

**STATE OF NEW HAMPSHIRE
BOARD OF NURSING**

**FINANCIAL AUDIT REPORT
FOR THE SIX MONTHS ENDED
DECEMBER 31, 2008**

**STATE OF NEW HAMPSHIRE
BOARD OF NURSING**

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY SECTION	
Reporting Entity And Scope	1
Organization.....	1
Responsibilities	1
Funding	2
Prior Audit	2
Audit Objectives And Scope.....	2
 CONSTRUCTIVE SERVICE COMMENTS SECTION	
Auditor’s Report On Internal Control Over Financial Reporting And On Compliance And Other Matters	3
 <i>Internal Control Comments</i>	
<i>Significant Deficiencies</i>	
1. Accounting Structure Should Be Aligned With Board Operations	5
2. Expenditures Should Be Accurately Allocated To Accounts	6
3. Controls Over Licensing System Should Be Improved	8
4. Recognized Risk In Credit Card Revenue Process Should Be Addressed	10
5. Allowable Costs For Nurse Aide Registry Should Be Clarified.....	10
6. Fees Amounts Should Be Enumerated In Administrative Rules	12
7. Policies And Procedures For Administering Fines Should Be Improved.....	12
8. Policies And Procedures Should Be Established For The Periodic Review Of Fees And The Methodology For Setting Fees	13
9. Controls Over Receipt Of Revenues Should Be Improved	15
10. Program Review Fees Should Be Consistently Applied.....	16
11. Expenditures Should Not Exceed Budgeted Appropriations.....	17
12. Compliance With Budgetary And Other Expenditure Controls Should Be Improved	19
13. Significant Contracts Should Be Submitted For Required Approvals	20
14. Board Review Of Payroll Should Be More Effective.....	21
15. Formal Risk Assessment Process Should Be Implemented.....	22
16. Formal Fraud Prevention And Detection Program Should Be Established	23
17. Monitoring Of Financial Activity Should Be Improved.....	23
18. Agreement For Inspectional Services Should Be Completed.....	24
19. Agreement For Services Provided By DHHS Should Be Comprehensive.....	26
20. State Equipment Policies And Procedures Should Be Implemented.....	26
 <i>Compliance Comments</i>	
21. Required Administrative Rules Should Be Adopted	28
22. Assistance Should Be Provided To Promote Accurate Filings Of Statements Of Financial Interests.....	28
23. Required Reports Should Be Filed	29

FINANCIAL SECTION

Independent Auditor’s Report.....31

Financial Statement

Governmental Fund Financial Statement

 Statement Of Revenues And Expenditures - General Fund.....33

 Notes To The Financial Statement.....34

Supplementary Information

 Budget To Actual Schedule - General Fund.....39

 Notes To The Budget To Actual Schedule - General Fund.....40

This report can be accessed in its entirety on-line at www.gencourt.state.nh.us/lba/audit.html

**STATE OF NEW HAMPSHIRE
BOARD OF NURSING**

Reporting Entity And Scope

The reporting entity of this audit and audit report is the New Hampshire Board of Nursing. The scope of this audit and audit report includes the financial activity of the Board of Nursing for the six months ended December 31, 2008. Unless otherwise indicated, reference to the Board or auditee refers to the Board of Nursing.

Organization

The Board of Nursing, established by RSA 326-B:3 of the Nurse Practice Act, consists of eleven members appointed by the Governor, with the consent of the Executive Council, to three-year terms. Each member may serve a total of 3 consecutive 3-year terms, or a total of 9 consecutive years. The Board, pursuant to RSA 326-B:4, XII, has the authority to prescribe the duties of a qualified registered nurse to serve as Executive Director and to request such additional staff positions as may be necessary to administer and enforce the provisions of RSA 326-B. The Board is also authorized to obtain legal counsel, hearing officers, accountants, and such other employees, assistants, and agents as may be necessary, in the opinion of the Board to administer and enforce the provisions of RSA 326-B. At December 31, 2008, the Board had ten full-time and four part-time employees.

The Board of Nursing is administratively attached, under RSA 21-G:10, to the Department of Health and Human Services by RSA 326-B:3, XII.

The Board of Nursing Office is located at 21 South Fruit Street in Concord, New Hampshire.

Responsibilities

RSA 326-B:1 describes the purpose of the Board to be a regulatory authority to “safeguard the life, health, and public welfare of the people of New Hampshire and in order to protect the people of the state from the unauthorized, unqualified, and improper application of services by individuals in the practice of nursing.”

RSA 326-B:4 describes the powers of the Board to include:

- I. Establish reasonable and uniform standards for nursing practice;
- II. Provide consultation regarding nursing practice;
- III. Examine, license, and renew licenses;
- IV. Gather and report information;
- V. Conduct investigations, hearings, and proceedings;
- VI. Subpoena witnesses, records, and documents, as needed, and administer oaths;
- VII. Determine and enforce disciplinary actions;
- VIII. Deny or withdraw approval of nursing education programs;

- IX. Maintain records of proceedings;
- X. Conduct conferences, forums, studies, and research on nursing practice and education;
- XI. Obtain legal counsel and other assistants as may be necessary;
- XII. Prescribe the duties of an Executive Director;
- XIII. Establish and collect fees; and
- XIV. Limit the multistate licensure privilege of any registered nurse or licensed practical nurse as necessary to protect the health and safety of New Hampshire citizens.

To fulfill its regulatory responsibilities, the Board licenses nurses and nursing assistants, defines the scope of nursing and nursing assistant practice, establishes rules that govern practice and education, reviews and approves all schools of nursing, and sanctions licensees who violate the law.

Funding

The financial activity of the New Hampshire Board of Nursing is accounted for in the General Fund of the State of New Hampshire. A summary of the Board’s revenues and expenditures for the six months ended December 31, 2008 is shown in the following schedule.

**Summary Of Revenues And Expenditures - General Fund
For The Six Months Ended December 31, 2008**

Total Revenues	\$ 847,557
Total Expenditures	<u>496,582</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>\$ 350,975</u>

Prior Audit

There have been no recent financial audits of the Board of Nursing.

Audit Objectives And Scope

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

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

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

To The Fiscal Committee Of The General Court:

We have audited the Statement of Revenues and Expenditures, General Fund, of the New Hampshire Board of Nursing (Board) for the six months ended December 31, 2008 and have issued our report thereon dated May 8, 2009, which was qualified as the financial statement does not constitute a complete financial presentation of the Board. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the

entity's internal control. We consider the deficiencies described in Observations No. 1 through No. 20 to be significant deficiencies in internal control over financial reporting.

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

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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statement is free of material misstatement, we performed tests of the Board's compliance with certain provisions of laws, rules, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted immaterial instances of noncompliance which are described in Observations No. 21 through No. 23.

The Board's response is included with each observation in this report. We did not audit the Board's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management of the New Hampshire Board of Nursing, others within the Board, and the Fiscal Committee of the General Court and is not intended to be used by anyone other than these specified parties.

Office Of Legislative Budget Assistant

May 8, 2009

Internal Control Comments
Significant Deficiencies

Observation No. 1: Accounting Structure Should Be Aligned With Board Operations

Observation:

The Board's account structure in the State's accounting system (NHIFS) does not efficiently reflect and support the Board's financial operations.

The Board's financial activity is accounted for and reported in three NHIFS accounting units: account 7430, Nurses Registration; account 7431, Assistant to Nurses; and account 7432, Nursing Assistant Fund. The Nursing Assistant Fund is established by RSA 326-B:7 as a continually appropriated fund to be used only for administration of the Nursing Assistant component and expenses related to that component and all fees, charges, and fines are to be credited to the Fund. The following examples illustrate where the Board's NHIFS accounts were not structured to match the financial activity of the Board.

- License and fine revenue collected by the Board related to the Nurse program is recorded as unrestricted revenue in the Board of Medicine's account structure.
- Revenue and expenditures related to maintenance of the Nursing Assistants Registry are accounted for in separate accounting units. Revenues related to the Registry, which are transferred from the Department of Health and Human Services, are reported as restricted revenue in account 7431, Assistant to Nurses, while related expenditures are recorded in account 7432, Nursing Assistant Fund.
- Revenue and expenditures related to the licensing of Nursing Assistants are accounted for in separate accounting units. Revenue related to Nursing Assistants licensing is reported as restricted revenue in account 7432, Nursing Assistant Fund, while related expenditures are recorded in account 7431, Assistants to Nurses.
- The Board's Nurse and Nursing Assistant programs operate similarly, however licensing and fine revenues in the Nurse program is recorded as unrestricted revenue, while licensing and fine revenues in the Nursing Assistant program is recorded as restricted revenues in the Nursing Assistant Fund. The Nursing Assistant Fund is a non-lapsing account, while the Nurses Registration account lapses to the State's General Fund.

By not matching revenues and expenditures of Board activities in its NHIFS accounts, the Board has caused unnecessary confusion in its financial accounting and reporting that makes it difficult to determine and evaluate the financial results of its operations.

The Board could not explain why the NHIFS accounts had been established and used in this manner.

Recommendation:

The Board should work with the Departments of Health and Human Services and Administrative Services to clarify the Board's account structure to comply with statute, federal requirements related to the Board's Nursing Assistant Registry, and to improve access to meaningful and useful information about the Board's financial operations. As part of that process, the Board should consider renaming the Assistant to Nurses account and other Board accounts to clarify and distinguish the activity recorded in the accounts.

Auditee Response:

The Board concurs with this observation and welcomes the opportunity to work with the Departments of Health and Human Services and Administrative Services to improve and clarify the Board's accounting structure. The Board accounting structure developed in 1994 can be improved to assure meaningful information.

Observation No. 2: Expenditures Should Be Accurately Allocated To Accounts

Observation:

The Board's current accounting structure hampers the understanding of the costs incurred in the Board's varied activities. As noted in Observation No. 1, the Board is accounted for and budgeted in three accounting units: Nurses Registration, Assistant to Nurses, and Nursing Assistant Fund. The Board's methods to determine and allocate costs charged to the accounting units do not result in reported amounts that accurately reflect true costs of operations of its three units.

1. The Board reports that it generally allocates most non-payroll expenditures evenly between the Board's three accounting units, even though the Board has not demonstrated that its three program areas reported in these accounts benefit equally from these expenditures. For example:
 - The Board has a contract with a lawyer for investigative and prosecutorial services. The Board allocates the cost for the contracted lawyer's activities among its three units by charging the weekly contractor bills sequentially among the Board's three accounts, without regard for the areas of the Board's organizations that received the contractor's services. As of December 31, 2008, 42% of the costs for the contractor were charged to Nurses Registration and a total of 58% was charged to the Assistant to Nurses and Nursing Assistant Fund accounts. According to the auditor's discussions with the contractor, approximately 57% of the contractor's time during the six months ended December 31, 2008 related to cases involving nurses and 43% of the contractor's time was spent on cases related to assistants to nurses.
 - Department of Information Technology (DoIT) costs are allocated to the Board's accounts according to DoIT invoice allocations even though the invoices allocate the charges on statistics that do not accurately reflect the Board's use of DoIT services. DoIT

charges for services during the six months ended December 31, 2008 were \$8,248, \$26,207, and \$956, charged to the Nurses Registration, Assistant to Nurses, and Nursing Assistant Fund accounting units, respectively.

2. The Board's allocation of salary and benefits costs to its accounting units also does not reflect true payroll costs for operations reported in the three accounts. While efficient allocation of payroll costs is hampered by limitations in the State's current payroll system (GHRIS), the Board did not demonstrate that its allocation of staff positions to accounts in the budget process provides a reasonable allocation of these costs. For example:
 - The salary and benefits costs for the Executive Secretary and one Licensure Clerk are charged to the Assistant to Nurses accounting unit even though only 75% of the Executive Secretary's time and 25% of the Licensure Clerk's time is reportedly spent on Assistant to Nurses activity.
 - The salary and benefits costs for the Board's Accounting Technician are charged to the Assistant to Nurses payroll account even though this employee provides accounting services to the entire Board.

Because the Board does not appropriately allocate expenditures in its three accounting units, the Board cannot demonstrate the relative financial effectiveness and results of operations of its activities reported in those organizations.

Recommendation:

In conjunction with the recommendation in Observation No. 1, the Board should review its expenditure allocation methodologies with the Departments of Health and Human Services and Administrative Services with intent to align the accounting structure with current Board operations. The allocations should closely match program activity and provide usable information on the results of operation, including accurate information on revenues and expenditures by accounting unit that promote timely and fact-based review of operations and decision making.

Auditee Response:

We concur. We agree that activities occurring in the audit period did not fully reflect an appropriate distribution of costs between the three organizations of the budget. Board disciplinary activities and focus created a deviation from the budgeted allocations and original plan. Issues related to nursing educational programming created the need to place some items on a different schedule in order to assure the nursing educational program issues were handled appropriately and in a timely manner. Further, DoIT expenditures were increased in Assistant to Nurses with emphasis placed on disciplinary reporting and data entry as well as staffing scheduled to improve data integrity in this budgeted organization. The Board agrees that the activities in the organizational units did not result in an appropriate distribution between the three organizations. The Board will align the accounting structure with analysis and planning for future budget development.

We concur that allocations of salary and benefits costs do not always reflect operational activities. The Board staff cross-train and cover each other's job responsibilities during annual and other leave time. The Board is a small agency that is self-supporting and does not rely on other departments for assistance. The needs of the operation are assessed on a daily basis and staff are assigned to tasks needed to complete operational activities. Staff are allocated to specific organizations as their primary responsibility and assigned to other areas when staffing vacancies require shared work. The Accounting Technician provides accounting services to the entire Board and this allocation will be corrected in future budgetary planning. The Board currently employs three full time equivalents in the Nursing Assistant Department (organizations 7431 and 7432). Each is able to provide services in other roles on an as-needed basis. The Program Specialist IV position that provides supervision of this department is currently vacant and the Executive Director covers the workload until successful recruitment is accomplished.

The Registered Nurse/Licensed Practical Nurse Department employs the Assistant Director of Education as well as three full time equivalents support staff. The Executive Director, Administrative Supervisor, Investigator/Prosecutor, Receptionist, and Criminal Background clerk serve multiple activities and are cross-trained to cover organizational needs.

Future allocations will reflect revenues and expenditures for designated accounts. Performance measurement of the operations has been performed annually and strategic planning is based on the measured outcomes from the previous year as noted in the Board minutes and existing strategic planning documents.

Observation No. 3: Controls Over Licensing System Should Be Improved

Observation:

Weaknesses in the Board's operation of its L2000 computer-based licensing system exposes the Board to increased risk of licensing errors or frauds that may go undetected.

1. The Board does not routinely reconcile total licensing activity, as recorded in its license database, to licensing revenue recorded in the State's accounting system (NHIFS). The Board's reconciliation procedures do not ensure that revenue from all licensing activity recorded in the Board's licensing system results in revenue recorded in NHIFS.

The Board records license transactions in the computerized L2000 license system. The L2000 generates a *Report of Collections*, which lists licensees and fees collected since the issuance of the prior report. The operator of the L2000 uses the *Report* to reconcile cash and checks collected to license activity recorded in L2000, prepares a deposit, and prepares the State revenue documents to record the revenue in NHIFS.

Because no one at the Board who is independent of the revenue collection process reviews the deposit, including the L2000 *Report of Collections*, or reviews the L2000 system to ensure that all *Reports of Collections* run by the system are accounted for, there is no

assurance that all licensing transactions processed by the Board have resulted in deposited revenues.

2. The record of payment for an issued license can be removed from the L2000 licensing system without any change to the status of the respective license. The L2000 licensing system used by the Board requires a payment to be entered before a license can be issued, renewed, or reinstated. However, reversing the payment from the system subsequent to the license issuance, renewal or reinstatement does not automatically inactivate the license. Although the transaction to remove the payment is recorded in the L2000 and reported on the *Report of Collections* as an adjustment and identifies the user who conducted the transaction, because the Board does not require a review of all adjustment transactions for appropriateness, an opportunity exists for the misappropriation of assets to occur and not be detected.
 - The Board has compounded this weakness by granting a License Clerk access to both the licensing and financial sides of the L2000 system in order to assist in entering licensure receipts. Having access authority to both the licensing and financial sides of the L2000 creates a segregation of duties concern as this employee is able to enter a license payment, issue a license to the individual, and then remove the payment amount from the total reported on the *Report of Collections*.

Recommendation:

The Board should improve its revenue controls in its operation of the L2000 licensing system.

1. A Board employee otherwise independent of the revenue collection process should review and approve the L2000 deposits. The L2000 *Reports of Collections* should be reviewed for unusual items such as reversed transactions and the L2000 system should be reviewed to ensure all *Reports of Collections* are included in deposits and accounted for.
2. All adjustment transactions recorded in the *Report of Collections* should be reviewed for appropriateness by management.

Auditee Response:

The Board concurs and has changed procedures that conform with the audit recommendations. The newly hired accounting clerk is now fully responsible for her position and no longer requires assistance from other staff performing parts of the operation. The Board has implemented a procedure that assures conformance with risk management principles.

Observation No. 4: Recognized Risk In Credit Card Revenue Process Should Be Addressed

Observation:

The Board's current credit card procedures expose the Board's operations to a significant risk of loss.

The Board uses the State's credit card vendor for processing credit card revenue transactions. Only one Board employee has access to the vendor's "virtual terminal" to process normal business office operations including credit card revenue transactions occurring through the business office and all credit card refund transactions, whether the original transaction occurred through the business office or on-line. Refunds are regularly processed to reverse transactions caused by applicants unintentionally "double clicking" on-line applications and to reverse transactions for applicants who do not meet licensing criteria.

Weaknesses in the credit card refund process combined with the Board not accounting for all *Reports of Collections* as noted in Observation No. 3, presents a significant risk that errors or frauds affecting credit card revenues could occur and not be detected in a timely manner.

Recommendation:

The Board should work with the State Treasury, the Department of Administrative Services, and the State's credit card vendor to provide controls over the credit card refund process, to lessen the risk that credit card refunds could be used to perpetrate employee fraud.

The Board should establish policies and procedures to require management review and approval of credit card refund transactions.

Auditee Response:

The Board concurs with this observation and has incorporated a risk assessment process in the existing credit card procedure that appropriately considers risk from fraud as discussed during the financial audit.

Observation No. 5: Allowable Costs For Nurse Aide Registry Should Be Clarified

Observation:

As of December 31, 2008, the Board had not established a memorandum of understanding with the Department of Health and Human Services (DHHS) for the Board's operation and maintenance of the Nurse Aide Registry (Registry). A memorandum of understanding dated April 2009 provides DHHS will pay the Board fifty-percent of actual incurred expenditures for operating and maintaining the Registry. Neither the memorandum of understanding nor other documentation available at the Board described what Board costs are allowable costs according to the State's Medicaid program for the maintenance and operation of the Registry.

The DHHS Office of Medicaid Business and Policy supports the maintenance and operation of the Registry by budgeting and paying Medicaid funds to the Board. During the six months ended December 31, 2008, the DHHS paid the Board \$19,112 for the maintenance of the Registry.

The Board reports that, since at least fiscal year 2005 and through December 31, 2008, the Board's invoicing of Registry costs had not been based upon actual expenditures but had been simply one half of the budgeted amount. Pursuant to the April 2009 memorandum of understanding, the Board invoices DHHS 50% of the actual expenditures recorded in the NHIFS Assistant to Nurses accounting unit. As discussed in Observations No. 1 and No. 2, the Board's NHIFS accounts do not efficiently and accurately accumulate and report Board financial activity, including costs associated with operating the Registry. As a result, invoicing the Medicaid program based on expenditures recorded in the NHIFS Assistant to Nurses accounting unit will not accurately report the actual cost of operating the Nurse Aide Registry, as it will include expenditures not directly related to the Registry.

The effect of not determining and reporting what costs are actually incurred in, and accurately allocated to, the operation of the Registry is to increase the risk that the amounts charged to the State's Medicaid program are not accurate and become disallowed.

Recommendation:

The Board should supplement its memorandum of understanding with DHHS for the Board's maintenance and operation of the Nurse Aide Registry to include sufficient explicit criteria for determining and reporting allowable costs for the operation and maintenance of the Registry.

In order for the charges to be an allowed cost to the Medicaid program, the Board must bill DHHS based on actual expenditures incurred in the operation and maintenance of the Registry. Once the Board, in conjunction with the DHHS, determines what costs are allowable costs under the Medicaid program for the Board's operation of the Nurse Aide Registry, the Board must then ensure its processes for accounting and reporting allowable Registry costs are adequate to support the amounts requested from DHHS and ultimately charged to the Medicaid program.

Auditee Response:

The Board concurs with this observation. The Board has recently negotiated a new contract related to the Nursing Assistant Registry in an effort to improve financial operational allocations. Further clarification will occur to assure that actual expenses incurred in the operation and maintenance of the Registry are billed to DHHS. Board accounting processes are under review to assure the Registry accounting supports the charges to the Medicaid program.

Department of Health and Human Services Response:

Concur. The State of New Hampshire, Department of Health and Human Services (DHHS), is the cognizant agency for the Centers for Medicare and Medicaid Services Title XVIII, Medicare, and Title XIX, Medicaid Programs. As the cognizant agency, DHHS will develop cost methodologies, in conjunction with the Board of Nursing, that meet the Office of Management

and Budget (OMB), Circular A-87 Cost Principles. The DHHS will also develop effective accounting procedures, in conjunction with the Board of Nursing, that charge federal programs for actual costs incurred and comply with OMB Circular A-133 Audit Requirements.

The cost methodology and accounting procedures will be implemented as of the start of State Fiscal Year 2010.

Observation No. 6: Fee Amounts Should Be Enumerated In Administrative Rules

Observation:

Certain of the Board's fee amounts are not enumerated in either statute or administrative rule.

While RSA 326-B, Nurse Practice Act, provides the Board authority to establish fees, the actual fee amounts for many of the fees for, and related to, certain licenses and fines and sales of publications have not been specifically identified in the Board's administrative rules.

Recommendation:

The Board should include specific fee amounts in its administrative rules. The Board should request its administrative rules be revised to include specific fee amounts.

Auditee Response:

The Board concurs with this observation. Administrative Rules currently posted on our website include the appropriate licensing fees. However, new rules approved by the Joint Legislative Committee on Administrative Rules (February 2009) in error omitted the licensing fee amounts. These revised rules have yet to be posted on nh.gov or the Board website. Steps have been taken with the consultant used during this process to correct this error and rule writing is in process.

Observation No. 7: Policies And Procedures For Administering Fines Should Be Improved

Observation:

The Board's lack of clear and complete policies and procedures for documenting the imposition, tracking, and timely collection of administrative fines increases the risk that Board fines may not be fully imposed, collected, and deposited.

RSA 326-B:37, III, (f) provides the Board may impose fines not to exceed \$1,000 for each violation or, in the case of a continuing violation, \$100 for each day the violation continues.

The Board assesses administrative fines to licensees who are late in renewing their licenses. The fine imposed is \$50 for each full or partial month worked as a licensed nurse with an expired license and \$50 for the first full or partial month and \$25 for each additional full or partial month

worked as a licensed nursing assistant. The Board relies on a signed statement by the licensee on the reinstatement application to determine if the individual worked without a license. The dates reported as worked are not recorded on the application or within the L2000 licensing software. The Board reports that it informs licensees that work records may be checked with employers to verify reported time worked.

- A test of administrative fines imposed during the six months ended December 31, 2008 identified three out of 33 (9%) administrative fines imposed for working without a current license appeared to be undercharged a total of \$450, according to the Board employees' description as to how fines are calculated.

Recommendation:

The Board should develop policies and procedures for the assessment of administrative fines. Policies and procedures should address the required documentation, calculation, and process for timely collection of administrative fines. These policies and procedures should be communicated to all employees who are involved in the assessment or collection of administrative fines.

Auditee Response:

The Board concurs with this observation. N.H. Admin. Rule, Nur 401.01 states the monetary fine for working without a license is \$50.00 per month. The clerk is now aware of this recent rule change. In addition, the current language on licensing applications has been revised to ask license applicants to indicate dates they have worked without a license and all staff have reviewed the new rule language to assure future accuracy.

Observation No. 8: Policies And Procedures Should Be Established For The Periodic Review Of Fees And The Methodology For Setting Fees

Observation:

The fees established by the Board in recent years do not comply with the State statute and Operating Budget, which direct that fees should recover at least 125% of direct expenses of the Board.

RSA 326-B:8 Fees; Charges, provides "I. The board shall charge fees for the issuance, renewal, and reinstatement of all licenses, specialty licenses, and certificates authorized by this chapter. The board shall recover at least 125 percent of its direct expenses through licensee fees, fines, and administrative charges."

The State's 2008/2009 Operating Budget contains a footnote applicable to the Board of Nursing:

"...[Board of Nursing Fees] Such fees shall recover, on an annual or biennial basis the full cost of the program including the cost of support and administrative services provided by other

agencies, or 125% of the direct cost of the board or commission relating to the program, whichever is greater.”

In fiscal years 2007 and 2008, and the first six months of fiscal year 2009, the Board’s fees and other revenues as recorded in the State’s accounting system (NHIFS) recovered 164%, 183%, and 182% of Board expenditures, respectively. According to the Board Chair and the Executive Director, the Board does not have policies and procedures or other formal methodology for reviewing and setting Board fees. The Board has in the past addressed fee changes when the Executive Director raised concern that the current fees will not meet the 125% statutory requirement. However, there generally is no formal review and analysis performed of anticipated revenues and expenditures to arrive at a revised fee.

For fiscal year 2009, revenues for the Board were budgeted to recover 109% of direct Board expenditures.

Recommendation:

The Board should establish policies and procedures for the regular review of its fees and a methodology for revising fees when appropriate. The Board should request the assistance of the Department of Administrative Services as the State may gain efficiency in establishing a common set of fee-setting policies and procedures for all State agencies subject to similar statutory and Operating Budget guidelines. The policies and procedures should encompass how often and when the fees should be reviewed; the documentation, including calculations, to be maintained of the fee review process; what information should be evaluated to determine if the fees need to be changed; the people responsible for performing the calculations and evaluations, and the review and approval process for any recommended revisions to the fees.

Auditee Response:

The Board concurs that it has exceeded 125% direct expenses to the Board. Fees charged by the Board were decreased in 1994 as the Board exceeded 125% at that time. With the passage of the Nurse Licensure Compact legislation in 2005, the Board fell below the 125% and requested a fee increase to assure compliance with the 125% for 2006. The Board is aware of the higher contributions in recent years and has discussed the need to decrease fees on numerous occasions at its public Board meetings.

The Board has made changes in operational processes such as online licensing and paperless licenses with reliance on the Board website for licensure verification. These economies have assisted the Board in lessening expenditures and thus contributed to the overall increase in General Fund contributions. The Board will establish a policy of reviewing the fee structure to comply with this observation.

It is difficult to assess the number of expected licensees each year and the Board is currently working with the National Council of State Boards of Nursing to collect additional demographic data of current licensees for planning purposes. Several variables increase the Board’s inability to project the number of licensees. Currently, the average age of a licensed nurse is 47 years.

Many nurses are working well into their 70s and thus, the Board has difficulty anticipating the number of nurses needed and who will be leaving the workforce. Also, the current economic crisis has created a period of layoffs and staff working under difficult conditions. Nurses generally renew their license but may or may not have continued employment. Therefore, having an established number of nurses to support the State needs changes frequently.

It is also difficult for the Board to budget its projected needs and remain within the 125% parameters during budget cuts and prohibition of spending. An example is the out-of-State travel budget item that we are not allowed to use and not allowed to cut from the budget. All unused line items revert back and add to the 125% contribution. Finally, the Board will continue to strive to meet the 125% direct expense requirement.

Observation No. 9: Controls Over Receipt Of Revenues Should Be Improved

Observation:

Weaknesses in the Board's initial revenue receipt process expose the Board to an increased risk of lost or misdirected cash and checks.

The Board receives cash and checks for licenses, fees, and fines, as well as checks made payable to the Department of Safety, Division of State Police (DOS), for criminal background checks required as a condition of some license applications.

1. The Board does not periodically account for pre-numbered receipts used for cash collections at the Board Office. The Board does not ensure that all cash receipts were ultimately recorded in the licensing L2000 system.
2. Checks received for the purchase of mailing lists are not recorded or deposited upon receipt but are withheld from the deposit until after the mailing list has been sent to the requester. These checks may remain undeposited for up to three weeks after receipt by the Board.
3. Checks received by the Board related to Board revenue accounts may be handled by more than one employee prior to being restrictively endorsed.
4. Cash and checks received by the Board for criminal background checks are forwarded to the DOS by interagency messenger mail. Checks are not restrictively endorsed prior to mailing to the DOS.

Each of the above noted conditions increases the Board's risk that cash and checks initially collected by the Board may be lost or misdirected by error or fraud.

Recommendation:

The Board should strengthen its controls over the receipt of revenue.

1. All cash receipt documents should be regularly accounted for and agreed to deposits and recording in accounting systems, including the State's accounting system (NHIFS) and the L2000 licensing system.
2. All cash and checks should be processed and deposited daily. Checks should not be withheld from deposit pending preparation of mailing lists or other Board activity.
3. All checks should be restrictively endorsed upon receipt.
4. Currency should never be placed in interagency messenger mail. The Board should work with the Departments of Safety and Administrative Services to establish a controlled method to accept and record criminal background check revenue on behalf of the Department of Safety in a controlled manner.

Auditee Response:

The Board concurs with this observation and has incorporated a risk assessment process in the existing procedures that assures consideration of risk from fraud, as discussed during the financial audit. The procedure has been modified to address items #1, 2, and 3. Implementation: 5/20/09

Item #4: We concur with this observation. Legislative language requires the Board to accept all payments for criminal background checks. A Board clerical staff person reviews all applications and returns any applications that are not complete/accurate. Upon receipt of a complete and accurate criminal background application, the Board sends the application with fees to the Department of Safety (DOS). We will work with the DOS to arrive at a more controlled method to accept and record criminal background check revenue.

Observation No. 10: Program Review Fees Should Be Consistently Applied

Observation:

The Board is not consistent in charging fees for its review and approval of nursing education programs.

The Board charges a fee for its review and approval of a new nursing program. The Board does not charge a fee for its review, including on-site visits, performed in any subsequent review and approval of ongoing nursing programs. The Board also does not charge a fee for any Board review and approval activity related to new or existing nursing assistant programs. The costs associated with the ongoing review of nursing programs and all reviews of nursing assistant education programs is primarily supported by the nurse and nursing assistant license fees paid to the Board and not by the operators of the education programs.

According to the Board's interpretation of the statutes, particularly RSA 326-B:32 and RSA 326-B:4, XIII, current statutes do not support the Board's charging of fees to other than new nursing programs.

Recommendation:

The Board should be consistent in charging of fees for its review and approval of nursing education programs.

The Board should request a Department of Justice interpretation of current statute to determine whether current law prevents its consistent application of program review fees. If it is determined that current statute does not provide the Board the authority to apply the fees consistently, the Board should request a revision to the statute to allow for a consistent application of the fees. If ongoing review and nursing assistant program review fees are to be charged, the Board should request additional revenue accounts in the State's accounting system (NHIFS) to record the fees.

Auditee Response:

The Board concurs, in part, with this observation. A proposal was submitted in 2008 legislation for fees to be applied to all nursing and nursing assistant programs for initial and ongoing reviews. This legislation was submitted after the 2007-2008 legislative study committee recommendations. It was determined by the legislature that fees would be applied for initial nursing programs only. Comments during the legislative process included a concern that nursing assistant programming should not be charged. Ongoing reviews occur every 5 years and there was an expressed concern that the majority of nursing programs are State operated (University of New Hampshire and New Hampshire Community Colleges) during legislator's review.

Observation No. 11: Expenditures Should Not Exceed Budgeted Appropriations

Observation:

The Board has regularly charged overtime pay for full-time employees to expenditure class 050 – Personal Services – Temp/Appointed when it appeared the Board would not have sufficient appropriations in the overtime pay expenditure class 018 to fund the payments. During the six months ended December 31, 2008, the Board charged \$812 in full-time employee overtime to class 050 and during fiscal year 2008, the Board charged \$13,737 of overtime to class 050. The effect of charging overtime to the incorrect payroll expenditure class is to allow the Board to expend more on overtime than was appropriated to the Board.

Neither the Department of Health and Human Services, which assists the Board in its accounting and financial reporting activities, nor the Department of Administrative Services, which operates the State's payroll system, recognized the Board was paying overtime for full-time employees out of the incorrect payroll expenditure class.

Recommendation:

The Board should record all expenditures in the appropriate class. The Board should not misrecord expenditures in order to avoid budgetary limitations.

The Board should record all overtime in class 018. If the Board determines that overtime needs will exceed budgeted appropriations for overtime, the Board should request a transfer of appropriations to fund the additional full-time employee overtime.

Auditee Response:

The Board concurs that Class 050 was used for the payment of overtime during this critical staffing shortage. Upon advice from our financial supervisory staff, the Board paid overtime as described. Overtime was necessary to cover critical staffing positions that were vacant. Budgeted salary for vacant positions was not used for the purposes of paying for the work done. On May 23, 2008 a waiver was approved for the accounting position and this position was filled July 25, 2008. In November 2008 part of the Assistant Director position was filled and in December 2008, a waiver was approved to hire a Program Specialist IV in order to minimize the need for further overtime usage. Currently the Board is recruiting to fill the Program Specialist IV position. The Board has found recruitment challenging as the salary offered is less than the market rate of pay in other organizations.

Department of Administrative Services Response:

We concur with the auditor's findings. The State's payroll system (GHRS) has straight time and overtime pay events, that when used appropriately, default to the correct object class, 018 or 050. We will instruct the payroll officers to use the proper pay events as outlined in the GHRS Technical Manual. We will also advise them not to override any of the intended account distributions.

Department of Health and Human Services Response:

Do Not Concur. The State of New Hampshire's Government Human Resource System (GHRS) rejects overtime costs keyed through any class other than the correct codes. The GHRS Overtime codes are as follow: Class Code 018, Sub Organization 0106.

Questioned overtime costs identified by the Legislative Budget Assistant in the Board of Nursing Audit for the audit period of six months ended December 31, 2008 will be reviewed by the Department of Health and Human Services by August 2009.

Observation No. 12: Compliance With Budgetary And Other Expenditure Controls Should Be Improved

Observation:

Monitoring efforts of the Departments of Health and Human Services and Administrative Services did not detect the Board charging overtime to inappropriate payroll accounts, carrying forward unnecessary budgeted expenditure authority, and making payments without necessary approvals.

1. In April of 2008, the Board submitted a request to transfer \$10,000 of appropriations to fund overtime expenditures in excess of the original budget amount. The Board's justification for the higher overtime expenditures was the extended illnesses of a License Clerk and a Bookkeeper. A review of the State's Operating Budget for fiscal year 2008 and payroll system (GHRIS) indicates that during fiscal year 2008, \$2,000 was originally budgeted and a total of \$24,757 was expended for overtime. The amount in excess of the budget was funded by a \$10,000 transfer from class 020 current expense and \$13,737 of expenditures inappropriately charged to payroll class 050, as discussed in Observation No. 11. Approximately 85% of the overtime, or \$21,086, was paid to the Board's Executive Director.
2. As noted in Observation No. 11, the Board circumvented budgetary controls by charging overtime to class 050 after exhausting the existing appropriations in class 018. Although the Board requested a transfer of appropriations for \$10,000 as described above, the overtime charged to class 050 was never transferred to class 018 resulting in an understatement of overtime expenditures in class 018 of \$13,737 in fiscal year 2008, and \$812 through December 31 of fiscal year 2009.
3. The Board's operating budgets for fiscal years 2008 and 2009 included \$31,240 in class 024 Maintenance other than Building and Grounds even though the Board had no expressed plan for expenditures from the account. The Board has not made expenditures from class 024 since fiscal year 2007, when the account was used for computer maintenance. Since 2007, computer maintenance is performed by the Department of Information Technology and paid from class 027. In preparing the Board's budget requests for fiscal years 2010 and 2011, the Board again budgeted class 024 at \$31,240 for each fiscal year. When the auditors questioned the purpose of the account, the Department of Health and Human Services Financial Manager responsible for administratively attached boards responded the account was unnecessary and an errata sheet would be prepared to remove class 024 amounts from the Board's budget submission. No errata sheet had been submitted as of May 11, 2009.

Recommendation:

The Board of Nursing should comply with all Statewide policies and procedures and should not circumvent these controls. The Board should review Statewide policies and procedures with the Department of Administrative Services to ensure that the Board is aware of current policies and procedures affecting the Board's operations.

The Board should ensure that information used to support requests for authorization of transactions is complete and sufficient to provide for a full understanding of the request.

Auditee Response:

The Board concurs with items #1 and 2. The Board has had vacancies in critical positions that have required other full-time employees to work overtime. The Assistant Director, Program Specialist IV, Licensure Clerk, and Accounting positions have had vacancies and required the Executive Director, Supervisory Administrator and other staff to fill in and provide continued work flow. Assistance was requested from the Department of Health and Human Service (DHHS) Financial Manager and Budget Office Administrator on how the Board could accommodate overtime payments during these severe staffing shortages. The Board charged payroll class 050 in order to provide continuous work product. In December 2008, a waiver was granted to recruit the Program Specialist IV. The Assistant Director position is now fully staffed and the new employee continues to learn the role. The Accountant position received a waiver to hire May 23, 2008 and is now fully staffed since July 25, 2008 after the unexpected death of our former Accountant. The Licensure Clerk has recovered from a very serious illness and has returned to her position.

The Board concurs with item #3. The Board requested clarification of class 024 during the budget planning phase and believed there was a need to retain this line item for additional IT services not covered by the Department of Information Technology (DoIT). Current experience with DoIT indicates this is not necessary and needs to be corrected. The Board will request the DHHS Financial Manager file the errata sheet noted in #3 above.

Observation No. 13: Significant Contracts Should Be Submitted For Required Approvals

Observation:

The Board had not submitted for Governor and Council approval or Department of Justice review agreements with a vendor valued at over \$24,000 for calendar year 2008.

The Board publishes and mails biannual newsletters to licensees. The Board has contracted with a vendor since fiscal year 2002 to publish the Board's biannual newsletter at no direct cost, in exchange for allowing the vendor to sell and retain the proceeds from the sale of advertisements in the newsletters. According to the vendor, the cost of providing publishing services without the advertisement sales provision would have been \$12,000 to \$14,000 per newsletter in calendar year 2008. During calendar year 2008, the Board was also responsible for the cost of mailing.

Reportedly because there was no net cost to the Board for publishing the newsletter, the Board did not consider it necessary to request Governor and Council approval or Department of Justice review of the agreement with the vendor.

The State's *Manual of Procedure*, as amended February 9, 1994, requires contracts over \$2,500 for personal services and \$5,000 for other services to be submitted for Governor and Council

approval. The *Manual* also requires contracts for submission to Governor and Council to be approved by the Attorney General as to form, execution, and substance.

Recommendation:

The Board should recognize the value of a contract or agreement and not only direct costs when determining whether the contract meets State reporting, review, and approval criteria.

If the Board is to continue in its relationship with this vendor for the publication and distribution of its newsletters, the Board should submit the agreement to the Department of Justice for review and to the Governor and Council for approval.

Auditee Response:

We concur with the observation and recommendation. The Board has been discussing the need to convert from a mailed publication to a web-based publication since 2007. Concerns of consumer discontent related to a change have been reviewed and discussed at public Board meetings. Strategic review of recent National Council 2008 Commitment to Ongoing Regulatory Excellence (CORE) data indicates a decrease in customer satisfaction with mailed materials and a trend towards web-based preference for publications. Based on discussions and CORE data, the Board voted to convert to a web-based publication for future Board publications. The Board staff will prepare the materials and post the publication on its existing website.

Observation No. 14: Board Review Of Payroll Should Be More Effective

Observation:

The Board does not have access to payroll reports that would allow it to effectively review for errors in its employee payroll.

The Board compiles Daily Attendance Sheets, Leave Slips, Overtime Statements, Part-time Employee Time Sheets, and Board Per Diem Memos. Copies of these documents are filed with the Board while originals are submitted to the Department of Health and Human Services (DHHS) for payroll processing. Leave time is recorded in the DHHS Time Leave and Attendance System (TLAS) while payments are recorded in the State's payroll system (GHR). The Board does not have access to and does not receive reports from TLAS or GHR that would allow it to effectively review and reconcile submitted payroll documentation for amounts posted to TLAS and GHR.

Our review of overtime recorded in GHR revealed a \$1,251 duplicate overtime payment made to a Board employee during fiscal year 2008. The error was undetected by the employee, DHHS, and the Board.

Another Board employee was paid for 92.45 hours when the time sheet reported 44.25 hours. The employee detected and reported the overpayment to DHHS payroll. It is unclear whether the

overpayment would have been detected if the employee who received the overpayment had not reported it.

Recommendation:

The Board should formally request access to appropriate TALS and GHRS reports to allow the Board to effectively review its payroll for accuracy.

The Board should review the above noted payroll errors with the DHHS to determine the cause of the errors and establish reasonable controls to prevent similar future errors.

Auditee Response:

The Board concurs with this observation. Auditors educated the Board staff on the available reports during the audit survey and indicated the reports we could request. As suggested, the reports were requested. Unfortunately, Board supervisory staff was unsuccessful in this request and not allowed access to the requested reports. The Board will pursue an agreement that will allow the receipt of the TALS and GHRS reports in the future.

Observation No. 15: Formal Risk Assessment Process Should Be Implemented

Observation:

The Board does not have a formal risk assessment process. While the Board reports that it does consider and assess risk, the process is ad-hoc and not part of a formal internal control process.

Risk assessment is a process for identifying and responding to business risks and the results thereof. A prerequisite to an effective risk assessment is the establishment and recognition of an organization's objectives and the risks that may put achieving those objectives in jeopardy. While the Board has experienced organizational and operational changes over time, they have not periodically and formally reviewed operations to assess where and how things could go wrong, evaluated the likelihood of those occurrences, and established reasonable responses to those potential occurrences. Without a risk assessment process, the identification and response to risk occurs in a reactive mode, often after a risk has been realized and a loss incurred.

Examples of risks that the Board should consider include license fraud, including misuse of licensure authority, failure to recognize problems with reviewed educational facilities, as well as the risks related to the controlled financial operations of the Board's business office activities.

Recommendation:

The Board should establish a formal and documented risk assessment process to continuously review Board financial operations for exposure to risk and to plan for and reasonably respond to the identified risk through risk elimination or mitigation as appropriate.

Auditee Response:

The Board concurs with this observation and has incorporated a risk assessment process in the existing procedures that consider risk, including risk from fraud, as discussed during the financial audit.

Observation No. 16: Formal Fraud Prevention And Detection Program Should Be Established

Observation:

The Board has not established a formal fraud prevention and detection program. A formal fraud prevention and detection program should make employees aware of the importance of controls in the organization, typical indicators of fraud often referred to as “red flags,” and appropriate actions for employees to take if fraud is suspected.

Based on discussions with Board employees, it is not clear that employees have been provided with appropriate direction regarding fraud awareness and reaction to fraud. For example, some employees reported they were not aware of how and where to report suspected fraud.

Recommendation:

The Board should establish a formal fraud prevention and detection program that includes fraud reporting policies and training that will promote the timely detection and reporting of suspected fraudulent activity.

Auditee Response:

The Board concurs with this observation and has improved the current procedures to help identify fraud prevention and detection. Each operational financial procedure has been revised to incorporate a continuous program that detects deviations from any approved procedure. In addition, staff member roles have been developed to detect and report errors. Seasoned staff members have years of experience with fraud awareness and detection. The newly hired staff have now been educated on fraud awareness and reaction to fraud.

Observation No. 17: Monitoring Of Financial Activity Should Be Improved

Observation:

The Board did not make timely payments on Department of Information Technology (DoIT) invoices during the six months ended December 31, 2008.

The Board paid only one of the six monthly DoIT invoices it received during the preceding six months as of December 31, 2008. According to the Board, confusion as to who at the Board was

receiving invoice notification from DoIT resulted in the employee responsible for paying the invoice not being aware DoIT invoices were available for payment. Apparently, no one at the Board performed a sufficient review of the Boards' reports from the State's accounting system (NHIFS) to identify the lack of payments and DoIT apparently made no effort beyond its monthly email notice of prepared invoices to request payment on the amounts due.

At December 31, 2008, the Board owed DoIT \$31,312 for services provided during the six months ended December 31, 2008.

Recommendation:

The Board should clarify employee responsibilities related to the payment of DoIT invoices. The Board should either request that the DoIT invoice availability notice also be provided to the Board employee responsible for printing the invoice and initiating the payment process, or the Board employee who currently receives that information should act upon it.

The Board should improve its regular monitoring and other review of NHIFS reports to increase its likelihood of detecting and responding timely to errors or other unusual financial activity (or inactivity) that would be evident from a reasonable review of the reports.

Auditee Response:

The Board concurs with this observation. The DoIT bill for payment was emailed to the Board and forwarded to the newly hired accountant. The accountant did not view the email as a bill and DoIT did not send a notice of late payment. We are now aware of this error and have corrected the perception with Board staff. The Board has consistently paid all bills prior to the new billing format and will be reliable to this new billing method going forward.

Observation No. 18: Agreement For Inspectional Services Should Be Completed

Observation:

The Board has not entered into an agreement for receiving inspectional services from the Board of Pharmacy. RSA 318:9-a requires an agreement between the boards. While the statute requires the Board's payment to the Board of Pharmacy to be based upon a per capita charge for each person registered, the payment by the Board has been the budgeted amount with no assurance provided by the Board of Pharmacy that the amount paid by the Board is the statutorily accurate amount.

During the six months ended December 31, 2008, the Board paid \$24,050 to the Board of Pharmacy for fiscal year 2009 inspectional services. The Board of Pharmacy's invoice does not provide any detail regarding the calculation used to arrive at the amount due and the Board of Nursing does not request this information.

Recommendation:

The Board should enter into the statutorily required agreement with the Board of Pharmacy for providing inspectional services required by RSA 318:9-a. The Board should request support for the amounts billed.

The Board should also request reports on the results of inspections performed to determine whether any Board action is required to improve Board operations and operations of the regulated nurses.

Auditee Response:

We concur with this observation and have begun negotiations with the Board of Pharmacy for a formal agreement for inspectional services. Prior to the audit, we paid the Board of Pharmacy invoice which was written to describe the services provided as well as the RSA 318:9-a language. It was the Board's belief that the format of the billing met the terms of an agreement between the parties. We are now corrected in our misconception.

Board of Pharmacy Response:

Concur in Part. The formula for calculating reimbursement to the Board of Pharmacy for inspections of Nurse Practitioners is flawed, antiquated and should be reassessed. It appears to be based on fixed historical information rarely updated that does not calculate the fluctuating number of nurses, time and frequency of actual inspections performed.

The growth in health care coupled with the public desire for small government has challenged the pharmacy inspection resources. It is this very challenge that has forced our inspection scheduling to be prioritized. Consumer and licensee complaints, suspicious Drug Enforcement Administration 106 reporting, disciplinary and quality assurance issues dominate the inspection docket. Pro-active or routine inspections become secondary in importance to those inspections where the public may be at risk.

The Board of Pharmacy inspectors with their extensive understanding of drug laws, therapeutic protocols and product storage requirements are in the best position for evaluating, reporting, educating and tracking pharmaceutical activities. Accommodating the inspection needs of the Nursing Board will require improved communication, updated reporting tools and realistic expectation from both parties. The Board of Pharmacy has the strongest desire to continue to work with the Board of Nursing and wishes to use this audit response to expand communication to develop a Memorandum of Understanding between the boards for the services to be provided.

Observation No. 19: Agreement For Services Provided By DHHS Should Be Comprehensive

Observation:

The Board's agreement with the Department of Health and Human Services (DHHS) does not address all of the services DHHS provides to the Board.

RSA 326-B:3, XII, administratively attaches the Board to the DHHS. RSA 21-G:10, II, provides, "The department to which an agency is administratively attached shall: (a) Provide budgeting, recordkeeping and related administrative and clerical assistance to the agency, if mutually agreed to in writing, provided that the agency shall pay the department on a cost allocation basis for such services".

The Board has an agreement with DHHS for processing Board payroll at an annual cost of \$100 per Board employee, or \$1,400 for fiscal year 2009. The Board has paid DHHS \$1,400 annually since fiscal year 2005. DHHS's Board Financial Manager also provides administrative and clerical assistance and guidance to the Board. The Board does not have an agreement with DHHS covering the assistance provided by the DHHS Board Financial Manager.

Recommendation:

The Board should establish a more comprehensive agreement with the DHHS, which fully describes the scope and cost of DHHS services provided to the Board.

Auditee Response:

We concur with this observation and will negotiate an agreement with DHHS that includes payroll, clerical assistance, and administrative financial guidance to the Board.

Department of Health and Human Services Response:

Concur. The Department of Health and Human Services will address the Legislative Budget Assistant concerns through a comprehensive review of agreements with the Boards to be completed by January 2010.

Observation No. 20 State Equipment Policies And Procedures Should Be Implemented

Observation:

The Board is not in compliance with State accounting and reporting policies and procedures for equipment.

The State's *Annual Closing Review* directs each State agency to annually perform at least one inventory of equipment with the results of the inventory recorded on a P-16 *Equipment Inventory*

form. Changes noted in the inventory are to be reported on a P-21 *Monthly Equipment Adjustment Report*.

The Board did not conduct a physical inventory during fiscal year 2008 and was not familiar with State forms P-16 and P-21 used to annually report equipment balances and monthly changes in equipment balances, respectively. The Board did conduct a physical inventory during the six months ended December 31, 2008, prompted by the auditor's inquiry. The Board reported it needed to make adjustments to its equipment inventory records as a result of that inventory. The inventory records maintained by the Board do not comply with State inventory guidelines, as the records do not include the date of acquisition and the cost of equipment items.

Recommendation:

The Board should comply with State accounting and reporting policies and procedures for equipment. The Board should perform and report at least annual equipment inventories and report monthly changes in equipment inventory as directed by the State's policies and procedures enumerated in the *Annual Closing Review*. The Board should consult with the Department of Administrative Services as to the most appropriate way to address the lack of historical data captured by the Board's equipment records.

Auditee Response:

We concur with this observation. The Board was tardy in its annual inventory usually performed in June of each year. An inventory was begun November 2008 and completed January 2009.

Compliance Comments

Observation No. 21 Required Administrative Rules Should Be Adopted

Observation:

The Board has not adopted administrative rules relative to implementation and coordination of the nurse licensure compact.

According to RSA 326-B:9, “The board shall adopt rules, in accordance with RSA 541-A, relative to the following: ... XI. The implementation and coordination of the nurse licensure compact adopted in RSA 326-B:46. The board shall use model rules developed for the nurse licensure compact by the National Council of State Boards of Nursing as the basis for adopting rules which shall be modified as necessary to comply with state statutes.”

RSA 326-B:46, adopts the Nurse Licensure Compact, which in Article VI, (d) provides nurse licensing boards with the authority to “Promulgate uniform rules and regulations as provided for in Article VIII (c).” Article VIII (c) states, “Compact administrators shall have the authority to develop uniform rules to facilitate and coordinate implementation of this compact. These uniform rules shall be adopted by party states, under the authority invested under Article VI (d).”

Recommendation:

The Board should seek adoption of all administrative rules required by statute, including those required by RSA 326-B:9, XI, relative to the Nurse Licensure Compact.

If the Board determines that statutorily required rules are no longer necessary, the Board should request the legislature appropriately amend the statutes requiring the rules.

Auditee Response:

The Board concurs, in part, with this observation. Currently the Board follows the Nurse Licensure Compact Administrators (NLCA) law as adopted in RSA 326-B. During the legislative session, lawmakers determined a preference to adopt the NLCA documents fully into law. It was the opinion of the legislature at that time that rules were not necessary as they would be a duplication of what was in the law.

Observation No. 22 Assistance Should Be Provided To Promote Accurate Filings Of Statements Of Financial Interests

Observation:

Apparent errors in Board member filings of Statements of Financial Interests indicate Board members should be provided with improved guidance on filing the Statements.

- Statements of Financial Interests filed by 10 of the 11 Board of Nursing members appear incomplete based upon the understanding of the Executive Director of the Board, as the Statements did not report any sources of income over \$10,000. RSA 15-A:5, I(c), requires the Statement of Financial Interests include information related to sources of income in excess of \$10,000 derived during the preceding calendar year.
- The Executive Director of the Board did not file a Statement of Financial Interests. It appears the Executive Director would be subject to filing as the agency head of the Board.

RSA 15-A:3, III, requires every person appointed by the Governor, Governor and Council, President of the Senate, or the Speaker of the House of Representatives to any board, to file a Statement of Financial Interests with the Secretary of State. Paragraph IV requires all agency heads to file Statements.

Recommendation:

The Board should establish policies and procedures to assist all Board members and other required employees to file complete and accurate Statements of Financial Interests.

Auditee Response:

The Board concurs. Board member financial interest forms have been corrected as necessary. The Executive Director filed a Statement of Financial Interests on May 28, 2009.

Observation No. 23: Required Reports Should Be Filed

Observation:

The Board is not in compliance with State statutes requiring the filing of reports.

The Board does not file annual or biennial reports. The Board considered its biannual newsletters as satisfying its reporting obligations.

RSA 20:7, requires specific agencies to file annual reports and all other agencies and institutions of the State to file biennial reports. RSA 21-G:10, I, (c), requires an agency administratively attached to a department to submit reports required by law or by the Governor through the department. The Board is administratively attached to the Department of Health and Human Services.

Recommendation:

The Board should coordinate with the Department of Health and Human Services to fulfill the Board's statutory reporting requirements.

Auditee Response:

The Board concurs in part. The Board has considered the newsletters published by the Board, which contain all Board actions and planning, to be sufficient for annual reporting pursuant to RSA 21-G:10 I (c). A copy is mailed to all licensees, distributed to DHHS, published on our website, and 20 copies are provided to the State Library.

The Board will further review these reporting requirements.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying Statement of Revenues and Expenditures, General Fund, of the New Hampshire Board of Nursing (Board) for the six months ended December 31, 2008. This financial statement is the responsibility of the management of the Board. 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 statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated May 8, 2009 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Office Of Legislative Budget Assistant

May 8, 2009

**STATE OF NEW HAMPSHIRE
BOARD OF NURSING
STATEMENT OF REVENUES AND EXPENDITURES - GENERAL FUND
FOR THE SIX MONTHS ENDED DECEMBER 31, 2008**

Revenues

Unrestricted Revenues

Licensure Fees - Nurses	\$ 677,404
Total Unrestricted Revenues	<u>677,404</u>

Restricted Revenues

Licensure Fees - Nursing Assistants	142,831
Transfer From Department Of Health And Human Services	19,112
Sales Of Publications	<u>8,210</u>
Total Restricted Revenues	<u>170,153</u>

Total Revenues	<u>847,557</u>
-----------------------	-----------------------

Expenditures

Salaries And Benefits	338,252
Consultants	40,234
Department Of Information Technology Services	35,411
Current Expenses	29,174
Inspectional Services - Board Of Pharmacy	24,050
Rent - General Services	17,879
Organizational Dues	6,000
Other	<u>5,582</u>

Total Expenditures	<u>496,582</u>
---------------------------	-----------------------

Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>350,975</u>
--	-----------------------

Other Financing Sources (Uses)

Net General Fund Appropriations (Note 2)	<u>326,429</u>
--	----------------

Total Other Financing Sources (Uses)	<u>326,429</u>
---	-----------------------

Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	<u>\$ 677,404</u>
---	--------------------------

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

**STATE OF NEW HAMPSHIRE
BOARD OF NURSING**

**NOTES TO THE FINANCIAL STATEMENT
FOR THE SIX MONTHS ENDED DECEMBER 31, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial activity of the Board is accounted for and reported in the General Fund in the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the CAFR. The Board, 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 Board cannot be determined. Accordingly, the accompanying Statement of Revenues and Expenditures, General Fund, is not intended to show the financial position or fund balance of the New Hampshire Board of Nursing in the General Fund.

B. Financial Statement Presentation

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

Governmental Fund Type:

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

C. Measurement Focus And Basis Of Accounting

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay the liabilities of the current period. For this purpose, except for federal grants, the State generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due.

D. Budget Control And Reporting

General Budget Policies

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

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

In addition to the enacted biennial operating budget, the Governor may submit to the Legislature supplemental budget requests necessary to meet expenditures during the current biennium. Budgetary control is at the department level. In accordance with RSA 9:16-a, notwithstanding any other provision of law, every department is authorized to transfer funds within and among all program appropriation units within said department, provided any transfer of \$2,500 or more shall require prior approval of the Joint Legislative Fiscal Committee and the Governor and Council.

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

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

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services, the encumbrance is liquidated and the expenditure and liability are recorded. The Board's unliquidated encumbrance balance in the General Fund at December 31, 2008 was \$2,111.

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

NOTE 2 - NET GENERAL FUND APPROPRIATIONS

Net General Fund appropriations reflect appropriations for expenditures in excess of restricted revenues.

NOTE 3 - EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

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

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

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

All covered Board employees are members of Group I.

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

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

The Board's payments for normal contributions for the six months ended December 31, 2008 amounted to 8.74% of the covered payroll for its Group I employees. The Board's normal contributions for the six months ended December 31, 2008 were \$16,837.

A special account was established by RSA 100-A:16, II (h) for additional benefits. During fiscal year 2007, legislation was passed that permits the transfer of assets into the special account for earnings in excess of 10 ½ percent as long as the actuary determines the funded ratio of the retirement system to be at least 85 percent. If the funded ratio of the system is less than 85 percent, no assets will be transferred to the special account.

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

Other Postemployment Benefits

In addition to providing pension benefits, RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses within the limits of the funds appropriated at each legislative session. These benefits include group hospitalization, hospital medical care, and surgical care. Substantially all of the State's employees who were hired on or before June 30, 2003 and have 10 years of service, may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires State Group I employees hired after July 1, 2003 to have 20 years of State service in order to qualify for health insurance benefits. These and similar benefits for active employees are authorized by RSA 21-I:30 and provided through the Employee and Retiree Benefit Risk Management Fund, which is the State's self-insurance fund implemented in October 2003 for active State employees and retirees. The State recognizes the cost of providing these benefits on a pay-as-you-go basis by paying actuarially determined contributions into the fund. The New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees also contributes to the fund.

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

The State Legislature currently plans to only partially fund (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of Governmental Accounting Standard Board (GASB) Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The ARC and contributions are reported for the State as a whole and are not separately reported for the Board.

**STATE OF NEW HAMPSHIRE
BOARD OF NURSING
BUDGET TO ACTUAL SCHEDULE - GENERAL FUND
FOR THE SIX MONTHS ENDED DECEMBER 31, 2008**

	<u>Original Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
<u>Revenues</u>			
Unrestricted Revenues			
Licensure Fees - Nurses	\$ 950,000	\$ 677,404	\$ (272,596)
Total Unrestricted Revenues	<u>950,000</u>	<u>677,404</u>	<u>(272,596)</u>
Restricted Revenues			
Licensure Fees - Nursing Assistants	155,877	142,831	(13,046)
Transfer From Department Of Health And Human Services	152,892	19,112	(133,780)
Sale Of Publications	12,000	8,210	(3,790)
Total Restricted Revenues	<u>320,769</u>	<u>170,153</u>	<u>(150,616)</u>
Total Revenues	<u>1,270,769</u>	<u>847,557</u>	<u>(423,212)</u>
<u>Expenditures</u>			
Salaries And Benefits	708,291	338,252	370,039
Consultants	107,220	40,234	66,986
Department Of Information Technology Services	73,661	35,411	38,250
Current Expenses	123,856	29,174	94,682
Inspectional Services - Board Of Pharmacy	25,450	24,050	1,400
Rent - General Services	42,388	17,879	24,509
Organizational Dues	6,000	6,000	-0-
Other:			
In-State Travel	17,525	4,106	13,419
Rents/Leases Other Than State	2,650	1,476	1,174
Maintenance Other Than Buildings And Grounds	31,240	-0-	31,240
Out Of State Travel	17,700	-0-	17,700
Equipment	8,000	-0-	8,000
Total Expenditures	<u>1,163,981</u>	<u>496,582</u>	<u>667,399</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>106,788</u>	<u>350,975</u>	<u>244,187</u>
Other Financing Sources (Uses)			
Net General Fund Appropriations (Note 2)	843,212	326,429	516,783
Total Other Financing Sources (Uses)	<u>843,212</u>	<u>326,429</u>	<u>516,783</u>
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	<u>\$ 950,000</u>	<u>\$ 677,404</u>	<u>\$ (272,596)</u>

The accompanying notes are an integral part of this schedule.

Notes To The Budget To Actual Schedule - General Fund For The Six Months Ended December 31, 2008

Note 1 - General Budget Policies

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

The operating budget is prepared principally on a modified cash basis and adopted for the governmental and proprietary fund types with the exception of the Capital Projects Fund.

The New Hampshire biennial budget is composed of the initial operating budget, supplemented by additional appropriations. These additional appropriations and estimated revenues from various sources are authorized by Governor and Council action, annual session laws, and existing statutes which require appropriations under certain circumstances.

The budget, as reported in the Budget To Actual Schedule, reports the initial operating budget for fiscal year 2009 as passed by the Legislature in Chapter 262, Laws of 2007.

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

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

Variances - Favorable/(Unfavorable)

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

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

Note 2 - Net General Fund Appropriations

Net General Fund appropriations reflect appropriations for expenditures in excess of restricted revenues.

THIS PAGE INTENTIONALLY LEFT BLANK