

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF AGRICULTURE,
MARKETS, AND FOOD**

**FINANCIAL AUDIT REPORT
NINE MONTHS ENDED MARCH 31, 2017**



MICHAEL W. KANE, MPA
Legislative Budget Assistant
(603) 271-3161

CHRISTOPHER M. SHEA, MPA
Deputy Legislative Budget Assistant
(603) 271-3161

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

STEPHEN C. SMITH, CPA
Director, Audit Division
(603) 271-2785

To The Fiscal Committee Of The General Court:

We have audited the financial statement of the Department of Agriculture, Markets, and Food (Department) as of and for the nine months ended March 31, 2017, and have issued our report thereon dated November 30, 2017.

This financial audit report presents information related to our audit in two sections: a management letter section and a financial section. The management letter section, prepared by the auditors, is a byproduct of the audit of the Department's financial statement. This section contains an auditor's report on internal control over financial reporting and on compliance and other matters, related audit findings, and a summary of the status of prior audit findings originally contained in the report of the audit of the Department for the six months ended December 31, 2008.

The financial section of this report, with the exception of the independent auditor's report on the Department's financial statement, was prepared by the financial management of the Department, with assistance from the Department of Administrative Services, Bureau of Financial Reporting. In addition to the auditor's report, the financial section of the report includes the financial statement, notes to the financial statement, and other supplementary information.

This report can be accessed in its entirety on-line at:

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

Office of Legislative Budget Assistant

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November 30, 2017

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**FINANCIAL AUDIT REPORT
NINE MONTHS ENDED MARCH 31, 2017**

MANAGEMENT LETTER SECTION

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Deputy Legislative Budget Assistant
(603) 271-3161

State of New Hampshire
OFFICE OF LEGISLATIVE BUDGET ASSISTANT
State House, Room 102
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STEPHEN C. SMITH, CPA
Director, Audit Division
(603) 271-2785

Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

To The Fiscal Committee Of The General Court:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the New Hampshire Department of Agriculture, Markets, and Food (Department) which comprise the Statement of Revenues and Expenditures - General Fund for the nine months ended March 31, 2017, and the related notes to the financial statement, and have issued our report thereon dated November 30, 2017. Our report on the financial statements was modified as the Statement of Revenues and Expenditures - General Fund does not purport to and does not constitute a complete financial presentation of the Department in the General Fund in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in Observations No. 1 through No. 13, that we consider to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Observations No.14 through No. 16.

Department's Responses To Findings

The Department's responses to the findings identified in our audit are included with each reported finding. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose Of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Office Of Legislative Budget Assistant

November 30, 2017

Significant Deficiencies

Observation No. 1: Centralize Business Functions

Observation:

The Department operates with a distributed business office function. Employees in several divisions initially handle and process receipts and revenues prior to the transactions being initially recorded and secured in a deposit. While a distributed business office function can allow for subject experts to initially process transactions, the presence of ineffective or inadequate policies and procedures could significantly increase the risk that errors or other irregularities could occur and impact the Department's financial activity.

1. The revenue collection process for several divisions within the Department does not minimize the handling of receipts, increasing the risk that revenue items may become lost, misplaced, misdirected, or otherwise not deposited timely or intact. For example:
 - Checks received by the Division of Plant Industry for payment of Plant Licenses, while initially recorded upon first handling, are not restrictively endorsed and separated for deposit at that time. The checks and information from the checks and applications are recorded in an information technology (IT) system and forwarded to the Division Director for recording in the State accounting system (NHFirst), at which point the checks are restrictively endorsed and forwarded for inclusion in a Department deposit. Allowing checks to unnecessarily be passed between employees increases the risk that the checks may become lost, misplaced, misdirected, or otherwise not deposited timely or intact.
 - One employee in the Division of Regulatory Services is responsible for inputting revenues into NHFirst and also inputting the registration information into division IT systems, including databases and spreadsheets. There is no review and approval control over the input of the registration information into the IT systems or reconciliation between the division's IT systems and NHFirst, increasing the risk that checks may become lost, misplaced, misdirected, or otherwise not deposited timely or intact.
2. Distributed revenue processing likely contributes to delays in depositing revenues. For example:
 - Audit tests of a sample of revenues for two divisions noted the time-to-deposit for the sample items averaged 7.6 business days. Audit tests of a sample of revenues for another division noted the time-to-deposit for the sample items averaged 3.6 days business days.
3. The lack of effective control activities such as review and approval controls and reconciliation controls increases the risk that errors or irregularities that might occur will not be detected and corrected timely. For example:

- Audit tests identified a clerical error wherein information related to a fertilizer registration check was incorrectly written as a commercial feed registration application. Several test sample selections were missing financial information such as a check number, a check amount, and/or the date received; several other selections were missing an audit trail to allow agreement of payment amounts to source documents.

Recommendation:

The Department should strengthen its central business functions. The Department should consider establishing a process that would centralize its revenue receipt functions and allow the initial receipt, recording, and deposit preparation for all Department revenues to be performed centrally, with relevant payment information provided to subject experts in the divisions for the completion of any related registrations and issuances of licenses.

Regardless of whether the Department decides to centralize its revenue receipt functions or to leave them distributed, the Department should establish policies and procedures intended to strengthen its business functions. The Department should implement appropriate segregation of duties controls between the incompatible functions of the receipt, recording, and deposit of revenues, and implement appropriate reconciliation controls between the Department's IT systems, which record program activity, and NHFirst, which records revenues from that activity.

The Department should also improve its monitoring controls to ensure the controls intended by State and Department policies and procedures are in place and operating as intended.

Auditee Response:

We concur.

The Department concurs, and would hope an additional accountant could be added to the staff in the future. The Department currently has just one, and that position was only a half-time accounting position during the audit period, because of the reduction made to centralize accounts payable in the previous biennium.

Observation No. 2: Establish Policies And Procedures For The Reconciliation Of Financial Activity

Observation:

The Department does not have policies and procedures or a process in place for the regular reconciliation of business activity recorded in its business information technology (IT) systems to revenues collected from that activity as recorded in the State's accounting system, NHFirst. Reconciliations of business activity are important controls to help ensure that financial activity is accurately recorded.

The Department's individual divisions are responsible for processing registrations for pesticides, commercial feeds, fertilizers, and weights and measuring devices; licensing for veterinarians, pesticides dealers, and applicators; certifying and inspecting organic processors and handlers; selling subscriptions for the *Weekly Market Bulletin*; and collecting animal control fees and other revenues. Information from many of these revenue generating transactions is input into IT systems operated by the Department. Some of these IT systems capture sufficient financial information, such as payment amount, check number, and date received, to allow for direct reconciliations with recorded revenues. Other IT systems used by the Department reportedly do not capture sufficient transaction information to allow those reconciliations.

Auditors requested the Department reconcile revenue transactions recorded in its IT systems to revenue reported in NHFirst for the IT systems that contained sufficient information to allow for a reconciliation. The Department's reconciliations identified errors that were subsequently corrected.

Recommendation:

The Department should establish policies and procedures for the reconciliation of financial activity recorded in its multiple IT systems and revenues recorded in NHFirst.

The Department should consider restructuring its IT systems where necessary to capture sufficient transaction information to allow for an efficient and effective reconciliation control.

The reconciliations should be performed by an individual who is not directly involved in the recording of data into either NHFirst or the Department's IT systems. The results of the completed reconciliations should be forwarded to appropriate Department management for review and approval.

Auditee Response:

We concur.

The Department's accountant position is currently being restored to a full-time position (with the dissolution of the centralized accounts payable system), which should allow the Department to address these concerns more fully. The administrative assistant has wanted to develop an Excel spreadsheet with all Department revenue accounts, and the administrative assistant will implement that plan.

The Department concurs that all of its IT systems should support recording of all data necessary for the described recording and reconciliation, and it has been gradually upgrading its IT systems within the limits of its IT budgets over several budget biennia. The Department will continue to work with DoIT to make this a priority within the parameters of its IT budget.

Observation No. 3: Encourage Manufacturers To Improve Compliance With Product Registration Requirements

Observation:

The Department's process for monitoring and enforcing product registrations is inefficient and ineffective.

Statutes require the manufacturers of pesticide, commercial feed, and fertilizer products sold in New Hampshire to register their products with the Department. The Department monitors compliance with the registration requirement by observing products available for sale at New Hampshire vendors to determine if the products are properly registered. If unregistered products for sale are identified, the Department contacts the manufacturer and requests registration of the product. The Department reports it is reluctant to issue fines to noncompliant manufacturers, as they are primarily concerned with encouraging manufacturers to become compliant with the registration requirements.

To test the effectiveness of the Department's product registration processes, samples of 15 pesticide, commercial feed, and fertilizer products on sale in New Hampshire were judgmentally selected to test whether the products were properly registered with the Department.

- 1) Twelve of the pesticide products were properly registered and one product was not registered with the Department. Two of the sample products were determined not to require registration.
- 2) Eleven of the commercial feed products were properly registered and four of the products were not registered with the Department.
- 3) Eleven of the fertilizer products were properly registered and four of the products were not registered with the Department.

While the samples tested were not statistical or large, the results indicate that there is likely a significant number of products that should be, but are not currently registered with the Department.

Recommendation:

The Department should review its policies and procedures for encouraging manufacturers to improve compliance with the State's product registration requirements. The Department should research whether coordinating information with registering agencies in other states, improving communication with manufacturers, or other activities could provide better data on subject products. Relying on surveillance of store shelves for relevant product sales information will become less effective as on-line purchasing and direct shipping of products becomes more prevalent.

If necessary, the Department should consider whether the issuance of fines or other penalties may be a useful tool to encourage compliance with the product registration requirements.

Auditee Response:

We concur.

The Department concurs with the observation, and is aware of the presence of unregistered products in the marketplace, but with limited staffing and multiple demands on the respective staff's time, other division activities—such as conducting inspections, following up on complaints about pesticide use, or ensuring that NH farms have the USDA Good Agricultural Practices certification they need to market products to supermarket chains—may take precedence.

The point is well taken that divisions could investigate and consider ways to increase the efficiency and effectiveness of their efforts to improve registration compliance. The Division of Regulatory Services has completed a Lean review of its registration procedures to improve efficiency and accuracy. The need for a modern product registration software program was highlighted through the Lean process—but these programs are expensive, and the Department has not been able to get approval for all its IT needs. A certain amount of human error is also going to be expected, especially with Department staff carrying multiple responsibilities, and thus subject to interruptions, etc.

Observation No. 4: Review The Apparent Causes For A Decrease In Licensing Revenues

Observation:

Based upon the decreasing revenues for the licensing of commercial weighing and measuring devices over the past two fiscal years, it appears that the Department is becoming less effective in ensuring that all such devices are being properly licensed with the Department.

Pursuant to RSA 438:7 VI, “[t]he commissioner shall license annually all devices used commercially to provide services on the basis of weight, measure, or count or to establish size, quantity, extent, area or measurement of commodities or articles sold or offered or exposed for sale.” RSA 438:10-a sets the fees for licensing commercial devices.

The following table illustrates the decrease in weights and measures revenues over the period 2015 to 2017. While the Department reports that the number of devices used in the State has not decreased, it is apparent that the number of devices being licensed with the Department has decreased.

	Nine Months Ended March 31			Change			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2016-2017</u>	<u>2015-2016</u>	<u>2016-2017</u>	<u>2015-2016</u>
License Revenue	\$ 339,301	\$ 390,778	\$ 453,681	\$(51,477)	\$(62,903)	-13%	-14%

Recommendation:

The Department should review the apparent causes for a decrease in licensing revenues to determine whether it represents increased owner/operator noncompliance with the statutes requiring the licensing of commercial weighing and measuring devices or other factors.

The Department should also review its internal policies and procedures and processes to determine whether revisions are required to increase compliance with licensing statutes. The Department should review the continued effectiveness of its information system and the system's capacity to identify and notify noncompliant device owners/operators of devices.

Auditee Response:

We concur.

We concur with the observation of declining licensing revenues, but believe that this can be attributed largely to short staffing (vacancies) in the Division of Weights and Measures. The metrology laboratory had to be closed due to the loss of the single metrologist, and inability to fill or retain a qualified individual at the uncompetitive pay level. The division director is in the process of reclassifying this technical position so that it can be filled. One of the three Weights and Measures investigator positions was held vacant for a prolonged period in order to meet budget reductions. Prolonged vacancies also result from overloaded business/human resources (HR) person and the cumbersome Lawson [State accounting system] HR system.

Observation No. 5: Strengthen Controls Over The Animal Population Control Program

Observation:

Weaknesses in in the Department's Animal Population Control Program (Program) processes increase the risk that the Program will not operate as intended by the Department.

RSA 437-A:2 directs the Department to establish the Program to reduce the population of unwanted or stray dogs and cats. RSA 437-A:3 offers reduced fees for eligible dog or cat owners to have their animals sterilized, and RSA 437-A:4 provides for veterinarian participation in the Program and describes the calculation of fees for services provided. Program funding comes from a \$2 fee collected by cities and towns upon the issuance of dog licenses that is paid to the Department.

1. Weaknesses identified by the audit in the Program's eligibility determinations include the following.
 - a. In accordance with N.H. Admin. Rule, Agr 2802, applicants are required to provide evidence of their eligibility to participate in the Program. Audit testing of a random sample of 44 transactions identified 20 instances where the support for the applicant's

eligibility did not meet the administrative rule criteria. The Department could not locate support for the eligibility of six other applicants in the test sample.

The likely cause of the identified problems with some of the eligibility documentation appears to be an outdated application form on the Department's website. The outdated form provides Program information and guidance that is inconsistent with N.H. Admin. Rule, Agr 2802.

- b. There is a lack of segregation-of-duties and review-and-approval controls over the determination of Program eligibility, as one Department employee is responsible for collecting application and verification forms and approving eligibility of the pet owner without a subsequent detailed review and approval of the employee's determination.
2. Weaknesses identified by the audit in the Program's calculation of fees for services provided include the following.
- a. The format of the spreadsheet used to perform the calculation is poorly designed from a control standpoint, as input and other clerical errors can be masked from detection and correction.
 - b. The Department does not maintain readily accessible documentation of data input into the spreadsheet, preventing subsequent review of the accuracy and input of the information.

Recommendation:

The Department should strengthen its controls over its Animal Population Control Program to decrease the risk the Program will not operate as intended by the Department.

The Department should review and update its website as needed to ensure that visitors to the website receive current information. As part of that effort, the Department should update the forms and related information for the Program to ensure that applicants have the information needed to be compliant with Program rules and also ensure employees remain aware of changes in program requirements.

The Department should establish policies and procedures for documenting the calculation of fees to be paid to veterinarians including improving the documentation of the calculation, the review and approval of the calculation, and the maintenance of support for the calculation.

Auditee Response:

We concur in part.

The correct, updated form has been made available in both printed hard copy and the correct, updated form is now available on the Animal Population Control Program (APCP) webpage.

Division staffing has not been adequate to cover all the segregation of duties described in the audit recommendations. However, when the Department's new, part-time human resource position is filled, that person will take over the Department payroll responsibilities from the Division's program assistant, which would allow that position to assume some review and approval tasks for the APCP.

The process used to set the fees paid to veterinarians for services under the APCP is provided by statute. The program coordinator uses a spread sheet to collect and average the fees submitted by the veterinarians for the multiple categories of surgery (e.g. cat spay, cat neuter, dog spay less than 25 pounds, etc.) that can be reimbursed. Each veterinarian's proposed fee is entered into the correct category of surgery on the spread sheet and an average is calculated for that category from all proposed fees. The State Veterinarian subsequently reviews the data and calculates the acceptable fee levels in accordance with the statutory guidelines. Beginning with the calculations for 2018, the program coordinator will begin retaining the spread sheet for 5 years. Applications from each veterinarian are retained for reference to determine which fees are unacceptable. These applications are currently retained for 2 years. The APCP employee reviews monthly invoices submitted by veterinarians for payment and verifies the total that the participating veterinarian has submitted. The APCP employee then submits the invoices to the State Veterinarian who reviews the documents for completeness – signatures, dates, etc., before signing approval.

Observation No. 6: Review Responsibility For The Collection Of Animal Population Control And Veterinary Diagnostic Lab Fees

Observation:

The Department has not established policies and procedures intended to prompt local governments to make timely and accurate payment of animal control fees to the Department. The lack of policy guidance has likely contributed to inconsistent and untimely payment of animal control fees to the Department.

Pursuant to RSA 466:4 I (b) and (c) and RSA 466:9 I, cities and towns are to pay the Department a \$2 animal population control fee and \$.50 from each dog license fee collected by the local government to support the State's animal control and veterinary diagnostic lab activities. While the statutes establish the annual dog license period as May 1 through April 30, the statutes do not establish the dates the payments by the cities and towns are due to the Department.

The Department considers the \$2 animal control fee to be due in May and the \$.50 veterinary diagnostic lab fee to be due in June.

The Department reports some cities and towns are late in making dog license fee payments. For example, during the audit period, one town paid the Department fees due from 2014, 2015, and 2016 in one payment. While the Department maintains a spreadsheet to record when the Department collects payments from cities and towns, the Department does not regularly analyze the information on the spreadsheet to identify and follow up on late or missing payments.

The Department also does not test the amounts collected for reasonableness. In comparisons of data, auditors noted 56 cities or towns made payments to the Department that varied from prior year amounts by more than 25%. For example, one town's payment for the license year 2016 was \$1,490, a decrease of 53% from \$3,195 in the prior year. Another town's payment of \$4,388 for the same license year was an increase 1,353% over the \$302 paid in the prior year. While such large fluctuations between years may have an explanation, the fluctuations could also indicate a problem in the Department's collection and recording of revenues.

Recommendation:

The Department should review its statutory authority to determine whether it is currently sufficient to meet its responsibilities for the collection of animal population control and veterinary diagnostic lab fees. If necessary, the Department should request the statutes be appropriately amended to ensure the process for the payment and collection of dog license related fees to the State is efficient and effective.

The Department should ensure its administrative rules clearly implement the statutory direction, including establishing dates that the animal population control fee and veterinary diagnostic lab fee are due to be paid to the Department.

The Department should establish policies and procedures for a process to accurately monitor the timeliness and accuracy of the amounts paid by the cities and towns, and to respond when payments appear inaccurate or delinquent.

Auditee Response:

We concur.

We have discussed the need to modify the system for tracking town license fee payments with the responsible employee, and will follow up to ensure it is implemented. The Department will review the statute and rules to ensure they are in alignment.

Observation No. 7: Establish Policies And Procedures For Preparing And Supporting Draws Of Federal Grant Funds

Observation:

The Department has not established policies and procedures for preparing and supporting draws of federal grant funds. During the nine months ended March 31, 2017, the Department reported that draws on federal grants were performed at the discretion of division directors with guidance from the Department's business office. Untimely draws were identified. Department support for federal grant draws were not consistently available for auditor review. For example:

- Two pesticide grant draws of approximately \$121,000 and \$137,000 represented four and five months of activity, respectively. Two specialty crop block grants (SCBG) draws of

approximately \$43,000 and \$21,000 represented ten months of activity. Two cooperative agricultural pest survey (CAPS) grant draws of approximately \$28,000 each were drawn 66 days and 90 days after the period ends, respectively.

- The Division of Agricultural Development does not keep support for its SCBG reimbursement requests readily available. The Division reported the requested amounts are calculated and filed by grant sub recipient expenditures and not tracked through other support. The documents supporting sub recipient invoices and subsequent federal cash draws were not subject to a review and approval control, and were not available for audit review.

Recommendation:

The Department should establish policies and procedures for preparing and supporting draws of federal grant funds. Federal grant funds should be drawn efficiently to minimize cash flow impact on the Department and State. All draws of federal grant funds should be fully documented with the support for the draws subject to review and approval controls, and retained for reference.

Auditee Response:

We concur.

The Department has consistently given guidance to division directors to request grant fund draws on a regular and timely basis (monthly, or depending on specific grant conditions). The CAPS grant agreement, for example, specifies quarterly payments.

Directors are all actively engaged in field work as well as managing division offices, with seasonal variability resulting in periods of extreme workload and time pressure. The administrative assistant provides monthly financial reports to all division directors.

Grantee invoices for payment are kept by the accountant, and Lawson-run reports provide back-up.

Observation No. 8: Secure Documentation Containing Personally Identifiable Information

Observation:

The Department could not demonstrate that it was taking due-care in securing documentation containing personally identifiable information (PII) submitted by participants in the animal control program.

Individuals applying for program benefits regularly submit copies of drivers' licenses, food stamp cards, bank statements, and other information to document their eligibility for program benefits. This information regularly includes social security numbers, birthdates, and other applicant PII. The Department has not established policies and procedure to ensure that PII collected by the Department is appropriately safeguarded against disclosure. For example:

- The Department has not established policies and procedures to effectively redact PII in retained documentation.
- The Department has not established policies and procedures for securing documentation containing PII, either in secure files or through secure disposal. The Department was unable to locate applications likely containing PII for six out of a sample of 44 (14%) applications selected for testing.

The Department has a significant responsibility to ensure that all PII required of program participants is appropriately handled and secured.

Recommendation:

The Department must establish policies and procedures for the secure handling of all PII received from program applicants.

The Department should ensure that control over all PII is maintained and that PII that is no longer required for program requirements is either redacted or securely destroyed.

Auditee Response:

We concur.

We concur with the need to secure all documents containing PII, and it has been an oversight not to have provided locking filing cabinets for all pertinent APCP documents. We will secure and use locking file cabinets for the program, and will develop written policy and procedures for ensuring the security of personally identifiable information.

Observation No. 9: Conduct Annual Job Performance Evaluations For All Full-Time Classified Employees

Observation:

The Department did not consistently comply with RSA 21-I:42, III and N.H. Admin. Rules, Per 801.06 (a), which require each full-time classified State employee to be provided an annual performance evaluation. Annual performance evaluations are generally completed prior to an employee's anniversary date, in order for the evaluation to be considered in any pay increase (increment) decisions.

At March 31, 2017, the Department had 30 full-time classified employees. The anniversary dates of 22 of those employees fell during the nine months ended March 31, 2017. Of the 22 employees who would normally be scheduled for an annual performance evaluation during this period, eight employees received performance evaluations and 14 employees did not receive evaluations.

According to the Department, it consistently provides annual evaluations for employees who may be eligible for an increment, but has not considered providing evaluations for employees who are not eligible for increments a priority, and has not consistently provided timely evaluations to those employees.

In addition to being required by statute and rule, regular employee performance reviews demonstrate management's commitment to attract, develop, and retain competent employees, a key principle in establishing a strong control environment.

Recommendation:

The Department should comply with RSA 21-I:42, III, N.H. Admin. Rules, Per 801.06 (a), and good internal control practice and conduct annual job performance evaluations for all full-time classified employees. The results of these evaluations should be used to assist employees to improve job performance, acknowledge employee accomplishments, and demonstrate management's commitment to attract, develop, and retain competent employees.

Auditee Response:

We concur.

We concur that the Department needs to comply more fully with the annual job performance evaluation requirement. We need to create a calendar system to remind directors of the dates when annual evaluations are due for all employees.

We do not contest the statutory requirement for annual performance evaluations. However, we would point out that the state evaluation forms are of limited value for managing employee performance, and Department supervisors engage in daily interaction, comment, suggestion, guidance, correction and encouragement that are more effective methods of creating teams that are motivated by customer service, integrity and service to the state.

Observation No. 10: Review The Plans And Expectations For The Operation Of The Milk Producers Emergency Relief Fund Program

Observation:

The Department has not fully addressed its responsibilities described in RSA 184:107 related to the Milk Producers Emergency Relief Fund (Fund).

RSA 184:107 established the Fund in 2007 to be administered by the Commissioner. The statute provides for the Commissioner to deposit into the Fund any appropriations made to the Department from the General Fund to be used consistent with the statute to reimburse New Hampshire producers of raw milk when the base price of milk falls below a target price.

Paragraph II of the statute describes the calculation for quarterly payments from the Fund and paragraph III states, “In the event there is an insufficient balance in the fund to make full payment to all producers, the commissioner shall prorate payments to each producer to the extent funds are available. Any amount not paid to a producer shall be carried forward and later paid should sufficient funds become available.”

RSA 184:110 establishes the powers and responsibilities of the Milk Producers Emergency Relief Fund Board, of which the Commissioner is a named member, including the adoption of rules for the operation of the Fund.

As of March 31, 2017, the Department had not received any General Fund appropriations for the Fund and had made no payments from the Fund. The Department also had not established policies and procedures for determining whether any liabilities exist for unpaid reimbursements since the July 2008 statutory start of the reimbursement program.

The Commissioner reported the Board has not adopted rules, primarily due to a perceived lack of need, as there has been no funding for the program.

Recommendation:

The Department should review with the Board the plans and expectations for the operation of the Milk Producers Emergency Relief Fund program.

The Department should review with legal counsel whether RSA 184:107 III establishes a liability for unpaid reimbursements since July 2008. As appropriate, the Department should establish policies and procedures for the operation of the Fund, including determining when liabilities accrue.

The Board should adopt rules for the operation of the Fund.

If the Department and Board determine that the operation of the Fund as described in statute no longer serves the needs of the State and Department, the Department should request appropriate revisions to the statute.

Auditee Response:

We concur.

The Milk Producers Emergency Relief Fund program has not been able to perform as the Legislature had envisioned because the same Legislature has chosen not to provide funding. The Department should work with the Governor’s policy staff and the House Environment and Agriculture Committee to consider appropriate legislative changes.

Observation No. 11: Establish Policies And Procedures For The Operation Of The State's Building At The Big E

Observation:

The Department has not established an effective review and approval control over its operation of the State's Eastern States Exposition (Big E) building in Springfield, Massachusetts. One Department employee has broad authority for the operation of the building, without any policies and procedures having been established to provide controls to that operation.

Statutes give the Commissioner broad authority for the operation of the State building at the Big E. The Commissioner has delegated much of that authority to one Department director. According to the Commissioner, the Department director has been assigned full control over the fees charged and the allocation of Big E revenues. There is no subsequent review and approval control over the determinations made by the director affecting the revenues collected from the operation of the Big E building.

The Department collected approximately \$45,000 from the rental of booth space in the State's Big E building during the fair in the fall of 2016, with fourteen entities paying between \$1,600 - \$4,800 each. In addition, the Department also reported waiving some dormitory housing fees to workers at the Big E and allowing free use of display and vendor space to a nonprofit entity, not connected to the Department, in consideration of the entity having previously helped pay for building improvements.

Recommendation:

The Department should establish policies and procedures for the operation of the State's building at the Big E. Policies and procedures should include processes for determining, adjusting, and waiving fees and all other significant processes affecting revenues, expenditures, and other similar important aspects of the building's operation. The Department should document all use of building space with current agreements.

The policies and procedures for the operation of the Big E building should include appropriate controls, including review and approval controls, to reasonably ensure that management's intentions for the operation of the building are addressed.

Auditee Response:

We concur.

While there is a lack of formal review and approval procedures for management of the NH Building, these comments do not reflect the small size of this Department and the Division of Agricultural Development, and the close nature of communications between the Commissioner and the Ag Development Director. That is to say, plans and expenditures for operation and upkeep of the building are discussed and approved by the Commissioner.

Exhibitor booth fees, application procedure, and selection process are in writing and available on our website, as well as provided to all potential applicants. The range in fees charged reflects the amount of space rented by the exhibitor. The process is quite transparent. The entity (Champions of NH Agriculture) receiving waived vendor space fees mentioned in the observation oversees the food concession and has paid for significant improvements to the kitchen area of the building, as well as other building improvements as needed in lieu of booth rent. This is not an automatic annual reduction. We have provided a reduced fee for the NH Maple Producers Association space because they have added much to the activity of the building with educational demonstrations and sampling. We offer one space to other natural resources non-profit organizations and community organizations to exhibit in shifts during the fair. We do not charge these groups if they demonstrate or sample to the nearly 1 million visitors that come through the building each year.

The Division will consider changing invoices to show credits given in consideration of *payments in kind or services provided* against charges for booth space to certain non-profit participants such as the Champions of NH Agriculture and the NH Maple Producers Association.

The Division will also create a written document outlining policies and procedures for managing the NH Building, which will also help provide for continuity of operations and eventual leadership succession.

Observation No 12: Monitor And Remind Board Members Of Statement Of Financial Interests Filing Requirements

Observation:

Not all members of boards associated with the Department filed timely Statements of Financial Interests (Statement). According to the Department, it does not have a process to monitor whether required Statements are filed with the Secretary of State.

RSA 15-A requires certain persons who perform official duties to file a Statement with the Secretary of State to ensure the performance of those official duties do not give rise to conflicts of interest. Pursuant to RSA 15-A:6, “All persons subject to this chapter shall file a statement of financial interests annually no later than the third Friday in January... [n]o person required to file a statement... shall be eligible to serve in his or her appointed capacity prior to filing a statement in accordance with this section.” According to RSA 15-A:7, “Any person who knowingly fails to comply with the provisions of this chapter or knowingly files a false statement shall be guilty of a misdemeanor.”

The table on the top of page 20 reports the filing status of those individuals required to file statements by January 20, 2017.

<u>Entity</u>	<u>Members</u>	<u>Non-Filers</u>	<u>Late Filers</u>
Department (Unclassified Personnel)	3	1	-
Agricultural Advisory Board	15	9	-
Agricultural Land Preservation Committee	8	5	-
Invasive Species Committee	11	1	2
Pesticides Control Board	10	2	-
Weights & Measures Advisory Board	12	12	-
State Conservation Committee	16	13	-
Board of Veterinary Medicine	<u>7</u>	<u>1</u>	<u>-</u>
Total Members	82	44	2

Recommendation:

While the responsibility to file a Statement rests with the subject individual, to protect the Department’s interests in the operations of its associated boards, the Department should establish procedures to monitor and annually remind board members of their statutory responsibility to submit timely Statements of Financial Interests to the Secretary of State.

Auditee Response:

We concur.

The one unclassified employee who had not filed usually does file the form. This year was an oversight or error of omission. The 2018 disclosure form will be filed.

The Department concurs that it is responsible for informing advisory committee members of their requirement to file financial disclosure forms, but does not believe that 100% compliance among unpaid volunteers is a practical expectation. The Department does in fact inform—and remind—advisory committee members of the requirement to file financial disclosure statements. Members are reminded at committee meetings, and subsequently by email. The Weights and Measures Advisory Board stands out however, with zero members in compliance. The department administrative assistant had sent the form and instructions to the Director of Weights and Measures, asking her to distribute to the members. That director has subsequently left the Department. We have brought this matter to the attention of the Acting Director, and have been assured that the message will be communicated to the committee members at their next meeting.

Observation No. 13: Prepare And Submit A Current IT Plan

Observation:

The Department did not have a current, complete, and approved information technology (IT) plan in place at March 31, 2017.

RSA 9:4-b Information Technology Plan. – Each executive department, with the necessary assistance of the chief information officer, shall prepare an information technology plan and submit it to the information technology council. The portion of each plan which addresses the upcoming biennium shall define the capital and operating budgets necessary for implementing the plan. The budget data in the information technology plan shall provide for both new information technology initiatives and existing operations and shall be consistent with the budget data submitted under RSA 9:4 and 9:4-a. In the case of the failure of any executive department to submit an information technology plan, the chief information officer shall cause a plan to be prepared as in his or her opinion is reasonable and proper. Each information technology plan shall identify a process for collaborative involvement of stakeholders representing other levels of government within the state in the development, design, and deployment of information technology systems that involve or impact such other political subdivisions of the state.

The Department provided the auditors with a draft IT plan for State fiscal years 2014-2017. The Department reported it had not submitted the draft plan to the IT Council as of March 31, 2017. The Department also reported the lack of a completed plan did not appear to affect its ability to spend IT funds.

Recommendation:

The Department should prepare a current IT plan and submit it to the IT Council as required by RSA 9:4-b.

The Department should establish policies and procedures for the periodic updating of the plan to ensure that the Department's IT needs are regularly reviewed and determined, the plan appropriately describes those needs, and a reasonable strategy is in place to promote the achievement of the Department's IT goals and objectives.

Auditee Response:

We concur.

The Department IT plans were consistently updated annually—until staff reductions at both the Department of Information Technology (DoIT) and the Department resulted in a stalled plan. The draft IT plan has been resurrected and is currently in the works, a collaboration of DoIT and the Department.

Compliance Comments
State Compliance

Observation No. 14: Adopt Statutorily Required Rules

Observation:

The Department is not in compliance with certain statutes requiring the adoption of administrative rules. The Department has allowed certain rules to expire, and other rules have not been maintained to ensure they remain in compliance with changes in statutes.

The following statutorily required rules were expired at March 31, 2017:

<u>Rule Number</u>	<u>Subject Matter</u>	<u>Expiration Date</u>
Agr 400	Stallion Registration	October 22, 1990
Agr 600	Apple Marketing Order	November 22, 2005; January 28, 1991
Agr 700	Acquisition of Agricultural Land Development Rights	March 21, 2009
Agr 800	Milk and Milk Products	September 26, 2005
Agr 901	Apples	December 16, 1994; September 21, 1999
Agr 903	Honey	April 21, 2007
Agr 905	Eggs	February 2, 2003
Agr 907	Cider	September 26, 2005
Agr 908	Grading and Certification or Stamping of Native Lumber	January 24, 2004
Agr 1200	Commercial Feeds	July 20, 2007
Agr 1300	Controlled Atmosphere	December 19, 2006
Agr 1500	Agricultural Fairs	August 20, 1990
Agr 1900	Livestock Dealer Licensing	June 20, 2015
Agr 2000	Agricultural Liming Materials	February 15, 2005
Agr 2200	Seeds	April 23, 2005
Agr 2600	Livestock Events	January 20, 2015
Agr 2700	Docking Tails of Horses	January 10, 2015
Agr 2900	Equine Quarantine From CEM Countries	June 13, 2016
Agr 3100	Wolf Hybrids	January 5, 2015
Agr 3200	Horticultural Growing Media	January 1, 2006
Agr 3300	Testing of Domestic Animals	June 13, 2016
Agr 3600	Commercial Applicator Pesticide Training	April 24, 2011

By allowing administrative rules to expire, management does not provide a description of the Department's processes in a manner that can be utilized by the public to interact effectively with the Department and promote a clear, consistent, and fair application of the Department's implementation of statutory direction.

Recommendation:

The Department should adopt all statutorily required rules and establish policies and procedures to regularly review the statutes and rules to ensure the rules remain consistent with statutory requirements and current Department processes.

The Department should review, update, and renew its administrative rules as appropriate. If during its review of statutory requirements and rules, the Department determines any required rules are no longer relevant or necessary, the Department should seek to have the statutory requirement for the rule appropriately amended.

Auditee Response:

We concur.

We concur, but with no dedicated rulemaking staff, the Department struggles to keep up with its many sets of rules. We believe that we have made considerable progress—that fewer rules are expired than eight or 10 years ago. Certainly the most important and most used sets of rules have been kept current. But we need to do better. Some of the cited rules are archaic. Others need to be updated and readopted. A new Ag Inspector position was approved in the fiscal year 2018-2019 budget for the Division of Regulatory Services to strengthen the feed and fertilizer regulatory programs, and those rules, for example will be addressed.

We would also note that there is legislation in the works to transfer the inspection of milk haulers, etc., (Agr 800 Milk and Milk Product Rules) to the Department of Health and Human Services, which administers the state's Dairy Sanitation Program. The Department and HHS have collaborated on these changes.

Observation No.15: Comply With Statutory Reporting Requirements

Observation:

The Department is not in compliance with numerous statutory-based reporting requirements.

Certain statutes require the Department to issue reports. The Department, during the audit period, was not current with the following reporting requirements:

1. RSA 20:7 - Requires all agencies and departments of the State to issue biennial reports summarizing their operations. All reports are to cover periods ended on June 30, and be posted to the State transparency website, with one paper copy submitted to the State Library by October 1. The Governor and Council, the Speaker of the House of Representatives, and the Senate President are to be notified by letter that a report is available on the State transparency website.

2. RSA 425:13 - Requires the Commissioner to submit a report before December 31 of each even-numbered year, which includes an account of the general work of the Department, the special teaching and that of the heads of the various departments, and such other information pertaining to the Department as may be of public and general interest. The report is to include such recommendations for legislative action as may be required; a statement of total amounts of all expenditures, so classified as to show the amount expended in support of several departments of work covered; and an account stating, by properly classified totals, all money received from sources other than the State Treasury. The report is to be submitted to the Governor and Council, and distributed to the town and public libraries of the State and to farmers, agriculturists, and others desiring it.
3. RSA 429:6 - Requires the inspector of apiaries to render a full and complete report of his work annually on or before July 1. This report is to be included in and made a part of the report of the Commissioner.
4. RSA 430:2 - Requires the Commissioner and the Director of Forests and Lands to establish and publish an annual work plan that outlines the responsibilities of each agency in the area of forest pest control and report the results back to the appropriate Committees.
5. RSA 430:31-b III - Requires the Department within its biennial report pursuant to RSA 20:7 to submit a report which includes, but is not be limited to, training and educational programs offered or contracted by the Division of Pesticides Control as part of their Pesticides Training Program, as well as the revenue generated from the Program and the budget and revenue projections of the Division.
6. RSA 431:36 II - Requires the Commissioner within the Department's biennial report pursuant to RSA 20:7 to submit a report relative to the Agricultural Nutrient Management Program which includes: (1) the use and current status of the Agricultural Nutrient Management Program fund, (2) the work accomplished, (3) the number of grantees and the amount of the grant received by each, and (4) the effectiveness of the implementation of agricultural best management practices needed to more fully protect water quality.
7. RSA 432:6 - Requires the Department, in its annual report, to cover the administration of the soil conservation state plan and its operations for each year, including the expenditures of funds.
8. RSA 436:4 - Requires the Commissioner within the Department's biennial report pursuant to RSA 20:7 to submit a written report to the Governor and Council, stating in detail the work done in the Division of Animal Industry during the preceding 2 years.
9. RSA 437-A:2 - Requires Commissioner to report relative to the progress of the Animal Population Control Program to the President of the Senate, the Speaker of the House, and the Governor within its biennial report pursuant to RSA 20:7.

10. RSA 438:7 VII - Requires the Commissioner within the Department's biennial report pursuant to RSA 20:7, to make a report to the Governor on all of the activities of Chapter 438, Standards For Weights And Measures.

In response to a similar comment in the prior audit report, the Department stated that it operates on the basis of an understanding established some years ago by the previous Commissioner with the Governor and Council, that the Department's *Weekly Market Bulletin* would serve as the Department's reporting vehicle. It is not clear that the *Weekly Market Bulletin* provides all of the information required by the above noted statutes, or that it otherwise fulfills the Department's statutory reporting requirements.

Recommendation:

As recommended in the prior audit report, the Department should develop and implement policies and procedures that will promote reporting that is in compliance with statutory requirements.

If the Department determines that the current statutory requirements are no longer appropriate or may be satisfied in an alternative method, the Department should request appropriate revision to the statutes.

Auditee Response:

We concur.

We concur that the Department has a long list of statutory reporting requirements, and has not fulfilled all of them. There was an HB2 provision proposed a few years back that would have eliminated a number of the reports required of many departments, including the Department, but sadly it did not survive the budget process. We also had believed that the Weights and Measures program report (item 10, RSA 438:7 VII) was adequately covered by the Weights and Measures program report more recently added by the legislature in RSA 438:7 IX, which has been delivered annually as directed.

The Department's prior commissioner had secured consent of Governor and Council that the *Weekly Market Bulletin* would serve as the Department's primary reporting vehicle. While the *Bulletin* may not include every reporting item specified in the statutes, it certainly includes reports of numerous activities and programs of all six divisions, as well as the Office of Commissioner. No one except the LBA auditors has asked for any unpublished reports in the departing commissioner's 10-year tenure. The Department is guilty as charged of not compiling and promulgating these many required reports, but to the work that would be required would mean not doing a significant amount of work that has been accomplished and services delivered.

Federal Compliance

Observation No. 16: Comply With SCBG Program Requirements

Observation:

It is not clear that the Department is in compliance with certain federal administrative requirements for the Department's operation of the Federal Specialty Crop Block Grants (SCBG) program.

In administering Federal grant awards, the Department must follow the general terms and conditions for the grants as well as any additional requirements described in the Code of Federal Regulations (CFR), including:

Code of Federal Regulation 2 CFR §200.328, Monitoring and Reporting Program Performance, states "(a) *Monitoring by the non-Federal entity.* The non-Federal entity is responsible for oversight of the operations of the Federal award supported activities. The non-Federal entity must monitor its activities under Federal awards to assure compliance with applicable Federal requirements and performance expectations are being achieved. Monitoring by the non-Federal entity must cover each program, function or activity."

2 CFR §200.331 Requirements for pass-through entities states "All pass-through entities must: ... (b) Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring described in paragraphs (d) and (e) of this section... (d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved... (e) Depending upon the pass-through entity's assessment of risk posed by the subrecipient... the following monitoring tools may be useful for the pass-through entity to ensure proper accountability and compliance with program requirements and achievement of performance goals:

- (1) Providing subrecipients with training and technical assistance on program-related matters; and
- (2) Performing on-site reviews of the subrecipient's program operations;
- (3) Arranging for agreed-upon-procedure engagements..."

In May 2015, the U.S. Department of Agriculture (USDA) conducted a site visit to review the Department's administration of the SCBG grant awards. In the report issued by the USDA, the USDA stated "NHDA [New Hampshire Department of Agriculture] should establish a risk-based systematic approach to monitoring projects through regular communications, reviewing financial source documentation, conducting site visits and desk reviews, or pre- and post- award outreach to further strengthen the program. If through the risk assessment, NHDA determines that a recipient requires a site visit, the site visit should include a review of financial as well as

programmatic documents, and a visual inventory of any equipment purchased under the grant. Documentation of these visits also needs to be saved and kept with the project files.”

According to the Department, as of August 2017, the Department has not established risk assessment policies and procedures for a risk-based systematic approach to monitoring the SCBG or performed any related sight visits to monitor grant projects.

Recommendation:

The Department should establish policies and procedures to come into compliance with SCBG program requirements.

The Department, as recommended in the SCBG review report, should establish a risk-based systematic approach to monitoring projects to ensure that funds provided to subrecipients are being used as intended and in accordance with the terms and conditions of the grant agreements, and in accordance with 2 CFR §200.

Auditee Response:

We concur.

The Department will review with the Director of Agricultural Development the report of the May 2015 USDA audit cited. Again, short staffing makes for a very heavy workload. But the Department will explore options to develop a risk-based approach to ensure and document the SCBG recipients’ use of their grant funds.

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Current Status Of Prior Audit Findings

The following is a summary of the status, as of November 30, 2017 of the observations contained in the financial audit of the Department of Agriculture, Markets, and Food for the six months ended December 31, 2008. That report can be accessed at, and printed from, the Office of Legislative Budget Assistant website:

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

	<u>Status</u>		
<i>Internal Control Comments</i>			
<i>Material Weakness</i>			
1. Controls Over Revenue Processing Must Be Improved (<i>See Current Observation No. 1</i>)	●	○	○
<i>Significant Deficiencies</i>			
2. Information Sharing And Communications Should Be Improved	●	●	●
3. Controls Over The Payroll Process Should Be Improved	●	●	●
4. Expenditure Control Activities Should Be Monitored	●	●	●
5. Motor Vehicle Usage Should Be Reviewed	●	●	●
6. Controls Should Be Established For The Financial Activity Of The Board Of Veterinary Medicine	●	●	○
7. Procedures Should Be Implemented To Ensure Accuracy Of Conservation License Plate Revenue	●	○	○
8. Procedures Should Be Established To Remind Individuals Associated With The Department Of Their Need To File Statements Of Financial Interests	●	○	○
9. Agreement For Inspectional Services Should Be Completed	●	●	●
10. Conservation Easements Should Be Monitored	●	●	●
11. Controls Over Compliance With Statewide Equipment Reporting Procedures Should Be Improved	●	●	○
12. Controls Over Federal Program Compliance Should Be Improved (<i>See Current Observation No. 16</i>)	●	○	○
13. Comprehensive Information Technology Policies And Procedures Should Be Developed	●	○	○
14. Written Agreements With Associated Entities Should Be Established	●	●	○
15. The Department Should Set Fee Methodology In Rule	●	●	●
<i>State Compliance Comments</i>			
16. Compliance With Statutory Provisions Regarding Department Funds Should Be Established	●	●	●
17. Administrative Rules Should Be Adopted (<i>See Current Observation No. 14</i>)	●	○	○
18. Required Reports Should Be Submitted(<i>See Current Observation No. 15</i>)	●	○	○

<u>Status Key</u>	<u>Count</u>
Fully Resolved	● ● ● 8
Substantially Resolved	● ● ○ 3
Partially Resolved	● ○ ○ 7
Unresolved	○ ○ ○ 0

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**STATE OF NEW HAMPSHIRE
DEPARTMENT OF AGRICULTURE,
MARKETS AND FOOD**

**AUDITED FINANCIAL STATEMENT
NINE MONTHS ENDED MARCH 31, 2017**

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF AGRICULTURE, MARKETS, AND FOOD**

**AUDITED FINANCIAL STATEMENT
NINE MONTHS ENDED MARCH 31, 2017**

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MICHAEL W. KANE, MPA
Legislative Budget Assistant
(603) 271-3161

CHRISTOPHER M. SHEA, MPA
Deputy Legislative Budget Assistant
(603) 271-3161

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

STEPHEN C. SMITH, CPA
Director, Audit Division
(603) 271-2785

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

Report on the Financial Statement

We have audited the accompanying financial statement of the Department of Agriculture, Markets, and Food, which comprises the Statement of Revenues and Expenditures – General Fund for the nine months ended March 31, 2017, and the related notes to the financial statement, which collectively comprise the Department of Agriculture, Markets, and Food’s basic financial statement as listed in the table of contents.

Management’s Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis For Qualified Opinion

As discussed in Note 1, the financial statement referred to above does not purport to, and does not, constitute a complete financial statement presentation of the Department of Agriculture, Markets, and Food, in conformity with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the matter described in the Basis For Qualified Opinion paragraph, the financial statement referred to above presents fairly, in all material respects, the respective revenues and expenditures of the Department of Agriculture, Markets, and Food's portion of the State of New Hampshire's General Fund for the nine months ended March 31, 2017 in accordance with accounting principles generally accepted in the United States of America.

Emphasis Of Matter

As discussed in Note 1, the financial statement referred to above reports certain financial activity of the Department of Agriculture, Markets, and Food. It does not purport to, and does not, present fairly the financial activity of the State of New Hampshire as of March 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budget to actual schedule on page 11 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the budget to actual schedule in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statement, and other knowledge we obtained during our audit of the financial statement. We do not express an opinion or provide any assurance on the information because the limited

procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statement is not affected by this missing information.

Other Reporting Required By *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2017 on our consideration of the Department of Agriculture, Markets, and Food's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department of Agriculture, Markets, and Food's internal control over financial reporting and compliance.


Office Of Legislative Budget Assistant

November 30, 2017

**DEPARTMENT OF AGRICULTURE, MARKETS, AND FOOD
STATEMENT OF REVENUES AND EXPENDITURES - GENERAL FUND
NINE MONTHS ENDED MARCH 31, 2017**

Revenues

Unrestricted Revenues

Economic Poison Fees	\$ 1,473,969
Agricultural Feeds Fees	470,665
Weights & Measures (Licenses, Exams, Labwork, etc.)	429,223
Agricultural Fertilizers Fees	256,528
Board of Veterinary Medicine Fees	156,040
Weekly Market Bulletin Subscription Fees	43,660
Other Unrestricted Revenue	<u>87,482</u>
Total Unrestricted Revenues	<u>2,917,567</u>

Restricted Revenues

Pesticide Program Fees	531,509
Horticultural Regulation & Agricultural Feed Registration Fees	480,695
Federal Pesticide Management and Pest Survey Grants	345,251
Conservation Plate Fees	309,592
Federal Specialty Crop Block Grants	123,644
Animal Population Control and Dog License Fees	76,829
Big E - Eastern States Exposition Rental Fees	30,769
Other Restricted Revenue	<u>95,829</u>
Total Restricted Revenues	<u>1,994,118</u>

Total Revenues

4,911,685

Expenditures

Salaries and Benefits	1,964,481
Grants and Remuneration	692,683
Current Expenses	191,197
Vehicle and Equipment Purchases	187,427
Animal Population Control Provider Payments	178,498
Contracts for Program Services	134,110
Transfers to Other State Agencies	89,579
In-State Travel	37,603
Out of State Travel	15,155
Other	<u>20,654</u>

Total Expenditures

3,511,387

Excess (Deficiency) of Revenues Over (Under) Expenditures

1,400,298

Other Financing Sources (Uses)

Net Appropriations (Note 1)	<u>1,517,269</u>
-----------------------------	------------------

Total Other Financing Sources (Uses)

1,517,269

**Excess (Deficiency) of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses**

\$ 2,917,567

The notes to the financial statement are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENT
FOR THE NINE MONTHS ENDED MARCH 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statement of the New Hampshire Department of Agriculture, Markets, and Food has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

A. Financial Reporting Entity

The New Hampshire Department of Agriculture, Markets, and Food (Department) is a department of the primary government of the State of New Hampshire. The accompanying financial statement reports certain financial activity of the Department, including the administratively attached Board of Veterinary Medicine. The financial activity of the Department is accounted for in the General Fund in the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the CAFR. The Department of Agriculture, as a department of the primary government, accounts for only a small portion of the General Fund and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to the Department cannot be determined. Accordingly, the accompanying financial statement is not intended to show and does not report the financial position or the fund balance of the Department.

B. Measurement Focus, Basis Of Accounting And Financial Statement Presentation

Measurement Focus and Basis of Accounting

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the State generally considers revenues to be available if they are collected within 60 days after year end. Receivables not expected to be collected within 60 days are offset by deferred inflows of resources. An exception to this policy is federal grant revenue, which generally is considered to be available if collection is expected within 12 months after year end. Taxes, grants, licenses, and fees associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period when available.

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

Financial Statement Presentation

A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to report financial position and the results of operations, to demonstrate legal compliance, and to aid financial management by segregating transactions related to certain government functions or activities.

The Department reports its financial activity in the following governmental fund:

General Fund: The General Fund is the State's primary operating fund and accounts for all financial transactions not accounted for in any other fund.

Reporting Period

The accompanying financial statement of the Department is presented for the nine months ended March 31, 2017.

C. Revenues And Expenditures

In the Department's financial statement, revenues are reported by source. For budgetary control purposes, revenues are further classified as either "unrestricted" or "restricted." Unrestricted revenues are available to fund any State activity accounted for in the fund. Restricted revenues are, by State budget law, available to fund the Department's operations.

Expenditures are reported by character in the Department's financial statement.

D. Other Financing Sources

These additions to resources in the Department's financial statement result from financing provided by net appropriations. Net Appropriations reflect appropriations for expenditures in excess of restricted revenues and are made from the fund balance of the General Fund.

E. Budget Control And Reporting

General Budget Policies

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

The operating budget is prepared principally on a modified cash basis and adopted for the governmental funds, with the exception of the Capital Projects Fund, and certain proprietary

funds. The Capital Projects Fund budget represents individual projects that extend over several fiscal years. Fiduciary funds and permanent funds are not budgeted.

In addition to the enacted biennial operating budget, State departments may submit to the Legislature and the Governor and Council, as required, supplemental budget requests necessary to meet expenditures during the current biennium. Appropriation transfers can be made within a department with the appropriate approvals; therefore, the legal level of budgetary control is generally at the expenditure class level within each accounting unit, within each department.

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

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

A Budget To Actual comparison and additional budgetary information is included as Required Supplementary Information.

F. Use Of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 2 - EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The New Hampshire Retirement System is the administrator of a cost-sharing multiple-employer Public Employee Retirement System (NHRS) established in 1967 by RSA 100-A:2, and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. NHRS is a contributory defined-benefit plan providing service, disability, death, and vested retirement benefits to members and beneficiaries. NHRS covers substantially all full-time employees of the Department. NHRS is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. All

covered Department employees are members of Group I. All assets are in a single trust and are available to pay retirement benefits to its members and beneficiaries.

Group I members at age 60 (age 65 for members beginning service on or after July 1, 2011) qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is $1/60$ (1.667%) of average final compensation, multiplied by years of creditable service ($1/66$ of AFC times creditable service for members beginning service on or after July 1, 2011). AFC is defined as the average of the three highest salary years for members vested as of January 1, 2012 and five years for members not vested as of January 1, 2012. At age 65, the yearly pension amount is recalculated at $1/66$ (1.515%) of AFC multiplied by years of creditable service.

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

Group II members who are age 60, or members who are at least age 45 with at least of 20 years of creditable service (age 50 with a minimum of 25 years of creditable service or age 60 for members beginning service on or after July 1, 2011) can receive a retirement allowance at a rate of 2.5% of AFC for each year of service, not to exceed 40 years (2% of AFC times creditable service up to 42.5 years for members beginning service on or after July 1, 2011). A member who began service on or after July 1, 2011 shall not receive a service retirement allowance until attaining age 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service. However, the allowance will be reduced by $1/4$ of one percent for each month prior to age 52.5 that the member receives the allowance.

Group II members hired prior to July 1, 2011 who have non-vested status as of January 1, 2012 are subject to graduated transition provisions for years of service required for regular service retirement, the minimum age for service retirement, and the multiplier used to calculate the retirement annuity, which shall be applicable on January 1, 2012.

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

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

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

Funding Policy: NHRS is financed by contributions from the members, the State and local employers, and investment earnings. By statute, Group I members contributed 7.0% of gross earnings. Group II firefighter members contributed 11.80% of gross earnings and Group II police

officers contributed 11.55% of gross earnings. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the NHRS actuary using the entry age normal funding method and are expressed as a percentage of gross payroll. The Department contributed 12.5% of gross payroll for the employer cost for all of the Department's employees who are enrolled in the NHRS.

The Department's required and actual contributions for the nine months ended March 31, 2017 were \$159,651, which included an amount for other postemployment benefits of \$20,946.

Other Postemployment Benefits

In addition to providing pension benefits, RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses. These benefits include group hospitalization, hospital medical care, surgical care and other medical care. Substantially all of the State's employees who were hired on or before June 30, 2003 and have 10 years of service, may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires State Group I employees hired on or after July 1, 2003 to have 20 years of State service in order to qualify for health benefits. During fiscal year 2011, legislation was passed that requires Group II employees to have 20 years of State service to qualify for retiree health benefits. Additionally, during fiscal year 2012, legislation was passed requiring Group I employees hired after July 1, 2011 to have 25 years of State service and increased the normal retirement age for Group I and Group II employees hired after July 1, 2011. These and similar benefits for active employees are authorized by RSA 21-I:30 and provided through the Employee and Retiree Benefit Risk Management Fund, a single-employer group health plan (Plan), which is the State's self-insurance internal service fund implemented in October 2003 for active State employees and retirees. The Plan funds the cost of medical and prescription drug claims by charging actuarially developed working rates to State agencies for participating employees, retirees, and eligible spouses. An additional major source of funding for retiree benefits is from the New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees.

During the nine months ended March 31, 2017, the State funded the cost of health care benefits for retired employees and spouses on a pay-as-you-go basis. The cost of the health care benefits for retired State employees, including Department employees and spouses, is a budgeted amount and is paid from an appropriation made to the Department of Administrative Services. The cost of providing postemployment benefits is not budgeted to the Department or reported in the Department's financial statements.

NOTE 3 – SUBSEQUENT EVENT

Chapter Law 27 was passed into law during the 2017 legislative session effective April 25, 2017, making an appropriation to the Department of Agriculture, Markets, and Food in the sum of \$2,000,000 for the fiscal year ending June 30, 2017 to pay milk producers permitted or licensed under RSA 184 for relief from the 2016 drought under RSA 184:112 through RSA 184:114.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF AGRICULTURE MARKETS AND FOOD
BUDGET TO ACTUAL SCHEDULE - GENERAL FUND (BUDGETARY BASIS) (Unaudited)
FOR THE NINE MONTHS ENDED MARCH 31, 2017**

<u>Revenues</u>	<u>Original Budget</u>	<u>Final As Of 3/31/17 Budget</u>	<u>Actual</u>	<u>Favorable/ (Unfavorable) Variance</u>
Unrestricted Revenues				
Economic Poison Fees	\$ 1,255,824	\$ 1,255,824	\$ 1,473,969	\$ 218,145
Agricultural Feeds Fees	558,680	558,680	470,665	(88,015)
Weights & Measures (Licenses, Exams, Labwork, etc.)	629,000	629,000	429,223	(199,777)
Agricultural Fertilizers Fees	238,043	238,043	256,528	18,485
Board of Veterinary Medicine Fees	153,185	153,185	156,040	2,855
Weekly Market Bulletin Subscription Fees	103,000	103,000	43,660	(59,340)
Other Unrestricted Revenue	<u>111,085</u>	<u>111,085</u>	<u>87,482</u>	<u>(23,603)</u>
Total Unrestricted Revenues	<u>3,048,817</u>	<u>3,048,817</u>	<u>2,917,567</u>	<u>(131,250)</u>
Restricted Revenues				
Pesticide Program Fees	1,425,680	1,254,710	531,509	(723,201)
Horticultural Regulation & Agricultural Feed Registration Fees	1,774,548	1,778,570	480,695	(1,297,875)
Federal Pesticide Management and Pest Survey Grants	663,432	669,018	345,251	(323,767)
Conservation Plate Fees	294,170	289,420	309,592	20,172
Federal Specialty Crop Block Grants	255,775	425,724	123,644	(302,080)
Animal Population Control and Dog License Fees	1,061,754	1,047,331	76,829	(970,502)
Big E - Eastern States Exposition Rental Fees	193,412	188,412	30,769	(157,643)
Other Restricted Revenue	<u>3,147,229</u>	<u>428,564</u>	<u>95,829</u>	<u>(332,735)</u>
Total Restricted Revenues	<u>8,816,000</u>	<u>6,081,749</u>	<u>1,994,118</u>	<u>(4,087,631)</u>
Total Revenues	<u>11,864,817</u>	<u>9,130,566</u>	<u>4,911,685</u>	<u>(4,218,881)</u>
Expenditures				
Salaries and Benefits	3,098,617	3,168,345	1,964,481	1,203,864
Grants and Remuneration	1,835,083	1,992,443	692,683	1,299,760
Current Expenses	446,744	468,934	191,197	277,737
Vehicle and Equipment Purchases	338,699	338,699	187,427	151,272
Animal Population Control Provider Payments	285,423	285,423	178,498	106,925
Contracts for Program Services	221,973	259,373	134,110	125,263
Transfers to Other State Agencies	179,894	179,894	89,579	90,315
In-State Travel	106,050	106,100	37,603	68,497
Out of State Travel	46,170	40,455	15,155	25,300
Other	<u>439,865</u>	<u>455,909</u>	<u>20,654</u>	<u>435,255</u>
Total Expenditures	<u>6,998,518</u>	<u>7,295,575</u>	<u>3,511,387</u>	<u>3,784,188</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 4,866,299</u>	<u>\$ 1,834,991</u>	<u>\$ 1,400,298</u>	<u>\$ (434,693)</u>

The accompanying note is an integral part of this schedule.

Note To The Required Supplementary Information – Budgetary Reporting (Unaudited)

The Budget To Actual (Non-GAAP Budgetary Basis) Schedule depicts budgeted to actual expenditures at the Department level, which is the legal level of budgetary control for all governmental funds.

The comparison schedule presents the original and final appropriated budgets for fiscal year 2017, as of March 31, 2017, as well as the actual resource inflows and outflows stated on the budgetary basis.

The “original budget” and related estimated revenues represent the spending authority enacted into law by the appropriation bill as of September 16, 2015 (HB1), with an effective date of July 1, 2015, and include balances and encumbrances carried forward from the prior year.

Generally accepted accounting principles (GAAP) require the final legal budget be reflected in the “final budget” column for those accounts included in the original budget. Therefore, updated revenue estimates available for appropriations as of June 30, 2017 rather than the amounts shown in the original budget are reported. The final appropriations budget represents the original budget (HB1), plus HB2 and supplemental appropriations, carry-forwards, approved transfers, and any executive order reductions for budgeted accounts.

When 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 budget period amount and a partial year’s actual revenue and expenditures. Thus, for the nine-month financial statements dated March 31, 2017, the unfavorable revenue variances are expected to be collected in the twelve-month period. Similarly, favorable expenditure variances are expected as nine months of expenditures are compared to the anticipated expenditures of the twelve-month budget period.

Reconciliation Of Budgetary To GAAP

The State’s biennial budget is prepared on a basis other than GAAP. The “actual” results column of the Budget To Actual (Non-GAAP Budgetary Basis) schedule is presented on a “budgetary basis” under such standardized accounting methods and policies structured to provide a meaningful comparison to budget.

Because the Department of Agriculture’s GAAP basis financial statement approximates the budgetary actual amounts for the nine months ended March 31, 2017, there is no reconciliation of the differences between budgetary accounting methods and the GAAP basis accounting principles necessary.