	364,475	678,913	377,746
March	338,037	589,351	389,412
April	232,214	570,741	266,619
May	211,384	472,218	256,399
June, 2012	221,244	460,400	413,552
Average	\$320,008	\$585,397	\$393,251

Source: MAA bank statements and check register

Maintaining excess balances in the checking accounts increases the potential magnitude of any errors or frauds that may occur and also diminishes the investment earnings on the account balances.

The apparent cause of the noncompliance with the investment policies and procedures was a combination of a lack of effective communication of responsibilities and a lack of an effective monitoring control process.

A similar comment was included in the prior audit report.

Recommendation:

The Home should further develop its policies and procedures for maintaining checking account balances in accordance with the balances targeted in its current policies and procedures, and also establish a monitoring control to ensure that appropriate balances are maintained. The Home should ensure responsibility is clearly assigned and understood for both performing account balance reviews and initiating transfers, as well as for monitoring that activity.

Auditee Response:

The Home concurs with this observation. The Home will develop policies and procedures for maintaining the checking account balances. This policy will be implemented by June 30, 2013.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the New Hampshire Veterans' Home (Home) as of and for the fiscal year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Home's management. Our responsibility is to express opinions on these financial statements 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 statements are 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 Home's internal controls 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 statements, 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 statements referred to above do not purport to, and do not, constitute a complete financial presentation of the Home in the General Fund or Capital Projects Fund in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the matter referred to in the third paragraph, the financial statements referred to above present fairly, in all material respects, certain financial activity of the Home as of and for the fiscal year ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements referred to in the first paragraph. 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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated April 17, 2013 on our consideration of the Home's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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

Office Of Legislative Budget Assistant

April 17, 2013

**STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE VETERANS' HOME
STATEMENT OF REVENUES AND EXPENDITURES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	General Fund	Capital Projects Fund	Guy Thompson Memorial Trust	Totals
<u>Restricted Revenues</u>				
Federal Per-Diem	\$ 7,213,926	\$ -0-	\$ -0-	\$ 7,213,926
Residents Room And Board	6,452,825	-0-	-0-	6,452,825
Pharmacy Reimbursements	342,249	-0-	-0-	342,249
Federal Grants	-0-	2,989,396	-0-	2,989,396
Interest And Dividends	-0-	-0-	26	26
Total Revenues	<u>14,009,000</u>	<u>2,989,396</u>	<u>26</u>	<u>16,998,422</u>
<u>Expenditures</u>				
Salaries And Benefits	22,558,451	-0-	-0-	22,558,451
Prescription Drugs	1,146,535	-0-	-0-	1,146,535
Current Expenses	982,444	-0-	-0-	982,444
Utilities	669,411	-0-	-0-	669,411
Food	578,258	-0-	-0-	578,258
Workers Compensation	341,884	-0-	-0-	341,884
Maintenance	242,733	-0-	-0-	242,733
Consultants	228,804	-0-	-0-	228,804
Life Safety Infrastructure Upgrades	-0-	3,738,756	-0-	3,738,756
Multi-Purpose Center	-0-	853,371	-0-	853,371
Other	152,675	38,613	-0-	191,288
Recreational Activities	-0-	-0-	25	25
Total Expenditures	<u>26,901,195</u>	<u>4,630,740</u>	<u>25</u>	<u>31,531,960</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>(12,892,195)</u>	<u>(1,641,344)</u>	<u>1</u>	<u>(14,533,538)</u>
Other Financing Sources (Uses)				
Net Appropriations	12,892,195	1,641,344	-0-	14,533,539
Total Other Financing Sources (Uses)	<u>12,892,195</u>	<u>1,641,344</u>	<u>-0-</u>	<u>14,533,539</u>
Excess Of Revenues And Other Financing Sources Over Expenditures And Other Financing Uses	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>1</u>	<u>\$ 1</u>
Fund Balance - July 1			15,312	
Fund Balance - June 30			<u>\$ 15,313</u>	

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

**STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE VETERANS' HOME**

**BALANCE SHEET - PERMANENT FUND
GUY THOMPSON MEMORIAL TRUST
JUNE 30, 2012**

Assets

Cash And Cash Equivalents	\$ 15,313
Total Assets	<u>\$ 15,313</u>

Liabilities

Total Liabilities	<u>\$ -0-</u>
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Fund Balance

Nonspendable:	
Trust Principal	15,000
Restricted	<u>313</u>
Total Fund Balance	<u>15,313</u>
Total Liabilities And Fund Balance	<u>\$ 15,313</u>

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

**STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE VETERANS' HOME**

**STATEMENT OF FIDUCIARY NET ASSETS - PRIVATE PURPOSE TRUST FUND
MEMBERS' BENEFIT FUND
JUNE 30, 2012**

<u>Assets</u>	
Cash And Cash Equivalents	\$ 281,389
Investments	613,037
Capital Assets (Net Of Accumulated Depreciation)	<u>104,227</u>
Total Assets	<u>\$ 998,653</u>
<u>Liabilities</u>	
Total Liabilities	<u>\$ -0-</u>
Net Assets Held In Trust	<u>\$ 998,653</u>

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

**STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE VETERANS' HOME**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUND
MEMBERS' BENEFIT FUND
FISCAL YEAR ENDED JUNE 30, 2012**

Additions

Contributions	
Gifts, Bequests, And Endowments	\$ 127,105
Total Contributions	<u>127,105</u>
Income From Investing Activities	
Interest And Dividends	12,930
Net Increase In Fair Value Of Investments	<u>10,921</u>
Total Net Income From Investing Activities	<u>23,851</u>
Other Income	
Canteen Operations	15,500
Miscellaneous	<u>3,517</u>
Total Other Income	<u>19,017</u>
Total Additions	<u>169,973</u>

Deductions

Benefits/Distributions To Participants	
Resident Activities	88,403
Supplies And Services	37,970
Canteen Operations	16,205
Depreciation	12,870
Public Relations	<u>5,351</u>
Total Benefits/Distributions To Participants	<u>160,799</u>
Total Deductions	<u>160,799</u>

Change In Net Assets	<u>9,174</u>
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Net Assets Held In Trust

July 1, 2011	<u>989,479</u>
June 30, 2012	<u>\$ 998,653</u>

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

**STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE VETERANS' HOME**

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUND
MEMBERS' ADMINISTRATION ACCOUNT
FISCAL YEAR ENDED JUNE 30, 2012**

	Balance			Balance
<u>Assets</u>	<u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2012</u>
Cash And Cash Equivalents	\$ 677,278	\$ 4,362,555	\$ 4,389,678	\$ 650,155
Total Assets	<u>\$ 677,278</u>	<u>\$ 4,362,555</u>	<u>\$ 4,389,678</u>	<u>\$ 650,155</u>
<u>Liabilities</u>				
Custodial Funds Payable	\$ 677,278	\$ 4,362,555	\$ 4,389,678	\$ 650,155
Total Liabilities	<u>\$ 677,278</u>	<u>\$ 4,362,555</u>	<u>\$ 4,389,678</u>	<u>\$ 650,155</u>

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

**STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE VETERANS' HOME**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the New Hampshire Veterans' Home (Home) have 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 New Hampshire Veterans' Home is an organization of the primary government of the State of New Hampshire. The accompanying financial statements report the financial activity of the Home.

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

B. Financial Statement Presentation

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

Governmental Fund Types:

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

Capital Projects Fund: The Capital Projects Fund accounts 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.

Permanent Fund: A permanent fund reports resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the State or its citizenry. The Guy Thompson Memorial Trust is a permanent fund accounted for by the New Hampshire Veterans' Home.

Fiduciary Fund Types

Private Purpose Trust Fund: A private purpose trust fund reports resources of those trust fund arrangements in which principal and income benefit individuals, private organizations, or other governments. The Members' Benefit Fund is a private purpose trust fund accounted for by the New Hampshire Veterans' Home.

Agency Fund: An agency fund reports assets and liabilities for deposits and other investments entrusted to the State as an agent for others. The Members' Administration Account is an agency fund accounted for by the New Hampshire Veterans' Home.

C. Measurement Focus And Basis Of Accounting

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

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

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Additions are recorded when earned and deductions/deletions are recorded when a liability is incurred, regardless of the timing of related cash flows.

D. Cash Equivalents

Cash equivalents represent short-term investments with original maturities less than three months from the date acquired by the State.

E. Investments

Investments are reported at fair value.

F. Revenues And Expenditures

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

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

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

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

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

G. Budget Control And Reporting

General Budget Policies

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

The operating budget is prepared principally on a modified cash basis and adopted for the General Fund and other governmental funds, with the exception of the Capital Projects Fund and certain proprietary funds. 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. 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. Appropriation transfers can be made within a department without the approval of the Legislature; therefore, the legal level of budgetary control is at the departmental level.

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

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

H. Encumbrances

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services, the encumbrance is liquidated and the expenditure and liability are recorded. The Home's unliquidated encumbrance balance at June 30, 2012 was \$182,588 in the General Fund and \$1,026,671 in the Capital Projects Fund.

NOTE 2 - NET APPROPRIATIONS

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

NOTE 3 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

Deposits:

The following statutory requirements and New Hampshire Treasury Department policies have been adopted to minimize risk associated with deposits.

RSA 6:7 establishes the policy the State Treasurer must adhere to when depositing public monies. Operating funds are invested per investment policies that further define appropriate investment choices and constraints as they apply to those investment types.

Custodial Credit Risk: The custodial credit risk for deposits is the risk that in the event of a bank failure, the State’s deposits may not be recovered.

Custodial credit risk is managed in a variety of ways. Although State law does not require deposits to be collateralized, the State Treasurer does utilize such arrangements where prudent and/or cost effective. All banks, where the State has deposits and/or active accounts, are monitored as to their financial health through the services of Veribanc, Inc., a bank rating firm. In addition, ongoing reviews with officials of depository institutions are used to allow for frequent monitoring of custodial credit risk.

Whereas all payments made to the State are to be in U.S. dollars, foreign currency risk is essentially nonexistent on State deposits.

As of June 30, 2012, the New Hampshire Veterans’ Home’s carrying value for deposits for the Members’ Benefit Fund (MBF), Members’ Administration Account (MAA), and Guy Thompson Memorial Trust (GTMT) were \$3,417, \$650,155, and \$15,313, respectively. The following table details the bank balances in those accounts at June 30, 2012.

	<u>Demand Deposits</u>		<u>Money Market</u>		<u>Total</u>	
	<u>Insured</u>	<u>Uncollateralized</u>	<u>Insured</u>	<u>Uncollateralized</u>	<u>Insured</u>	<u>Uncollateralized</u>
MBF	\$ 4,218	\$ -0-	\$ -0-	\$ 27,398	\$ 4,218	\$ 27,398
MAA	417,375	-0-	-0-	234,603	417,375	234,603
GTMT	-0-	-0-	-0-	15,313	-0-	15,313
Total	\$ 421,593	\$ -0-	\$ -0-	\$ 277,314	\$ 421,593	\$ 277,314

An additional \$250,119 of Members’ Benefit Fund cash was held in a State account under the custody of the State Treasurer.

Investments:

The State Treasury has adopted policies to ensure reasonable rates of return on investments while minimizing risk factors. Approved investments are defined in statute (RSA 6:8, 387:6, 387:6-a, and 387:14). Additionally, investment guidelines exist for operating funds as well as trust and custodial funds. All investments are denominated in U.S. dollars. As of June 30, 2012, the New Hampshire Veterans’ Home had the following types of investments for its Members’ Benefit Fund.

**Fair Value Of Investments By Type
June 30, 2012**

<u>Investment Type</u>	<u>Members' Benefit Fund</u>
Equity Open Ended Mutual Funds	\$ 332,137
Fixed Income Open Ended Mutual Funds	280,900
Total	<u>\$ 613,037</u>

Debt Securities: The Home has a portion of its Members' Benefit Fund invested in debt securities in the form of fixed income mutual funds. The following risks are associated with debt securities.

Credit Risk: The risk that the issuer will not fulfill its obligations. The State invests in grade securities which are defined as those with a grade B or higher. Obligations of the U.S. Government or obligations backed by the U.S. Government are not considered to have credit risk.

Interest Rate Risk: The risk that changes in interest rates will adversely affect the fair value of the State's investments. Interest rate risk is primarily measured and monitored by defining or limiting the maturity of any investment or weighted average maturity of a group of investments. Fixed income mutual funds which consist of shares of funds which hold diversified portfolios of fixed income securities for operating purposes are limited to those with average maturity not to exceed five years. Trust and custodial funds manage and monitor interest rate risk primarily through a weighted average maturity approach (WAM). The State's WAM is dollar-weighted in terms of years. The specific target or limits of such maturity and percentage allocations are tailored to meet the investment objective(s) and are defined in the investment guidelines associated with those funds.

Custodial Credit Risk: The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investments that are in the possession of an outside party. Open ended mutual funds and external investment pools are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The State's selection criteria are aimed at investing only with high quality institutions where default is extremely unlikely.

The exposed risks at June 30, 2012 for the New Hampshire Veterans' Home Fiduciary Fund investments are noted below.

**Exposed Risks
June 30, 2012**

<u>Investment Type</u>	<u>Credit Risk Unrated</u>	<u>Interest Rate Risk WAM (In Years)</u>
Fixed Income Open Ended Mutual Funds	\$ 280,900	5.5

NOTE 4 - FEDERAL FUNDS

The Schedule Of Expenditures Of Federal Awards (the Schedule), on page 53, is presented for the purpose of additional analysis. The expenditures presented in the Schedule are presented on the cash basis of accounting; expenditures are recorded when paid rather than when the obligation is incurred.

NOTE 5 - GUY THOMPSON MEMORIAL TRUST

The Guy Thompson Memorial Trust (Trust) was established in 1998 through a bequeathal. The Trust resources are legally restricted to the extent that only earnings, and not principal, are to be used for the recreational purposes of the residents of the New Hampshire Veterans' Home. As stipulated, the Trust is not to replace the annual budgeted funds for recreation.

NOTE 6 - FIDUCIARY FUNDS

Members' Benefit Fund

The Members' Benefit Fund, a private purpose trust fund, was established in 1963 by the Board of Managers of the Home for the purpose of providing needed items for the care, comfort, and safety of the residents. During fiscal year 2012 the fund supported programs and activities for the direct benefit of the residents including therapeutic recreation, equipment purchases, holiday gifts, and intergenerational programs. The fund, for the most part, consists of donations from organizations and individuals and the earnings on the invested fund balance. The Board of Managers directs the expenditures from the fund. Per RSA 11:7, all disbursements made by State agencies and departments for trust fund purposes are to follow the laws, rules, and regulations applicable to said agencies and departments for normal operating and capital purposes.

Members' Administration Account

The Members' Administration Account, an agency fund, is a custodial fund maintained by the Home. The fund is used to receive, hold, and disburse residents' money according to the direction of the residents. An account is maintained in the fund in the name of each resident. The accounts are used to post the residents' income (e.g. pensions, social security benefits); to make payment for residents' room and board; to make purchases at the direction of residents for items such as clothing, periodicals, and special foods and beverages; and for residents' personal spending money.

NOTE 7 - EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The New Hampshire Retirement System is the administrator of a cost-sharing multiple-employer Public Employee Retirement System (The Plan) established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The Plan is a contributory defined-benefit plan providing service, disability, death, and

vested retirement benefits to members and beneficiaries. The Plan covers substantially all full-time state employees, public school teachers and administrators, permanent firefighters, and police officers within the state of New Hampshire.

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

Group I members at age 60 (age 65 for members beginning service on or after July 1, 2011) qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is $1/60$ (1.67%) of average final compensation multiplied by years of creditable service ($1/66$ of AFC times creditable service for members beginning service on or after July 1, 2011). AFC is defined as the average of the three highest salary years for members vested prior to January 1, 2012 and five years for members not vested on January 1, 2012. At age 65, the yearly pension amount is recalculated at $1/66$ (1.5%) of AFC multiplied by years of creditable service.

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

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

All covered Home employees are members of Group I.

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

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

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

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

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

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

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

Funding Policy

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. In fiscal year 2012, by statute, Group I members contributed 7.0% of gross earnings. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the system's actuary using the entry age normal funding method and are expressed as a percentage of gross payroll. The State funds 100% of the employer cost for all of the Home's employees enrolled in the Plan.

Chapter 224:188, Laws of 2011 (House Bill 2) directed the Board of Trustees of the New Hampshire Retirement System to recalculate employer contribution rates for State fiscal years 2012 and 2013 to reflect the requirements of amendments to RSA 100-A in the 2011 legislative session, which resulted in the use of two different contribution rates paid by the Home during the fiscal year ended June 30, 2012. The Home's normal contribution rate was 10.71% of the covered payroll for its Group I employees from July 1, 2011 through July 31, 2011 and 8.48% from August 1, 2011 through June 30, 2012. The Home's normal contributions for the fiscal year ended June 30, 2012 were \$1,250,439.

Other Postemployment Benefits

In addition to providing pension benefits, RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses within the limits of the funds appropriated at each legislative session. These benefits include group hospitalization, hospital medical care, and surgical care. Substantially all of the State's employees who were hired on or before June 30, 2003 and have 10 years of service, may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires State

Group I employees hired after July 1, 2003 to have 20 years of State service in order to qualify for health care benefits. These and similar benefits for active employees are authorized by RSA 21-I:30 and provided through the Employee and Retiree Benefit Risk Management Fund, a single-employer defined benefit plan, which is the State's self-insurance fund implemented in October 2003 for active State employees and retirees. The State recognizes the cost of providing these benefits on a pay-as-you-go basis by paying actuarially determined contributions into the fund. An additional major source of funding for retiree benefits is from the New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees.

**STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE VETERANS' HOME
SUPPLEMENTARY INFORMATION**

**BUDGET TO ACTUAL SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable) Variance
<u>Restricted Revenues</u>			
Federal Per-Diem	\$ 8,483,035	\$ 7,213,926	\$ (1,269,109)
Residents Room And Board	9,822,462	6,452,825	(3,369,637)
Pharmacy Reimbursements	686,050	342,249	(343,801)
Total Revenues	<u>18,991,547</u>	<u>14,009,000</u>	<u>(4,982,547)</u>
<u>Expenditures</u>			
Salaries And Benefits	26,088,086	22,558,451	3,529,635
Prescription Drugs	1,278,988	1,146,535	132,453
Current Expenses	890,476	982,444	(91,968)
Utilities	437,502	669,411	(231,909)
Food	558,463	578,258	(19,795)
Workers Compensation	200,000	341,884	(141,884)
Maintenance	332,175	242,733	89,442
Consultants	300,000	228,804	71,196
Information Technology	97,715	65,611	32,104
Equipment	100,000	43,101	56,899
Other	54,154	37,023	17,131
Unemployment Compensation	14,000	6,940	7,060
Total Expenditures	<u>30,351,559</u>	<u>26,901,195</u>	<u>3,450,364</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>(11,360,012)</u>	<u>(12,892,195)</u>	<u>(1,532,183)</u>
Other Financing Sources (Uses)			
Net Appropriations	11,360,012	12,892,195	(1,532,183)
Total Other Financing Sources (Uses)	<u>11,360,012</u>	<u>12,892,195</u>	<u>(1,532,183)</u>
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

The accompanying note is an integral part of this schedule.

Notes To The Budget To Actual Schedule For The Fiscal Year Ended June 30, 2012

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 fund types, 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 2012 as passed by the Legislature in Chapter 223, Laws of 2011.

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

Unexpended balances of appropriations at year end will lapse to fund balance and be available for future appropriations unless they have been encumbered or are legally defined as non-lapsing accounts.

Variances - Favorable/(Unfavorable)

The variance column on the Budget To Actual Schedule highlights differences between the original 12-month operating budget and the actual revenues and expenditures for the fiscal year

ended June 30, 2012. 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.

As previously noted, the unfavorable expenditure variances shown in the Budget To Actual Schedule represent the difference between actual expenditures incurred during fiscal year 2012 and the original budget in place at the beginning of fiscal year 2012. The State and the Home use supplemental appropriations to add appropriations to original budget amounts to reflect changes in levels of operations not provided for in the original budget. The unfavorable expenditure variances on the Budget To Actual Schedule were supported by appropriations and are not an indication of spending in excess of authority.

Note 2 - Net Appropriations

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

**STATE OF NEW HAMPSHIRE
NEW HAMPSHIRE VETERANS' HOME**

**SCHEDULE OF BUDGET AND EXPENDITURES - CAPITAL PROJECTS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<u>Chapter Law, Program</u>	<u>Budget</u>	<u>Expenditures July 1, 2011 - June 30, 2012</u>	<u>(Unaudited) Prior Period Expenditures</u>	<u>(Unaudited) Total Expenditures</u>	<u>(Unaudited) Unexpended</u>
Chapter 264:1-XV-A, Laws of 2007					
Facility Upgrades/Asbestos Abatement	\$ 1,165,000	\$ -0-	\$ 1,159,118	\$ 1,159,118	\$ 5,882
Chapter 264:1-XV-B, Laws of 2007					
Energy Enhancements	5,000,000	9,889	4,386,240	4,396,129	603,871
Chapter 145:1-XIII-A, Laws of 2009, amended by Chapter 253:17, Laws of 2011					
Life Safety Infrastructure Upgrades	6,800,000	3,738,756	1,046,143	4,784,899	2,015,101
Chapter 145:1-XIII-A, Laws of 2009					
Master Plan	100,000	-0-	94,333	94,333	5,667
Chapter 145:1-XIII-A, Laws of 2009, amended by Chapter 253:17, Laws of 2011					
Central Shipping And Receiving/Multi-Purpose Center	1,400,000	853,371	248,575	1,101,946	298,054
Chapter 253:1-XV-A, Laws of 2011					
Electronic Medical Records	840,000	28,724	-0-	28,724	811,276
Total	<u>\$ 15,305,000</u>	<u>\$ 4,630,740</u>	<u>\$ 6,934,409</u>	<u>\$ 11,565,149</u>	<u>\$ 3,739,851</u>

The accompanying note is an integral part of this schedule.

**Note To The Schedule Of Budget And Expenditures
For The Fiscal Year Ended June 30, 2012**

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.

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.

The lapse dates for the facility upgrades/asbestos abatement and energy enhancements projects were extended to June 30, 2011 during the 2009 legislative session. The lapse dates for the life safety infrastructure upgrades and central shipping and receiving/multi-purpose center projects were extended to June 30, 2013 during the 2011 legislative session.

Unexpended Budget For The Schedule Of Budget And Expenditures - Capital Projects Fund

The Schedule Of Budget And Expenditures - Capital Projects Fund shows total unexpended funds at June 30, 2012 of approximately \$3.7 million (*unaudited*) out of the \$15.3 million budgeted for those projects.

**STATE OF NEW HAMPSHIRE
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**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CASH BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<u>Federal Catalog Number</u>	<u>Federal Grantor Federal Program Title</u>	<u>Expenditures</u>	<u>Pass Thru Percent</u>
64.005	U.S. Department Of Veterans Affairs <i>Grants To States For Construction Of State Home Facilities</i>	\$ 4,559,377	0%
64.015	U.S. Department Of Veterans Affairs <i>Veterans State Nursing Home Care</i>	<u>7,213,926</u>	0%
	Total	<u>\$11,773,303</u>	

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APPENDIX

CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of April 17, 2013 of the current status of the observations contained in the audit report of the New Hampshire Veterans' Home for the nine months ended March 31, 2005. The prior audit report can be accessed on-line at:
<http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>.

	<u>Status</u>		
<i>Internal Control Comments</i>			
<i>Reportable Conditions</i>			
<u>Fiduciary Funds</u>			
1. Controls Over Members' Benefit Fund Expenditures Should Be Improved <i>(See Current Observation No. 12)</i>	●	●	○
2. Documentation Of Deceased Residents' Account Balances Should Be Improved	●	●	●
3. Policies And Procedures Should Be Established For The Distribution Of Interest Income To Resident Accounts	●	○	○
4. Compliance With Donation Policies And Procedures Should Be Improved <i>(See Current Observation No. 17)</i>	○	○	○
5. Controls Over Guy Thompson Memorial Trust Should Be Improved	●	●	●
6. Balance In Members' Benefit Fund Checking Account Should Not Exceed Target <i>(See Current Observation No. 21)</i>	○	○	○
7. Segregation Of Duties And Other Controls Over The Members' Administration Account Should Be Improved <i>(See Current Observation No. 16)</i>	●	○	○
8. Segregation Of Duties Over Members' Benefit Fund Should Be Improved <i>(See Current Observation No. 16)</i>	●	○	○
9. Segregation Of Duties Over Room And Board Charges Should Be Improved <i>(See Current Observation No.5)</i>	○	○	○
10. Policies And Procedures Manual Should Be Established For Billing Room And Board Charges <i>(See Current Observation No. 4)</i>	●	○	○
11. Basis For Room And Board Rate Should Be Determined And Documented	●	●	●
12. Automated Room And Board System Should Be Improved	●	●	●
13. Initial Record Of Cash Receipts Should Be Consistently Prepared	●	●	●
14. Funds Should Be Deposited Timely	●	●	●
15. Balance Of Cash-On-Hand Should Be Reviewed	●	●	●
16. Controls Over Petty Cash Accounts Should Be Improved <i>(See Current Observation No. 16)</i>	●	○	○
17. Controls Over The Canteen Operation Should Be Strengthened <i>(See Current Observation No. 11)</i>	●	○	○

- | | | | |
|---|---|---|---|
| 18. Controls Must Be Established For Vending Machine Operations (<i>See Current Observation No. 13</i>) | ● | ○ | ○ |
| 19. Administrative Rule Should Be Updated For Compliance With Current Home Practice And Federal Regulation | ● | ● | ● |
| 20. Contrary Provisions In Administrative Rules Should Be Clarified | ● | ● | ● |
| <u>General State Operations</u> | | | |
| 21. Accurate Payroll Records Should Be Required | ● | ● | ● |
| 22. Cause Of Pay Rate Errors Should Be Reviewed | ● | ● | ● |
| 23. Equipment Control Responsibilities Should Be Segregated (<i>See Current Observation No. 14</i>) | ● | ○ | ○ |
| 24. Controls Over Equipment Accounting And Reporting Should Be Improved (<i>See Current Observation Nos. 14 And 19</i>) | ● | ○ | ○ |
| 25. State Policies Regarding Missing Equipment Should Be Complied With | ● | ● | ● |
| 26. Controls Over The Receiving Of Shipped Goods Should Be Improved | ● | ● | ● |
| 27. Segregation Of Duties Should Be Established Over All Consumable Inventories | ● | ● | ● |
| <i>Management Issues Comments</i> | | | |
| 28. The Home's Trust Funds Should Not Be Used To Supplant State Funds (<i>See Current Observation No. 18</i>) | ○ | ○ | ○ |
| 29. Social Security Number Should Not Be Used For General Resident Identification Purposes | ● | ● | ● |
| 30. Propriety Of Sunshine Fund Should Be Established | ● | ● | ● |

<u>Status Key</u>				<u>Count</u>
Fully Resolved	●	●	●	16
Substantially Resolved	●	●	○	1
Partially Resolved	●	○	○	9
Unresolved	○	○	○	4