

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF LABOR**

**AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 1995
AND THE SIX MONTHS ENDED
DECEMBER 31, 1995**

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF LABOR**

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTION	1
AUDIT OBJECTIVES AND SCOPE	5
AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE	7
<i>REPORTABLE CONDITIONS</i>	
1. RECOGNITION OF FINE AND PENALTY REVENUE	9
2. OUTSTANDING FINES RECORDED IN THE MANUAL SYSTEM	10
3. PROCESSING OF TRUST FUND TRANSACTIONS	11
4. CONTROLS OVER PROCESSING OF RECEIPTS	12
5. ACCOUNTING FOR EQUIPMENT	14
6. ELECTRONIC DATA PROCESSING CONTROLS	16
AUDITOR'S REPORT ON STATE COMPLIANCE	21
<i>STATE COMPLIANCE</i>	
7. CERTIFICATE & LICENSE FEES	22
8. PER DIEMS PAID TO MEMBERS OF THE COMPENSATION APPEALS BOARD	23
9. BOARDS AND COUNCILS ASSOCIATED WITH THE DEPARTMENT OF LABOR	24
10. PENALTY APPEAL BOARD HEARING DECISIONS	27
AUDITOR'S REPORT ON MANAGEMENT ISSUES	29
<i>MANAGEMENT ISSUES</i>	
11. EMPLOYEE LEAVE BALANCES	30
12. DISPOSITION OF UNCLAIMED WAGE-ADJUSTMENT CHECKS	31
INDEPENDENT AUDITOR'S REPORT	33
STATEMENTS OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - GENERAL FUND	35
COMBINING BALANCE SHEETS - EXPENDABLE TRUST FUNDS	37
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - EXPENDABLE TRUST FUNDS	39
NOTES TO THE FINANCIAL STATEMENTS	41

TABLE OF CONTENTS (Continued)

	<u>PAGE</u>
<i>SUPPLEMENTARY INFORMATION</i>	
SCHEDULES OF BUDGETARY COMPONENTS - GENERAL FUND	50
APPENDIX A - STATUS OF PRIOR AUDIT REPORT OBSERVATIONS	53
APPENDIX B - STATUS OF PRIOR PERFORMANCE AUDIT REPORT OBSERVATIONS	55

STATE OF NEW HAMPSHIRE DEPARTMENT OF LABOR

INTRODUCTION

HISTORY

The first commissioner of labor was established by Chapter 48, laws of 1893. The duties of the commissioner were "... to collect, assort, arrange, and present in annual reports..." statistical data related "... to the commercial, industrial, social, educational, and sanitary condition of the laboring classes, and the permanent prosperity of the productive industry of the state."

Chapter 198, laws of 1911, abolished the office of the commissioner of labor and established a bureau of labor, administered by a labor commissioner. In addition to preparing annual reports, Chapter 198 gave the labor commissioner much broader responsibilities, including visiting places of business to ascertain whether labor laws were being complied with and arbitrating disputes between employers and employees. The board of conciliation and arbitration was also established at that time. Chapter 198, laws of 1911, is the source of the Department of Labor's current enabling legislation, Chapter 273 of the Revised Statutes Annotated.

The purpose of the Department of Labor (DOL) is to ensure a fair and safe working environment for New Hampshire workers through the administration and enforcement of State labor laws - in both the public and private sectors.

ORGANIZATION

The DOL is under the executive direction of a commissioner who is appointed by the governor for a term of three years, with the advice and consent of the council and a deputy commissioner who is appointed by the commissioner. The commissioner and deputy commissioner oversee the three divisions of the Department:

- Workers' Compensation
- Inspection
- Administration & Support.

The DOL's 72 full-time and three part-time classified employees assist the commissioner and deputy commissioner in the performance of the duties of the Department.

INTRODUCTION (Continued)

RESPONSIBILITIES

The DOL administers workers' compensation laws, labor arbitration proceedings, youth employment laws and minimum wage legislation. In addition it conducts inspections of unfired pressure vessels (e.g., air tanks), elevators, and boilers.

The DOL also administers two State trust funds: the Special Fund for Active Cases established by RSA 281-A:30 and the Special Fund for Second Injuries established by RSA 281-A:55. Revenues for these trust funds are provided by assessments paid by insurance companies and self-insurers and are based on payments made for workers' compensation claims. Expenditures are made to reimburse insurance companies for certain eligible payments made to claimants. These trust funds are in the custody of the State Treasury. The trust fund balances as of June 30, 1995 and December 31, 1995 are presented in the table below.

TRUST FUNDS	BALANCE JUNE 30, 1995	BALANCE DECEMBER 31, 1995
Active Cases	\$ 86,413	\$ 32,196
Second Injuries	<u>1,712,234</u>	<u>1,753,213</u>
Total	\$1,798,647	\$1,785,409

FUNDING

Restricted revenues collected by the DOL represent assessments paid by insurance companies in accordance with RSA 281-A:59 to cover the costs incurred by the DOL to administer the workers' compensation statute. These assessments are recorded in the DOL's Administration Fund. The annual assessments are billed by the Department of Labor and paid by the insurance companies at the beginning of each fiscal year.

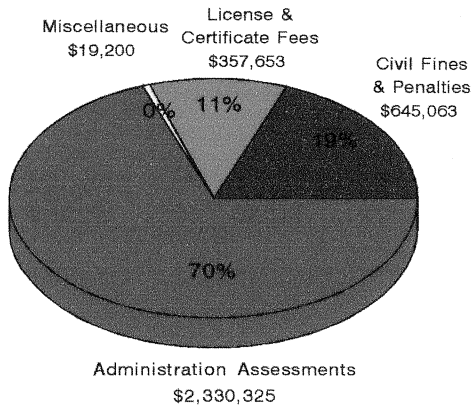
Actual amounts collected and expended by the Department of Labor for the year ended June 30, 1995 and the six months ended December 31, 1995 are presented graphically on page three and summarized with budgeted amounts in the following chart. Actual revenue and expenditures for the six months ended December 31, 1995 are presented with budgeted amounts for the entire fiscal year, therefore, significant variances are expected. See NOTE 1 on page 44 of this report for further explanation of budget to actual variances.

GENERAL FUND	FISCAL YEAR 1995 BUDGET	FISCAL YEAR 1995 ACTUAL	FISCAL YEAR 1996 THROUGH 12/31/95 BUDGET	6 MOS. ENDED 12/31/95 ACTUAL
Revenues:				
Unrestricted	\$1,056,000	\$1,021,916	\$1,055,000	\$ 671,432
Restricted	<u>3,070,828</u>	<u>2,330,325</u>	<u>3,002,465</u>	<u>2,447,894</u>
Total	\$4,126,828	\$3,352,241	\$4,057,465	\$3,119,326
Expenditures	\$4,857,098	\$3,369,394	\$4,598,065	\$1,674,899

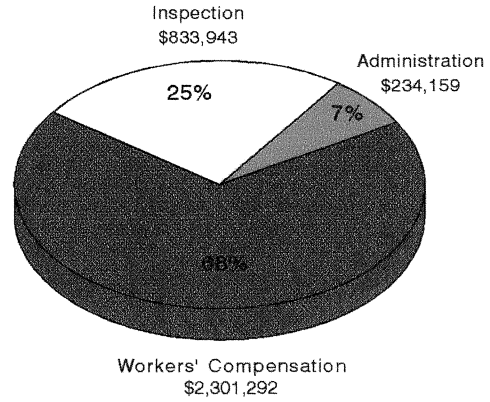
INTRODUCTION (Continued)

**NH DEPARTMENT OF LABOR
GENERAL FUND
Revenues and Expenditures**

FOR THE YEAR ENDED JUNE 30, 1995

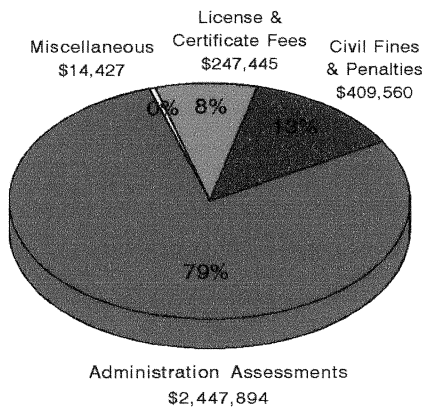


**REVENUES
Restricted and Unrestricted
\$3,352,241**

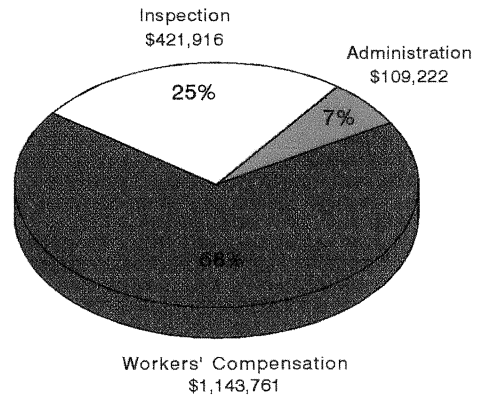


**EXPENDITURES
By Division
\$3,369,394**

FOR THE SIX MONTHS ENDED DECEMBER 31, 1995



**REVENUES
Restricted and Unrestricted
\$3,119,326**



**EXPENDITURES
By Division
\$1,674,899**

INTRODUCTION (Continued)

PRIOR AUDITS

The most recent prior financial and compliance audit of the Department of Labor was for the eighteen months ended December 31, 1990. Appendix A on page fifty-three of this report contains a summary of the current status of the observations contained in that prior financial and compliance audit report.

A performance audit report entitled *Managed Care Programs for Workers' Compensation*, dated November 1995, was issued by the Office of Legislative Budget Assistant. The management of the Department of Labor has provided a current status of these observations at Appendix B on page fifty-five of this report.

Copies of the prior audit reports can be obtained from the Office of Legislative Budget Assistant, Audit Division, Room 102, State House, Concord, New Hampshire 03301.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF LABOR**

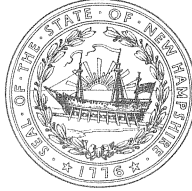
AUDIT OBJECTIVES AND SCOPE

The primary objective of our audit is to express an opinion on the fairness of the presentation of the financial statements. As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, we considered the effectiveness of the internal control structure in place at the Department of Labor and tested the Department of Labor's compliance with certain provisions of applicable state laws and regulations. Major accounts or areas subject to our examination included, but were not limited to the following:

- Internal control structure
- Appropriations and revenues
- Expenditures
- Equipment
- Trust funds
- State compliance.

Our reports on internal control structure, State compliance, and management issues, the related observations and recommendations, our independent auditor's report, and the financial statements are contained in the report that follows.

THIS PAGE INTENTIONALLY LEFT BLANK



State of New Hampshire

CHARLES L. CONNOR
Legislative Budget Assistant
(603) 271-3161

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

MICHAEL L. BUCKLEY, CPA
Deputy Legislative Budget Assistant
Director, Audit Division
(603) 271-2785

AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the accompanying financial statements of the New Hampshire Department of Labor as of and for the year ended June 30, 1995 and the six months ended December 31, 1995, and have issued our qualified report thereon dated April 29, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *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.

The management of the New Hampshire Department of Labor is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the New Hampshire Department of Labor, as of and for the year ended June 30, 1995 and the six months ended December 31, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Those matters that we consider to be reportable conditions are described on the following pages.

REPORTABLE CONDITIONS

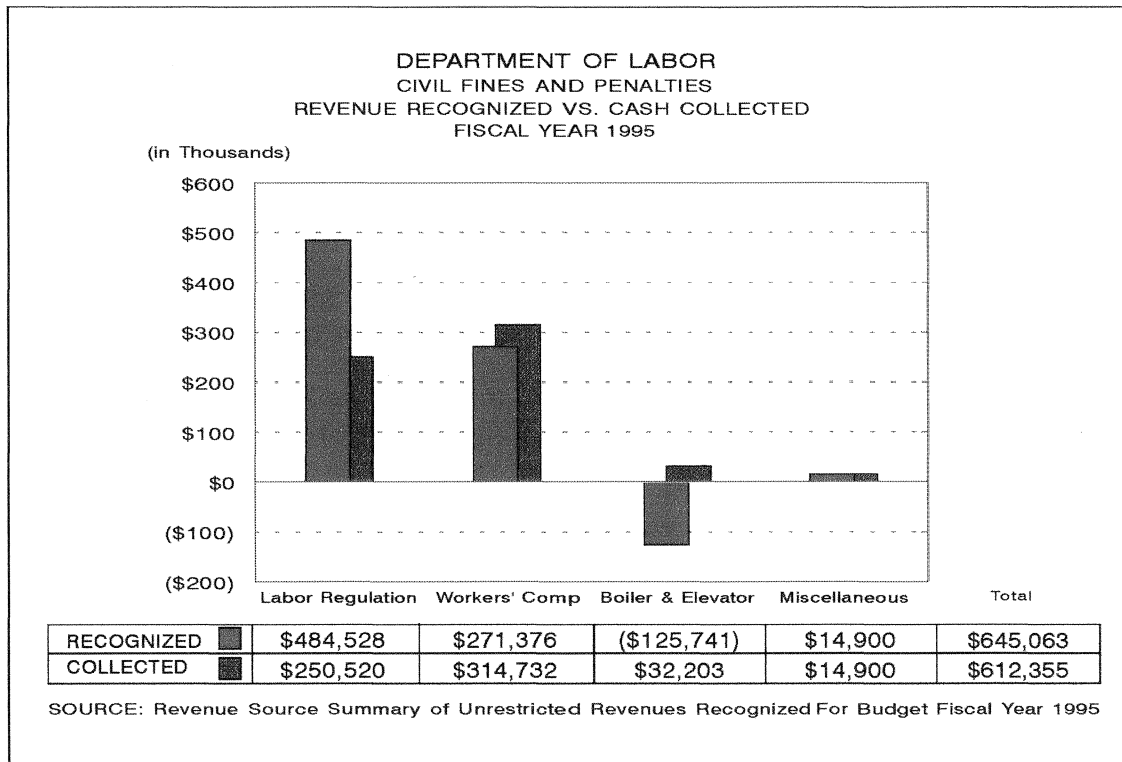
OBSERVATION NO. 1: RECOGNITION OF FINE AND PENALTY REVENUE

The Department of Labor (DOL) collects various fines and penalties imposed on entities that violate the statutes with which the DOL is charged with administering and enforcing. It is not unusual for a lengthy hearings process to follow the imposition of fines and penalties. Often, amounts are not collected for years after the original date of assessment, or the fines and penalties may be subsequently waived entirely. As a result, at the time the fine or penalty is imposed there is uncertainty related to when the fines and penalties will be collected. At the end of each fiscal year the DOL performs numerous calculations to arrive at amounts to report as accounts receivable for fines and penalties.

OBSERVATION:

- Generally accepted accounting principles state that fine revenues are best recognized when the cash is received because of the uncertainty of collections. By recording the accounts receivable at the end of each fiscal year, the DOL is recognizing uncertain fine revenue before cash is received.

Fine and penalty revenue recognized (cash collected plus or minus the change in receivables) for the year ended June 30, 1995 varied significantly from the cash collected for the same period as graphically presented below.



OBSERVATION NO. 1: RECOGNITION OF FINE AND PENALTY REVENUE (Continued)

RECOMMENDATION:

- The DOL should recognize fine and penalty revenue when cash is received in accordance with generally accepted accounting principles. Therefore, the DOL should no longer report accounts receivable at year end for fines and penalties.

AUDITEE RESPONSE:

- The Department of Labor concurs with this observation and effective June 30, 1996, the accounting procedure to recognize these when received was implemented. As such, this observation has been resolved.

OBSERVATION NO. 2: OUTSTANDING FINES RECORDED IN THE MANUAL SYSTEM

The DOL began automating its system of tracking fines and penalties in fiscal year 1993. Boiler and elevator penalties were the first fine and penalty records automated. The last revenue sources to be automated were for workers' compensation penalties which were automated during fiscal year 1995. The DOL continues to use the manual system to account for outstanding fines and penalties that **were imposed before** its automation.

OBSERVATIONS:

- There were approximately 240 outstanding accounts in the DOL manual card file as of March 31, 1996. We tested a sample of 30 of the accounts maintained on the manual system to determine whether they continue to represent valid outstanding fines. We found that half of the accounts maintained on the manual system may no longer be valid either because they are closed or because the documentation can not be located to support the amounts owed.
 - Nine of the thirty accounts reviewed (30%) had been paid, waived or determined to be uncollectible and no longer represented outstanding penalties.
 - The files for six of the thirty accounts (20%) could not be located and therefore the validity of the penalties could not be determined.
 - The remaining fifteen of the thirty sample accounts (50%) were determined to be valid outstanding accounts.
- There is no reconciliation performed between the detail and summary records maintained in the manual system. At June 30, 1995 the summary records reflected an outstanding balance of \$646,758 and the detail records reflected a balance of \$555,101 resulting in an unexplained variance of \$91,657. A similar comment was made during the prior audit of the Department of Labor for the eighteen months ended December 31, 1990.

OBSERVATION NO. 2: OUTSTANDING FINES RECORDED IN THE MANUAL SYSTEM
(Continued)

RECOMMENDATIONS:

- The remaining accounts recorded in the manual system should be examined carefully and any that are no longer valid should be removed. With the limited number of accounts remaining, the DOL should consider including the accounts deemed to be valid in the automated system to ensure better tracking and control.
- If the DOL chooses to continue to use the manual system, then the card file and ledgers should be reconciled periodically and adjustments should be made to ensure that the detail and summary records are in agreement.

AUDITEE RESPONSE:

- The Department of Labor concurs with the observation and plans on eliminating the manual system of cards and ledgers by June 30, 1997. The remaining accounts will be reconciled monthly and adjustments will be made to balance.

OBSERVATION NO. 3: PROCESSING OF TRUST FUND TRANSACTIONS

The Department of Labor (DOL) is responsible for billing and collecting assessments for the Active Cases and Second Injuries Trust Funds and the Administration Fund, all established by RSA 281-A. Each workers' compensation insurance carrier or self-insurer operating in the State is required by the statute to make payments into the Funds each year based on their pro-rata share of the total amount to be collected for the Funds. The Department is also responsible for reimbursing eligible insurance carriers and self-insurers who have paid workers' compensation benefits pursuant to RSA 281-A:30 for Active Cases and RSA 281-A:54 for Second Injuries.

Transactions processed through the trust funds are not accounted for in NHIFS, the State's accounting system and therefore, many of the controls that are present in NHIFS are not in place over these trust fund transactions.

OBSERVATION NO. 3: PROCESSING OF TRUST FUND TRANSACTIONS (Continued)

OBSERVATION:

- Our review of the internal control structure over the processing of trust fund transactions revealed the following weaknesses:
 - There is a lack of segregation of duties over trust fund transactions as one DOL employee is responsible for the following incompatible functions: updating each insurance carrier's account upon billing and collection, approving requests for reimbursement from the Active Cases and Second Injuries Funds, and mailing the signed, negotiable reimbursement checks.
 - There is no supervisory review and approval of reimbursement requests to determine that requests and payments from the trust funds are appropriate and in accordance with the statute.

RECOMMENDATION:

- The Department of Labor should strengthen its internal controls over the processing of trust fund transactions. In order to decrease the risk that errors or irregularities may occur and go undetected, these procedures should include adequate segregation of duties, supervisory review and approval of reimbursement requests.

AUDITEE RESPONSE:

- The Department concurs with the observation and has implemented corrective action methods to strengthen our internal controls over the processing of trust fund transactions. We are working closely with the Treasury Department in an effort to transfer the trust fund into the NHIFS. Once this is completed, the accountability structure, segregation of duties and supervision will be reorganized in order to accomplish a more accountable system. In the interim, the same individual who processes the fund payments will not be depositing checks and all activities will be supervised.

OBSERVATION NO. 4: CONTROLS OVER PROCESSING OF RECEIPTS

Effective internal controls over the receipts and revenue cycle include, but are not limited to, preparation of an initial recording of cash receipts, restrictive endorsements placed on all checks upon receipt, and proper segregation of duties between recording and reconciling revenue and preparing the deposit. Such controls provide management with reasonable assurance that receipts are safeguarded.

OBSERVATION NO. 4: CONTROLS OVER PROCESSING OF RECEIPTS (Continued)

OBSERVATION:

- During our review of the Department of Labor's (DOL) procedures for recording and processing cash receipts, we noted the following weaknesses which increase the risk that errors or irregularities may occur and not be detected in a timely manner:
 - Checks opened in the mail room and those opened by the Inspection Division are not stamped with a restrictive endorsement upon receipt. The checks often change hands several times before being delivered to the business office for recording, endorsement and deposit.
 - An initial recording of checks received is prepared by the mail room, the Inspection Division, and the business office. A copy of the recordings from the mail room and the Inspection Division do not accompany the actual checks to the business office for processing. Therefore, a reconciliation of checks received and deposited by the business office and the checks opened in the mail room and the Inspection Division is not performed.

A similar comment was made during the prior audit of the Department of Labor for the eighteen months ended December 31, 1990.

RECOMMENDATION:

- The DOL should revise its current procedures to strengthen the internal controls over the processing of receipts. The DOL should:
 - Restrictively endorse checks immediately upon receipt.
 - Ensure that the initial recordings of receipts accompany the checks to the business office. The business office staff should ensure that the amounts deposited and reported as revenue agree with amounts recorded on the initial recording of receipts.

AUDITEE RESPONSE:

- The Department concurs with the observation and has taken corrective action.

Currently, there are two individuals in the Business Office and receipt and deposits are segregated.

All checks are now restrictively endorsed and logged on an A-15 Record of Daily Receipts prior to being delivered to the Business Office.

Once received, the Business Office enters all receipts into the AS/400, another document is produced for reconciliation and the deposit is prepared.

OBSERVATION NO. 5: ACCOUNTING FOR EQUIPMENT

Five problem areas were noted in the manner that the Department of Labor (DOL) accounts for its equipment. These areas are discussed in A through E below. A similar comment was made during the prior audit of the Department of Labor for the eighteen months ended December 31, 1990.

OBSERVATIONS:

A. MONTHLY REPORTING OF CHANGES IN EQUIPMENT

The Department of Administrative Services, Bureau of Purchase and Property requires each agency to complete a Monthly Equipment Adjustment Report, Form P-21, detailing any equipment acquisition or deletion which occurred during the month. The DOL does not report monthly equipment activity to the Bureau of Purchase and Property on a timely basis.

- Eight items of equipment purchased in May and June of 1994 were reported to the Bureau of Purchase and Property in August and September 1994, causing a \$27,750 understatement of the June 30, 1994 year end equipment balance reported by the DOL.
- In September 1995, the DOL purchased an IBM upgrade package. As of April 29, 1996, the DOL had not reported the acquisition to the Bureau of Purchase and Property, thus understating the equipment balance at December 31, 1995 by \$11,644.

B. LACK OF SEGREGATION OF DUTIES

There is a lack of segregation of duties over the system of accounting for equipment. One DOL employee is responsible for maintaining equipment records and for investigating discrepancies between the equipment records and the results of the physical inventory counts. (The most recent physical inventory count was performed in 1994. See section C of this observation.) This individual is also responsible for receiving computer purchases, completing the receiving reports, and forwarding those reports to the business office.

C. 1995 PHYSICAL INVENTORY NOT PERFORMED

The Department of Administrative Services, Bureau of Purchase and Property requires all State agencies to take a complete annual physical inventory of equipment and to report discrepancies between the agencies' records and the results of the physical count on a prescribed form. The DOL did not perform a physical inventory of equipment during fiscal year 1995, nor does it have procedures in place to report discrepancies between the DOL's equipment records and the results of a physical inventory count when one is taken. Misuse or misplacement of equipment may not be detected in a timely manner because the DOL does not regularly perform the required annual physical inventory.

OBSERVATION NO. 5: ACCOUNTING FOR EQUIPMENT (Continued)

OBSERVATIONS (Continued):

D. RECORDED EQUIPMENT LOCATION NOT CURRENT

The DOL maintains equipment records, which provide the identification number, a description, the cost, and the location of each equipment item it owns. These records were used to physically identify 71 equipment items selected for testing. Thirty-two of the 71 equipment items tested (45%) were not found in the location provided by the DOL records because equipment items are relocated on a regular basis and the DOL does not update its records to reflect the relocation. Controls are weakened and accounting inadequate when the correct locations of items are not known.

E. INCOMPLETE MOTOR VEHICLE REPORTING

The DOL is required by the Manual of Procedures, sections Adm. 305.03 (expired) and Adm. 305.04 (expired), to complete monthly Reports of Operations (MV-2) and Life History of Vehicle (MV-3) reports for each vehicle. The MV-2 reports monthly mileage and costs to operate the vehicle. The MV-3 report is a vehicle summary, prepared by the business office, from each MV-2 report. For three of the 11 vehicles (27%) selected for testing, MV-2 reports were missing and MV-3 reports were incomplete. No MV-3 reports were prepared for two of the 11 vehicles (18%) tested.

RECOMMENDATIONS:

- A. The DOL should report monthly changes in its equipment inventory to the Bureau of Purchase and Property on a timely basis.
- B. The DOL should segregate the duties of record-keeping, performing physical inventories, investigating inventory discrepancies, and receiving purchased equipment.
- C. The DOL should perform an annual physical inventory of equipment, reconcile its records to the results of the physical inventory, and report the results of the inventory to the Bureau of Purchase and Property.
- D. The DOL should develop and implement procedures to update its equipment records each time equipment is relocated so that its records are accurate.
- E. The DOL should prepare accurate accountings of mileage and costs to operate vehicles on the monthly MV-2 reports. The Department should ensure that MV-3 reports are prepared from the monthly MV-2 reports for all of its motor vehicles.

OBSERVATION NO. 5: ACCOUNTING FOR EQUIPMENT (Continued)

AUDITEE RESPONSE:

- A. The Department has been completing monthly reports on a regular basis and will continue to do so as required. Some of the individual items that were not reported on the monthly inventory reports however, had been ordered and paid, were not yet delivered to this Department (i.e. vehicles, computer equipment, etc.). We also learned and we were unclear in the past that the software packages for each personal computer needed to be entered on this report, and as such we have begun reporting it.
- B. A supervisor has been assigned to order all computer equipment. A research analyst has been assigned to receive the equipment and the supervisor to verify that the order is correct. The research analyst will add to inventory control. A research analyst will order automobiles and furniture, and the supervisor will process the receipt of such. The research analyst is responsible for continuous update of the inventory control reports which will be reviewed and submitted monthly as required.
- C. The Department has performed and will continue to perform annual physical inventory of equipment and reconcile our records between the results of such inventory and then report the results to the Bureau of Purchase and Property.
- D. A plan to establish appropriate procedures to update equipment records has been addressed and as such when equipment is moved, the research analyst shall reflect it in the inventory control report and it will be listed by location.
- E. MV-2 reports have been difficult to obtain from some of our inspectors over the years however, we have changed our procedure in obtaining them. On a monthly basis all inspectors report to the office for a meeting and such are collected then, reviewed for accuracy, returned to the inspector if they are incomplete and then follow up is done to ensure that they are received timely.

OBSERVATION NO. 6: ELECTRONIC DATA PROCESSING CONTROLS

The Department of Labor maintains an internal electronic data processing (EDP) system that tracks and summarizes all revenue received, tracks outstanding fines and fees, contains workers' compensation data for employers in New Hampshire, and processes licensing information for elevators, boilers and pressure vessels.

OBSERVATIONS:

- During our consideration of the internal controls over portions of the EDP system at the DOL, weaknesses in the system and its applications were noted as described in A through D on the following page.

OBSERVATION NO. 6: ELECTRONIC DATA PROCESSING CONTROLS (Continued)

OBSERVATIONS (Continued):

A. MODIFICATIONS TO SYSTEM APPLICATIONS:

Users of the EDP system can request changes to computer applications to better suit their processing needs. These requests are made orally to the EDP staff without documentation of the modification requested. In most cases, supervisory or management approval is not obtained before initiating the change.

B. CONTINUITY OF OPERATIONS:

-- None of the system applications have complete system documentation. Minimal documentation for in-house developed applications is maintained, however it is not complete or current. Systems documentation should include, but not be limited to, complete instructions for all applications in a format that can be easily understood by users. In the event that key EDP personnel should leave DOL employment, comprehensive systems documentation would provide a reliable source for training new personnel and serve as a reference guide for questions arising about the operation of the computer system.

-- The DOL's EDP system is relied upon for the daily processing of many Departmental functions. The DOL does not have a formal disaster contingency plan to assure the continuity of operations in the event of a physical disaster or computer failure.

C. SEGREGATION OF DUTIES:

The duties of evaluating and designing systems, developing and documenting programs, debugging programs (system designer/programmer), operating computer hardware and executing the program according to operating instructions (computer operator) are performed by the same Department employee. The risk that errors or irregularities could occur and not be detected in a timely manner is increased when these duties are not adequately segregated.

D. ACCESS CONTROLS:

The DOL's EDP system has controls to safeguard against unauthorized access, including access restrictions and the use of passwords. However, the system is not equipped with an automatic disconnection function which would log-off a terminal left unattended for a period of time. Once a user is logged onto the system their terminal remains active until they sign off. If the terminal is left unattended, the risk that personnel could gain unauthorized access to the system is greatly increased.

OBSERVATION NO. 6: ELECTRONIC DATA PROCESSING CONTROLS (Continued)

RECOMMENDATIONS:

- The Department of Labor should:
 - A. Develop procedural controls for modifications made to the EDP system. All requests and modifications should be documented and approved by management or supervisory personnel. This documentation should be maintained and reviewed periodically by a person independent of the request or modification. Also, modifications to existing applications should be reflected in adequate systems documentation.
 - B. Develop procedures and controls to ensure the continuity of the Department of Labor's operations in the event of a computer failure. These procedures and controls should include, but should not be limited to, a disaster contingency plan and adequate system documentation.
 - C. Properly segregate duties connected with the EDP system in order to reduce the risk of errors or irregularities from occurring and not being detected in a timely manner.
 - D. Consider including an automatic disconnection function in the EDP system.

AUDITEE RESPONSE:

- A. We concur that all application changes must be documented. In the past our procedure did not include enough supporting documentation of approval prior to changes being made. Since we've discovered this weakness we have enacted a procedure where documentation is reviewed on a weekly basis by management staff. This documentation includes the requested specific proposed changes, an estimated time frame for completion by the programmer, and the impact of this change on this system. No changes are initiated by the programmer until such has been approved by management.
- B. We concur with this observation and acknowledge the need for a disaster contingency plan. We have begun establishing this plan and target the date for completion by the end of the calendar year.
- C. We have one hardware specialist, one programmer and two analysts working for the department. On a daily basis there is about an hour's work that falls under Operating Computer Hardware and Executing Programs. The submission of overnight jobs is done automatically when the backup tapes are loaded and initialized. This task is most often performed by our computer programmer, who is backed up by the hardware specialist, who is backed up by both analysts. The person loading the tapes and initializing them has no control over which jobs are run. Changes to production files outside

OBSERVATION NO. 6: ELECTRONIC DATA PROCESSING CONTROLS (Continued)

AUDITEE RESPONSE (Continued):

the control of production programs are performed by either our programmer or the two analysts. The AS/400 automatically tracks these changes with before and after images. These changes are also documented in our own test and filed away along with a report of the system's before and after image report. This process has been in place for over three years. Segregating these duties is not feasible in such a small shop.

- D. The AS/400 offers a feature that allows for automatic disconnect of a terminal when the operating system determines no activity is taking place for a programmed amount of time. We have enabled this feature in the past and found the disadvantages outweigh the advantages in terms of user access as most of our employees do not leave their desk for a considerable period of time. Telephone inquiries are a constant process in this department and it would be quite difficult to establish a perfect time frame for an automatic disconnect given the variety and nature of the calls we receive. We have requested IBM to evaluate our system and offer a better solution to the unattended terminal observation. We stress to our employees the potential dangers of leaving terminals unattended and have urged them to log off in such instances. In the four years of utilizing this system, we have had no instances of misuse of an unattended terminal. IBM has not responded to date in offering us an alternative to addressing unattended terminals. We have developed a plan and will proceed with implementation of such however, it requires 40 hours of labor to install. This plan would include programming a change in the system so when the terminal is unattended it would freeze the screen and not allow for any additional modification until the user's password is entered.

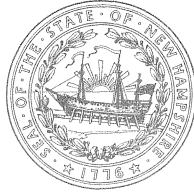
A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the management of the New Hampshire Department of Labor and the Fiscal Committee of the General Court. This restriction is not intended to limit the distribution of this report, which upon its acceptance by the Fiscal Committee, is a matter of public record.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

April 29, 1996



State of New Hampshire

CHARLES L. CONNOR
Legislative Budget Assistant
(603) 271-3161

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

MICHAEL L. BUCKLEY, CPA
Deputy Legislative Budget Assistant
Director, Audit Division
(603) 271-2785

AUDITOR'S REPORT ON STATE COMPLIANCE

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the accompanying financial statements of the New Hampshire Department of Labor as of and for the year ended June 30, 1995 and the six months ended December 31, 1995, and have issued our qualified report thereon dated April 29, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *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.

Compliance with State laws, regulations, and contracts applicable to the New Hampshire Department of Labor is the responsibility of the Department's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the New Hampshire Department of Labor's compliance with certain provisions of laws, regulations, and contracts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we have noted on pages twenty-two through twenty-seven instances of noncompliance with state statutes, while not material to the financial statements, we believe to be worthy of report mention.

This report is intended for the information of the management of the New Hampshire Department of Labor and the Fiscal Committee of the General Court. This restriction is not intended to limit the distribution of this report, which upon its acceptance by the Fiscal Committee, is a matter of public record.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

April 29, 1996

STATE COMPLIANCE

OBSERVATION NO. 7: CERTIFICATE & LICENSE FEES

In accordance with RSA 157-B:5 (I), when the Department of Labor (DOL) receives notification from a licensed inspector that an elevator passes inspection, the DOL furnishes its owner with an inspection certificate. Effective July 1, 1991, the statutory elevator certificate fee was increased from \$15 to \$45.

In accordance with RSA 157-A:7 (II), all boiler and pressure vessel inspectors must be licensed by the DOL. The license fees are set in statute at \$30 for the initial inspector license and \$20 for each two-year renewal license.

OBSERVATIONS:

- The DOL charges \$25 upon issuance of elevator certificates, \$20 less than the fee set by RSA 157-B:5. We estimate the DOL would have collected an additional \$61,820 for the 3,091 elevator certificates issued during fiscal year 1995 and an additional \$32,140 for the 1,607 certificates issued during the six months ended December 31, 1995. In our prior audit report for the eighteen months ended December 31, 1990, it was noted that the DOL was charging \$25 for the elevator certificate fees when, at that time, it was statutorily set at \$15.
- The DOL charges \$50 for initial boiler and pressure vessel inspector licenses and \$35 for renewal licenses. We estimate that the DOL overcharged licensees \$1,140 during fiscal year 1995 and \$280 during the six months ended December 31, 1995 by not charging the statutory fees.

RECOMMENDATION:

- The DOL should charge the statutory fees for elevator certificates and boiler and pressure vessel inspector licenses as directed by RSA 157-B:5 (I) and RSA 157-A:7 (II).

AUDITEE RESPONSE:

- The Department of Labor under HB 1331 (effective August 9, 1996) revised the statute to reduce the \$45.00 elevator certificate charge to \$25.00. The department, effective July 1, 1996 will start charging \$30.00 for Boiler Inspector licenses and \$20.00 for Boiler Inspection renewals as required by RSA 157-A:7 (II). We believe these charges adequately reflect the cost of providing these services.

OBSERVATION NO. 8: PER DIEMS PAID TO MEMBERS OF THE COMPENSATION APPEALS BOARD

RSA 281-A:42-a (I) establishes a Compensation Appeals Board consisting of a pool of 33 members. Appeals are heard by a three-member panel taken from the pool of 33 members. Section III of this RSA states that "Members of the board shall each receive \$150 per diem for each day devoted to the work of the board"

OBSERVATION:

- We reviewed per diems paid to a sample of six Board members during the year ended June 30, 1995 and the six months ended December 31, 1995 and noted the following:
 - In 15 instances, the six Board members tested attended two hearings in one day and were paid \$150 for each hearing. This appears to be in violation of RSA 281-A:42-a (III) which provides for a \$150 per diem for each day devoted to the work of the Board.
 - In nine instances, members were paid at a \$20 hourly rate for Board-related work. This rate was established by dividing the \$150 per diem by 7.5 hours. While this hourly rate does not appear unreasonable, the DOL does not have administrative rules or other authority to pay an hourly rate to Board members.
 - One of the six Board members tested was erroneously paid \$450 for three hearings that, because of rescheduling, the Board member never attended.
 - One of the six Board members tested received a payment in 1995 totalling \$6,440 for time worked during 1992, 1993, and 1994.

RECOMMENDATIONS:

- The Department of Labor (DOL) should comply with RSA 281-A:42-a (III) regarding payment of per diems to Compensation Appeals Board members. If the DOL determines that an hourly rate is appropriate, then it should seek amendment to RSA 281-A:42-a (III) to allow for hourly and per hearing wages.
- The DOL should establish procedures to ensure that members are paid only for hearings actually attended and submit requests for payment on a timely basis.

AUDITEE RESPONSE:

- The Department will seek legislation next session to amend RSA 281-A:42-a (III) to allow for an hourly payment procedure (per hearing wages) consistent with the service these members provide.

OBSERVATION NO. 8: PER DIEMS PAID TO MEMBERS OF THE COMPENSATION APPEALS BOARD (Continued)

AUDITEE RESPONSE (Continued):

- The Department concurs that we should establish procedures to ensure that members are paid only for hearings actually attended. We are evaluating our current methodology of tracking time expended for appeal hearings and will modify this procedure as necessary to secure the process more formally by September 1, 1996.

OBSERVATION NO. 9: BOARDS AND COUNCILS ASSOCIATED WITH THE DEPARTMENT OF LABOR

There are six boards and councils associated with the Department of Labor (DOL). The following is a list of these boards and councils and their enabling statutes.

<u>Name of Board or Council</u>	<u>Enabling Statutes</u>
Penalty Appeal Board	RSA 273
Board of Conciliation & Arbitration	RSA 273
State Apprenticeship Council	RSA 278
Compensation Appeals Board	RSA 281-A
Advisory Council on Workers' Compensation	RSA 281-A
Vocational Rehabilitation Provider Advisory Board	RSA 281-A

OBSERVATIONS:

- We noted the following instances described in A through C where the boards and councils were not in compliance with statute.

A. STATEMENTS OF FINANCIAL INTERESTS NOT FILED

RSA 21-G:5-a states that "Every member of every executive branch board, commission, advisory committee, board of directors, and authority, whether regulatory or administrative, shall file by July 1 of each year a verified written statement of financial interests...." Because of ambiguity caused by a reading of RSA 21-G:5-a, its legislative history, and the need for an attorney general's memorandum, it has been determined that the RSA does not apply to the State Apprenticeship Council and the Advisory Council on Workers' Compensation. [As previously recommended in the Managed Care Performance Audit performed by the Office of Legislative Budget Assistant and dated November 1995, the General Court may wish to clarify both the statute and the responsibility for monitoring compliance with it.] The statements of financial interests required to be filed by July 1, 1994 and July 1, 1995 for the members of the applicable DOL boards were reviewed. The table below provides the number of members of each board that did not file statements.

OBSERVATION NO. 9: BOARDS AND COUNCILS ASSOCIATED WITH THE DEPARTMENT OF LABOR (Continued)

OBSERVATIONS (Continued):

A. STATEMENTS OF FINANCIAL INTERESTS NOT FILED (Continued)

BOARD	NUMBER OF MEMBERS	DID NOT FILE	
		AT 7/1/94	AT 7/1/95
PENALTY APPEAL BOARD	3	1	2
BOARD OF CONCILIATION/ ARBITRATION	5	0	4
COMPENSATION APPEALS BOARD	33	6	8

The seven members of the Vocational Rehabilitation Provider Advisory Board were first appointed by the Governor in October 1995. As of March 18, 1996, none of the members had filed statements of financial interests.

B. MINUTES OF MEETINGS NOT PREPARED

RSA 91-A:2 (II) requires minutes to be promptly recorded and made available within 144 hours, or six days, of a public meeting. RSA 91-A:3 (III) requires minutes to be prepared and a record of all actions to be made available for public inspection within 72 hours of a non-public meeting, unless a recorded vote of two-thirds of the members present determines that revealing the information would adversely affect the reputation of a person other than a member of the board or agency itself.

There are no minutes prepared for the Penalty Appeal Board or for the Compensation Appeals Board. Minutes for the Vocational Rehabilitation Provider Advisory Board meetings were requested but not received for several weeks because the Board needed to compile the minutes from notes that were taken during the meetings.

The preparation of meeting minutes is essential to provide a record of Board deliberations and decisions. It is especially important for a record to be kept of Penalty Appeal Board and Compensation Appeals Board meetings to serve as support and approval for civil penalties billed, collected, waived and written off.

OBSERVATION NO. 9: BOARDS AND COUNCILS ASSOCIATED WITH THE DEPARTMENT OF LABOR (Continued)

OBSERVATIONS (Continued):

C. ALTERNATE BOARD MEMBERS NOT APPOINTED

The Penalty Appeal Board, as stated in RSA 273:11-b, is to consist of three members and three alternate members. The alternate members are to be appointed by the Governor and Council or by two appointed members. There is to be one alternate representing the interests of management, one representing the interests of labor, and one to serve as chairman when the corresponding chairman is unable. No alternate members have been appointed to the Penalty Appeal Board.

RECOMMENDATIONS:

- We recommend the following:
 - A. The DOL should establish procedures to ensure that all associated board and council members file statements of financial interests as required by statute. Board and council members should be notified of the filing required by RSA 21-G:5-a.
 - B. The DOL should establish procedures to ensure compliance with RSA 91-A:2 (II) and RSA 91-A:3 (III) regarding timely preparation of board and council meeting minutes. These minutes should be maintained on file at the Department.
 - C. Three alternate members should be appointed to the Penalty Appeal Board.

AUDITEE RESPONSE:

- A. All members of the Penalty Appeal Board, Board of Conciliation and Arbitration, Workers' Compensation Appeals Board, and Vocational Rehabilitation Provider Advisory Board have been notified of their requirement to file such statements by July 1 of each fiscal year. We will notify the board members that they will not be scheduled to appear and serve on such board until their statements are received.
- B. This agency concurs that the timely preparation of board and council meeting minutes is a statutory obligation however, we can't ensure compliance with sections when a particular board or council does not meet on a regular basis and their policies do not reflect their requirement as such. The Workers' Compensation Advisory Council and the Workers' Compensation Appeals Board do meet on a regular basis and we will continue to improve our procedures to ensure that all meetings are captured by minutes, and those are maintained at this agency.

OBSERVATION NO. 9: BOARDS AND COUNCILS ASSOCIATED WITH THE DEPARTMENT OF LABOR (Continued)

AUDITEE RESPONSE (Continued):

C. Pursuant to RSA 273:11-b, Par II and III, there are three alternate Penalty Appeals Board members. The Attorney Representative was appointed by Governor and Council; however, the other two members were not and will be presented to the Governor for his final determination.

OBSERVATION NO. 10: PENALTY APPEAL BOARD HEARING DECISIONS

OBSERVATION:

- According to RSA 273:11-c, a person on whom the commissioner has imposed a civil penalty pursuant to RSA 273:11-a may appeal by filing a notice of appeal with the Penalty Appeal Board. "Within a **reasonable** [emphasis added] time after the board has heard an appeal, the chairman shall prepare a written decision which shall be sent by certified mail to the last known address of the appealing party." Neither the statute nor the administrative rules define what is considered a reasonable time frame for the Board to render a decision.

During testing of civil penalties, we noted a civil penalty assessed by the commissioner and subsequently appealed, had a hearing before the Penalty Appeal Board on August 4, 1995 and as of March 4, 1996, a decision on this appeal had not been rendered. Upon further inquiry, it was discovered that there are several outstanding civil penalty cases dating back to February 1993 that the DOL is awaiting Penalty Appeal Board decisions on.

The Penalty Appeal Board has the responsibility to render a decision within a reasonable time after hearing an appeal. The time periods noted above do not appear reasonable.

RECOMMENDATION:

- The DOL should work with the Penalty Appeal Board to define and incorporate into its Administrative Rules what is considered a reasonable period of time for rendering a decision. Decisions should then be rendered by the Penalty Appeal Board within the time frame defined as reasonable.

AUDITEE RESPONSE:

- The Department of Labor with the help of the Penalty Appeal Board will determine the appropriate time frame and incorporate it into the Department of Labor's Administrative Rules.

THIS PAGE INTENTIONALLY LEFT BLANK

AUDITOR'S REPORT ON MANAGEMENT ISSUES

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the accompanying financial statements of the New Hampshire Department of Labor as of and for the year ended June 30, 1995 and the six months ended December 31, 1995, and have issued our qualified report thereon dated April 29, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *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.

In planning and performing our audit of the financial statements of the New Hampshire Department of Labor for the year ended June 30, 1995 and the six months ended December 31, 1995 we noted certain issues related to the operation of the Department that merit management consideration but do not meet the definition of a reportable condition as defined by the American Institute of Certified Public Accountants, and were not issues of noncompliance with laws, rules or regulations.

Those issues that we believe are worthy of management consideration but do not meet the criteria of reportable conditions or noncompliance are included on pages thirty through thirty-two.

This report is intended for the information of the management of the New Hampshire Department of Labor and the Fiscal Committee of the General Court. This restriction is not intended to limit the distribution of this report, which upon its acceptance by the Fiscal Committee, is a matter of public record.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

April 29, 1996

MANAGEMENT ISSUES

OBSERVATION NO. 11: EMPLOYEE LEAVE BALANCES

OBSERVATION:

- The Department of Labor (DOL) processes payroll and employee leave time on the Government Human Resources System (GHRIS). The DOL's GHRIS leave information is downloaded to the State's accounting system, NHIFS, annually so that the Department of Administrative Services can compile a statewide Schedule of Compensated Absences at fiscal year end. If necessary, State agencies are able to make adjustments to the Schedule of Compensated Absences in NHIFS at the end of the year.
- For seven of the fifteen employees (47%) tested, the June 30, 1995 leave balances per GHRIS did not agree with the leave balances in NHIFS. The variances between GHRIS and NHIFS ranged from three to 37.5 hours per employee.
- In an attempt to reconcile the GHRIS compensatory leave balances for all full-time DOL employees to those balances in NHIFS at June 30, 1994, we detected variances in balances reported for 26 of the 64 full-time DOL employees (41%) with compensatory leave balances.

It appears that many of the variances in compensatory leave balances were caused by employees being docked (and not paid) for compensatory time when it was not taken within one year of being earned. The DOL has no written procedures in place for the deduction of compensatory leave and could not provide documentation to support which employees lost the time or when the time was deducted from the leave records.

Section 7.1.4.b of the *1995 - 1997 Collective Bargaining Agreement* between the State and its employees requires that accrued compensatory time be taken within one year from the date the compensatory time is earned. It further requires that the Employer give compensatory time off at a mutually agreeable time within said year or shall make payment for the compensatory time. There is no provision in the collective bargaining agreement for the Employer to deduct compensatory leave balances if not taken within a year of being earned. Additionally, Chapter 102:1, Laws of 1995, effective May 16, 1995, states in part, "The employer shall not have a policy of requiring the use of compensatory time within a certain period or else the employee will lose it." This chapter law is applicable to "any branch, department ... of this state"

OBSERVATION NO. 11: EMPLOYEE LEAVE BALANCES (Continued)

RECOMMENDATIONS:

- The DOL should establish procedures to ensure that employee leave, earned and taken, is recorded properly. DOL employees should be periodically reminded to verify and reconcile their leave balances and to notify the appropriate business office employees when a problem is detected.
- The DOL should reconcile employee leave balances as reported in GHRIS to the balances reported on the Schedule of Compensated Absences at the end of each fiscal year and resolve any variances that are found.
- The DOL should encourage those employees that earn compensatory time to use the time within one year of it being earned, in accordance with the collective bargaining agreement. If a mutually agreeable time can not be found during the year, employees should be paid for the compensatory time. In accordance with Chapter 102:1, Laws of 1995, the employee should not lose compensatory time if not taken.

AUDITEE RESPONSE:

- We have initiated the procedures of reconciliation of in-house records of Compensatory Time with GHRIS system on a monthly basis. This procedure was started on July 1, 1995 and is being continued. All inconsistencies have been and continue to be corrected.

OBSERVATION NO. 12: DISPOSITION OF UNCLAIMED WAGE-ADJUSTMENT CHECKS

OBSERVATION:

- The Department of Labor (DOL) performs wage and hour inspections of employers. The inspectors often note violations of labor laws in which the employer is required to reimburse its employees for lost wages, illegal or unauthorized payroll deductions, etc. When an employer is required to reimburse its employees, it is instructed to make checks payable to "*name of employee* or Treasurer, State of New Hampshire", and to remit the checks to the DOL. The DOL then disburses these checks to the appropriate employees. Checks that are returned as undeliverable by the Post Office are deposited with the State Treasurer on a monthly basis.

When the employee payees can not be readily located, the DOL uses the Equifax location service. While the DOL is attempting to locate the employees, the original unclaimed checks are filed with the employer's inspection report until deposited monthly. The DOL appears to be bearing an unnecessary risk that the unclaimed checks could be lost or misplaced.

OBSERVATION NO. 12: DISPOSITION OF UNCLAIMED WAGE-ADJUSTMENT CHECKS
(Continued)

RECOMMENDATION:

- The Department should deposit all unclaimed checks with the State Treasurer as soon as it has been determined that there will be difficulty in locating the employee payee.

AUDITEE RESPONSE:

- All checks that are made payable to the Treasurer, State of New Hampshire are deposited on receipt. A check that is made payable only to the employee will be sent to the employee however, if returned by the postal service and a new address cannot be obtained immediately; it will then be returned to the originator. An employer, (who is the originator), will be requested to re-issue the check made payable to both parties. No checks will remain in files for wage or wage adjustment claims.

INDEPENDENT AUDITOR'S REPORT

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the accompanying financial statements of the New Hampshire Department of Labor as of and for the year ended June 30, 1995 and the six months ended December 31, 1995. These financial statements are the responsibility of the management of the Department of Labor. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *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 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 more fully discussed in NOTE 1, the financial statements referred to in paragraph one are not intended to present the financial position of the New Hampshire Department of Labor in the General Fund.

In our opinion, except for the matter discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, certain financial activity of the New Hampshire Department of Labor as of and for the year ended June 30, 1995 and the six months ended December 31, 1995 in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph. The accompanying Schedules of Budgetary Components-General Fund are presented on pages fifty and fifty-one for the purpose of additional analysis and are not a required part of the financial statements of the New Hampshire Department of Labor. Such information has been subjected to the auditing procedures applied in our audit of the financial statements referred to in the first paragraph and, in our opinion, are fairly presented 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 29, 1996 on our consideration of the New Hampshire Department of Labor's internal control structure and a report dated April 29, 1996 on its compliance with laws and regulations.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

April 29, 1996

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF LABOR**

**STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 1995**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>FAVORABLE/ (UNFAVORABLE) VARIANCE</u>
<u>REVENUES</u>			
UNRESTRICTED REVENUES			
CIVIL FINES & PENALTIES	\$ 563,000	\$ 645,063	\$ 82,063
LICENSE & CERTIFICATE FEES	475,000	357,653	(117,347)
MISCELLANEOUS FEES	<u>18,000</u>	<u>19,200</u>	<u>1,200</u>
TOTAL UNRESTRICTED REVENUES	<u>\$1,056,000</u>	<u>\$1,021,916</u>	<u>\$ (34,084)</u>
RESTRICTED REVENUES			
INSURANCE ASSESSMENTS	\$3,063,256	\$2,330,314	\$ (732,942)
OTHER RESTRICTED REVENUES	<u>7,572</u>	<u>11</u>	<u>(7,561)</u>
TOTAL RESTRICTED REVENUES	<u>\$3,070,828</u>	<u>\$2,330,325</u>	<u>\$ (740,503)</u>
TOTAL REVENUES	<u>\$4,126,828</u>	<u>\$3,352,241</u>	<u>\$ (774,587)</u>
<u>EXPENDITURES</u>			
SALARIES AND BENEFITS	\$3,102,205	\$2,748,920	\$ 353,285
CURRENT EXPENSE	487,419	257,640	229,779
RENT	140,329	126,252	14,077
EQUIPMENT	179,651	126,076	53,575
MISCELLANEOUS	110,714	59,846	50,868
TRAVEL	73,731	50,660	23,071
OTHER (NOTE 2)	<u>763,049</u>	<u>-0-</u>	<u>763,049</u>
TOTAL EXPENDITURES	<u>\$4,857,098</u>	<u>\$3,369,394</u>	<u>\$ 1,487,704</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF LABOR**

**STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE SIX MONTHS ENDED DECEMBER 31, 1995**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>FAVORABLE/ (UNFAVORABLE) VARIANCE</u>
<u>REVENUES</u>			
UNRESTRICTED REVENUES			
CIVIL FINES & PENALTIES	\$ 535,000	\$ 409,560	\$(125,440)
LICENSE & CERTIFICATE FEES	499,000	247,445	(251,555)
MISCELLANEOUS FEES	<u>21,000</u>	<u>14,427</u>	<u>(6,573)</u>
TOTAL UNRESTRICTED REVENUES	<u>\$1,055,000</u>	<u>\$ 671,432</u>	<u>\$(383,568)</u>
RESTRICTED REVENUES			
INSURANCE ASSESSMENTS	\$2,994,904	\$2,447,849	\$(547,055)
RESTRICTED REVENUES	<u>7,561</u>	<u>45</u>	<u>(7,516)</u>
TOTAL RESTRICTED REVENUES	<u>\$3,002,465</u>	<u>\$2,447,894</u>	<u>\$(554,571)</u>
TOTAL REVENUES	<u>\$4,057,465</u>	<u>\$3,119,326</u>	<u>\$(938,139)</u>
<u>EXPENDITURES</u>			
SALARIES AND BENEFITS	\$3,246,143	\$1,445,029	\$ 1,801,114
CURRENT EXPENSE	386,029	94,175	291,854
RENT	130,830	32,708	98,122
EQUIPMENT	55,687	15,413	40,274
MISCELLANEOUS	114,109	66,931	47,178
TRAVEL	61,319	20,643	40,676
OTHER (NOTE 2)	<u>603,948</u>	<u>-0-</u>	<u>603,948</u>
TOTAL EXPENDITURES	<u>\$4,598,065</u>	<u>\$1,674,899</u>	<u>\$ 2,923,166</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF LABOR**

**COMBINING BALANCE SHEET
SPECIAL FUNDS FOR ACTIVE CASES AND SECOND INJURIES -
EXPENDABLE TRUST FUNDS
AS OF JUNE 30, 1995**

	<u>SPECIAL FUND FOR ACTIVE CASES</u>	<u>SPECIAL FUND FOR SECOND INJURIES</u>	<u>TOTAL EXPENDABLE TRUST FUNDS</u>
<u>ASSETS</u>			
CASH AND CASH EQUIVALENTS	\$86,413	\$1,712,234	\$1,798,647
TOTAL ASSETS	<u>\$86,413</u>	<u>\$1,712,234</u>	<u>\$1,798,647</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
FUND BALANCE	\$86,413	\$1,712,234	\$1,798,647
TOTAL LIABILITIES AND FUND BALANCE	<u>\$86,413</u>	<u>\$1,712,234</u>	<u>\$1,798,647</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF LABOR**

**COMBINING BALANCE SHEET
SPECIAL FUNDS FOR ACTIVE CASES AND SECOND INJURIES -
EXPENDABLE TRUST FUNDS
AS OF DECEMBER 31, 1995**

	<u>SPECIAL FUND FOR ACTIVE CASES</u>	<u>SPECIAL FUND FOR SECOND INJURIES</u>	<u>TOTAL EXPENDABLE TRUST FUNDS</u>
<u>ASSETS</u>			
CASH AND CASH EQUIVALENTS	\$ <u>32,196</u>	\$ <u>1,753,213</u>	\$ <u>1,785,409</u>
TOTAL ASSETS	\$<u>32,196</u>	\$<u>1,753,213</u>	\$<u>1,785,409</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
FUND BALANCE	\$ <u>32,196</u>	\$ <u>1,753,213</u>	\$ <u>1,785,409</u>
TOTAL LIABILITIES AND FUND BALANCE	\$<u>32,196</u>	\$<u>1,753,213</u>	\$<u>1,785,409</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF LABOR**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
SPECIAL FUNDS FOR ACTIVE CASES AND SECOND INJURIES -
EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 1995**

	<u>SPECIAL FUND FOR ACTIVE CASES</u>	<u>SPECIAL FUND FOR SECOND INJURIES</u>	<u>TOTAL EXPENDABLE TRUST FUNDS</u>
<u>REVENUES</u>			
ASSESSMENTS	\$144,856	\$3,020,793	\$3,165,649
INTEREST AND DIVIDENDS	<u>2,833</u>	<u>29,132</u>	<u>31,965</u>
TOTAL REVENUES	<u>\$147,689</u>	<u>\$3,049,925</u>	<u>\$3,197,614</u>
<u>EXPENDITURES</u>			
PAYMENTS TO INSURANCE COMPANIES	\$ <u>126,810</u>	\$ <u>2,253,579</u>	\$ <u>2,380,389</u>
TOTAL EXPENDITURES	<u>\$126,810</u>	<u>\$2,253,579</u>	<u>\$2,380,389</u>
REVENUES OVER/ (UNDER) EXPENDITURES	<u>\$ 20,879</u>	<u>\$ 796,346</u>	<u>\$ 817,225</u>
FUND BALANCE - JUNE 30, 1994	<u>\$ 65,534</u>	<u>\$ 915,888</u>	<u>\$ 981,422</u>
FUND BALANCE - JUNE 30, 1995	<u>\$ 86,413</u>	<u>\$1,712,234</u>	<u>\$1,798,647</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF LABOR**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
SPECIAL FUNDS FOR ACTIVE CASES AND SECOND INJURIES -
EXPENDABLE TRUST FUNDS
FOR THE SIX MONTHS ENDED DECEMBER 31, 1995**

	<u>SPECIAL FUND FOR ACTIVE CASES</u>	<u>SPECIAL FUND FOR SECOND INJURIES</u>	<u>TOTAL EXPENDABLE TRUST FUNDS</u>
<u>REVENUES</u>			
ASSESSMENTS	\$ 66,550	\$ -0-	\$ 66,550
INTEREST AND DIVIDENDS	<u>1,103</u>	<u>40,979</u>	<u>42,082</u>
TOTAL REVENUES	<u>\$ 67,653</u>	<u>\$ 40,979</u>	<u>\$ 108,632</u>
<u>EXPENDITURES</u>			
PAYMENTS TO INSURANCE COMPANIES	\$ <u>121,870</u>	\$ <u>-0-</u>	\$ <u>121,870</u>
TOTAL EXPENDITURES	<u>\$121,870</u>	<u>\$ -0-</u>	<u>\$ 121,870</u>
REVENUES OVER/ (UNDER) EXPENDITURES	<u>\$(54,217)</u>	<u>\$ 40,979</u>	<u>\$(13,238)</u>
FUND BALANCE - JUNE 30, 1995	<u>\$ 86,413</u>	<u>\$1,712,234</u>	<u>\$1,798,647</u>
FUND BALANCE - DECEMBER 31, 1995	<u>\$ 32,196</u>	<u>\$1,753,213</u>	<u>\$1,785,409</u>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF LABOR**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FINANCIAL REPORTING ENTITY

The Department of Labor (DOL), established by Chapter 198, Laws of 1911 is an organization of the primary government of the State of New Hampshire. The financial activity of the Department of Labor is accounted for in the General and Trust and Agency Funds of the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities and fund balances are reported by fund for the State as a whole in the CAFR. The Department of Labor, as an organization 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 Department of Labor cannot be determined. Accordingly, the accompanying financial statements are not intended to show the financial position of the Department of Labor in the General Fund.

There are several boards and councils that are affiliated with the Department of Labor and accordingly are included in the financial reporting entity. These boards and councils and the enabling statutes include:

- Penalty Appeal Board - RSA 273:11-b
- Board of Conciliation and Arbitration - RSA 273:12
- State Apprenticeship Council - RSA 278:2
- Compensation Appeals Board - RSA 281-A:42-a
- Advisory Council on Workers' Compensation - RSA 281-A:62
- Vocational Rehabilitation Provider Advisory Board - RSA 281-A:69.

B. BASIS OF PRESENTATION - FUND ACCOUNTING

Financial Statements

The financial statements of the Department of Labor have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting

The State of New Hampshire and the Department of Labor use funds and account groups to report on 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. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

GOVERNMENTAL FUND TYPES

General Fund

The General Fund accounts for all financial transactions not specifically accounted for in any other fund. By law, and with certain exceptions, all revenues of governmental funds are paid daily into the State Treasury. All such revenues, other than certain designated revenues, are credited to the General Fund. Expenditures that are not allocated by law to other funds are charged to the General Fund.

FIDUCIARY FUND TYPE

Trust Funds

Transactions related to assets administered by the Department of Labor in a trustee capacity are accounted for in the fiduciary fund type. Assets received by the Department of Labor as a trustee are accounted for as a trust fund.

Expendable Trust Funds

Expendable trust funds are used to account for fiduciary relationships in which both the principal and earnings thereon may be expended for the purposes of the trust. The Special Fund for Active Cases and the Special Fund for Second Injuries comprise the Expendable Trust Fund of the Department of Labor.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ACCOUNT GROUPS

General Fixed Assets

General fixed assets acquired by the Department of Labor for the performance of its operations are reflected in the General Fixed Assets Account Group at the time of acquisition. As of June 30, 1995 and December 31, 1995, the Department of Labor has recorded in the General Fixed Assets Account Group the cost of general fixed assets based on available historical cost records. Donated fixed assets are recorded at their fair market value at the time donated.

General Long-Term Debt

Activities related to the Department of Labor's cumulative liability for compensated absences are reflected in the General Long-Term Debt Account Group.

C. BASIS OF ACCOUNTING

The State of New Hampshire accounts for its financial transactions related to the General Fund and Expendable Trust Funds on the modified accrual basis of accounting, under which revenues are recognized when measurable and available to finance operations during the year. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized in the period in which obligations are incurred as a result of the receipt of goods or services.

D. BUDGETARY DATA

General Budget Policies

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature. This budget consists of three parts: part I is the Governor's program for meeting all expenditure needs as well as estimating revenues to be received; 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 operation of the Department of Labor is included in the General Fund budget. Expendable Trust Funds are not budgeted.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The New Hampshire biennial budget is composed of the initial operating budget and 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. As shown on the Schedules of Budgetary Components - General Fund on pages fifty and fifty-one, the final budgeted amount includes the initial operating budget plus supplemental appropriation warrants, balances brought forward and transfers.

The Statements of Revenues and Expenditures - Budget and Actual - General Fund for the year ended June 30, 1995 and for the six months ended December 31, 1995 are presented as part of the Department of Labor's financial statements.

The variance is the difference between budgeted and actual amounts. For revenue, a favorable variance results from actual revenue for the reporting period exceeding the amounts budgeted for the fiscal year. Unfavorable revenue variances represent actual revenue collected being less than amounts budgeted. For expenditures, a favorable variance results from actual expenditures of the reporting period being less than the amount budgeted for the fiscal year. The favorable expenditure variances represent a combination of ending available balances, lapses, and unliquidated encumbrances. Unfavorable expenditure variances represent actual expenditures for the reporting period exceeding the amounts budgeted for the fiscal year.

When financial statements are presented at an interim date, a date other than a June 30 fiscal year end, the variance reflects the difference between the twelve month budgeted amount and a partial year's actual revenue and expenditures. Thus, on the six month financial statements dated December 31, 1995, unfavorable variances in revenues are expected, because six months of actual receipts are compared to the amount of revenue expected to be collected in the twelve month budget period. However, insurance assessments are billed and collected in total by the DOL at the beginning of the fiscal year. Favorable expenditure variances are expected, as six months of actual expenditures are compared to the amounts expected to be expended in the twelve month budget period.

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 unliquidated encumbrances at June 30, 1995 and December 31, 1995 in the General Fund were \$61,320 and \$31,840 respectively.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. FIXED ASSETS - GENERAL

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition costs are reflected as expenditures in governmental funds, and the related assets are reported in the General Fixed Assets Account Group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Interest costs incurred during construction are not capitalized. Assets in the General Fixed Assets Account Group are not depreciated.

F. COMPENSATED ABSENCES

Permanent full and part-time classified employees of the Department of Labor are entitled to annual and sick leave with full pay on the basis of the employee's scheduled work week and years of service. Annual and sick leave is computed at the end of each completed month of service. Certain permanent full-time employees are entitled to receive bonus leave. At the end of each fiscal year, additional annual leave (bonus days) is computed based on the amount of sick time taken during the year. According to the *Collective Bargaining Agreement* between the State and its employees, accrued compensatory time is to be taken within one year from the date the time is earned. The Department of Labor reported a liability for compensated absences at June 30, 1995 of \$254,654. The State of New Hampshire does not calculate the liability for compensated absences at interim periods and therefore no provision for a liability for the Department of Labor has been calculated at December 31, 1995.

G. INTERFUND AND INTRAFUND TRANSACTIONS

The State accounts for interfund and intrafund transactions as described below:

Reimbursements - Various departments charge fees on a user basis for such services as centralized data processing, accounting and auditing, purchasing, personnel and maintenance. These fees are not considered material and are recorded as revenue by the servicing department and as expenditures by the user department.

NOTE 2 -- ADMINISTRATION FUND

RSA 281-A:59 established an Administration Fund for the sole purpose of paying all Department of Labor costs of administering the workers' compensation statute. "Each insurance carrier and self-insurer, including the state, shall make payments to the fund of its pro-rata share of one

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2 -- ADMINISTRATION FUND (Continued)

fiscal year's costs to be appropriated out of the fund." RSA 281-A:59 also states, "The balance in the fund at the beginning of the new fiscal year shall proportionately reduce the assessments...."

The Workers' Compensation Division and a portion of the Administration and Support Division of the Department of Labor are funded by the Administration Fund. The Administration Fund is accounted for in the State accounting system in the Workers' Compensation Division. The budgetary available balance in the Workers' Compensation Division at the end of each fiscal year is brought forward as an addition to the expenditure budget in the following fiscal year.

NOTE 3 -- EXPENDABLE TRUST FUNDS

The Department of Labor is the administrator of two expendable trust funds which are in the custody of the State Treasurer. The Special Fund for Active Cases was established by RSA 281-A:30 for the purpose of reimbursing insurance carriers and self-insurers who pay workers' compensation benefits for individuals who sustained total disability from a work related injury on or before June 30, 1975. The Special Fund for Second Injuries was established by RSA 281-A:55 for the purpose of reimbursing insurance carriers and self-insurers who pay workers' compensation benefits to individuals who suffered permanent impairment or a subsequent disability arising from the course of the individual's employment. Each insurance carrier or self-insurer is required to contribute to the funds through an annual assessment billed by the Department of Labor. Funds collected are deposited by the State Treasurer. Disbursements from the trust funds are authorized by the Labor Commissioner and are made upon written request by the insurance carrier or self-insurer for reimbursements of eligible benefits paid as defined by the governing RSAs.

NOTE 4 -- CASH AND CASH EQUIVALENTS

The State Treasurer is the custodian of two money market accounts and a checking account holding the trust funds administered by the Labor Commissioner.

Deposits are classified as to credit risk by the three categories described below:

- Category 1 Fully insured or collateralized with securities held by the State or its agent in the State's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the State's name.
- Category 3 Uncollateralized.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 4 -- CASH AND CASH EQUIVALENTS (Continued)

The DOL's deposit accounts, listed by credit risk category, are shown in the following schedule. The total bank balance represents the total amounts on deposit as reported by the banks. The carrying amount represents the balances per State Treasurer and DOL records. The difference in demand deposits between bank balance and carrying amount is outstanding checks which have not cleared the bank as of December 31, 1995.

Deposits:

	<u>Categories</u>			<u>Bank Balance</u>	<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
<u>June 30, 1995</u>					
Demand Deposits	\$ 3,514	\$ -0-	\$ -0-	\$ 3,514	\$ 3,514
Money Market Accounts	<u>-0-</u>	<u>-0-</u>	<u>1,795,133</u>	<u>1,795,133</u>	<u>1,795,133</u>
Total Deposits	<u>\$ 3,514</u>	<u>\$ -0-</u>	<u>\$1,795,133</u>	<u>\$1,798,647</u>	<u>\$1,798,647</u>
<u>December 31, 1995</u>					
Demand Deposits	\$14,749	\$ -0-	\$ -0-	\$ 14,749	\$ 1,279
Money Market Accounts	<u>-0-</u>	<u>-0-</u>	<u>1,784,130</u>	<u>1,784,130</u>	<u>1,784,130</u>
Total Deposits	<u>\$14,749</u>	<u>\$ -0-</u>	<u>\$1,784,130</u>	<u>\$1,798,879</u>	<u>\$1,785,409</u>

NOTE 5 -- GENERAL FIXED ASSETS ACCOUNT GROUP - EQUIPMENT

The following is a schedule of the changes in the Department of Labor's equipment balance, as reported in the General Fixed Assets Account Group for the year ended June 30, 1995 and the six months ended December 31, 1995. Equipment purchases are funded through budgeted appropriations.

<u>Equipment</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Year ended June 30, 1995	\$501,806	\$99,039	\$37,337	\$563,508
Six months ended December 31, 1995	\$563,508	\$20,025	\$ -0-	\$583,533

Changes in the equipment balances have been reported to the Department of Administrative Services (DAS), Bureau of Purchase and Property for inclusion in the State's Comprehensive Annual Financial Report.

Equipment Leases

The Department of Labor is obligated at December 31, 1995 under certain equipment leases accounted for as operating leases. Equipment that is subject to operating leases is not included in the General Fixed Asset Account Group.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 6 -- EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The Department of Labor as an organization of State government participates in the New Hampshire Retirement System (the Plan). The Plan is a defined benefit plan and covers (substantially) all full-time employees of the Department of Labor. The Plan qualifies as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. New Hampshire Revised Statutes Annotated (RSA), Chapter 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 employees and teachers. Group II consists of fire fighters and police officers. All employees of the Department of Labor who are members of the Plan are members of Group I.

Group I - Members contributing through age 60 qualify for a normal service retirement allowance based on years of creditable service. The yearly pension amount is $1/60$ (1.67%) of average final compensation (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 with 10 or more years of creditable service who are between age 50 and 60 are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service. In addition, any Group I member who has completed at least 20 years of creditable service that, when combined with his or her age equals at least 70, is entitled to retire and have benefits commence immediately at a reduced service retirement allowance.

Group II - After attaining the age of 45, members with 20 years of creditable service qualify to receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members in service at age 60 qualify to receive a prorated retirement allowance.

Members of both groups are entitled to disability allowances and also death benefit allowances subject to various requirements and rates based on AFC or earnable compensation.

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the year ended June 30, 1995 and the six months ended December 31, 1995 Group I and II members were required to contribute 5% and 9.3%, respectively, of gross earnings. The State funds 100% of the employer cost for all of the Department of Labor's employees enrolled in the Plan. The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years by the Plan's actuary.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 6 -- EMPLOYEE BENEFIT PLANS (Continued)

New Hampshire Retirement System (Continued)

The Department of Labor's payments for normal contribution costs were 2.65% of covered payroll for the year ended June 30, 1995 and 3.14% of covered payroll for the six months ended December 31, 1995. The Plan does not make separate measurements of assets and pension benefit obligation for individual employers. The New Hampshire Retirement System Comprehensive Annual Financial Report contains detailed information regarding the Plan as a whole, including information on payroll, contributions, actuarial assumptions and funding method, pension benefit obligation and ten year historical trend data. The New Hampshire Retirement System operates on a fiscal year ending June 30.

Deferred Compensation Plan

The Department of Labor as an organization of State government offers its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all State employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights, are (until paid or made available to the employees or other beneficiaries) solely the property and rights of the State (without being restricted to the provisions of benefits under the Plan), subject only to the claims of the State's general creditors. Participants' rights under the Plan are equal to those of general creditors of the State in an amount equal to the fair market value of the deferred account for each participant.

Postemployment Health Care Benefits

In addition to the benefits described above, the Department of Labor as an organization of State government provides postemployment health care benefits, in accordance with RSA 21-I:30, to all retired employees and their spouses on a non-contributory basis, as authorized by State statute.

During the year ended June 30, 1995 and the six months ended December 31, 1995, the State paid for the full cost of health insurance premiums for the Department of Labor's retired employees and spouses on a pay-as-you-go basis. The cost of the health insurance for the Department of Labor's employees and spouses is paid from an appropriation to the New Hampshire Retirement System. The portion of the Department of Labor that is self-sustaining reimburses the New Hampshire Retirement System for its share of postemployment health care benefits.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF LABOR**

**SCHEDULE OF BUDGETARY COMPONENTS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 1995**

	<u>OPERATING BUDGET</u>	<u>SUPPLEMENTAL WARRANTS</u>	<u>BALANCES FORWARD</u>	<u>NET TRANSFERS</u>	<u>BUDGET</u>
<u>REVENUES</u>					
UNRESTRICTED REVENUES					
CIVIL FINES & PENALTIES	\$ 563,000	\$ -0-	\$ -0-	\$ -0-	\$ 563,000
LICENSE & CERTIFICATE FEES	475,000	-0-	-0-	-0-	475,000
MISCELLANEOUS FEES	<u>18,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>18,000</u>
TOTAL UNRESTRICTED REVENUES	<u>\$1,056,000</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$1,056,000</u>
RESTRICTED REVENUES					
INSURANCE ASSESSMENTS	\$3,049,878	\$ 13,378	\$ -0-	\$ -0-	\$3,063,256
OTHER RESTRICTED REVENUE	<u>-0-</u>	<u>-0-</u>	<u>7,572</u>	<u>-0-</u>	<u>7,572</u>
TOTAL RESTRICTED REVENUES	<u>\$3,049,878</u>	<u>\$ 13,378</u>	<u>\$ 7,572</u>	<u>\$ -0-</u>	<u>\$3,070,828</u>
TOTAL REVENUES	<u>\$4,105,878</u>	<u>\$ 13,378</u>	<u>\$ 7,572</u>	<u>\$ -0-</u>	<u>\$4,126,828</u>
<u>EXPENDITURES</u>					
SALARIES AND BENEFITS	\$3,012,383	\$ 149,984	\$ -0-	\$(60,162)	\$3,102,205
CURRENT EXPENSE	518,916	5,320	1,500	(38,317)	487,419
RENT	110,112	-0-	-0-	30,217	140,329
EQUIPMENT	74,471	51,969	21,872	31,339	179,651
MISCELLANEOUS	65,002	(233,394)	279,106	-0-	110,714
TRAVEL	79,013	8,001	-0-	(13,283)	73,731
OTHER	<u>-0-</u>	<u>-0-</u>	<u>763,049</u>	<u>-0-</u>	<u>763,049</u>
TOTAL EXPENDITURES	<u>\$3,859,897</u>	<u>\$ (18,120)</u>	<u>\$1,065,527</u>	<u>\$ (50,206)</u>	<u>\$4,857,098</u>

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF LABOR**

**SCHEDULE OF BUDGETARY COMPONENTS
GENERAL FUND
FOR THE SIX MONTHS ENDED DECEMBER 31, 1995**

	<u>OPERATING BUDGET</u>	<u>SUPPLEMENTAL WARRANTS</u>	<u>BALANCES FORWARD</u>	<u>NET TRANSFERS</u>	<u>BUDGET</u>
<u>REVENUES</u>					
UNRESTRICTED REVENUES					
CIVIL FINES & PENALTIES	\$ 535,000	\$ -0-	\$ -0-	\$ -0-	\$ 535,000
LICENSE & CERTIFICATE FEES	499,000	-0-	-0-	-0-	499,000
MISCELLANEOUS FEES	<u>21,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>21,000</u>
TOTAL UNRESTRICTED REVENUES	<u>\$1,055,000</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$1,055,000</u>
RESTRICTED REVENUES					
INSURANCE ASSESSMENTS	\$2,994,904	\$ -0-	\$ -0-	\$ -0-	\$2,994,904
OTHER RESTRICTED REVENUE	<u>-0-</u>	<u>-0-</u>	<u>7,561</u>	<u>-0-</u>	<u>7,561</u>
TOTAL RESTRICTED REVENUES	<u>\$2,994,904</u>	<u>\$ -0-</u>	<u>\$ 7,561</u>	<u>\$ -0-</u>	<u>\$3,002,465</u>
TOTAL REVENUES	<u>\$4,049,904</u>	<u>\$ -0-</u>	<u>\$ 7,561</u>	<u>\$ -0-</u>	<u>\$4,057,465</u>
<u>EXPENDITURES</u>					
SALARIES AND BENEFITS	\$3,246,143	\$ -0-	\$ -0-	\$ -0-	\$3,246,143
CURRENT EXPENSE	382,100	-0-	3,929	-0-	386,029
RENT	130,830	-0-	-0-	-0-	130,830
EQUIPMENT	41,202	-0-	14,485	-0-	55,687
MISCELLANEOUS	71,203	-0-	42,906	-0-	114,109
TRAVEL	61,319	-0-	-0-	-0-	61,319
OTHER	<u>-0-</u>	<u>-0-</u>	<u>603,948</u>	<u>-0-</u>	<u>603,948</u>
TOTAL EXPENDITURES	<u>\$3,932,797</u>	<u>\$ -0-</u>	<u>\$ 665,268</u>	<u>\$ -0-</u>	<u>\$4,598,065</u>

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX A - STATUS OF PRIOR AUDIT REPORT OBSERVATIONS

The following is a summary of the April 29, 1996 status of the observations contained in the audit report of the Department of Labor for the eighteen months ended December 31, 1990. A copy of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, Room 102, State House, Concord, NH 03301.

<u>INTERNAL CONTROL STRUCTURE</u>	<u>STATUS</u>
MATERIAL WEAKNESSES	
1. Accounts Receivable (see current year Observation No. 2)	● ○ ○
2. Recording of Cash Receipts (see current year Observation No. 4)	● ○ ○
OTHER REPORTABLE CONDITIONS	
3. Administrative Fund Assessment	● ● ○
4. Field Purchase Orders	● ● ○
5. Payroll System Approvals	● ● ●
6. Refund of Photocopy Expense	● ● ○
 <u>FEDERAL AND STATE COMPLIANCE</u>	
FEDERAL COMPLIANCE	
7. Cash Management	● ● ●
8. Federal Financial Reports	● ● ●
9. Public Health Billings	● ● ●
STATE COMPLIANCE	
10. Boiler and Elevator Division (see current year Observation No. 7)	● ○ ○
11. Workers' Compensation Penalties	● ● ●
12. Equipment Inventory (see current year Observation No. 5)	● ○ ○
13. Workers' Compensation Advisory Council	● ● ○

STATUS KEY

Fully resolved	● ● ●
Substantially resolved	● ● ○
Partially resolved	● ○ ○
Unresolved	○ ○ ○

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX B

STATUS OF PRIOR PERFORMANCE AUDIT REPORT OBSERVATIONS

STATE OF NEW HAMPSHIRE MANAGED CARE PROGRAMS FOR WORKERS' COMPENSATION NOVEMBER 1995

The following pages provide a summary of the observations and recommendations contained in the *State of New Hampshire Managed Care Programs for Workers' Compensation* Evaluation Report dated November 1995. Along with the summary of each observation and recommendation is a comment on the status as of April 29, 1996 prepared by the management of the Department of Labor. A copy of the report can be obtained from the Office of Legislative Budget Assistant, Audit Division, Room 102, State House, Concord, NH 03301.

THIS PAGE INTENTIONALLY LEFT BLANK

**MANAGED CARE PROGRAMS FOR WORKERS' COMPENSATION
NOVEMBER 1995**

**CURRENT STATUS OF OBSERVATIONS AND RECOMMENDATIONS
PROVIDED BY THE MANAGEMENT OF THE
DEPARTMENT OF LABOR**

CURRENT STATUS		
UN-RESOLVED	PARTIALLY RESOLVED	FULLY RESOLVED
	X	

1. APPROVAL CRITERIA NOT MET.

Only two of 19 proposals ratified by the Advisory Council on Workers' Compensation met all approval criteria as required by RSA 281-A:23-a and Administrative Rule LAB 702.02. The commissioner should develop a standard application, require a standard format, and use a checklist to verify minimum approval criteria are met. Specific rules relative to treatment protocols should be developed and adopted. (Auditee concurred)

DOL COMMENTS:

The Commissioner has developed a standard format to use as a checklist to verify minimum approval criteria, and developed specific rules in draft form relative to treatment protocols and what is required for approval of a managed care program. A standard application format is in process as well as modification to the existing managed care rules overall. We project completion of this process will be August, 1996, following a series of meetings of the Advisory Council and the sub-committee that was created to evaluate outcomes of managed care programs. These will allow the Commissioner additional opportunities to present sections of the rules to the Advisory Council for their ratification.

APPENDIX B (Continued)

2. INSUFFICIENT PROGRAM DOCUMENTATION.

Compliance with statutorily defined timelines was not possible in most cases because of insufficient documentation. The commissioner should ensure managed care proposals are date stamped when received by the department, approvals are documented, and all supporting documentation and correspondence are maintained. (Auditee concurred)

DOL COMMENTS:

This observation and recommendation was addressed prior to the commencement of the audit and continues to be policy for all managed care proposals when received. They are date stamped, approvals are documented, disapprovals are documented and all supporting documentation and correspondence is maintained in that managed care organization's file.

3. WRITTEN NOTICE OF DISAPPROVAL NOT GIVEN IN ALL CASES.

The commissioner has not consistently provided written notice of disapproval to applicants as required by statute. The commissioner should provide written notice of disapproval to the applicant and cite the reason(s) for disapproval. (Auditee concurred)

DOL COMMENTS:

As noted above. Written notice of disapproval have been provided in all cases since this Commissioner was appointed in March of 1995.

CURRENT STATUS		
UN-RESOLVED	PARTIALLY RESOLVED	FULLY RESOLVED
		X
		X

APPENDIX B (Continued)

4. ADMINISTRATIVE RULES NEEDED.

The commissioner has not established administrative rules regarding the number of managed care facilitators considered "sufficient" as required by RSA 281-A:23-a (V). Administrative rules were lacking in several other areas and existing administrative rules provide insufficient detail. Neither the department nor the Advisory Council on Workers' Compensation have written policies and procedures guiding their review of proposals. The Advisory Council does not have any written by-laws governing its operations. The commissioner and Advisory Council should review administrative rules to determine areas needing revision and adopt appropriate rules as needed. Advisory Council members' expertise should be developed by offering training on how proposals should be reviewed, including statutory and administrative rules requirements. (Auditee concurred)

DOL COMMENTS:

The Commissioner along with the sub-committee has evaluated and recommended some changes to the administrative rules regarding the sufficient number of managed care facilitators, and the decertification process. Currently the Council remains in the process of reviewing and updating the language with regard to geographic and specialty approval on a statewide or regional (by county) basis for new programs, existing programs and re-approvals. Some of the areas we identified will be addressed through Advisory Council policy and others will be specific to the managed care administrative rules. We also plan on updating the statute to reflect the same. This will be an ongoing process and will continue through most of 1996.

CURRENT STATUS		
UN-RESOLVED	PARTIALLY RESOLVED	FULLY RESOLVED
	X	

APPENDIX B (Continued)

5. MONTHLY MEETINGS NOT HELD.

The Advisory Council on Workers' Compensation did not meet monthly as required by RSA 281-A:62 (II). The Advisory Council and commissioner should ensure Advisory Council meetings are held on a monthly basis as required by law. (Auditee concurred)

DOL COMMENTS:

Please refer to HB 1331-FN which passed the most recent legislative session and was signed into law to be effective August 9, 1996. A portion of this bill was dedicated to clarify RSA 281-A:62 (II), the Council shall meet "as necessary". This will allow the Advisory Council more flexibility in meeting on a regular basis.

6. MEETING MINUTES NOT ALWAYS PREPARED.

Advisory Council on Workers' Compensation meeting minutes were not prepared for all meetings. The Advisory Council and commissioner should ensure minutes of all meetings are taken and maintained. (Auditee concurred)

DOL COMMENTS:

Effective April, 1995 all Advisory Council meeting minutes have been prepared, reviewed by the Council, distributed and a copy has been maintained on file at the department for availability to any additional parties that seek access to them.

CURRENT STATUS		
UN-RESOLVED	PARTIALLY RESOLVED	FULLY RESOLVED
		X
		X

APPENDIX B (Continued)

7. ANNUAL REPORTS NOT AVAILABLE.

The Advisory Council on Workers' Compensation was unable to provide its 1993 and 1994 annual reports as required by RSA 281-A:62 (II). The Advisory Council should review the performance of the workers' compensation system on an annual basis and report its findings and conclusions on a timely basis. The Advisory Council should also issue the 1993 and 1994 annual reports as soon as possible. (Auditee concurred)

DOL COMMENTS:

The reports for years 1993, 1994 and 1995 have been submitted to all the parties as required by law and those parties interested on request. The Advisory Council has formed a sub-committee to gather information and compose the report in draft form for council members to review prior to the deadline for submission.

8. POLICIES AND PROCEDURES NEEDED FOR PROGRAM MONITORING AND REVIEW.

The commissioner's plans for monitoring approved programs to ensure program effectiveness, cost savings, appropriateness of service, and timeliness of service as required by RSA 281-A:23-a (VI) (a) are unclear. In addition, the commissioner has not developed policies and procedures for the three year review process required by RSA 281-A:23-a. The commissioner should develop policies and procedures for the three year review process and ongoing monitoring of approved managed care programs. (Auditee concurred)

(Continued on following page)

CURRENT STATUS		
UN-RESOLVED	PARTIALLY RESOLVED	FULLY RESOLVED
		X
X		

APPENDIX B (Continued)

**8. POLICIES AND PROCEDURES NEEDED FOR PROGRAM MONITORING AND REVIEW
(Continued).**

DOL COMMENTS:

The Commissioner is in the process of establishing a re-review process of the managed care programs in addition to some on-going monitoring mechanisms in order to ensure that the programs remain in compliance. We are working with the Robert Woods Johnson Foundation, managed care organizations, the Insurance Department, the Advisory Council, the health care community, and seeking input from employers and their employees as to the quality of care delivery in order to establish the best, most comprehensive approach to this issue.

CURRENT STATUS		
UN-RESOLVED	PARTIALLY RESOLVED	FULLY RESOLVED