

LBA Financial Audit Report Summary:

State Treasury Audit Report For the Year Ended June 30, 1999

The reporting entity of this audit and audit report is the New Hampshire State Treasury (Treasury), excluding the custody and escheat of unclaimed and abandoned property pursuant to RSA 471-C.

The Treasury's primary responsibility, as provided in New Hampshire Revised Statutes Annotated (RSAs) 6, 6-A, 6-B, 6-C, and 11, is the management of the State's cash, investments and debt, and trust funds.

The Treasury operates under the executive direction of the State Treasurer, a constitutional officer elected biennially by a joint ballot of the Senate and House of Representatives. Assisting, and appointed by the Treasurer, are the chief deputy treasurer, deputy treasurer, and two assistant treasurers, all of whom are unclassified State employees. The Office of Investment and Debt Management operates within the Treasury under the direction of a deputy treasurer. At June 30, 1999, the Treasury was also staffed with 24 classified employees, for a total of 29 employees.

The Treasurer serves as custodian over the State's receipt of funds and is responsible for the payment of all State operating expenses. RSA 6:7 establishes the State policy for depositing public monies. To reduce the risk associated with deposits, the statute restricts deposits to certain types of banking institutions and limits the amounts that may be on deposit with a particular bank at any one time. Part 2, Article 56 of the New Hampshire State Constitution requires all payments made from the Treasury, except debt obligations, to be authorized by warrant under the hand of the Governor, with the advice and consent of the Executive Council.

The Treasury, through its Office of Investment and Debt Management, is responsible for maximizing the return on State funds while considering cash flows and liquidity requirements. The Treasury invests funds, above those necessary to meet operating expenses, in instruments set forth in RSA 6:8 including:

- Obligations of the U.S. government or municipal governments within New Hampshire,
- Obligations which are legal investments for savings banks and trust companies,
- All types of savings accounts,
- Participation units in the public deposit investment pool established pursuant to RSA 383:22,
- Certificates of deposit of state or federally chartered banking institutions within New Hampshire, and
- Certificates of deposit of national banks within the Commonwealth of Massachusetts.

The Treasury, through its Office of Investment and Debt Management, is also responsible for developing long-term debt plans, tracking the status of the State's debt, and making debt service payments on all State bonds and notes.

In accordance with RSA 6:13, the Treasury is authorized to borrow on the State's credit, under the direction of the Governor and Council, such sums as may be necessary when it is anticipated that there will not be sufficient general funds in the Treasury to meet current obligations. The total of this temporary borrowing for the General Fund may not exceed \$125 million [Increased to \$200 million effective June 21, 1999, pursuant to Chapter 137:2, Laws 1999]. There were no temporary borrowings outstanding at June 30, 1999.

Bonds may be issued by the Treasury, when authorized by the Governor and Council, for specified projects or purposes. Bonds are not issued after every statutory authorization. Instead, Treasury waits until market conditions are favorable and then issues bonds that cover several authorizations. Except for revenue bonds, such borrowing usually constitutes general obligation debt of the State. The total balance of general obligation bonds outstanding at June 30, 1999, was \$645.9 million.

In accordance with RSA 11:1, all trust funds left to and accepted by the State shall be in the custody of the State Treasurer. The Treasury holds these funds as agency funds for other State government units and invests the funds as directed by those government units.

The Treasury is funded by appropriations in the General and Capital Projects Funds. The following table summarizes the financial activity of the Treasury for the year ended June 30, 1999.

Summary Of Revenues, Other Financing Sources, And Expenditures
Year Ended June 30, 1999
 (expressed in thousands)

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Unrestricted Revenues	\$ 7,813	\$ -0-	\$ 7,813
Restricted Revenues	856	-0-	856
Other Financing Sources	-0-	889	889
Total Revenues And Other Financing Sources	<u>\$ 8,669</u>	<u>\$ 889</u>	<u>\$ 9,558</u>
Total Expenditures	<u>\$ 131,777</u>	<u>\$ 864</u>	<u>\$ 132,641</u>
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures	<u>\$ (123,108)</u>	<u>\$ 25</u>	<u>\$ (123,083)</u>

The audit report included auditor's reports on compliance and on internal control over financial reporting and on management issues. The following table lists the topics of the comments in the report.

Internal Control Comments:
Reportable Conditions

- Bank Account Reconciliations Should Be Subject To An Effective Review And Approval Procedure

- All Investment Transactions Should Be Subject To An Effective Review And Approval Procedure
- Reconciliations Of The State's Checking Accounts Should Be Made Current
- Investment Of Trust Funds Should Be More Closely Monitored
- Controls Over State Revenue Sharing Payments Should Be Improved
- State Revenue Sharing Payments Should Be Better Documented
- Debt Management System Should Be Kept Current
- Complete Accounting Records Should Be Maintained To Support The State's Contingent Debt Amounts

Compliance Comments:

State Compliance

- Outstanding Checks Should Be Canceled After One Year
- Administrative Rules Should Be Adopted

Management Issues Comments:

- Compliance With The State's Investment Policy Should Be Better Documented
- Current Status Of Foreign Escheated Estates Account Should Be Reviewed

The auditor's report on the State Treasury's financial statements was qualified due to the lack of presentation of the financial position of the State Treasury in the General and Capital Projects Funds.

We recommended that Treasury:

- segregate the duties of initiating, authorizing, and recording investment transactions;
- seek Governor and Council approval prior to accepting custody of certain trust funds;
- disburse the schools and roads funds within 60 days after receiving the funds from the federal government in accordance with RSAs 227-H:22 and 227-H:23;
- periodically and formally communicate State deposit procedures to all State departments and institutions; and
- document the basis for allocating revenue sharing distributions between a city/town and its associated precincts or school districts.