

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF  
RESOURCES AND ECONOMIC DEVELOPMENT  
DIVISION OF PARKS AND RECREATION  
CANNON MOUNTAIN**

**FINANCIAL AUDIT REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2014**



**STATE OF NEW HAMPSHIRE  
CANNON MOUNTAIN**

**TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
<b>INTRODUCTORY SECTION</b>	
Reporting Entity And Scope .....	1
Organization.....	1
Responsibilities .....	1
Funding .....	2
Prior Audit .....	2
Audit Objectives And Scope.....	3
 <b>CONSTRUCTIVE SERVICE COMMENTS SECTION</b>	
<b>Independent Auditor’s Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i> .....</b>	<b>4</b>
 <i>Internal Control Comments</i>	
<i>Significant Deficiencies</i>	
1. Establish Risk Assessment Process .....	6
2. Establish Policies And Procedures For All Significant Financial Activities .....	7
3. Reconcile Three Primary Accounting Systems .....	8
4. Establish Controls Over Internet Sales Process .....	9
5. Perform Regular And Complete Reconciliations Of Clearing Account .....	10
6. Establish Policies And Procedures For Adjusting Financial Accounts .....	11
7. Monitor Employee Access To Information Systems .....	12
8. Improve Communication Of Financial Information .....	14
9. Take Advantage Of Available Discounts .....	15
10. Record All Financial Activity In The Financial Statements .....	16
11. Establish Controls To Mitigate Payroll Risks.....	17
12. Mitigate State Payroll System Weakness .....	19
13. Monitor Benefits Provided Seasonal Employees.....	20
14. Review The Awarding And Reporting Of Fringe Benefits .....	22
15. Improve Accountability And Transparency Over No-Cost Passes.....	23
16. Improve Accountability Over Discounted Season Passes .....	24
17. Increase Use Of Vouchers To Support Complementary Tickets.....	25
18. Improve Controls Over Retail Operations .....	26
19. Monitor And Enforce Contract Provisions .....	27
20. Safeguard And Report State Assets .....	29
21. Establish Controls Over Equipment Rental Inventory.....	30
22. Establish Policies And Procedures To Review Filings Of Statements Of Financial Interests.....	31
23. Establish Policies And Procedures For Monitoring Mittersill Project .....	32
24. Determine Budgetary Status Of Ski School And Concession Operations.....	34

<i>State Compliance Comments</i>	
* 25. Comply With Statutory Requirements.....	36
* 26. Submit Quarterly Reports On Season Passes Sold At Reduced Rates .....	38
<b>FINANCIAL SECTION</b>	
<b>Independent Auditor's Report</b> .....	40
<b>Financial Statement</b>	
<i>Governmental Fund Financial Statement</i>	
Statement Of Revenues And Expenditures - Governmental Funds.....	43
Notes To The Financial Statement.....	44
<b>APPENDIX A - Current Status Of Prior Audit Findings .....</b>	<b>53</b>
<b>APPENDIX B - Letter From The Commission Of The Department Of Resources And Economic Development.....</b>	<b>57</b>

This report can be accessed in its entirety on-line at:  
<http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>

---

\* Comment suggests legislative action may be required

## **STATE OF NEW HAMPSHIRE CANNON MOUNTAIN**

### **Reporting Entity And Scope**

The reporting entity and scope of this audit and audit report is the Cannon Mountain operations of the New Hampshire Department of Resources and Economic Development (Department), Division of Parks and Recreation, for the fiscal year ended June 30, 2014. During this period, the Cannon Mountain operations of the Department consisted of the Cannon Mountain ski area including ski trails/lifts, ski and other equipment rentals and sales, aerial tramway, ski school, daycare facility, gift shops, and concession operations. While the majority of Cannon Mountain operations are related to winter ski activities, summer activities include the aerial tramway, beach passes, concession, and boat rental operations.

### **Organization**

Cannon Mountain is a component of Franconia Notch State Park operated by the Department of Resources and Economic Development, Division of Parks and Recreation. The Cannon Mountain operations of the Division are under the direction of a Mountain Manager who reports to the Division Director. The Division Director reports to the Commissioner of the Department.

Franconia Notch State Park and Cannon Mountain are located in the Lincoln/Franconia area of the White Mountain National Forest, on Interstate 93/Route 3, Franconia Notch Parkway. The main offices of the Department are located on Pembroke Road in Concord, New Hampshire.

During the peak of the 2013/2014 ski season, Cannon Mountain employed 29 permanent full-time, and 280 seasonal employees. At June 30, 2014, Cannon Mountain had 86 employees.

### **Responsibilities**

The primary responsibility of the Cannon Mountain operations of the Division of Parks and Recreation is the operation of the State-owned ski area, including the year-round operation of an aerial tramway. Cannon Mountain ski area has 24 miles of ski trails, slopes for both beginning and experienced skiers and snowboarders. In support of the ski area, Cannon Mountain provides a ski school and child daycare facility; leases cafeteria and restaurant facilities to a contracted vendor; runs sports equipment rental, repair and sales, and gift-type retail shops; and operates various mechanical, snowmaking, and repair services for the construction and repair of equipment and facilities.

Cannon Mountain is the home of the New England Ski Museum, located near the base of the first passenger aerial tramway in North America. The original tramway began operating at Cannon Mountain in 1938 and was replaced in 1980 with a two-car tramway that ascends 2,022 feet vertically over a horizontal distance of more than one mile to the 4,180-foot summit of Cannon Mountain.

## Funding

The financial activity of Cannon Mountain is accounted for in the General and Capital Projects Funds of the State of New Hampshire. In accordance with RSA 216-A:3-i, the State Treasurer maintains a separate and distinct account known as the State Park Fund comprised of the Park Account and the Ski Area Account. The Treasurer deposits into the Ski Area Account “actual revenue...from fees, services, accommodations, rentals, revenue from lift and tramway operations, retail sales, and net profit from concession operations in excess of budget expenses.” The Ski Area Account is reported in the State’s General Fund.

All income from the lease of the State ski area at Mount Sunapee is deposited into the Cannon Mountain Capital Improvement Fund, a revolving fund established by RSA 12-A:29-c. The revolving fund is used to pay debt service for capital improvements for the ski area and related State park facilities at Cannon Mountain. The Cannon Mountain Capital Improvement Fund is reported in the State’s General Fund.

The following table summarizes the financial activity of Cannon Mountain in the General Fund and Capital Projects Fund for the fiscal year ended June 30, 2014.

### Summary Of Revenues And Expenditures - General Fund And Capital Projects Fund Fiscal Year 2014

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b>Restricted Revenues</b>			
Cannon Mountain Income	\$ 7,451,816	\$ -0-	\$ 7,451,816
Sunapee Lease Income	615,399	-0-	615,399
<b>Total Restricted Revenues</b>	<u>\$ 8,067,215</u>	<u>\$ -0-</u>	<u>\$ 8,067,215</u>
<b>Expenditures</b>			
Operating Expenditures	\$ 7,254,262	\$ -0-	\$ 7,254,262
Debt Service-Capital Improvements	714,941	-0-	714,941
Capital Projects	-0-	641,856	641,856
<b>Total Expenditures</b>	<u>\$ 7,969,203</u>	<u>\$ 641,856</u>	<u>\$ 8,611,059</u>
<b>Excess (Deficiency) Of Revenues Over (Under) Expenditures</b>	<u>\$ 98,012</u>	<u>\$ (641,856)</u>	<u>\$ (543,844)</u>

## Prior Audit

The most recent prior financial audit of Cannon Mountain was for the ten months ended April 30, 2001. The appendix to this report on page 53 contains a summary of the current status of the observations contained in that report. The prior audit report can be accessed from the Office of Legislative Budget Assistant website at the following web address:  
<http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>

## **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 Cannon Mountain for the fiscal year ended June 30, 2014. 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 Cannon Mountain and tested Cannon Mountain's compliance with certain provisions of applicable State laws, rules, and contracts. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Revenues, and
- Expenditures.

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



JEFFRY A. PATTISON  
Legislative Budget Assistant  
(603) 271-3161

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

## State of New Hampshire

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

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

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

*To The Fiscal Committee Of The General Court:*

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of Cannon Mountain which comprises the Statement of Revenues and Expenditures - Governmental Funds for the fiscal year ended June 30, 2014, and the related notes to the financial statement, and have issued our report thereon dated June 16, 2015, which was qualified as the financial statement does not constitute a complete financial presentation of Cannon Mountain in the Governmental Funds.

#### **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant

deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control that we consider to be significant deficiencies. We consider the deficiencies described in Observations No. 1 through No. 24 to be significant deficiencies.

### **Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Cannon Mountain's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Observations No. 25 and No. 26.

### **Cannon Mountain's Responses To Findings**

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

### **Purpose Of This Report**

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

  
Office Of Legislative Budget Assistant

June 16, 2015

**Internal Control Comments**  
**Significant Deficiencies**

**Observation No. 1: Establish Risk Assessment Process**

*Observation:*

Cannon Mountain did not have a formal risk assessment process in place during fiscal year 2014. According to Cannon Mountain, while there is no formal written risk assessment process in place, Cannon Mountain managers meet weekly to discuss issues affecting the operation of Cannon Mountain, including identified risks.

While Cannon Mountain reacts with changes in process when it identifies risks, the lack of formal policies and procedures to actively review for and consider risk places Cannon Mountain in a largely reactive mode where it responds to disruptive events as they may occur.

The Department has policies and procedures for a Department risk assessment process that requires a risk assessment to occur annually in October, or more often as needed. A Department risk assessment was not performed during fiscal year 2014.

The purpose of an entity's risk assessment efforts is to identify, analyze, and where appropriate respond to risks and thereby manage risks that could affect the entity's ability to reach its objectives. An effective and documented risk assessment process should be a core element of management's controls.

*Recommendation:*

Cannon Mountain and the Department should establish a formal risk assessment process supported by policies and procedures for recognizing, evaluating, and responding to risks that could affect Cannon Mountain's ability to reach its objectives.

Cannon Mountain should regularly review its financial and operational activities for indicators of risk exposure and establish and monitor controls that appropriately address those risks. Cannon Mountain and Department employees with particular areas of expertise and knowledge of Cannon Mountain operations should participate in the review to ensure that details of operations that may not be obvious to management are appropriately considered.

The Department should perform risk assessments as outlined in its policy.

*Auditee Response:*

We concur that a formal risk assessment document should be drafted for Cannon operations.

Weekly meetings are held for the purpose of maintaining active and ongoing operational management of risk assessment associated with business interruption, infrastructure integrity,

financial systems, operational systems, team member and guest safety. The effort isn't confined to determining performance corrections or action needed to address identified risks. It also includes discussion and planning for the purpose of assessing potential risks, all of which will now be documented in the form of a formal risk assessment plan.

Cannon management will work with the Department to update and review a risk assessment plan each October.

## **Observation No. 2: Establish Policies And Procedures For All Significant Financial Activities**

### *Observation:*

Cannon Mountain and the Department have not established policies and procedures to support certain significant aspects of its financial operations. While Cannon Mountain has a number of documented practices, most are simply descriptions of implemented processes that do not contain evidence that they have been thoughtfully designed, reviewed, and approved by an appropriate level of management. Policies and procedures that have been issued do not appear to have been consistently distributed, with appropriate training, to responsible employees for implementation; nor have they been compiled in a generally accessible and indexed manual or form to make them a useful tool.

The lack of comprehensive financial policies and procedures contributed to Cannon Mountain sales clerks inconsistently processing daily sales activity and Cannon Mountain and Department reviewers inconsistently documenting their review. Examples of inconsistent application of revenue control processes include the following:

- The objective of the control of ticket sellers initialing the Ticket Stock Log forms is unclear. It is unknown whether the initials evidence the receipt of the register starting cash (referred to as banks), the ticket stock, or both. Issuers do not initial the forms.
- Not all ticket sellers enter ticket control numbers into the Siriusware, the point of sale system, which hampers accountability for tickets and transactions.
- Not all ticket sellers record and explain voided transactions on a Void Log.
- Supervisors do not consistently initial the Daily Deposit Sheet to evidence their verification count of the daily deposit.
- Cannon Mountain's Business Office review of the Detail Cash Drawer Report or Summary Closeout Report, including evidence of a review of redeemed complimentary vouchers, is inconsistently documented. Out of 25 sample items, ten selections had no evidence of a Business Office review.
- The Department's review to ensure that all revenue received was input completely and accurately into NHFirst was not consistently performed for eight months of fiscal year 2014.

Inconsistent application of control processes effectively diminishes the value of those control processes.

*Recommendation:*

Cannon Mountain and the Department should establish policies and procedures to support its employees in performing significant financial accounting and reporting activities, including performing and reviewing the collection, recording, and reporting of revenue. Financial policies and procedures should be compiled in a generally accessible and indexed manual or form, employees should be trained in the application of the policies and procedures, and management should monitor to ensure that the controls provided by the policies and procedures are consistently applied and remain effective.

*Audited Response:*

We concur that understanding of policies and procedures and training are a necessary part of maintaining proper revenue control processing.

To ensure consistency, we will review all available documented policies and procedures for this function. The Department Business Administrator will verify what is available and that it is sufficient. Training will be administered to selected staff where applicable and signed confirmation of understanding by all staff will be documented.

A sales point manual has been completed and placed at every sales point, and there has been ongoing training with applicable Department supervisors. We will update as needed and maintain as such.

**Observation No. 3: Reconcile Three Primary Accounting Systems**

*Observation:*

Cannon Mountain does not routinely reconcile financial information recorded in its three primary accounting systems: the State accounting system, NHFirst, and two commercial accounting packages, Siriusware and QuickBooks. While Cannon Mountain does routinely reconcile expenditures recorded in NHFirst to QuickBooks, the reconciliation is not reviewed by anyone other than the preparer. The lack of an effective reconciliation control increases the risk that an error in information recorded in any of the systems will not be detected and corrected in a timely manner, and management decisions may be based on incomplete or erroneous information.

Timely account reconciliations are a primary control to ensure information is consistently recorded and reported when accounting information is contained in multiple accounting and reporting systems.

*Recommendation:*

Cannon Mountain should prepare periodic reconciliations of the financial information recorded in its three primary accounting systems. The results of those reconciliations should be reviewed

and approved to ensure the reconciliations are timely, complete, and accurate with any identified differences appropriately resolved.

*Auditee Response:*

We concur that instituting a reconciliation procedure to include the Quickbooks application would be prudent.

Currently, we do have a reconciliation process between the Siriusware revenue collection system and the NHFIRST General Ledger system via a cash reconciliation process that ties final deposit back to both Siriusware and NHFIRST. These are our books of record. All revenue transactions input into the NHFIRST system are thus reconciled against Siriusware.

The use of QuickBooks is maintained at the Cannon Mountain location to provide more timely financial information not offered as such, by the current official transaction systems. It may be helpful to have a reconciliation of QuickBooks to the Siriusware system if there is any intended official use or reporting from QuickBooks. However, we will look at what reporting can be produced directly from Siriusware and/or NHFIRST that may offer the same timeliness of reporting provided by QuickBooks reporting and thus, mute any need for an expanded reconciliation process.

**Observation No. 4: Establish Controls Over Internet Sales Process**

*Observation:*

Cannon Mountain has not established reasonable controls over an internet payment processing account used for on-line sales of season passes and gift cards.

Cannon Mountain sells season passes and gift cards on its website using an internet payment company to process customer payments. During fiscal year 2014, approximately \$800,000 of sales were processed through Cannon Mountain's internet account. During that period, the internet payment processor charged Cannon Mountain approximately \$17,000 for its services and transferred approximately \$780,000 of net sales revenue to Cannon Mountain's account.

During fiscal year 2014, the Department's Business Office had only limited information on the operation of the account. The Department was not aware of who had access to the account, whether the account was regularly reconciled, and whether there were reasonable controls over the operation of the account.

According to Cannon Mountain, during fiscal year 2014, three employees shared a single username and password for the account, limiting accountability for account activity. Additionally, the account was not regularly reconciled.

Cannon Mountain also reported that, while the account was in the name of a prior employee, it was confident the prior employee had no control or claim over the account.

Operating the account with limited controls exposes Cannon Mountain to risks that errors or frauds in the account may not be prevented or detected and corrected in a timely manner.

*Recommendation:*

Cannon Mountain and the Department should immediately establish controls over the internet payment processing account commensurate with the activity in the account.

Policies and procedures should be established for a regular reconciliation of the activity in the account. The reconciliation should be performed independently of any other responsibility for the account or the activity in the account. The reconciliation should be reviewed and approved by a member of management.

Department ownership should be exercised over the account. The Department should be identified as the owner of the account and the prior employee's name should be removed from the account.

Separate usernames, passwords, and access authorities should be established for the account to ensure that accountability is established and access is appropriately limited to the users' roles and responsibilities.

*Auditee Response:*

We concur with the recommendations and have taken action.

Current users now have individual usernames and passwords. This security control will be maintained as part of our normal procedures. The Mountain Manager at Cannon will be named as the point of contact responsible for assigning users for access, maintaining the list of all users who have access and will remove any users as needed if they are no longer employees. The Department Business Administrator will confirm a reconciliation process is in place for all PayPal payment collection.

**Observation No. 5: Perform Regular And Complete Reconciliations Of Clearing Account**

*Observation:*

An unaddressed weakness in the Department's revenue reconciliation process results from the Department not fully reconciling its credit card clearing account and allowing the "float" in the account to mask certain credit card processing fees.

Department revenues received from credit card transactions, including Cannon Mountain revenues, are initially recorded when received in a single Department clearing account in the State accounting system (NHFirst). The revenues are subsequently transferred out of the clearing account and into respective NHFirst revenue accounts when the source of the revenues is identified.

Revenues from transactions processed by one credit card vendor are initially recorded in the clearing account net of credit card fees but are transferred out of the clearing account at a higher, gross amount. As a result, excess Cannon Mountain revenue has been transferred from the clearing account to the Cannon Mountain revenue accounts resulting in a deficiency in the clearing account balance and an understatement of credit card fees. The deficiency in the account has been covered by the unprocessed balance present in the clearing account. The lack of a full reconciliation of the clearing account has allowed this imbalance in the accounts to remain undetected and unresolved.

During fiscal year 2014, the Department did not recognize approximately \$28,000 of credit card processing fees related to Cannon Mountain transactions processed through this clearing account.

This comment was also included in our report on the audit of the Department's Hampton Beach Parking Meter Fund for the 10 months ended April 30, 2012.

*Recommendation:*

The Department should perform a regular and complete reconciliation of its clearing account. All differences identified in the reconciliations should be resolved in a timely manner. The results of the reconciliations should be reviewed and approved by Department financial management to ensure the accuracy and completeness of the credit card revenues included in the reconciliations.

The Department should establish policies and procedures relative to the proper accounting and reporting of credit card revenues and fees. The policies and procedures should address all of the Department's credit card vendors.

*Auditee Response:*

We concur with this recommendation. This is a processing concern and has been addressed. We are maintaining a reconciliation that identifies all revenue being transferred from the clearing account for collection less the correctly assessed fee amount.

**Observation No. 6: Establish Policies And Procedures For Adjusting Financial Accounts**

*Observation:*

The Department does not have a policy and procedure for allocating credit card fees to Cannon Mountain and other Franconia State Park accounts. The Department's practice of allocating fees by season was not consistently applied during fiscal year 2014 resulting in a minor overstatement of fees to Cannon Mountain and an understatement of fees to the State Park accounts.

The Department has a single merchant credit card account that is used for processing revenues at all Franconia State Park facilities including Cannon Mountain, the Flume, and Lafayette Campground. The Department's Business Office receives a monthly statement of the receipts and the credit card fees processed through the account. Credit card fees for three of the four

major credit card companies are generally charged to facility accounts based on season. For example, fees for the period November through April are generally charged to Cannon Mountain accounts and fees during other seasons are generally charged to the other park facilities. Credit card fees for one major credit card company are recorded as a reduction to revenues in the Clearing Account (see Observation No. 5 for comment related to reconciliation of the credit card account).

According to the Department, approximately \$12,000 of fiscal year 2014 State Park credit card fees were charged to Cannon Mountain accounts to make up for the fees being undercharged to Cannon Mountain in fiscal year 2013. The Department reports this adjustment was neither subject to a Department policy and procedure nor reviewed and approved by business office management.

Making adjustments to financial accounts should be subject to formal policies and procedures, and suitable controls, to ensure adjustments do not intentionally or unintentionally obfuscate errors or frauds.

*Recommendation:*

The Department should establish policies and procedures for proposing and recording financial transactions intended to correct or adjust financial accounts. Any financial transaction intended to correct a previously recorded account transaction or balance should be subject to appropriate controls, including policies and procedures requiring an effective review and approval control.

*Auditee Response:*

We concur. All financial transaction adjustments should be subject to appropriate approval and applied based on acceptable GAAP standards of practice for back-posting adjustments. All journal entry approval is applied by the Bureau of Accounting prior to posting. The Department Business Administrator will establish a standard of review of all journal entries submitted by accounting staff prior to input and submission for approval by the Bureau of Accounting.

To further enhance this control, we will seek to eliminate any future need to go back and employ fee charge adjustments using a back-posting correction by implementing the practice of allocating charges for fees based on actual location where the charge occurred rather than allocated as a percentage of overall fees collected for the year and applied to each location based on seasonal operation periods that locations are open for business.

**Observation No. 7: Monitor Employee Access To Information Systems**

*Observation:*

Cannon Mountain has not complied with Department policies and procedures for controlling employee access to information systems.

The Department's Policy #51, *Initial System Access*, states in part:

“It is the responsibility of the Business Administrator to:

- To review and authorize all access change requests;
- To authorize access that is appropriate to the individual's job description; and
- To initiate any needed changes to an employee's or non-employee's access profile.
- At least annually ensure that standard roles in an automated control system are appropriate to the job defined.”

The Scope of Policy #51 states, “This policy applies to all networks and State Databases that service DRED, for example: Windows Network, Lawson, Siriusware, and Time Tracking.”

Cannon Mountain reports that access change requests and authorizations to the Siriusware system are based on verbal communications between the Siriusware Administrator and the Administrative Supervisor. The Department's Business Administrator is not made aware of access changes in the Siriusware system and therefore does not have the opportunity to review and authorize all access change requests to ensure that changes made to roles in the automated control system are appropriate to the individual's job description.

Cannon Mountain and Department personnel reported they were unaware that the scope of Policy #51 extended beyond the Department's use of the State's accounting system, NHFirst.

*Recommendation:*

Cannon Mountain and the Department should monitor employee access to information systems.

Cannon Mountain and the Department should ensure that all employees are knowledgeable of, and trained in, the application of Department policies relevant to their job responsibilities, including employees involved in controls addressed in Department Policy #51, *Initial System Access*.

All standard roles in the automated control system should be regularly reviewed to ensure they remain appropriate for the jobs defined. All changes to system access, including authorization for the changes, should be documented.

*Auditee Response:*

We concur with the recommendations. Compliance to the requirement of getting authorization from the Department Business Administrator will be followed closely and training will be provided where needed as identified to clarify proper adherence to policies. The Department Business Administrator has also provided an updated policy and procedure document #51A that is specific to the systems used at the Cannon location in order to clarify what systems should be addressed for security compliance. This policy will be reviewed and enforced by the Cannon Business Office to include a documented record of authority granted for all persons who have access to the systems in use at the Cannon location.

## **Observation No. 8: Improve Communication Of Financial Information**

### *Observation:*

Ineffective communication between Cannon Mountain and the Department's Business Office, combined with the nonperformance of a Business Office control activity, resulted in untimely management involvement in the resolution of a credit card processing issue. Had the Business Office been notified, the issue may have been resolved prior to the loss of approximately \$27,000 of revenue.

Approximately \$27,000 of credit card sales went unprocessed during August 2013, as a result of a credit-card system communication problem. Cannon Mountain staff attempted to resolve the problem but did not notify the Departments' Business Office of the issue until November 2013. According to the Department, at that point it was too late to recover the unprocessed sales transactions.

The Business Office generally performs a review to ensure that Cannon Mountain's Daily Cash Reports are supported and that revenues are posted to the proper accounts. This review procedure would have identified the problem; however, the Business Office reported the procedure was not performed during the first half of fiscal year 2014. Department management reported it was unaware its review control was not operating during this period.

While it is not clear whether more timely notification to the Business Office would have resulted in the recovery of the lost revenue, Business Office controls should have identified the problem sooner, prompting a timely resolution and follow up.

### *Recommendation:*

Cannon Mountain and the Department should improve controls to ensure there is a system for, and expectation of, communication of financial information, especially information that may require management's involvement.

Cannon Mountain and the Department should review the cause of the credit card processing issue that resulted in the loss of the credit card sales data and revenue. While Cannon Mountain reports that the problem has not reoccurred, Cannon Mountain should ensure there are policies and procedures in place to timely mitigate any losses should it happen again.

The Department's Business Office should review the circumstances that caused a significant revenue control to be unperformed without its notice for half of fiscal year 2014. The Department should improve its control monitoring to ensure that the controls it intends to have in place are operating as designed.

*Auditee Response:*

We concur. Open communication between the Cannon Business Office and the Department Business Office should and will remain a priority. Any oversight in prudent communication is to be avoided.

As mentioned, relative to the payment issue on credit cards, the Department Business Administrator was notified in November while the error had occurred in August. The Department Business Office in coordination with the Cannon Business Office immediately took action to rectify the situation with the two vendors in question. Prioritization of work responsibilities will be reviewed as needed.

**Observation No. 9: Take Advantage Of Available Discounts**

*Observation:*

Cannon Mountain's expenditure process did not consistently recognize and take advantage of available purchase discounts during fiscal year 2014. Testing identified \$6,800 of purchase discounts which were not applied by Cannon Mountain due to apparent oversight by the preparer and the approver of the payments.

Cannon Mountain took advantage of only three of the eight available purchase discounts identified in expenditure samples. In one of the unapplied discounts, the vendor offered a 23% discount if the payment was made by March 5, 2014. Payment was made on January 27, 2014, well before the end of the discount period; however, according to the Department, the preparer, reviewer, and approver of the payment did not notice and failed to apply the \$6,600 discount. Subsequent to the auditor's identification of the unapplied discount, Cannon Mountain requested and received credit for its timely payment. The amounts of the other missed discounts were of lesser monetary significance.

*Recommendation:*

Cannon Mountain and the Department should identify those invoices offering discounts. Where efficient, Cannon Mountain and the Department should take advantage of available discounts to lessen cost of operations.

*Auditee Response:*

We concur that all available discounts offered should be taken when possible via proper review of invoices.

## **Observation No. 10: Record All Financial Activity In The Financial Statements**

### *Observation:*

Cannon Mountain has agreements with service providers, and others, by which Cannon Mountain trades lift tickets and other items of value for marketing and other services. The value of these bartered arrangements is not recorded in Cannon Mountain's accounting records, reported on Cannon Mountain's financial statements, or reported in tax filings.

Cannon Mountain's marketing contract provides: "The contractor will solicit external partner and sponsor relationships to generate additional funding in order to leverage Cannon Mountain's marketing dollars and advertising/marketing efforts."

- Cannon Mountain has a sponsorship agreement with a local car dealership that provides Cannon Mountain with the use of three new vehicles for three years for the cost of \$1.00 each. In exchange for the use of the vehicles, Cannon Mountain provides the dealership with promotion and marketing opportunities and up to \$10,000 worth of ticket product per year. The vehicles are used by Cannon Mountain's office and marketing staff. Because Cannon Mountain considers the agreement to be a noncash transaction and part of its marketing contract, the sponsorship agreement was not submitted to Governor and Council for approval, and the value of the transaction is not recorded in Cannon Mountain's financial records.
- Cannon Mountain has a Lodging Partnership Program which gives area lodging facilities certain marketing incentives, such as a presence on Cannon's website, and an opportunity to earn revenue for the sale of lift vouchers. Each participating lodging facility pays an annual fee to the marketing contractor which is used to fund additional marketing for Cannon Mountain. The July 1, 2013 balance available of Lodging Partnership Program funds was approximately \$27,000. Fiscal year 2014 revenues from Lodging Partnership Program participants were \$30,000 and program expenses were \$33,000 leaving a June 30, 2014 balance of \$24,000.

Cannon Mountain's financial activity in the sponsorship and Lodging Partnership programs is not recorded in the State's accounting system or subject to control processes such as the State's purchasing rules.

Cannon Mountain has a review and approval control over these external partner and sponsor relationships; however, Cannon Mountain does not routinely make the Department aware of the detail of the arrangements.

### *Recommendation:*

Generally, all financial activity should be recorded in accounting systems and reported on financial statements, including bartered activity. Participating in unrecorded bartered financial activity increases the risk that the extent of financial activity is not understood, properly controlled, and where required, in compliance with laws and rules, including tax reporting requirements.

Cannon Mountain and the Department should consider the appropriateness of the current accounting and financial reporting (including tax reporting) procedures for the external partner and sponsor marketing relationships including the vehicle lease, Lodging Partnership Program, and any other bartered transactions which result in certain Cannon Mountain financial activity to be “off-book”.

Cannon Mountain and the Department should establish policies and procedures to ensure that Department management is aware of, and approves, the external partner, sponsor, and marketing relationships that are not currently recorded in Cannon Mountain’s financial activity.

*Auditee Response:*

We concur.

As a regular business practice, we consider the appropriateness of such trade activity, external sponsorships and marketing relationships and their application within the context of the ski industry to be standard business practices. The Department management to include the Commissioner, Director of Parks and Recreation and Business Administrator, are made aware of any and all of such partnerships. However, we will develop a documented notification and concurrence procedure to confirm the proper effort has been made to make Department management aware and that such partnerships have been formally approved.

The cited car dealer sponsorship agreement was reviewed with the Attorney General’s Office with the understanding that such a relationship did not require Governor and Council review. Financial valuation was considered a net zero value exchange based on what was agreed to as fair market value of the use of three vehicles for three years for the specified purpose.

With regard to monitoring of financial data, the Lodging Partnership Program is tracked and reported on by the vendor. Our marketing and advertising agency also provides all financial accounting data. We will ensure that this reporting will be sent to the Department Business Office for monthly review.

The Department Business Administrator will seek guidance from the Director of Finance, Department of Administrative Services as to the appropriateness and accuracy of recording non-monetary bartered transactions under these circumstances to determine if it is required and, if so, how it should be recorded as such.

**Observation No. 11: Establish Controls To Mitigate Payroll Risks**

*Observation:*

Weaknesses in the payroll systems used by Cannon Mountain during fiscal year 2014 increased the risk that employee payroll could be based on inaccurate information.

Cannon Mountain used an electronic timecard-based payroll system for the majority of its employees during fiscal year 2014. Most employees “swipe” in and out upon the start and end of their workday. Time worked for ski school instructors is manually recorded in the timecard-based payroll system. Cannon Mountain’s payroll officer is able to adjust hours reported as worked by employees. Subsequent to the payroll officer’s review and adjustments, the payroll is loaded by the Department’s payroll section into the State’s NHFirst payroll system. Weaknesses in Cannon Mountain’s payroll systems include:

- There is no supervisory review of employee time entered into the timecard-based payroll system. Supervisors are not required to approve the hours entered or provide reporting that would allow them an opportunity to review hours or payroll charged to their areas of responsibility.
- Cannon Mountain’s payroll officer can, and regularly does, make changes to employee work hours. There is no review and approval for any payroll changes made by Cannon Mountain’s payroll officer.
- Cannon Mountain does not receive a combined report of its payroll to review for errors, such as employees being paid for unexpected hours or from incorrect accounts.

*Recommendation:*

Cannon Mountain should establish controls to mitigate risks in its payroll process including establishing controls for:

- A supervisory review of employee hours worked. Each Cannon Mountain department manager should review reported work hours for their employees to ensure employees comply with payroll policies and the payroll appears reasonable.
- The broad access provided to the Cannon Mountain payroll officer to make changes to the payroll without any review and approval.
- Providing payroll information reports to Cannon Mountain that could be used to review payroll charged to its accounts.

*Auditee Response:*

We concur with recommendations related to establishing controls to mitigate risks in improper recording and processing of hours worked.

With regard to supervisory review of employee hours worked, the Cannon Payroll Officer makes changes based upon approvals of overtime and discrepancy sheets, as signed by the supervisor of the applicable departments. Examples include missed punches, approved and unapproved overtime, or missed lunch breaks.

Staff members who do not use the time accounting system to record hours worked, such as Snowsports instructors, receive copies of their lesson tickets identifying their scheduled instruction times. These are submitted to the payroll office and recorded.

To tighten mitigation risk, we will ensure through written concurrence that every Cannon department manager is viewing payroll information (hours worked), approves prior to final submission, and that discrepancies are discussed with the employee(s) in question prior to final submission.

We do not concur that broad access granted to the Payroll Officer for the purpose of making changes to payroll requires additional mitigation of risk due to lack of any review and approval control. The payroll officer is the last authorized agent to finalize the input of time for processing. Prior to that, all time has been submitted by employees, approved by supervisors and reviewed again by office staff before being submitted for final input and approval by the payroll officer. Reporting is available to complete a final reconciliation of submission.

We will seek the opportunity to attain additional payroll reporting out of the NHFIRST payroll system from the Department's Payroll Officer to tighten up all other aspects of payroll reporting; However, the Jantek (swipe) and paper (oversight) systems offer certain reporting detail that may be difficult if not impossible to reconcile with the NHFIRST system at the proper level of detail for the full time and full time temp employees, which has no time and attendance (swipe) component.

#### **Observation No. 12: Mitigate State Payroll System Weakness**

##### *Observation:*

A weakness in the State's payroll system during fiscal year 2014 increased the risk that Cannon Mountain and Department employees could be paid incorrectly without detection. According to the Department of Administrative Services' Bureau of Accounting (BOA), each agency is responsible for the accuracy of their payroll, and each agency payroll officer has the ability to change payroll data, including changing or adding funding sources, pay rates, hours worked, and leave time for themselves or any other agency employee without any formal review or approval control to ensure changes are appropriate and accurately made. BOA's control guidance is for agencies to compare the most recent payroll with the payroll being processed to identify variances which would clearly identify overpayments of regular hours.

Payroll testing identified a \$713 duplicate payment made to a Cannon Mountain employee. The duplicate payment apparently resulted from a payroll change that should have been input by the Department's Payroll staff as a "change of an accounting unit" but was instead input as an "additional accounting unit".

It is not clear whether the comparison recommended by BOA would have detected the error.

##### *Recommendation:*

Cannon Mountain and the Department should work with DAS to determine whether there is an available control within the State's payroll system that would allow for a review and approval control for payroll changes made by the Department's payroll officer.

The Department should establish formal policies and procedures for an effective review, analysis, and approval of the Department's bi-weekly payroll that would mitigate the State payroll system's weakness caused by the payroll officer's current access authorities and increase the likelihood that payroll errors or frauds will be prevented or detected in a timely manner.

*Auditee Response:*

We concur that this error suggests the establishment of a more robust reconciliation procedure relative to the adding and deleting of new employees in the payroll system centrally at the Department. We will reach out to the State Payroll Manager for additional guidance wherever it may be offered to continue to reduce the possibility of such errors from occurring.

We do not concur that this should be considered an audit finding at Cannon Mountain per se as the result of a failure to follow policy or procedure of Cannon Mountain operations. A Cannon Mountain employee was identified as a result of this auditing effort. The error occurred centrally and could have affected an employee in any division or location within the whole Department.

*Department of Administrative Services' Response:*

We concur. Each agency's payroll officer has the ability to override and make changes to employees' when required to correct any errors. Centrally, the Payroll Unit within the Division of Accounting Services performs audits and reviews payments over \$4,500 as well as all duplicate checks and termination and death-related payouts. As the transaction in question did not fall into one of these categories, it was not reviewed centrally. The Department of Administrative Services (DAS) has recently filled a payroll auditor position and will continue in its efforts to educate agency payroll staff about review and validation procedures in reference to any changes to system generated entries they make internally. DAS has implemented and will continue to implement additional preventative and detective controls at the statewide level as we identify areas of risk. We believe that the controls now in place are an improvement over those in place under the old legacy GHRS system. We also believe the current legal requirement to move towards centralized human resources and payroll operations will allow us to further improve our internal controls in those areas.

**Observation No. 13: Monitor Benefits Provided Seasonal Employees**

*Observation:*

During fiscal year 2014, the Department and Cannon Mountain did not have the ability to monitor hours worked by Cannon Mountain's seasonal employees to ensure that employees who qualified for benefits such as health and dental, retirement, and leave-time benefits were provided those benefits.

Eight Cannon Mountain seasonal employees appeared to have worked sufficient hours in single seasonal positions to entitle them to certain payroll benefits during fiscal year 2014. Another ten employees have worked sufficient hours in consecutive seasonal positions (primarily summer

seasons at the Flume and winter seasons at Cannon Mountain) that could entitle them to benefits. According to the Department's personnel, there are no policies and procedures for monitoring employee work hours to ensure that seasonal employees who earn the opportunity for benefits are properly notified.

*Recommendation:*

The Department should work with the State's Division of Personnel to determine the appropriate criteria for identifying seasonal employees who become eligible for benefits, by position or by time worked, and determine the appropriate process for notifying and awarding benefits to those employees.

The Department should establish policies and procedures to effectively manage its seasonal employees' work time; to ensure that employees become eligible for benefits as part of a managed work schedule and not through lack of management's oversight of employees' work schedules and hours.

The Department should consult with appropriate parties to determine whether any liability exists for past benefit determinations and whether action is required at this time relative to benefits not having been provided during fiscal year 2014 and prior.

*Auditee Response:*

We concur and have been proactively consulting with the Attorney General's office to confirm our status relative to the existence of liabilities for past benefit determinations.

The Attorney General's office has provided a memo dated March 20<sup>th</sup>, 2012 clarifying when seasonal full-time employees are not eligible for benefits applicable to each single seasonal appointment per RSA 98-A. Department Human Resources has confirmed that there may be as many as eight employees who were affected during fiscal year 2014 and thus, may be eligible for benefits during this period worked.

Unlike the old payroll system, the new payroll system does not provide a report of all of the employee hours to be able to ensure that they do not exceed their hour limit. We believe that this is a fundamental shortcoming of the payroll system which has contributed to management's challenge with maintaining proper efficacy of oversight of hours worked by seasonal staff.

The Department will seek to develop an internal review process that the payroll manager at Cannon Mountain can use for the purpose of providing better oversight of hours worked by individuals and which can be provided to managers for the purpose of exercising better control and oversight of work schedules for seasonal employees.

*Department of Administrative Services' Response:*

We concur. We agree that it would be beneficial for the Department of Resources and Economic Development (DRED) to have documented processes for identifying seasonal employees who

become eligible for benefits as well as processes for notifying and awarding benefits to those employees. Documented procedures would benefit the Department in the areas of maintaining consistency with interpretation and implementation of State laws governing benefit eligibility for seasonal employees.

We also agree that DRED should have established processes and tracking mechanisms in place to ensure that seasonal staff hired on a full-time or part time capacity work their expected hours. We agree that if circumstances warrant Department administration having a management need for part-time employees to consistently work more than the expected hours in excess of a six month period the employees should be provided the benefits provisions allowed by statute. In order to maintain consistency with interpretation and implementation of scheduling expectations, we are in agreement that documenting and disseminating those procedures to both administration and line supervision would be an advisable practice.

#### **Observation No. 14: Review The Awarding And Reporting Of Fringe Benefits**

##### *Observation:*

Certain unreported benefits provided to Cannon Mountain employees, volunteers, and affiliates may require Federal tax reporting by Cannon Mountain.

Cannon Mountain “team members”, consisting of employees of Cannon Mountain and its food services vendor and volunteers of the Adaptive Sports Partner of North Country (ASPNC), Franconia Ski Club, and Cannon Mountain are provided with the opportunity to obtain season passes for themselves and their dependents for as little as a \$10 processing fee. The regular price for an adult season pass during the 2013/2014 ski season was \$799. New Hampshire residents may purchase a pass in advance of the season for \$599. Employees and volunteers also receive other benefits with monetary value such as free or discounted equipment rentals and ski lessons, and discounts at the retail stores, food concessions, and childcare facility.

Generally, fringe benefits are taxable and must be included in a recipient's pay, unless the law specifically excludes it. Federal Internal Revenue Service (IRS) publication 15-B is an employer's tax guide to fringe benefits. It would appear that Federal tax reporting regulations require Cannon Mountain to report certain of these benefits to the Federal Internal Revenue Service as additional wages to employees, or as miscellaneous income to non-employees.

##### *Recommendation:*

Cannon Mountain should review with appropriate subject experts whether federal tax regulations require Cannon Mountain to report the monetary value of certain benefits provided to employees, volunteers, and affiliates.

Cannon Mountain should evaluate its criteria for awarding these benefits to ensure that the benefits provided to employees, volunteers, and affiliates remain economical.

*Auditee Response:*

We concur with the recommendation regarding consideration of federal tax regulations and will seek professional tax-law guidance to determine if we are subject to any impact of IRS regulations.

**Observation No. 15: Improve Accountability And Transparency Over No-Cost Passes**

*Observation:*

Cannon Mountain does not accumulate, track, analyze, or report information about special daily and seasonal passes that are issued at no cost.

RSA 218:16 provides, “In recognition of promotional or reciprocal cooperation, the director of parks and recreation, with the approval of the commissioner, may grant special daily or seasonal passes to persons to use recreational or other areas under his jurisdiction under the following conditions: no more than one such pass, including not more than one other person, shall be assigned to an individual and use of the same shall not be transferable to others than members of the family of said recipient. Any pass of seasonal duration shall include individualized identification. The commissioner shall establish other conditions for the issuance of said passes and the director shall cancel said passes for any violation of said conditions.” During fiscal year 2014, the authority for granting no-cost daily and seasonal passes at Cannon Mountain was delegated by the Director of Parks and Recreation to Cannon Mountain’s Mountain Manager and Director of Marketing Services.

When asked for the number and type of special daily and seasonal passes issued at no cost during fiscal year 2014, Cannon Mountain reported it did not regularly accumulate, track, analyze, or report that information. Subsequent to the inquiry, Cannon Mountain prepared and provided a detailed report for the auditor’s review.

Without tracking and reporting the issuance of no-cost special daily and seasonal passes, there is a lack of accountability and transparency as to their use. Department management does not have data to review its delegation of responsibility and ensure the issuance of special daily and seasonal passes issued at no cost is as intended and is supported by a cost and benefit analysis.

*Recommendation:*

Cannon Mountain should improve the accountability and transparency over its issuance of no-cost passes. Information on the use of no-cost passes should be accumulated, tracked, analyzed, and reported for management’s review and approval. Management should ensure the analysis demonstrates their delegation of authority has been properly administered and the program is providing the intended results.

Cannon Mountain should consider whether the financial activity resulting from bartered services should be reported for Federal income tax purposes and considered for inclusion in Cannon Mountain's financial statements.

*Auditee Response:*

We concur that an accounting and reporting of no-cost passes distributed should be maintained. The Business Office at Cannon will provide an accounting of the number and type of passes made available for distribution and will update and report monthly to the Commissioner, Director of Parks and Recreation, and the Department Business Administrator. Additionally, Department management will consult annually with Cannon management regarding the effectiveness of such issuances.

Relative to the issuance of no-cost and discount passes, Cannon's General Manager has worked within the authority granted to him by the Commissioner and Director of Parks and Recreation, and within the parameters of the Winter Special Use policy.

The Department Business Administrator will seek professional tax-law guidance regarding the consideration of Federal Internal Revenue Service regulations should they be applicable.

**Observation No. 16: Improve Accountability Over Discounted Season Passes**

*Observation:*

Cannon Mountain does not separately track and report season passes issued to Cannon Mountain team members and their dependents, even though Cannon Mountain's point of sale system has the capacity to account for and report issued season passes by type and client. Cannon Mountain's Team Members consist of employees of Cannon Mountain, the contracted food services vendor, Franconia Ski Club, and Adaptive Sports Partners of the North Country (ASPNC) and certain Cannon Mountain and ASPNC volunteers.

Cannon Mountain's *Winter Special Use Policy 2013/2014* identifies a number of highly discounted season passes available to Cannon Mountain employees, service providers, volunteers, and their dependents.

- Full-time employees of Cannon Mountain, the food service vendor, Franconia Ski Club, and ASPNC, and their dependents, are eligible for season passes for a \$10 processing fee.
- Full-time seasonal employees of Cannon Mountain, the food service vendor, Franconia Ski Club, and ASPNC are eligible for season passes for a \$10 processing fee. Their legal dependents are eligible for a season pass for a \$25 processing fee.
- Part-time employees of Cannon Mountain, the food service vendor, and Franconia Ski Club and Cannon Mountain and ASPNC volunteers are eligible for season passes for a \$10 processing fee. Their first legal dependent is eligible for a season pass for a \$25 processing fee, and their other dependents are eligible for a season pass at a 50% discount.

Cannon Mountain was unable to provide auditors with a listing of its team members, and its system for recording season passes did not identify season passes by type of team member and dependent.

It is critical to have sufficient information on the issuance of reduced price passes to enable an informed review of the appropriateness of the allowed discounts and to control revenues from the sale and issuance of season passes.

During fiscal year 2014, Cannon Mountain issued 478 “Employee \$10” passes, 45 “Employee Dep \$10” passes, 205 “Employee Dep \$25” passes, two “Volunteer \$10” passes, one “Volunteer Dep \$25” pass, and an unknown number of dependent passes issued at the 50% discount. Total Team Member passes issued during fiscal year 2014 represented at least 18% of fiscal year 2014 season passes sold.

*Recommendation:*

Cannon Mountain should improve its accountability over discounted season passes. Cannon Mountain should consider modifying its policies and procedures for recording season pass transactions in its point of sale system to capture additional information and provide additional accountability over its issued season passes.

*Auditee Response:*

We concur. Statistical and demographical information relative to season pass distribution adds value to seeking new marketing and sales opportunities. Effective November 1, 2014, we now specifically track all season pass types.

**Observation No. 17: Increase Use Of Vouchers To Support Complementary Tickets**

*Observation:*

Issuance of complementary tickets without the support of a complementary ticket voucher increases the risk that control over the issuance of free tickets could be compromised.

Complimentary tickets may be issued by supervisors to mollify a customer who had a bad experience at Cannon Mountain. Granting a complementary ticket is either initiated by a supervisor giving the customer a complementary ticket voucher or by a supervisor verbally authorizing a ticket seller to issue a free ticket. Because a verbal authorization may not be documented in the point of sale system, and there is only limited subsequent review in the cash-out process, unauthorized complementary tickets could be issued by a ticket seller citing verbal authorization, with limited risk of disclosure.

*Recommendation:*

Cannon Mountain should limit the instances where complimentary tickets are issued without the support of a complimentary ticket voucher. Once limited, instances where free tickets are issued without the support of a voucher should be reviewed with the ticket seller and the supervisor who authorized the free ticket. The confirmation of the circumstances surrounding the issuance of a free ticket without a voucher should be documented by the reviewer of the transaction.

*Auditee Response:*

We concur. The accountability for all tickets issued has been improved.

Only the General Manager and Guest Services Manager at Cannon can authorize the use of complimentary tickets in resolving issues at the Guest Services counter. These tickets are held in a secure location and accessed only by or with the permission of either authorized issuing agent.

Going forward, all complimentary tickets will be pre-issued for use and recorded as such, prior to being issued as complimentary. Any unused tickets will be returned and an adjustment will be recorded to account for a final count of all tickets issued.

**Observation No. 18: Improve Controls Over Retail Operations**

*Observation:*

Cannon Mountain needs to address weaknesses in its retail store operations. Cannon Mountain's Retail Manager has been given a wide range of responsibilities that are not subject to control activities expected in a State-owned retail sales operation. The weak control structure increases the risk that errors or fraud could occur and not be detected and corrected in a timely period.

Cannon Mountain operates three retail shops: Tram Retail, Notchview Retail, and Profile Shop. Cannon Mountain's Retail Manager has been given authority to operate the retail operations with minimal oversight. The Retail Manager is responsible for the purchase of inventory for resale, the pricing of sales inventory, control over the inventory prior to sale, and the sale of the inventory. There is no independent check or verification to ensure that all purchased inventory is received and accurately input into the inventory system, and no independent review of inventory discrepancies and adjustments to inventory balances. While the Department's Retail Manager assists in the oversight of the Department's other retail operations, Cannon Mountain's retail operation runs independently of the Department Retail Manager's oversight.

During fiscal year 2014, Cannon Mountain retail sales operations reported approximately \$659,000 of sales, and \$478,000 of goods purchased for resale.

*Recommendation:*

Cannon Mountain should improve the controls over its retail operations. Cannon Mountain, with the assistance of the Department, should implement appropriate control activities for the retail operations, including review and approval controls and segregation of duties controls. Cannon Mountain should also implement monitoring controls to reasonably ensure that the implemented control activities are consistently performed and remain responsive to the risks they are intended to address.

Management information reporting of the retail activity should be prepared and reviewed by Cannon Mountain management to ensure management remains aware of the profitability and the efficiency and effectiveness of the retail operations. Periodic reporting and analyses of cost of goods sold, inventory levels, turnover, shrinkage adjustments, and other performance data should be provided to, and used by, Cannon Mountain and Department management to establish and monitor expected and actual performance of the retail operations.

Adjustments to inventory records based on periodic inventory control counts should be reported to, and reviewed by, a level of management independent of retail operations to ensure that Cannon Mountain's retail operations are operating as intended.

*Auditee Response:*

We concur that the practice of segregation of duties, proper inventory control, and the functions of ordering and receiving should be reinforced.

As a matter of regular practice, the General Manager is in regular (daily) contact with the Franconia Notch State Park Retail Manager. The Retail Manager has been given operational latitude in order to help streamline business operations, improving product selection, make overall quality improvements and thus, increase revenue via these operational improvements.

The Retail Manager with the support of the Business Office will seek improvements to its retail operations with regard to its accounting practices and controls in the areas mentioned above. Additionally, the Division (parks-wide) Retail Manager will provide added assistance as needed. The Department Internal Auditor will also stay engaged in the role of active monitoring for compliance.

**Observation No. 19: Monitor And Enforce Contract Provisions**

*Observation:*

Lack of clear responsibility for the oversight and enforcement of a contract between the Department and a Cannon Mountain food concessionaire contributed to weak oversight and enforcement of contract provisions.

During the fiscal year ended June 30, 2014, neither Cannon Mountain nor the Department actively monitored or enforced compliance with certain contract provisions intended to protect the Department's and Cannon Mountain's interests in the food concession operation. For example:

- The certification of the accuracy of the food concession revenue reported to the Department was not prepared by an independent Certified Public Accountant.
- The concessionaire did not use an escrow account to hold the portion of the prior year's gross concession income intended to fund infrastructure improvements. The concessionaire also did not report sufficient information about infrastructure improvements to allow the Department to ensure the activity was in accordance with the contract's intent.
- The Department could not demonstrate it had considered and agreed that the \$1 million fire and liability coverage maintained by the concessionaire was "sufficient to protect the State's interest in the concession premises and the equipment thereon and in no amount less than the full appraised value of the buildings" as required by the contract.
- Prior to the auditor's inquiry on August 19, 2014, the Department did not notice it had not received the concessionaire's April commission payment in the amount of \$20,411. Upon discussion with the concessionaire, the Department determined it had no record of receiving a check reported to have been issued on May 14, 2014. A replacement check was subsequently received and deposited by the Department.

Weak contract monitoring efforts increases the risk that the Department's contracted interests will not be protected.

*Recommendation:*

The Department should ensure contract provisions are effectively monitored and enforced. The Department and Cannon Mountain should ensure that any delegation of contract monitoring responsibilities are understood and supported by appropriate policies and procedures to ensure the Department's interests are protected.

The food services concessionaire should be required to adhere to all contract provisions intended to protect the Department's interests. Information received from its contractor should be reviewed for accuracy and compliance. Instances of noncompliance with contract provisions should be pursued and resolved.

*Auditee Response:*

We concur that contract provisions should be effectively monitored and enforced.

The General Manager has been delegated to have direct oversight for this contract and has worked to that end. However, in response to some errors in provisional oversight, we will also move to assign a more proactive role by the department business administrator to assist in the enforcement of contract compliance via periodic review with the General Manager.

With regard to addressing the specific oversights identified, there is a renewed contract approved effective November 1, 2014 with Centerplate which clarifies the provision requiring certification of accuracy of revenue reporting by an independent CPA. The contract also includes revised language clarifying the type and amounts of insurance coverage the State requires to protect its interest. (A certificate of liability insurance is included). Capital improvements must be determined upon mutual agreement. On that basis, we believe we have and will attain sufficient information to be sure improvements are in accordance with the contract's intent.

We will also work with Centerplate regarding the use of an escrow account for the "Refurb Account" (2% fund). The General Manager (on behalf of the Department) and the Food and Beverage Director (Centerplate) discuss the amount of money in this fund and its potential use (and the related improvements) until concurrence is reached every spring and summer, and projects are undertaken throughout the spring, summer, and fall.

With regard to the missing check from Centerplate, to minimize this error in the future and with the support of the department business office, we now track all partnership checks monthly on a separate record to ensure compliance and prompt payment.

#### **Observation No. 20: Safeguard And Report State Assets**

##### *Observation:*

During fiscal year 2014, Cannon Mountain did not fully communicate changes in equipment and other property assets to the Department, or consistently tag or otherwise identify purchased equipment as State owned.

- 1) An expenditure test sample identified two purchased equipment items, a utility vehicle and a steel-edge snow pusher, that did not have State plates or identification tags applied. Cannon Mountain reported it had not received the State equipment inventory tags from the Department for the purchased equipment.
- 2) All-Terrain Vehicles (ATVs) purchased by the Department during fiscal year 2014 having a cost of \$10,000 or greater, including the utility vehicle mentioned above, were erroneously excluded from equipment reported on the Department's year-end Exhibit E, Long-Term Asset Rollforward form.
- 3) Cannon Mountain reported it was unsure whether all of its departments performed physical equipment inventory inspections during fiscal year 2014. Additionally, the results of those inspections that were performed were not reported to the Department for inclusion on the Department's Equipment (P-16) Inventory Listing. It was unclear whether discrepancies identified by the counts were appropriately resolved.
- 4) Cannon Mountain did not report its real property additions and improvements to the Department for fiscal year 2014.

*Recommendation:*

The Department should ensure that Cannon Mountain is complying with all State policies and procedures for the safeguarding and reporting of State assets. The Department and Cannon Mountain should improve their communication of information related to the performance, results, and review of the related control activities.

As part of its monitoring activities, the Department should ensure that information related to the real property improvements at Cannon Mountain is communicated to the Department's Design, Development and Maintenance section for its review and consideration, and for Department recordkeeping purposes.

*Auditee Response:*

We concur with the need to ensure that all assets in inventory are properly recorded as such. The Department Business Office will work more directly and improve communication with the Business Manager at Cannon to confirm that all assets received are tagged and recorded per State policy and inventory tag procedures. The Department Internal Auditor will also be engaged to proactively ensure proper accountability of all assets at Cannon Mountain via semi-annual audits.

**Observation No. 21: Establish Controls Over Equipment Rental Inventory**

*Observation:*

Cannon Mountain has not established policies and procedures for purchasing and inventorying rental shop inventory. The Manager of Cannon Mountain's rental shop estimates the shop has approximately \$180,000 - \$200,000 of inventory on hand, and purchases approximately \$90,000 of new equipment to rent each year.

The purchases of inventory for the rental shop are made outside of the State's normal purchasing controls. Annually, the Manager prepares a budget for new equipment with details of pricing from vendors. The budget is discussed with the Mountain Manager who approves the purchases, although documentation of the approval is not necessarily retained. When purchased equipment is received, a Receiving and Inspection report is prepared, and the equipment items are scanned into the Rental Shop's inventory. The Manager stated there is no reconciliation or other control to ensure all purchased equipment is scanned into the inventory system. The Manager reports a physical inventory of the rental equipment is performed in the fall and in the spring, but the results of the inventory are not provided to anyone outside of the shop for review and comparison to reported amounts.

The lack of policies and procedures to control the rental shop equipment inventory increases the risk that not all purchased equipment is recorded in the inventory and that any equipment missing from inventory will not be detected in the normal course of business.

*Recommendation:*

Cannon Mountain should establish controls over its equipment rental inventory to lessen the risk that inventory is not properly controlled and accounted for.

The Department should review and approve purchases of rental shop equipment.

Reconciliations should be prepared to ensure purchased inventory is received and included in inventory records. Cannon Mountain and Department management should implement reviews, including the results of comparisons of physical inventory counts to inventory records.

*Auditee Response:*

We concur that there should be a record and report of inventory purchased and on hand. We will extend enforcement of standard inventory accountability to the rental shop to include periodic review and audit of all rental equipment purchases and inventories, by our Internal Auditor.

Documented approval for the purchase of all rental equipment inventories will be required and retained by the Cannon Business Office and will be made available on request to the Department Business Administrator and Internal Auditor as necessary for review.

**Observation No. 22: Establish Policies And Procedures To Review Filings Of Statements Of Financial Interests**

*Observation:*

Members of the Cannon Mountain Advisory Commission (CMAC) have not consistently filed Statements of Financial Interests required by RSA 15-A. During calendar year 2013, all but one CMAC member filed a Statement of Financial Interests and during calendar year 2014, none of the CMAC members filed a Statement of Financial Interests. One of the Department's directors filed a required Statement of Financial Interests for calendar year 2013, and completed a Statement for calendar year 2014, but there was no record of the calendar year 2014 Statement being on file with the Secretary of State.

RSA 15-A, *Financial Disclosure*, requires designated officials to file a Statement of Financial Interests annually. Pursuant to RSA 15-A:1, *Purpose*, "The purpose of this chapter is to ensure that the performance of official duties does not give rise to a conflict of interest, by requiring the following persons to file a statement of financial interests with the secretary of state."

Pursuant to RSA 15-A:6, "No person required to file a statement of financial interest pursuant to RSA 15-A:3, I, shall be eligible to serve in his or her appointed capacity prior to filing a statement in accordance with this section."

Pursuant to RSA 15-A:7, "Any person who knowingly fails to comply with the provisions of this chapter or knowingly files a false statement shall be guilty of a misdemeanor."

*Recommendation:*

The Department should establish policies and procedures to review the filing status of employees, and others associated with the Department, who are required to file Statements of Financial Interests.

The Department should encourage required individuals to file timely Statements of Financial Interests, including advising those individuals of statutory consequences if timely filings are not made.

*Auditee Response:*

We concur.

The Department Business Office maintains a schedule of all reporting requirements for the agency and will continue to review regularly to ensure that filing deadlines for all reports are met.

As a note, statements of financial interest were on file at Parks for both calendar years 2013 and 2014. They were signed on 1-7-13, 1-8-14, and 4-3-14. Neither the Department nor the employee contacted the Secretary of State's office to confirm that the statement was received and is in their files.

With regard to CMAC committee members, enforcement of the statute governing the requirements of the committee falls to the Secretary of the State of New Hampshire. The Chair of the committee itself maintains responsibility for timely submissions of all reports as required by the statute. The Department has no authority to enforce or require compliance to the statute. We may ask for them or, as a courtesy, remind the committee of its obligations and will endeavor to do so.

**Observation No. 23: Establish Policies And Procedures For Monitoring Mittersill Project**

*Observation:*

Cannon Mountain has not reviewed copies of the Franconia Ski Club's audited financial statements to ensure the Club is operating in accordance with its contract agreement with Cannon Mountain.

The Franconia Ski Club (FSC) founded in 1933 is one of the oldest ski racing organizations in the United States. The FSC operates out of the Ernie's Haus at Cannon Mountain and has had a long standing agreement and relationship with Cannon Mountain. On February 6, 2013, Governor and Council authorized Cannon Mountain to amend its agreement with the FSC effective February 6, 2013 through February 5, 2033, with an option to renew for three additional five-year periods. As part of the agreement, FSC will make \$3.5 million of improvements to Cannon Mountain including snowmaking improvements, new and existing terrain enhancements,

and a race/training venue project at Mittersill at Cannon Mountain, known as the Mittersill Project. The funding, design, planning, permitting, construction, completion, and all related infrastructure of the project are to be completed by the Club in accordance with all applicable State and Federal guidelines, and surrendered wholly to the State upon completion. To provide the funds for the Mittersill Project, FSC has established a Capital Campaign seeking donations.

According to the contract between Cannon Mountain and FSC, “The Club shall deliver a copy of its audited financial statements, as provided to the Club’s Board of Directors, following the end of each fiscal year to the Director [of Parks and Recreation].”

Cannon Mountain reports it is not involved in the fund raising efforts for the Mittersill Project, and while Cannon Mountain management receives periodic verbal updates regarding fund raising efforts, Cannon Mountain has not requested, and the FSC has not provided, copies of FSC’s audited financial statements.

Cannon Mountain also reported it has not yet started to account for and report the improvements at Cannon Mountain funded from the Mittersill Project.

*Recommendation:*

Cannon Mountain and the Department should establish policies and procedures for monitoring its contract with the FSC and for ensuring that the Mittersill Project proceeds as intended.

Cannon Mountain, with the assistance of the Department, should receive and closely review FSC audited financial statements.

Cannon Mountain, with the assistance of the Department, should determine the appropriate accounting and reporting of the Mittersill Project, including the assets purchased and built by the Project.

Cannon Mountain and the Department should maintain oversight for all construction activity at Cannon Mountain, and ensure that all construction activity meets the Department’s standards and is suitably documented to allow for future operation and maintenance, and to properly account for and report those improvements.

*Auditee Response:*

We concur with the recommendations regarding proper accounting of all assets purchased and built by the project. We will record the acquisition of any new assets per State asset reporting. We will also seek guidance from the Director of Accounting, Department of Administrative Services and our Department’s legal counsel to determine how the Department should record the benefit we have been given from this contract with particular focus on how and when assets of the project are to be recognized.

We will ensure that FSC provides its financial reports annually which will be reviewed by the Department Business Administrator and Cannon General Manager with consideration of where and how the funds for our benefit are being held and managed.

Cannon does receive weekly and monthly (verbal) reports regarding the fundraising for the project. We will seek to procure published reporting of fund-raising activity although providing this information is not required under the terms of our agreement.

We currently oversee and maintain control over all activity and purchases related to the project and any and all construction related to it on a regular basis as frequently as weekly. The project plan has been co-drafted by Cannon and FSC. We feel that the Department's standards are being met.

#### **Observation No. 24: Determine Budgetary Status Of Ski School And Concession Operations**

##### *Observation:*

The financial activity of Cannon Mountain's ski school and concession operations is accounted for as an unbudgeted revolving account in the State's accounting system, NHFirst. While "appropriations" are posted in NHFirst to provide limits on expenditures for the operations, the amounts are set by the Department and are not "budgeted appropriations" subject to the State's budgetary approval process.

Generally, all State expenditures are subject to budgetary controls, unless otherwise exempted by law. Cannon Mountain referenced a 1991 Governor and Council action as providing authority for establishing the ski school and concession account as an unbudgeted revolving account.

By utilizing a revolving account, ski school and concession expenditures are not subject to the State's budgetary control procedures.

During fiscal year 2014, the ski school and concession revolving account reported revenues of approximately \$1.6 million and expenditures of approximately \$1.1 million.

##### *Recommendation:*

Cannon Mountain should consider the continued requirement and appropriateness of excluding its school and concession operations from the State's budget process. To increase transparency, accountability, and controls, Cannon Mountain should include its school and concession operations in its budget submissions.

*Auditee Response:*

We concur. Upon full consideration, and in agreement with the Department of Administrative Services, we will include the skis school and concessions operations in the state's budget process.

*Department of Administrative Services' Response:*

We concur that Cannon Mountain should include its school and concession operations in future budget submissions. RSA 216-A:3-i, noted below for reference, delineates the makeup of the State Park Fund, with RSA 216-I:3-i, I,II specifically describing the methodology for the expenditure of State park funds and State owned ski account funds in excess of those that are previously authorized in the operating budget.

## STATE COMPLIANCE COMMENTS

### **Observation No. 25: Comply With Statutory Requirements**

*Observation:*

Certain statutes affecting Cannon Mountain operations could be clarified to remove language that does not appear to reflect the current operations of Cannon Mountain and the Department, and to further define certain activity.

1. The Commissioner has not appointed an unclassified administrator of ski area marketing and ski services. RSA 12-A:25 directs the appointment of an administrator of ski area marketing and ski services as well as a mountain manager.

According to the Department, the administrator of ski area marketing and ski services position was not filled as the position was not funded in the State Operating Budget.

2. RSA 219:21, I, related to the Department purchasing merchandise for resale, refers to RSA 21-I:18, V, a repealed statute.
3. RSA 219:21, refers to the Department operating the ski school, ski rental and repair, souvenir, and food services concessions at Mount Sunapee and Cannon Mountain ski areas. Currently, the Mount Sunapee ski operations are operated by the lessee.
4. RSA 12-A:29-c and RSA 216-A:3-e require the Department to submit reports related to Cannon Mountain. The Department was not current or complete in filing its statutorily-required reports during fiscal year 2014.
5. RSA 12-A:15 allows the Department to participate in package plan programs with voluntary corporations, which includes agreements that may relate to the development, promotion, administration, and sales of package plan programs. Such agreements allow the Department to provide voluntary corporations a mutually agreed upon number of tickets or vouchers for tickets at a mutually agreed upon discounted rate in order to participate in the package plan program for promotional purposes in lieu of dues to the voluntary corporation. The Commissioner of the Department is required to make quarterly reports on revenue derived from participation in package plan programs to the Senate President, the Speaker of the House, and Governor and Council.
6. RSA 218:16 allows the Department to issue special daily or seasonal passes to persons to use recreational or other areas under the Department's jurisdiction with certain restrictions.

The Department reports its Parks' Fee Package, which is submitted to and approved by the Fiscal Committee, and not RSA 218:16 authorizes Cannon Mountain's issuance of complimentary tickets. The Parks' Fee Package provides fewer restrictions on the issuance of complementary tickets than RSA 218:16.

7. The Department has not submitted a Capital Projects budget to the General Court, which is required by RSA 216-A:2, *Duties, Director of Parks and Recreation*, paragraph VII. The Department reports it submits plans and requests for capital improvements for Cannon Mountain under the process identified in RSA 12-A:29-b, *Cannon Mountain Advisory Commission*. The Department considers RSA 216-A:2 and RSA 12-A:29-b to create a duplication of effort.

*Recommendation:*

The Department should comply with statutory requirements.

The Department should review and assess the statutes affecting the Department's operations. If the Department determines that certain statutes no longer have relevancy, the Department should request the statutes be appropriately amended.

The Department should seek legislative clarification for statutes in which the Department is unsure of the statutory requirements.

*Auditee Response:*

We concur with the recommendations. The 2010 NH Division of Parks and Recreation Ten-Year Strategic Development and Capital Improvement Plan sets forth goals and strategies to: "clarify statutory intent and framework within which the Division operates to reduce cumbersome, conflicting, and contradictory legislative direction so that operations can achieve the vision."

With specific regard to the numbered items:

1. There is no position number for this position. This position no longer exists and there are no plans to re-establish it. The duties are filled by a classified employee. The statute needs to be changed to remove this position.
2. The statute needs to be amended to provide a correct reference.
3. The statute needs to be amended to reflect the lease of Sunapee Ski area.
4. The Department has requested a consolidation of reports, including Cannon reporting, as part of the fiscal years 2016/2017 budget.
5. The Department will seek clarification of the relationship between the Package Program contained in statute verses the Program as implemented. The agency has requested a consolidation of reports, including Cannon reporting, as part of the fiscal years 2016/2017 budget and will include our corporate sales programs and/or other package plan programs (lodging property ticket sales during the winter and summer months).
6. RSA 218:16 does not prohibit the Commissioner from allowing Cannon Mountain to issue complimentary tickets under an approved Fee Package under RSA 216-A:3-g Fees for Park

System that allows the agency “to adjust fees according to market conditions and trends as is the common practice in private industry.” However, this practice should be clarified by seeking to amend RSA 218:16.

7. We agree with the statement above that, “The Department considers RSA 216-A:2 and RSA 12-A:29-b to create a duplication of effort” and would seek to correct the statutes accordingly.

### **Observation No. 26: Submit Quarterly Reports On Season Passes Sold At Reduced Rates**

#### *Observation:*

Reports issued by Cannon Mountain of season passes sold at reduced rates during fiscal year 2014 did not include information required by RSA 227:14.

Pursuant to RSA 227:14, “All season passes, including those for different age groups or military service, established by the department for the specific use of the winter facilities at Cannon Mountain aerial tramway and ski area shall be made available to any resident of this state at a 25 percent discount. For the purposes of this section, "resident of this state" means a person whose domicile is in this state. To qualify for the discount, a resident shall provide proof of residency and purchase the pass prior to December 15 of the year in which the pass becomes effective...The commissioner of the department of resources and economic development shall make quarterly reports on season passes issued under this section to the senate president, the speaker of the house of representatives, and the governor and council.”

The reports submitted by Cannon Mountain during fiscal year 2014 summarized season passes issued but did not identify passes issued at a discount to New Hampshire residents.

Subsequent to filing the reports, the Department’s Internal Auditor determined the reports submitted for the first, second, and third quarters of fiscal year 2014 were inaccurate. Reportedly due to oversight, the Department did not submit corrected reports, and did not submit a report for the fourth quarter.

#### *Recommendation:*

Cannon Mountain and the Department should include information regarding season passes sold at reduced rates to New Hampshire residents in its quarterly reporting to comply with RSA 227:14. The reports should be reviewed for accuracy and submitted timely.

If the Department determines that the reporting requirement no longer serves the purpose of the State and Department, the Department should request that the statute be appropriately amended.

*Auditee Response:*

We concur with the recommendation. The Department Business Administrator will review quarterly for accuracy and compliance. We are also actively seeking to address any opportunity that may allow us to reduce or consolidate reporting requirements for the Department at this time.



JEFFRY A. PATTISON  
Legislative Budget Assistant  
(603) 271-3161

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

## State of New Hampshire

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

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

### **Independent Auditor's Report**

*To The Fiscal Committee Of The General Court:*

### **Report on the Financial Statement**

We have audited the accompanying financial statement of Cannon Mountain which comprises the Statement of Revenues and Expenditures - Governmental Funds, for the fiscal year ended June 30, 2014, and the related notes to the financial statement.

### *Management's Responsibility for the Financial Statement*

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

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Basis For Qualified Opinion***

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

### ***Qualified Opinion***

In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph, the financial statement referred to above presents fairly, in all material respects, the respective revenues and expenditures of Cannon Mountain's portion of the State of New Hampshire's General Fund and Capital Projects Fund for fiscal year ended June 30, 2014 in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis Of Matter***

As discussed in Note 1, the financial statement referred to above reports certain financial activity of Cannon Mountain. It does not purport to, and does not, present fairly the financial activity of the State of New Hampshire as of June 30, 2014 in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

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

### ***Other Reporting Required By Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2015 on our consideration of Cannon Mountain's internal control over financial reporting

and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cannon Mountain's internal control over financial reporting and compliance.

*Office of Legislative Budget Assistant*

Office Of Legislative Budget Assistant

June 16, 2015

**STATE OF NEW HAMPSHIRE  
CANNON MOUNTAIN**

**STATEMENT OF REVENUES AND EXPENDITURES-GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<b>General Fund</b>	<b>Capital Projects Fund</b>	<b>Total Governmental Funds</b>
<b>Restricted Revenues</b>			
Ski Revenue	\$ 2,786,776	\$ -0-	\$ 2,786,776
Season Passes	1,488,556	-0-	1,488,556
Summer Revenue	1,285,967	-0-	1,285,967
Ski School/Rental Revenue	999,696	-0-	999,696
Retail Sales	658,997	-0-	658,997
Sunapee Lease	615,399	-0-	615,399
Commission Sales	218,050	-0-	218,050
Other	13,774	-0-	13,774
<b>Total Restricted Revenues</b>	<b>8,067,215</b>	<b>-0-</b>	<b>8,067,215</b>
<b>Expenditures</b>			
Salaries And Benefits	3,007,722	-0-	3,007,722
Utilities	1,154,990	-0-	1,154,990
Current Operating Expenses	929,365	-0-	929,365
Debt Service	714,941	-0-	714,941
Unemployment And Workers' Compensation	638,850	-0-	638,850
Merchandise For Resale	478,005	-0-	478,005
Rents And Leases	355,519	-0-	355,519
Maintenance	308,329	-0-	308,329
Promotion And Marketing	303,187	-0-	303,187
Equipment	78,295	-0-	78,295
Capital Projects	-0-	641,856	641,856
<b>Total Expenditures</b>	<b>7,969,203</b>	<b>641,856</b>	<b>8,611,059</b>
<b>Excess (Deficiency) Of Revenues Over (Under) Expenditures</b>	<b>98,012</b>	<b>(641,856)</b>	<b>(543,844)</b>
<b>Other Financing Sources (Uses)</b>			
Transfer To State Parks Account (Note 3)	(324,903)	-0-	(324,903)
Net Appropriations (Note 5)	-0-	641,856	641,856
<b>Total Other Financing Sources (Uses)</b>	<b>(324,903)</b>	<b>641,856</b>	<b>316,953</b>
<b>Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses</b>	<b>\$ (226,891)</b>	<b>\$ -0-</b>	<b>\$ (226,891)</b>

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

**STATE OF NEW HAMPSHIRE  
CANNON MOUNTAIN**

**NOTES TO THE FINANCIAL STATEMENT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Cannon Mountain financial statement 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. Reporting Entity**

Cannon Mountain is a component of Franconia Notch State Park operated by the Department of Resources and Economic Development, Division of Parks and Recreation, an organization of the primary government of the State of New Hampshire. The accompanying financial statement reports certain financial activity of Cannon Mountain.

The financial activity of Cannon Mountain is accounted for and reported in the State's General and Capital Projects Funds 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. Cannon Mountain, as a component of a department of the primary government, accounts for only a small portion of the General and Capital Projects Funds and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to Cannon Mountain cannot be determined. Accordingly, the accompanying financial statement is not intended to show the financial position or changes in fund balances of Cannon Mountain in the General and Capital Projects Funds. Likewise, the State CAFR reports governmental activities for the State as a whole in the State's government-wide financial statements. Cannon Mountain accounts for only a small portion of the State's governmental activities and the governmental activities related to Cannon Mountain cannot be determined. Accordingly, the accompanying financial statement is not intended to show a governmental activities presentation of Cannon Mountain's financial activities. The accompanying financial statement is intended to show a fund presentation of Cannon Mountain's revenues and expenditures in the Governmental Funds.

**B. Financial Statement Presentation**

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

The financial activity of Cannon Mountain is accounted for in the General and Capital Projects Funds of the State of New Hampshire. In accordance with RSA 216-A:3-i, the State Treasurer maintains a separate and distinct account known as the State Park Fund comprised of the Park Account and the Ski Area Account. The Treasurer deposits into the Ski Area Account “actual revenue...from fees, services, accommodations, rentals, revenue from lift and tramway operations, retail sales, and net profit from concession operations in excess of budget expenses.” The Ski Area Account is reported in the State’s General Fund.

All income from the lease of the State ski area at Mount Sunapee is deposited into the Cannon Mountain Capital Improvement Fund, a revolving fund established by RSA 12-A:29-c. The revolving fund is used to pay debt service for capital improvements for the ski area and related State park facilities at Cannon Mountain. The Cannon Mountain Capital Improvement Fund is reported in the State’s General Fund. Cannon Mountain reports its financial activity in the funds described below.

#### Governmental Fund Types:

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

*Capital Projects Fund:* The Capital Projects Fund is used to account for certain capital improvement appropriations, which are or will be primarily funded by the issuance of State bonds or notes, other than bonds and notes for highway or turnpike purposes, or by the application of certain federal matching grants.

#### Reporting Period

The accompanying Cannon Mountain financial statement is presented for the fiscal year ended June 30, 2014.

### **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 the State generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. An exception to this policy is federal grant revenue, which generally is considered to be available if collection is expected within 12 months after year end. Taxes, grants, licenses, and fees associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

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

#### **D. Revenues And Expenditures**

In the governmental fund financial statements, revenues are reported by source and expenditures are reported by function. For budgetary control purposes, revenues are further classified as either “unrestricted” (general purpose) or “restricted.” Unrestricted revenues are credited directly to the appropriate fund balance upon recording in the State’s accounting system. Pursuant to the State’s operating budget, unrestricted or general purpose revenues collected by an agency are not used as a direct source of funding for agency operations but are available to fund any activity accounted for in the fund. The recording of unrestricted revenues has no effect on an agency’s authorization to expend funds.

Restricted revenues are either by State law or by outside restriction (e.g. federal grants), available only for specified purposes and are credited to the agency’s accounting unit to which the restricted revenue is budgeted upon recording in the State’s accounting system. Restricted revenues recorded by an agency are direct sources of funding for budgeted agency operations (appropriations).

Unused restricted revenues at year end are either lapsed or generally recorded as a committed or assigned fund balance. When both unrestricted (general purpose) and restricted funds are available, it is the State’s policy to use restricted revenues first.

Other Financing Sources (Uses) – these additions to and reductions from resources in governmental fund financial statements normally result from transfers from/to other funds and financing provided by net appropriations and bond proceeds. Transfers are reported when incurred as “Transfers In” by the receiving fund and as “Transfers Out” by the disbursing fund.

#### **E. Receivables**

In the governmental fund financial statement, receivables are primarily for accruals that are received by Cannon Mountain within 60 days after year-end.

#### **F. Encumbrances**

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services, the encumbrance is liquidated and the expenditure and liability are recorded.

## **G. 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 for State agencies, including Cannon Mountain, is prepared principally on a modified cash basis and adopted for the governmental funds, with the exception of the Capital Projects Fund and certain proprietary funds. The Capital Projects Fund budget represents individual projects that extend over several fiscal years. Since the Capital Projects Fund comprises appropriations for multi-year projects, it is not included in the budget and actual comparison schedule. Fiduciary funds are not budgeted.

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

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

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. At June 30, 2014, Cannon Mountain's unliquidated encumbrances in the General Fund and Capital Projects Fund were \$28,445 and \$24,998, respectively.

**NOTE 2 - LONG-TERM DEBT**

The principal and interest on various general obligation bonds used to finance capital improvements at Cannon Mountain are charged to Cannon Mountain’s accounts. The following is a summary of the changes in long-term liability for bonds during fiscal year 2014.

**Debt Summary For Fiscal Year 2014**

	<u>Balance July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2014</u>
Outstanding Debt	\$ 4,267,952	\$ 489,125	\$ 544,180	\$ 4,212,897
<b>Total</b>	<b>\$ 4,267,952</b>	<b>\$ 489,125</b>	<b>\$ 544,180</b>	<b>\$ 4,212,897</b>

**Debt Maturity:** All bonds issued for Cannon Mountain are general obligation bonds, which are backed by the full faith and credit of the State. The anticipated source of repayment and annual maturities are as follows:

<u>Payable June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 558,329	\$ 169,734	\$ 728,063
2016	528,456	145,606	674,062
2017	526,591	122,022	648,613
2018	524,094	100,105	624,199
2019	522,030	78,451	600,481
2020-2024	799,395	246,253	1,045,648
2025-2029	529,255	105,713	634,968
2030-2033	224,747	18,656	243,403
<b>Total</b>	<b>\$ 4,212,897</b>	<b>\$ 986,540</b>	<b>\$ 5,199,437</b>

**NOTE 3 - TRANSFER TO STATE PARKS OPERATIONS**

The “Transfer To State Parks Account” represents the transfer of excess revenue over expenditures on a modified cash basis. Laws of 2013, Chapter 144, section 91, requires for each fiscal year of the biennium ending June 30, 2015 that \$500,000 in net revenue derived by the Department of Resources and Economic Development from fees, services, accommodations, rentals, revenue from lift and tramway operations, retail sales, and concession operations for Cannon Mountain be deposited in the State Park Fund.

Cannon Mountain transferred \$324,903 to the State Park Fund which represented Cannon Mountain’s budgetary net revenue for fiscal year 2014. The \$226,891 deficiency in revenues and other financing sources under expenditures and other financing uses primarily represents the net effect of accruals not reflected in the budgetary net revenue.

#### **NOTE 4 - MITTERSILL PROJECT**

Effective with New Hampshire Governor and Council approval on February 6, 2013, the New Hampshire Department of Resources and Economic Development, Division of Parks and Recreation, Cannon Mountain entered into an amended and restated agreement with Franconia Ski Club (FSC) of Franconia, New Hampshire. The agreement authorized Cannon Mountain's receipt of a gift of an estimated \$3.5 million snowmaking, new and existing terrain enhancement, and race/training venue project at Mittersill, an area at Cannon Mountain, including the funding, design, planning, permitting, construction, completion, and all related infrastructure of said project, to be completed by the FSC in accordance with all applicable State and Federal guidelines, and surrendered wholly to the State (Cannon Mountain) upon completion of the project.

At June 30, 2014, the Mittersill Project was in the planning and design phase. FSC was in the midst of its capital campaign to raise funds in the form of charitable contributions necessary to complete the Mittersill Project in accordance with the Mittersill Plan, as approved and accepted by the State. The State has agreed to reasonably cooperate with the FSC in such fund raising efforts, but the State has no obligation to contribute or raise funds itself nor is the State obligated to complete any aspect of the Mittersill Project that remains unfunded.

#### **NOTE 5 - NET APPROPRIATIONS**

Net Appropriations reflects appropriations for expenditures in excess of restricted revenues. Net appropriations are made from fund balance of the respective Governmental Fund.

#### **NOTE 6 - EMPLOYEE BENEFIT PLANS**

##### *New Hampshire Retirement System*

The New Hampshire Retirement System is the administrator of a cost-sharing multiple-employer Public Employee Retirement System (The Plan) established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The Plan is a contributory defined-benefit plan providing service, disability, death, and vested retirement benefits to members and beneficiaries. The Plan covers substantially all full-time State employees, public school teachers and administrators, permanent firefighters, and police officers within the State of New Hampshire.

Full-time employees of political subdivisions, including counties, municipalities, and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation. The Plan 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 its members and beneficiaries.

Group I members at age 60 (age 65 for members beginning service on or after July 1, 2011) qualify for a normal service retirement allowance based on years of creditable service and

average final compensation (AFC). The yearly pension amount is  $1/60$  (1.67%) of average final compensation multiplied by years of creditable service ( $1/66$  of AFC times creditable service for members beginning service on or after July 1, 2011). AFC is defined as the average of the three highest salary years for members vested as of January 1, 2012 and five years for members not vested as of January 1, 2012. At age 65, the yearly pension amount is recalculated at  $1/66$  (1.5%) of AFC multiplied by years of creditable service.

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

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

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

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

All covered Cannon Mountain employees are members of Group I.

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

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

### *Funding Policy*

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. By statute, Group I members contributed 7.0% of gross earnings. Employer contributions required to cover that amount of cost not met by the members' contributions are

determined by a biennial actuarial valuation by the system's actuary using the entry age normal funding method and are expressed as a percentage of gross payroll. The State funds 100% of the employer cost for all of Cannon Mountain's employees enrolled in the Plan.

Cannon Mountain's normal contribution rate was 10.51% of the covered payroll for the fiscal year ended June 30, 2014. Cannon Mountain's normal contributions for fiscal year 2014 were \$108,904.

#### *Other Postemployment Benefits*

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

Cannon Mountain's Medical Subsidy normal contribution rate during fiscal year 2014 was 1.62% of the covered payroll for its Group I employees. Cannon Mountain's contributions for the Medical Subsidy for fiscal year 2014 were \$16,786.

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 No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The State's long-term cost of retirement health care and Other Post-Employment Benefits (OPEB) are determined actuarially on a state-wide basis as required under GASB 45. The most recent actuarial valuation was performed as of December 31, 2012. Disclosure of the annual OPEB cost, funding status, net OPEB obligation components of cost and other information

concerning the plan are provided in the State of New Hampshire Comprehensive Annual Financial Report.

**NOTE 7 - CONTINGENT AND LIMITED LIABILITIES: PAYROLL MATTERS:**

The Department and Cannon Mountain have become aware of potential compliance concerns with State statutes addressing benefits to be provided to seasonal employees. An estimate of potential liability for Cannon Mountain related to these circumstances cannot be determined at this time.

## CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of June 16, 2015, of the current status of the observations and other issues and concerns contained in the audit report of Cannon for the ten months ended April 30, 2001. That report can be accessed at, and printed from the Office of Legislative Budget Assistant website: <http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>.

	<u>Status</u>		
<i>Internal Control Comments</i>			
<i>Reportable Conditions</i>			
<b><u>Administrative Issues</u></b>			
1. All Expenditures Should Be Subject To Pre-Approval By Management	●	●	●
2. Monitoring Of Food Services Contract Should Be Improved ( <i>See Current Observation No. 19</i> )	●	○	○
3. Use Of Receiving And Inspection Procedures And Reports Should Be Made More Effective	●	●	○
4. Controls Over The Issuance Of Complimentary Tickets Should Be Improved ( <i>See Current Observation No. 17</i> )	●	○	○
5. Controls Over Discounting Or Adjusting Lift Ticket Prices Should Be Improved	●	●	●
6. Controls Over The Issuance Of Season Passes Could Be Improved	●	●	●
7. Controls Over Deposit Process Should Be Improved	●	●	●
8. Segregation Of Duties Over Processing Revenues Should Be Improved	●	○	○
9. Controls Over Rental, Repair, And Nursery Revenues Should Be Improved	●	●	●
10. Sales Of Excess Ski And Bike Rental Inventory Should Be Subject To Management Review	●	●	●
11. Controls Over The Inventorying And Sale Of Rental Shop Inventory Should Be Improved	●	●	●
12. Accountability Over Revenue Transactions At Echo Lake Beach Facilities Should Be Improved	●	●	○
13. Reconciliation Process For The Depository Account Should Be Improved	●	●	●
14. Revenues Should Be Recorded More Timely	●	●	●
15. Checks Should Not Be Made Payable To Cash Or Employees To Fund Revolving And Petty Cash Accounts	●	●	●
16. Computer Access Password Controls Should Be Better Utilized	●	●	●
<b><u>Equipment Issues</u></b>			
17. Procedures For The Annual Inventory Of Equipment Should Be Improved ( <i>See Current Observation No. 20</i> )	●	○	○
18. Controls Should Be Established To Ensure Equipment Is Properly Identified And Tagged When Acquired ( <i>See Current Observation No. 20</i> )	●	○	○
19. Physical Security Over Buildings And Equipment Should Be Improved	●	○	○

20. Discrepancy Reports Should Be Filed To Report Lost, Stolen, Or Damaged Equipment (*See Current Observation No. 20*) ● ○ ○

**Retail Sales Operations Issues**

21. Management Oversight Of The Retail Sales Operations Should Be Increased (*See Current Observation No. 18*) ● ○ ○
22. Controls Over Retail Sales Accountability Should Be Improved ● ● ●
23. Segregation Of Duties Should Be Established Over Retail Sales And Retail Inventory Control (*See Current Observation No. 18*) ● ○ ○
24. Controls Over Purchases Of Retail Inventory Should Be Improved ● ● ○
25. Physical Controls Over Retail Inventory Should Be Improved ● ● ●
26. Merchandise Should Be Recorded Into Inventory Prior To Being Offered For Sale (*See Current Observation No. 18*) ● ○ ○
27. Periodic Control Counts Of Saleable Inventory Should Be More Accurate ● ● ○
28. Additional Training And Support On The Use Of The Retail Operation's Perpetual Inventory System Is Needed ● ● ○

**Payroll Issues**

29. Review And Approval Of Hours Worked Should Be Implemented (*See Current Observation No. 11*) ● ○ ○
30. Management Information System's Reporting Of Ski School Employee Activity Should Be Improved ● ● ●
31. Time Recording Procedures Need To Be Emphasized In The Employee Manual ● ● ○

***State Compliance Comments***

32. Discounts On Season Passes Should Be Applied And Reported As Required By Statute (*See Current Observation No. 26*) ● ○ ○
33. Report Of The Activities Of The Cannon Mountain Capital Improvement Revolving Fund Should Be Prepared And Submitted (*See Current Observation No. 25*) ● ● ○

***Management Issues Comments***

**Administrative Issues**

34. Inefficiencies In Recording Transactions Should Be Reviewed ● ● ○
35. Complimentary Ticket Policies Should Be Reviewed (*See Current Observation No. 25*) ○ ○ ○
36. Authority To Adjust Fee Schedules Should Be Clarified ● ● ●
37. Lessee's Use Of Department Motor Vehicles Should Be Reviewed ● ● ●
38. Necessity And Operation Of The Capital Refurbishing Account Should Be Reviewed (*See Current Observation No. 19*) ○ ○ ○

**Payroll Issues**

- 39. Necessity Of The Regular Payment Of Overtime To Employees Should Be Reviewed ● ● ●
- 40. Authority For And Control Over Additional Employee Benefits Should Be Reviewed (See *Current Observation No. 14*) ● ○ ○
- 41. Appropriateness And Efficiency Of Two-Hour Minimum Pay Guarantee For Employees Should Be Reviewed ● ● ●
- 42. Employment Status Of Volunteer Workers Should Be Reviewed (See *Current Observation No. 14*) ○ ○ ○

<u>Status Key</u>				<u>Count</u>
Fully Resolved	●	●	●	18
Substantially Resolved	●	●	○	8
Partially Resolved	●	○	○	13
Unresolved	○	○	○	3

**THIS PAGE INTENTIONALLY LEFT BLANK**