

**STATE OF NEW HAMPSHIRE
STATE VETERANS COUNCIL**

**FINANCIAL AND COMPLIANCE
AUDIT REPORT
FOR THE NINE MONTHS ENDED
MARCH 31, 2008**

**STATE OF NEW HAMPSHIRE
STATE VETERANS COUNCIL**

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**STATE OF NEW HAMPSHIRE
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Reporting Entity And Scope

The reporting entity of this audit and audit report is the New Hampshire State Veterans Council. The scope of this audit and audit report includes the financial activity of the State Veterans Council for the nine months ended March 31, 2008. Unless otherwise indicated, reference to the Veterans Council, Council, or auditee refers to the State Veterans Council.

Organization

RSA 115:1 establishes the State Veterans Council, a three-member body appointed by the Governor and Executive Council. RSA 115:4 authorizes the Council, with the approval of the Governor and Executive Council, to appoint a Director of the State Veterans Council who serves at the pleasure of the Council. RSA 115:6 directs the Council to employ such assistance as may be necessary, within the limits of the appropriations made therefore, subject to the rules of the State Division of Personnel. At March 31, 2008, the State Veterans Council employed one unclassified and five full-time classified employees.

Responsibilities

The mission of the State Veterans Council is to assist veterans who are residents of New Hampshire or their dependents in securing all benefits or preferences to which they may be entitled under any State or federal laws or regulations.

In accordance with RSA 115:4, II, the Director of the Council shall:

- (a) Supervise the activities of a statewide service delivery structure which assists veterans and family members in identifying eligibility for veterans' benefits, filing claims, coordinating benefits with other state and federal agencies, and reviewing claims decisions for appeals or waivers of unfavorable decisions.
- (b) Identify and develop legislative proposals to improve delivery of services, review and monitor legislation introduced by others, testify at hearings and prepare legislative fiscal note work sheets. The director shall coordinate, implement, and administer programs mandated by the legislature.
- (c) Prepare the agency budget and administer and monitor expenditures for the Council.
- (d) Develop, interact, and coordinate agency programs in conjunction with the federal Department of Veterans Affairs as well as other federal, state, local, and private organizations.
- (e) Represent the Council at various state and national conventions, conferences and public functions and provide supervision to the agency's public relations program.
- (f) Perform such other duties, as the Council shall determine.

Funding

The financial activity of the Veterans Council is accounted for in the General Fund of the State of New Hampshire. A summary of the Council's revenues and expenditures for the nine months ended March 31, 2008 is shown in the following schedule.

Summary Of Revenues And Expenditures For The Nine Months Ended March 31, 2008

	<u>General Fund</u>
Total Revenues	\$ -0-
Total Expenditures	<u>320,143</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>(320,143)</u>
Other Financing Sources (Uses)	
Net General Fund	<u>320,143</u>
Total Other Financing Sources (Uses)	<u>320,143</u>
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	<u><u>\$ -0-</u></u>

Prior Audit

There have been no recent previous financial and compliance audits of the State Veterans Council.

Audit Objectives And Scope

The primary objective of our audit was to express an opinion on the fairness of the presentation of the financial statement of the Veterans Council for the nine months ended March 31, 2008. As part of obtaining reasonable assurance about whether the financial statement is free of material misstatement, we considered the effectiveness of the internal controls in place at the Veterans Council and tested its compliance with certain provisions of applicable State and federal laws, rules, and contracts. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Revenues and expenditures.

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

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

To The Fiscal Committee Of The General Court:

We have audited the Statement Of Revenues And Expenditures-General Fund of the New Hampshire State Veterans Council (Council) for the nine months ended March 31, 2008 and have issued our report thereon dated June 13, 2008, which was qualified as the financial statement does not constitute a complete financial presentation of the Council. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in Observations No. 1 through No. 9 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Council's financial statement is free of material misstatement, we performed tests of the Council's compliance with certain provisions of laws, rules, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance which is described in Observation No. 10.

The Council's response is included with each observation in this report. We did not audit the Council'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 Council, others within the Council, and the Fiscal Committee of the General Court and is not intended to be used by anyone other than these specified parties.

Office Of Legislative Budget Assistant

June 13, 2008

Internal Control Comments
Significant Deficiencies

Observation No. 1: Communication With Supporting State Organizations Should Be Improved

Observation:

The Veterans Council is a relatively small, State organization located in a federal building in Manchester, some 20 miles from Concord. While the Veterans Council has recently obtained the online access to enable it to access the State's intranet, SunSpot, and has taken advantage of the guidance available on that site, the Council is largely self-reliant to ensure that it is aware of and adhering to State policies and procedures.

In several observations included in this report we note where the Council was not fully compliant with certain State policies and procedures, including the issues reported in observations No. 3, No. 4, No. 6, and No. 9. While it was apparent the Council was cognizant of the need to adhere to State policies and procedures and was in the process of establishing a policy continuity book to, in part, promote continued Council compliance with required State policies and procedures, it was also apparent the operations of the Council were affected by incomplete knowledge of and experience with certain State policies and procedures.

Recommendation:

The Council should continue its efforts to improve its operations by improving its communications with supporting State organizations such as the Department of Administrative Services and the Office of Information Technology and by improving its compliance with policies and procedures issued by those organizations.

The Council should continue incorporating that guidance into its policy continuity book to promote its continued awareness of and compliance with the requirements.

Auditee Response:

We concur. In initial audit discussions, agency personnel welcomed the opportunity for observation of changes that have taken place over the past two years. Automation and computerization to streamline programs, procedures, and processes has been the highest priority of this organization during that period. As an agency that is remotely located from most state resources, gathering information for these changes has, in many instances, been challenging and frustrating. In addition to heightened awareness of state procedural guidance, the development of a "continuity book" to include state information resources, items in need of periodic review, and New Hampshire State and Department of Veterans Affairs training/certification requirements has been the biggest outcome of this audit. Based on the results of this audit we are extremely pleased to see validation of what progress we have made thus far, and with the chance to be

provided suggestions and observations as to how we can better increase our efficiency while maintaining state standards.

Observation No. 2: Controls Over Service Bonus Payments Should Be Improved

Observation:

Controls in place at the Council to ensure that duplicate service bonuses are not paid could be improved.

RSA 115-A:9 [Persian Gulf War Service Bonus] provides for a service bonus to “[e]ach person who actively served in any capacity as a member of the uniformed forces of the United States on or after August 2, 1990 and on or before November 30, 1995, and who earned the Southwest Asia Service Medal....”

RSA 115-A:16 provides for a service bonus to “[e]ach person who actively served in any capacity as a member of the uniformed forces of the United States on or after September 11, 2001 and on or before a date to be determined by the Secretary of Defense, and who earned the expeditionary medal for Global War on Terrorism operations or the Iraqi Campaign Medal or the Afghanistan Campaign Medal....”

RSAs 115-A:9 and 115-A:16 state, “... No individual who has received a [service] bonus payment from another state shall be qualified to receive the benefits provided under this subdivision.”

RSA 115-A:16 further provides, “[o]nly one bonus payment is authorized for each person, regardless of number of deployments.” While there is no similar restriction in RSA 115-A:9, the Council also limits the Persian Gulf War Service Bonus payments to one per eligible veteran.

During the nine months ended March 31, 2008, the Council paid \$23,100 to veterans for service bonuses pursuant to RSA 115-A:16. The Council processed bonus payments approximately once per month. There was no payment activity related to the Persian Gulf War Service Bonus during this period.

The Veterans Council maintains a list (payee manifest) of persons who have been paid a bonus payment. The payee manifest includes the payee and date paid. The payee manifest is intended to be a complete record of all individuals who have been paid the bonus and is used to ensure the bonus is only paid once. The payee manifest does not include a payee identifier beyond payee name, making the use of the payee manifest problematic when distinguishing individuals with similar names.

A comparison of bonus payments recorded in the State’s accounting system (NHIFS) for the nine months ended March 31, 2008 to the payees listed in the Global War On Terrorism payee manifest revealed the payee manifest did not include 18 people to whom a payment had been made. When notified of the difference, the Council determined that a payment voucher had

mistakenly been left off of the payee manifest. While no duplicate payments were noted, the noted error, combined with the inefficiency of not including a payee identifier beyond a payee name mentioned above, illustrates the risk of relying on the payee manifest to provide a reliable record of persons receiving the service bonus payments.

Recommendation:

The Council should improve its controls over the service bonus payment process to make certain that sufficient information is retained to ensure compliance with RSA 115-A:16, and Council practice of paying one service bonus.

The Council should regularly reconcile its payee manifest list to the payments made in NHIFS to ensure the payee manifest remains a complete record of payments made, duplicate payments are not made, and the control is operating as the Council intends. For reconciliations to be most effective, someone independent of the payment process should perform the reconciliation.

The Council should consider increasing the efficiency and effectiveness of the control provided by the payee manifest by adding an additional identifier such as a masked social security number, military identification number or some other verifiable identifier. Including such an identifier would allow for more definitive identification of recipients of the service bonus payments including easier research for possible prior payments.

Auditee Response:

We concur. We do concede that the list of payee names (18 names), for one payment voucher were, inadvertently left off the payee manifest the agency created on an Excel spreadsheet. We agree that this mistake alone might have resulted in possible duplicate payment.

We had just computerized this manifest to upgrade from written ledger form to an automated list. During this transition from ledger to computerized listing there were numerous Presidential primary campaign members requesting such veterans lists as this from towns, counties, and state. It was our line of reasoning that to protect veterans privacy we would only include as little information as possible on this spreadsheet as this is the initial document we refer to when making payment, and the listing we deliver to those public entities who request it per the Freedom of Information Act. We do not believe there is any level of inefficiency with the use of this list as an initial reference for payment. We do maintain a file of the original applications for the Global War on Terrorism Bonus therefore, if we encounter duplicate names on the initial check of the spreadsheet, we then verify veteran information by referring back to the original applications on file in this office. Though the original applications for the Persian Gulf War Bonus have long since been sent to the state archives, we maintain the original paper ledger manifests for the Persian Gulf War Bonus which *do* include pertinent identifying veteran information which would prevent duplication on that type of payment yet is not releasable to the public.

To date agency time spent on research to ensure no duplicate payments has been minimal. Therefore it is our intention, as stated to auditors, to continue with this method of initial tracking

until the new state financial system comes on-line. At that point we do intend to re-evaluate and reconsider annotation methods for bonus recipients.

Observation No. 3: Formal Information Systems Controls Should Be Established

Observation:

The Council has not adopted formal controls for its information systems.

Council employees currently have access to case-relevant confidential data such as names, birth dates, social security numbers, and medical histories of veterans using Council services. This information is accumulated in paper files and the Veterans Information Management System (VIMS). Council employees regularly load this confidential information gathered through interviews and other sources onto laptop computers. The information on the laptops is subsequently uploaded to a claims office version of VIMS on a desktop computer in the Council's office. Information remaining on any one Council laptop is usually limited to data for eight to ten veterans at any given time.

The State Office of Information Technology (OIT) Mobile Device Security Policy requires mobile devices, such as laptops, to have password protection. If agency-defined confidential data is stored locally on the device, State-standard encryption protection is also required. While the Council reported it was generally aware of OIT's information technology policies, the Council reported it was not aware whether it was in compliance with these policies. According to the Director, the Council is relatively new to the use of technology and is still learning about State processes and rules regarding its use.

- The Council does not have a formal risk assessment policy related to its information systems or a formal data security plan. While the Council has established certain informal information security policies and procedures, the Council does not have documented controls over its information systems. Discussions with agency personnel reveal that the Director has given the staff explicit verbal instructions on how computer equipment and sensitive information are to be handled, including directions for securing computers when not in use and not leaving computers unattended while at the work sites, but the Council has not established documented policies and procedures for information security including actions to be taken in the event of a data theft or loss.
- Data security protocols on the three laptops used by the Council are not fully compliant with OIT's Mobile Device Security Policies.
- The Council uses flash drives to transfer, temporarily store, and backup data. Because of the small size, large capacity, and easy access to data stored on flash drives, the use of flash drives is generally regarded as having an increased risk of data loss over other alternatives. This risk is heightened when the flash drive devices, such as the ones used by the Council, are not protected by encryption or other data protection technology.

Recommendation:

The Council should establish formal controls over its information systems. Controls should include a risk assessment policy, security plan, and specific control policies and procedures for its information systems. Included should be the relevant information technology policies issued by OIT.

The controls should be documented and communicated to employees through a formalized computer use policy. The policy should be accessible to the staff and staff should receive periodic training in its application. Employee compliance with the controls should be monitored to ensure that the controls are adhered to and remain appropriate. Sufficient resources, such as encryption or other data protection technology, should be made available to properly secure data devices, including laptops and temporary storage devices, such as flash drives.

Auditee Response:

Concur. We agree, the Council does not have a formal risk assessment policy related to its information systems or formal data security plan. An agency policy has been written and the state OIT procedures manual has been made part of our policy continuity book and a requirement has been put in place for review on an "on-hire" and annual basis thereafter.

Utilization of flash drives for data transfer is only accomplished within this office space. Flash drives are maintained in this office and under lock and key. Inventory of flash drives is completed daily before the office is closed.

We also concede encryption is required and this issue has already been addressed with OIT personnel. We have identified the need for encryption software and should have that on order and the required software in place by August 30, 2008.

Observation No. 4: Payroll Certifications Should Be Prepared

Observation:

The Council does not prepare Payroll Certification Forms to document its review of payroll expenditures for each pay period. Chapter 18 of the Procedures Manual for the State payroll system (GHRIS) requires agencies to complete the Payroll Certification Form to document that authorized agency personnel have reviewed the payroll for errors and approved the payroll for payment.

Chapter 18 of the GHRIS Procedures Manual states “[o]nce the payroll has been calculated for a payroll period it must be reviewed for its accuracy and then certified.” Section 18.2 also states “[a]fter the review is completed and it is determined that the payroll detail is correct, agencies must complete a Payroll Certification Form and have it properly approved (2 wet signatures of payroll officer and department head or person given power of attorney) in order to document the

payroll certification has been performed. Agencies will be required to keep the original Payroll Certification Form on file for a four year period for review by all authorized persons.”

The Council reported that it was previously unaware of the Payroll Certification requirement.

Recommendation:

The Council should complete and retain an agency payroll certification as required by the GHRS Procedures Manual to evidence that payroll for the applicable period has been reviewed and certified.

Auditee Response:

We concur. As stated in this report, and in initial audit briefings, there has been an admission that we were previously unaware of the requirement to accomplish payroll certification. In that the agency had never previously utilized computers for state mandated business procedures, with the personnel change of a previous Director and an administrative secretary with over 29 years experience between both individuals, and with little to no formal training provided by the state in either IFS or GHRS, once we started the computerization process it became readily obvious there would be areas where we would be unfamiliar with the procedures. While we are familiar with the GHRS procedures used by this agency on a daily or weekly basis, and with only those issues turned over to us by preceding agency personnel, our review and training of procedures in the GHRS manual led to the belief the manual itself was not a rule, directive, regulation, or statute but merely an instructional manual for GHRS data field input. Again, with no formal training that this manual/handbook was specifically regulatory in nature this requirement was not met.

We have familiarized applicable staff members of the requirement within the GHRS manual to complete payroll certifications on the Monday of pay week. A policy letter and suspense schedule has been established to ensure this requirement is met in a timely manner.

Observation No. 5: Timekeeping And Leave-Time Procedures Should Be Improved

Observation:

Procedures used by the Council to account for employee work hours could be made more efficient and effective.

- In response to fiscal year 2007 guidance from the State’s Department of Administrative Services, Council employees prepare biweekly timesheets. The Council however has not taken full advantage of the controls available through the use of employee timesheets. The information reported by Council employees on timesheets is limited to the hours worked and leave taken and does not include detail on the work performed by the employees. Additionally, timesheets do not include documentation of a supervisory approval of the reported information even though the form provides a signoff area for that control. During the nine months ended March 31, 2008, the Council relied upon information posted to

calendars to ensure all leave slips are collected even though a timely review of employee timesheets could provide more controlled leave time information.

- During testing, the payroll for two pay periods was examined. We noted leave time usage for one employee as recorded in GHRIS did not agree to the employee's timesheet and filed leave slips. According to the Council, the employee neglected to post the leave on the timesheet and complete a leave slip. While according to the Council the GHRIS records are accurate, the Council's detail pay records did not support the GHRIS records.
- One Council employee is responsible for recording employee leave time in the State's payroll system, GHRIS. There is no formal review and approval process used by the Council to verify the posting of leave time in GHRIS. The Council relies upon the employees to notice if leave time accrual or usage is inaccurate.

Recommendation:

The Council should strengthen its controls over processing payroll. The Council should consider:

- Requiring the timely submission of timesheets to allow for their use to support the accuracy of the biweekly payroll including the review of leave slips for appropriateness and accuracy.
- Instituting a procedure for a formal review of the posting of leave time entered into GHRIS. This could include having a person independent of the leave input process print out the Leave Input Verification Report and verify all leave slips have been accurately keyed for each pay period.
- Reviewing the functionality of the current timesheets. The Council may want to consider the inclusion of data elements that would assist the Council in understanding employee activity levels. For example, timesheets could identify hours worked by tasks performed such as veteran meetings, speaking at hearings, paperwork preparation, travel time, and other relevant categories.

Auditee Response:

We concur. We agree there was a single discrepancy between one individual's timesheets, leave request forms, and GHRIS leave reports. We further agree that supervisory review is lacking in the reconciliation of the three forms of documentation.

We have implemented a personnel policy/program wherein leave requests and timesheets will be turned in directly to the agency Director for review and approval prior to GHRIS input. These forms will be turned in to the Director (unless in an emergency situation) on payday Fridays. With that said, the administrative individual responsible for GHRIS data input will then reconcile all three forms of documentation upon data input on the Tuesday following pay dates. On the Wednesday following initial GHRIS leave data input, the agency Director will approve the leave data input within the GHRIS system.

As there are only six employees within the State Veterans Council, and as a former Veterans Service Officer, the agency Director is in full "understanding of employee activity levels" and does not feel it necessary or feasible to implement supplemental documentation programs to

identify “hours worked by tasks performed.” The agency currently has several performance and productivity measurement tools in place to gather information regarding productivity and feels the suggestion to modify current Department of Administrative Services forms to add increased documentation requirements is impractical and unnecessary.

Observation No. 6: Equipment Controls Should Be Improved

Observation:

During the nine months ended March 31, 2008, the Council was partially through an equipment records conversion process. At March 31, 2008, the Council did not have a single, complete equipment inventory system that was compliant with State equipment policies and procedures.

Prior to fiscal year 2008, the Council did not adhere to certain State equipment control policies and procedures. Equipment items were not consistently tagged to identify the equipment as State-owned and monthly P-21 equipment adjustment reports were not filed with the Department of Administrative Services. In addition, the P-16 equipment inventory listing submitted at the end of fiscal year 2007 contained a \$713 clerical error.

During fiscal year 2008, the Council initiated an effort to automate its equipment records including preparing a separate Technology Asset equipment listing for information technology equipment purchased during fiscal year 2008. This listing includes a description of the item, identification information, and information on the location and assignment of the equipment item. This listing is not fully compliant with State equipment requirements, as the listing does not include information on the cost of the assets. Other equipment related problems including not tagging non-technology assets and not completing monthly P-21 reports continued at the Council at March 31, 2008.

At March 31, 2008, the Council reported it owned approximately \$56,443 of equipment. In addition, the Council had the use of two federally owned computers.

Recommendation:

The Council should review its current equipment procedures to improve compliance with applicable State procedures and other best business practices. Appropriate internal controls should be established over equipment to provide reasonable assurance of effective and efficient operations, reliable financial reporting, and compliance with applicable laws. To accomplish these ends the Council should consider:

- Compiling and maintaining a single comprehensive equipment listing for all equipment items meeting the State’s equipment criteria of initial cost of over \$100 with a useful life greater than one year. The listing should include all necessary information including the equipment ID and tag number, description, purchase price and date, disposal value (if applicable), relevant document references, and location/personnel assignment.
- Updating the aforementioned equipment listing every time an item is received or disposed of.

- Identifying all State-owned equipment with a tag/ID number in addition to item descriptions. Equipment tags would allow definitive tracing of equipment from the floor to the equipment records.
- Completing required State documents in a timely fashion, including the P-21, monthly equipment adjustment report.

Auditee Response:

We concur. This observation is correct in that this agency did not have a single inventory listing. We also agree there was a mathematical error in the "total" figure available on the exhibit F for our equipment.

The two inventory listings available included all assets but, because we were in the process of attempting to automate (computerize) our inventory, there were two separate listings. One listing included office equipment, all on an Exhibit F form for year-end inventory purposes, which included all information required by the State of New Hampshire, Department of Administrative Services, Long-Term Assets Policy and Procedures Manual, as gathered from Sunspot, and dated March 2002 and RSA 21-I:11 paragraph VII. Office equipment was not tagged with an identification number as the inventory control numbers listed on exhibit F were transposed from previous records wherein the inventory control number was maintained as a line item number rather than a marking (tagging) number. As this agency owns so little equipment as to make inventory a fairly simple task inventories were complete though tagging of equipment was not accomplished. As there is no requirement in aforementioned procedures manual (nor a documentation section located in the Exhibit F form provided by the state) to allow for notation of the location of the equipment, it was assumed it would be clear the equipment was located in the office space we utilize.

The second list generated contained technological assets we were in receipt of during the past fiscal year. Because we were only in receipt of those items in the past fiscal year they had not yet been added to the Exhibit F inventory form and were maintained on a separate excel spreadsheet until fiscal year end and compilation with the Exhibit F would take place. We will also concede this spreadsheet did not yet include the cost of each item. Because these items *are* removed from our office space, though not a requirement, we *did* include annotations for the employees responsible for temporary ownership and the location of the removable equipment. In this second listing for technological equipment we also included an ID number and tagged the removable equipment correspondingly. The intent of this separate spreadsheet for our recently received technological equipment was to maintain location records, employee responsible for that equipment, and control of the ID numbers we had assigned internally to these items that are removable from this office. Our intention was also to add these items to the Exhibit F required to be submitted to the state on Fiscal Year-End Closing while still maintaining the separate form for our technological equipment.

In accordance with the DAS Long-Term Assets Policy and Procedures Manual (as referenced above) and RSA 21-I:11 we concluded there was no requirement to submit a monthly P-21 Equipment Adjustment Report. We *did* locate a State Of New Hampshire Inter-Department Communication letter, from the Bureau of Purchase and Property, in which PTM 605.05(g)

stated (with regard to the P-21) "This form shall be submitted on a monthly basis to the Bureau of Purchase and Property attention Capital Assets Coordinator. This form must be submitted whether changes have occurred or not. Indicate 'no change' on copy of previous month if no additions or deletions occurred." However we were wont to assume that since it was dated April 20, 1993 it was outdated and therefore no longer applicable. Additionally, we believed since there are currently annual equipment inventory records on file and filed within a timely manner, state equipment reporting requirements were fully met. We do intend to add annotations of costs to our technology listing as required by the aforementioned DAS manual and tag equipment in accordance with best practices.

Observation No. 7: Written Agreements With The U.S. Department Of Veterans Affairs Should Be Established And Maintained

Observation:

The Council does not have current, documented agreements with its federal supporting organizations to support its use of office space and computer assets provided by those federal organizations.

- The State Veterans Council has not updated its agreement with the U.S. Department of Veterans Affairs (VA) for the no-cost use of office space at the Norris Cotton Federal Building in Manchester. The most recent office-space use document describes the office space used by the Council prior to its April 2006 relocation in the same building. According to the Council, the office space agreement has not been updated since November 1998.
- The State Veterans Council does not have a Memorandum of Understanding, or other type of agreement, with the VA for the use of two VA computers and related software. The Council has the use of two VA computers equipped with VA applications that allow the Council read-only access to veterans' claims files. These files previously were only available to the Council in paper form. These VA computers also provide the Council with Internet access through the VA network. The Council reports these computers provide efficient access to information required by the Council to effectively meet its mission, however, the Council has not established documented agreements with the VA describing the Council's rights and responsibilities related to the use of this equipment and information accessible through the equipment. A Council-owned computer is also used to access this federal VA information.

All significant operating agreements should be documented to allow for efficient planning and to minimize the risk to operations that could be caused by an unplanned change in provided resources. Current, accurate, written contracts or memorandums of understanding define the rights and obligations of parties involved in material transactions, even if no monetary exchange takes place. Memorandums of understanding help protect both parties to a transaction by clearly defining each party's responsibilities, expectations, and limitations in the transaction.

Recommendation:

The Council should work with the VA to establish written agreements for the Council's use of federal office space, equipment, and information. The agreements, once established, should be kept current so that the Council's rights and responsibilities remain sufficiently defined and understood to allow for appropriate planning and control.

Auditee Response:

Concur. The State Veterans Council does have a written agreement established with the U.S. Department of Veterans Affairs (DVA) to allow the use of no-cost office space within the federal building in Manchester. We agree the lease agreement was made in 1998 however, all provisions within this agreement still stand with the exception of the space provided. In 2006 renovations of the top three floors of the Norris Cotton Federal Building were complete and the DVA provided different space for agency use. This necessitated a move from the third floor to the fifth. All other provisions of the 1998 agreement were met and maintained by both parties.

This agency has drawn up an agreement changing the location of the office space. This agreement has been submitted to the DVA Regional Office Director for signature.

While there is no memorandum of understanding in place for the use of *two* DVA computers, there are requirements that must be met of all users prior to the DVA allowing use of their computers/systems. First, all employees with access to DVA database systems are required to attend and successfully pass a five day Training, Responsibility, Involvement, and Preparation (TRIP) claims training. This training is documented (and maintained) by the DVA prior to password assignment and individual access into the "read only" system. Additionally, the DVA requires the administration of an on-line computer security course with either an on-line or written evaluation to follow. All on-line evaluations generate a certificate of completion which is maintained in the DVA and in our files. Written evaluations are currently maintained with the DVA files but, when requested, were available for viewing by state auditors.

The third computer referenced in the observation is simply linked to the DVA cabling network to allow for Internet and e-mail access. We allowed this as this office only recently (within the last 6 months) connected to our own single independent DSL line which we maintained as an independent line to allow hook-up for one state-owned computer and provide us with access to Sunspot, GHRS, and IFS. We allowed the other state-owned computer to be connected to the DVA network as our Administrative Secretary utilizes this computer and is in need of e-mail, Internet, and a more upgraded software system. This particular computer utilizes Window XP as the DVA computers are still using Windows 2003. To clarify....we have three state-owned computers.....one in use by the Administrative Secretary and hooked up to the DVA network without DVA applications installed, one hooked up to our independent DSL line for use in state-mandated business and to facilitate NH FIRST applications, and one left as an independent computer which contains our Veterans Information Management System (VIMS) and stands alone with no Internet access. We also have three laptops, wireless incapable, for use remotely.

We believed it sufficient, with the documented training and evaluation provided by the DVA, that each party's responsibilities, expectations, and limitations in this transaction are presently clearly defined. Though again, there is no referenced requirement, we will draw up a memorandum of understanding or agreement with the DVA for use of their two computers.

Observation No. 8: Formal Fraud Deterrence, Detection, And Reporting Policy Should Be Established

Observation:

The Council has not established a formal fraud deterrence, detection, and reporting policy. The lack of a written policy may delay the detection and reporting of fraudulent activity.

Fraud encompasses an array of irregularities and illegal acts characterized by intentional deception. Persons outside or inside the organization can perpetrate it for the benefit or to the detriment of the organization. Fraud runs the spectrum from minor employee theft and unproductive behavior to misappropriation of assets, fraudulent financial reporting, and intentional noncompliance with a law or rule leading to an undue benefit.

The attributes of an effective fraud deterrence, detection, and reporting policy include:

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

The effectiveness of a fraud deterrence, detection, and reporting policy is enhanced when employees have a clear understanding of fraud indicators and what constitutes a fraudulent act. It is important that the reporting procedure is non-threatening for the reporter and provides for the reasonable protection of all parties.

Recommendation:

The Council should establish a fraud deterrence, detection, and reporting policy and provide its employees with formal fraud awareness training. The Council should take measures to ensure that the policy facilitates and encourages reporting and protects all parties involved.

Auditee Response:

Concur. Due to the fact that most employees have had previous training on formal fraud deterrence, detection, and reporting semi-annually throughout their military careers, it seemed unnecessary for them to undergo further training. However, further consideration with regard to any non-military employee within the agency and to ensure up-to-date information to be

presented to all employees in the area of fraud deterrence and detection, a policy continuity book has been established regarding this and several other issues. The New Hampshire State Department of Administrative Services Fraud Prevention Policies and Procedures manual has been included as required reading in this policy. Each employee upon reading said policy will provide written assurance indicating his/her understanding. This agency requirement will be updated and training will be provided upon hire and annually thereafter.

Observation No. 9: Familiarity With State Administrative Procedures Should Be Maintained

Observation:

According to the Council staff, it was unaware of the Department of Administrative Services *Administrative Handbook* requirement that, “[t]ravel vouchers should be submitted bi-weekly, no later than within a month of travel.” Accordingly, the Council did not require employees to submit travel vouchers in a timely manner as required by the Handbook.

One of two in-state travel vouchers selected for audit testing was submitted untimely. This travel voucher contained request for reimbursement of travel expenses incurred during the period August-December of 2007. The payment voucher was processed in the State accounting system (NHIFS) on March 7, 2008. The Council reported that the submission of this travel voucher prompted the Department of Administrative Services, Bureau of Accounts, to request an explanation from them regarding the untimely mileage reimbursement, advised the agency of the timely filing requirement, and requested the Council to adhere to the policy in the future. The Council reports it has since submitted travel vouchers timely.

Recommendation:

The Council should continue to require employees to submit travel vouchers bi-weekly in accordance with the *Administrative Handbook*.

Auditee Response:

Concur. The Administrative Handbook has been added to our policy continuity book for review on an "on-hire" and annual basis thereafter.

Compliance Comment

Observation No. 10: Filings Required By RSA 15-A Should Be Made Timely

Observation:

The Director of the State Veterans Council, who is appointed by the Council, and the Council members, who are appointed by the Governor and Executive Council, did not file the annually required statements of financial interest in January of 2008 in accordance with RSA 15-A. In addition, the State Veterans Council did not have a current organizational chart on file with the Secretary of State.

- RSA 15-A:4 states, “Each agency head shall file with the secretary of state an organizational chart identifying the names, titles, and position numbers of persons in his or her department that are required to file a statement of financial interests.”
- RSA 15-A:3, III and IV requires, “Every person appointed by the governor, governor and council, president of the senate, or the speaker of the house of representatives to any board, commission, committee, board of directors, authority, or equivalent state entity whether regulatory, advisory, or administrative in nature” and “All agency heads” to file statements of financial interests with the Secretary of State.
- RSA 15-A:6 states, “All persons subject to this chapter shall file a statement of financial interests annually no later than the third Friday in January. All persons subject to this chapter, except those who are elected, shall file a statement of financial interests within 14 days of assuming the office, position, or appointment that makes the person subject to this chapter, unless the person has previously filed a statement during the calendar year.”

According to the Council, it was an oversight that the filings were not made in January 2008 and filings were made during 2007.

The Council reported all required filings were made subsequent to the auditor’s inquiry.

Recommendation:

The State Veterans Council should file required documentation in accordance with RSA 15-A.

The State Veterans Council should establish policies and procedures for making periodic and timely notification to Council officials and employees required to file statements of financial interests with the Secretary of State.

The Council should establish policies and procedures to ensure that a current organizational chart, responsive to the requirements of RSA 15-A:4, is maintained on file with the Secretary of State.

Auditee Response:

We concur. This observation is entirely correct. This agency is generally notified in late December or, early January of each year, of these filing requirements. Because we were in receipt of no written notification this year, this agency failed to file the Financial Disclosure Statements or agency organizational chart when required. When this discrepancy was discovered, action was taken to correct the error almost immediately. Letters were sent to both the Secretary of State (with a completed financial disclosure statement from the agency Director and with an organizational chart) and to the three appointed members of the Council. Within 10 business days all statements had been placed on file in the Secretary of State's office and within the agency files.

An agency policy continuity book has since been established with provision for an annual review and update in January of each year.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying Statement Of Revenues And Expenditures - General Fund of the New Hampshire State Veterans Council (Council) for the nine months ended March 31, 2008. This financial statement is the responsibility of the management of the Council. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free 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 Council's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 opinion.

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

In our opinion, except for the matter discussed in the third paragraph, the financial statement referred to above presents fairly, in all material respects, certain financial activity of the Council for the nine months ended March 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated June 13, 2008 on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Office Of Legislative Budget Assistant

June 13, 2008

**STATE OF NEW HAMPSHIRE
STATE VETERANS COUNCIL**

**STATEMENT OF REVENUES AND EXPENDITURES - GENERAL FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2008**

Revenues

Revenue	\$ -0-
Total Revenues	<u>-0-</u>

Expenditures

Salaries And Benefits	262,123
Service Bonus Payments	23,100
Equipment	14,232
Current Expenses	8,280
In-State Travel	6,340
Rents/Leases Other Than State	4,014
Out-Of-State Travel	1,175
Transfers To OIT	479
Organizational Dues	400
Training Materials And Supplies	-0-
Total Expenditures	<u>320,143</u>

Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>(320,143)</u>
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Other Financing Sources (Uses)	
Net General Fund	320,143
Total Other Financing Sources (Uses)	<u>320,143</u>

Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	<u>\$ -0-</u>
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The accompanying notes are an integral part of this financial statement.

**STATE OF NEW HAMPSHIRE
STATE VETERANS COUNCIL**

**NOTES TO THE FINANCIAL STATEMENT
FOR THE NINE MONTHS ENDED MARCH 31, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Statement Of Revenues And Expenditures - General Fund of the New Hampshire State Veterans Council has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

A. Financial Reporting Entity

The Veterans Council (Council) is an organization of the primary government of the State of New Hampshire. The accompanying financial statement reports certain financial activity of the Council.

The financial activity of the Council is accounted for and reported in the General Fund in the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the CAFR. The Council, as a department of the primary government, accounts for only a small portion of the General Fund and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to the Council cannot be determined. Accordingly, the accompanying financial statement is not intended to show the financial position or change in fund balance of the Veterans Council in the General Fund.

B. Financial Statement Presentation

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

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

C. Measurement Focus And Basis Of Accounting

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay the liabilities of the current period. For this purpose, except for federal grants, the State generally considers revenues

to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due.

D. Budget Control And Reporting

General Budget Policies

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

The operating budget is prepared principally on a modified cash basis and adopted for the governmental and proprietary fund types with the exception of the Capital Projects Fund. The Capital Projects Fund budget represents individual projects that extend over several fiscal years. Since the Capital Projects Fund comprises appropriations for multi-year projects, it is not included in the budget and actual comparison schedule in the State of New Hampshire CAFR.

In addition to the enacted biennial operating budget, the Governor may submit to the Legislature supplemental budget requests to meet expenditures during the current biennium. Budgetary control is at the department level. All departments are authorized to transfer appropriations within their departments with the prior approval of the Joint Legislative Fiscal Committee and the Governor and Council.

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

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

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services, the encumbrance is liquidated and the expenditure and liability are recorded. The Council's unliquidated encumbrance balance in the General Fund at March 31, 2008 was \$2,083.

A Budget To Actual Schedule - General Fund is included as supplementary information.

NOTE 2 - EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The Veterans Council, as an organization of the State government, participates in the New Hampshire Retirement System (Plan). The Plan is a contributory defined-benefit plan and covers all full-time employees of the Council. The Plan qualifies as a tax-exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. RSA 100-A established the Plan and the contribution requirements. The Plan, which is a cost-sharing, multiple-employer Public Employees Retirement System (PERS), is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. All assets are in a single trust and are available to pay retirement benefits to all members.

Group I members at age 60 qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is 1/60 (1.67%) of AFC multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. At age 65, the yearly pension amount is recalculated at 1/66 (1.5%) of AFC multiplied by years of creditable service. Members in service with ten or more years of creditable service who are between ages 50 and 60 or members in service with at least 20 or more years of service, whose combination of age and service is 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years.

All covered Council employees are members of Group I.

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

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the nine months ended March 31, 2008, Group I members were required to contribute 5% and group II members were required to contribute 9.3% of gross earnings. The State funds 100% of the employer cost for all of the Councils' employees enrolled in the Plan. The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years based on the Plan's actuary.

The Council's payments for normal contributions for the nine months ended March 31, 2008 amounted to 8.74% of the covered payroll for its group I employees. The Council's normal contributions for the nine months ended March 31, 2008 were \$15,493.

A special account was established by RSA 100-A:16, II (h) for additional benefits. Effective for fiscal year 2008, legislation was passed that permits the transfer of assets into the special account for earnings in excess of 10 ½ percent as long as the actuary determines the funded ratio of the

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.

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

Health Insurance For Retired Employees

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 may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires State Group I employees hired after July 1, 2003 to have 20 years of State service in order to qualify for health insurance benefits. These and similar benefits for active employees are authorized by RSA 21-I:30 and provided through the Employee Benefit Risk Management Fund, which is the State's self-insurance fund implemented in October 2003 for active State employees and retirees. The State recognizes the cost of providing these benefits on a pay-as-you-go basis by paying actuarially determined contributions into the fund. The New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees also contributes to the fund.

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

**STATE OF NEW HAMPSHIRE
STATE VETERANS COUNCIL
SUPPLEMENTARY INFORMATION**

**BUDGET TO ACTUAL SCHEDULE - GENERAL FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2008**

	<u>Original Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
<u>Revenues</u>			
Revenue	\$ -0-	\$ -0-	\$ -0-
Total Revenues	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<u>Expenditures</u>			
Salaries And Benefits	340,246	262,123	78,123
Service Bonus Payments <i>(Note 2)</i>	-0-	23,100	(23,100)
Equipment	13,691	14,232	(541)
Current Expenses	11,000	8,280	2,720
In-State Travel	6,751	6,340	411
Rents/Leases Other Than State	5,400	4,014	1,386
Out-Of-State Travel	2,700	1,175	1,525
Transfers To OIT	6,641	479	6,162
Organizational Dues	450	400	50
Training Materials And Supplies	1,000	-0-	1,000
Total Expenditures	<u>387,879</u>	<u>320,143</u>	<u>67,736</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>(387,879)</u>	<u>(320,143)</u>	<u>67,736</u>
Other Financing Sources (Uses)			
Net General Fund	387,879	320,143	67,736
Total Other Financing Sources (Uses)	<u>387,879</u>	<u>320,143</u>	<u>67,736</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 notes are an integral part of this schedule.

Notes To The Budget To Actual Schedule - General Fund For The Nine Months Ended March 31, 2008

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 and proprietary fund types with the exception of the Capital Projects Fund.

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 2008 as passed by the Legislature in Chapter 262, Laws of 2007.

Budgetary control is at the department level. All departments are authorized to transfer appropriations within their departments with the prior approval of the Joint Legislative Fiscal Committee and the Governor and Council. Additional fiscal control procedures are maintained by both the Executive and Legislative Branches of government. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State's financial system. The Legislative Branch, represented by the Joint Legislative Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

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

Variances - Favorable/(Unfavorable)

The variance column on the Budget To Actual Schedule highlights differences between the original operating budget for fiscal year 2008 and the actual revenues and expenditures for the nine months ended March 31, 2008. Actual revenues exceeding budget or actual expenditures being less than budget generate a favorable variance. Actual revenues being less than budget or actual expenditures exceeding budget cause an unfavorable variance.

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

The unfavorable expenditure variances shown on the Budget to Actual Schedule represents the difference between the actual expenditures incurred during the nine months ended March 31, 2008 and the original budget in place at the beginning of fiscal year 2008. The unfavorable expenditure variances do not represent expenditures incurred in excess of appropriations because the original budget amounts do not include supplemental appropriations. The State and the Council use supplemental appropriations to add appropriations to original budget amounts to reflect changes in levels of operations not provided for in the original budget. During the nine months ended March 31, 2008, the Council's original expenditure budget amounts were supplemented by \$28,188 of additional appropriations.

Note 2 - Unfavorable Variance - Service Bonus Payments

Service Bonus Payments are not budgeted in the original operating budget. In accordance with RSA 115-A:17, the Governor is authorized to draw a warrant for these expenditures from any money in the State Treasury not otherwise appropriated. Warrants are drawn from time to time to fund these expenditures. These supplemental warrant appropriations are not reflected in the original operating budget reported on the Budget to Actual Schedule.

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