

**STATE OF NEW HAMPSHIRE  
OFFICE OF ENERGY AND PLANNING**

**FINANCIAL AUDIT REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2009**



**STATE OF NEW HAMPSHIRE  
OFFICE OF ENERGY AND PLANNING**

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\* Audit comment may require legislative action.

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**STATE OF NEW HAMPSHIRE  
OFFICE OF ENERGY AND PLANNING**

**Reporting Entity And Scope**

The reporting entity of this audit and audit report is the New Hampshire Office of Energy and Planning within the Office of the Governor, excluding the administratively attached Connecticut River Valley Resource Commission. The scope of this audit and audit report includes the financial activity of the Office of Energy and Planning for the fiscal year ended June 30, 2009. Unless otherwise indicated, reference to the Office, OEP, or auditee refers to the Office of Energy and Planning.

**Organization**

RSA 4-C:1 establishes the Office of Energy and Planning within the Office of the Governor under the supervision and direction of the Governor or the Governor's designee. During fiscal year 2009, the Office of Energy and Planning was under the supervision of the Governor's designee known as the Director of the Office of Energy and Planning.

At June 30, 2009, the Office of Energy and Planning, located at 4 Chenell Drive, Concord, New Hampshire, employed 12 non-classified and 12 classified full-time employees. The Office also employed one part-time non-classified employee.

**Responsibilities**

The Office of Energy and Planning is charged by RSA 4-C:1 to:

- Plan for the orderly development of the State and the wise management of the State's resources.
- Compile, analyze, and disseminate data, information, and research services as necessary to advance the welfare of the State.
- Encourage and assist planning, growth management, and development activities of cities and towns and groups of cities and towns with the purpose of encouraging smart growth.
- Encourage the coordination and correlation of state planning by agencies of state government.
- Participate in interstate, regional, and national planning efforts.
- Administer federal and State grant-in-aid programs assigned to the office by statute or executive order.
- Participate and advise in matters of land use planning regarding lakes and rivers management programs.
- Take a leadership role in encouraging smart growth and preserving farmland, open space land, and traditional village centers.
- Administer the following programs: the statewide comprehensive outdoor recreation plan, the national flood insurance program, the land conservation investment program, the scenic and cultural byways system, fuel assistance contracts, and weatherization contracts.

- Perform such other duties as the governor may assign.

In response to these duties and responsibilities, the Office undertakes a number of programs and activities. Financial support for these programs comes from federal grants and the State's General Fund.

## Funding

The financial activity of the Office of Energy and Planning is accounted for in the General and Land Conservation Endowment Funds of the State of New Hampshire. A summary of the Office's revenues and expenditures for the fiscal year ended June 30, 2009 is shown in the following schedule.

### Summary Of Revenues And Expenditures For The Fiscal Year Ended June 30, 2009

	<b>General Fund</b>	<b>Land Conservation Endowment Fund</b>	<b>Combined Total</b>
Total Revenues	\$ 49,985,570	\$ (74,292)	\$ 49,911,278
Total Expenditures	<u>51,680,792</u>	<u>90,762</u>	<u>51,771,554</u>
<b>Excess (Deficiency) Of Revenues Over (Under) Expenditures</b>	<b><u>\$ (1,695,222)</u></b>	<b><u>\$ (165,054)</u></b>	<b><u>\$ (1,860,276)</u></b>

## Prior Audits

The most recent prior financial audits pertaining to the current operations of the Office of Energy and Planning are the audits of the Office of Energy and Community Services for the fiscal year ended June 30, 1995 and the Office of State Planning for the nine months ended March 31, 1998. The appendix to this report on pages 73 and 74 contain summaries of the current status of the observations contained in those reports. Summaries of the prior audit reports can be accessed at the Office of Legislative Budget Assistant website, [www.gencourt.state.nh.us/lba/audit.html](http://www.gencourt.state.nh.us/lba/audit.html).

## Audit Objectives And Scope

The primary objective of our audit was to express an opinion on the fairness of the presentation of the financial statements of the Office of Energy and Planning for the fiscal year ended June 30, 2009. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we considered the effectiveness of the internal controls in place at the Office and tested its compliance with certain provisions of applicable State and federal laws, rules, regulations, contracts, and grant agreements. Major accounts or areas subject to our examination included, but were not limited to, revenues and expenditures.

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

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

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying financial statements of the New Hampshire Office of Energy and Planning (Office) as of and for the fiscal year ended June 30, 2009 and have issued our report thereon dated April 16, 2010, which was qualified as the financial statements do not constitute a complete financial presentation of the Office in the General Fund. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in Observations No. 1 through No. 11 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe Observations No. 1 through No. 3 are material weaknesses.

### Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Office's financial statements are free of material misstatement, we performed tests of the Office's 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. 12 through No. 15 and Observations No. 17, No. 18, and Observations No. 20 through No. 22. We also noted immaterial instances of noncompliance which are described in Observation No. 16, Observation No. 19, and Observations No. 23 through No. 31.

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

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

Office Of Legislative Budget Assistant

April 16, 2010

**Internal Control Comments**  
**Material Weaknesses**

**Observation No. 1: Concern With Subrecipient Administration Of Weatherization Assistance For Low-Income Persons Program Should Be Resolved**

*Observation:*

Early in audit planning, the auditors raised questions regarding inconsistent information contained on a Weatherization Assistance for Low-Income Persons (Weatherization) Program reimbursement request submitted by one Community Action Agency (CAA). OEP subsequently contacted the CAA to inquire about the inconsistent information. Based on its concerns with explanations it received from the CAA, OEP sought advice from the Department of Justice and, with assistance from the Office of Economic Stimulus, undertook a review of the CAA's administration of the Weatherization Program. OEP requested auditors not visit the CAA during the period of the OEP review. OEP reported it temporarily suspended payment of American Recovery and Reinvestment Act (ARRA) funds to the CAA pending the CAA's demonstration of its ability to properly track ARRA funds used in the Weatherization Program.

Auditors subsequently did visit the CAA to review selected reimbursement requests and related client eligibility determination documentation representative of the CAA's administration of another program, the Low-Income Home Energy Assistance Program.

OEP reported it had reinstated ARRA funding but had not completed its review of the Weatherization Program at the CAA as of the date of this audit report.

Due to the auditors not having access to sufficient information regarding the operation of the Weatherization Program at the CAA in question, the auditors cannot reasonably determine the effect of any control problems in that CAA's administration of the Weatherization Program on the financial reporting of OEP's Weatherization Program in general. During the fiscal year ended June 30, 2009, OEP paid the CAA \$367,853 to provide Weatherization services to its clients. Approximately \$190,000 of the Weatherization amount paid to the CAA during this period was ARRA funded.

*Recommendation:*

OEP should expeditiously complete its review of the CAA's administration of the Weatherization Program.

As recommended in Observation No. 13, OEP should improve its monitoring controls to enable OEP to effectively review for, detect, and resolve inconsistent or otherwise unexpected program information reported by its subrecipients.

*Auditee Response:*

We concur.

OEP has been working very closely with the noted Community Action Agency (CAA) to correct the issues with their administration of the Weatherization Program. Early in the auditing process of this CAA by the Office of Economic Stimulus, the following issues were identified: accounting procedures were not in compliance with federal regulations, lack of internal controls, lack of inventory controls, and personnel issues. Since last October, OEP's weatherization program manager has conducted four monitoring visits, held nearly weekly calls to discuss progress, and provide written guidance from the U.S. Department of Energy (USDOE). OEP's Director has also communicated and met regularly with this CAA's Executive Director to review progress. This CAA has significantly improved its administration in the following areas: personnel changes, purchasing and implementing new accounting software, eliminating of the use of billing rates, implementing a system of accounting for actual costs, improving client files, implementing an inventory system, and improving internal controls. We have underway a detailed review of billing records from 2007 to the present to determine if there are any questioned costs as a result of their inadequate accounting procedures. We will be reviewing any potential questioned costs with USDOE.

There are still areas in need of improvement and OEP is continuing to work with this CAA to correct these areas. All areas of past and current performance were reviewed at a meeting with the Board of Directors on April 20, 2010.

**Observation No. 2: Centralized Federal Compliance Controls Should Be Considered**

*Observation:*

OEP's compliance with federal program requirements and guidelines is at increased risk as OEP has not established controls intended to identify and promote compliance with those federal program requirements and guidelines.

OEP administered three federal programs that were significant to OEP's financial statements during fiscal year 2009: Weatherization Assistance for Low-Income Persons (Weatherization), Low-Income Home Energy Assistance (LIHEAP), and Refugee and Entrant Assistance (Refugee). All of the federal programs administered by OEP are subject to federal compliance requirements contained in federal regulations, grant agreements, and program guidance issued by the U.S. Department of Energy, U.S. Department of Health and Human Services, and the federal Office of Management and Budget (OMB). The OMB Circular A-133 Compliance Supplement summarizes the significant requirements of these federal programs for audit purposes.

During fiscal year 2009, OEP's administrative oversight and controls over these three significant federal programs rested primarily with the OEP employees assigned as program managers. With the exception of drawing federal funds and preparing federal financial reporting, there were no central control processes for OEP's federal program activities. OEP had no centralized control structures, activities, sharing of information and communication, or monitoring efforts that

would advance OEP's knowledge of, and compliance with, federal program requirements and guidelines.

While OEP's management expressed recognition of the importance of compliance with federal program requirements and guidelines, and program managers appeared knowledgeable about the programmatic-type requirements and program standards for their program, neither OEP management nor program managers appeared familiar with all of the federal compliance requirements for which they were responsible.

*Recommendation:*

OEP should strengthen its controls over compliance with federal program requirements.

OEP should ensure that employees responsible for maintaining federal program compliance are informed of and trained in all aspects of federal program compliance. OEP should consider whether the efficiency and effectiveness of this effort would be improved through the establishment of centralized control activities, information and communication sharing, and monitoring processes in place of its current distributed approach to controls.

*Auditee Response:*

We concur.

OEP has begun to build on its extensive compliance efforts developed through our stimulus programs. We are developing a compliance manual for federal programs and corresponding training programs. Through our risk assessment process, we will establish an organizational structure that follows through on implementing this program and periodically assesses its effectiveness.

Anticipated Completion Date: Immediate and on-going.

**Observation No. 3: Risk Of Reliance On Key Employees Should Be Mitigated**

*Observation:*

OEP has not structured its business office functions and responsibilities to limit the risk from over reliance on the job performance of particular employees.

One senior OEP business office employee performs critical and complex tasks related to many of OEP's primary functions including tracking federal expenditures, reallocating quarterly payroll costs, drawing federal funds, preparing agency reports and documents including federal financial reports, preparing indirect cost proposals, as well as completing required State documents such as accounts receivable transactions, Schedule of Expenditures of Federal Awards, and other documents related to OEP's fiscal operations.

This employee has become proficient in performing these duties and largely performs these and other responsibilities without an effective review and approval control process. Most of the processes used to complete these activities are based on personal experience and are not documented in policies and procedures or largely understood by other OEP employees. Because of the lack of an effective review and approval process, documented policies and procedures, and employee cross-training for these critical functions, OEP has become overly dependent upon the experience and continued good performance of this employee. The over reliance on, and insufficient monitoring of, key employees increases the risk of significant disruption to OEP operations and the likelihood that errors (or fraud) will go undetected.

We noted several errors in reports and transactions completed by this key employee:

- The Schedule of Expenditures of Federal Awards (SEFA) prepared by this employee and submitted to the Department of Administrative Services (DAS) for inclusion in the State's Single Audit report contained two errors that had not been identified by OEP.
  - We noted that \$258,000 in expenditures related to the Refugee and Entrant Assistance Program had not been included in the SEFA. Subsequent to our inquiry about this excluded amount, the OEP Fiscal Director prepared and submitted a corrected SEFA.
  - We also noted a \$50,000 error included in the SEFA, which resulted from the same \$50,000 expenditure being reported in two grants and therefore overstating the amount reported by OEP. Subsequent to our inquiry about this duplicate reporting, DAS was informed of the error.
- Errors in recognizing and posting fiscal year 2008 accounts receivable transactions resulted in fiscal year 2009 federal revenues being overstated in one account by \$13,241 and understated in another account by \$27,763.
- OEP's indirect cost proposal erroneously included \$5,724 of unrelated expenditures, resulting in a slightly lower proposed indirect cost rate (25.08% vs. 25.18%). The incorrect rate was submitted to, and approved by, the U.S. Department of Energy.

*Recommendation:*

OEP should mitigate its risk of over reliance on key employees for the completion of critical functions by strengthening its control structure to ensure that all critical activities include effective review and approval control activities. All significant routine activities should be documented in policies and procedures that are sufficiently descriptive to allow reasonably experienced and trained employees to complete the documented functions. Employees should be cross-trained in all critical functions to provide for a reasonable assurance of uninterrupted operations during unplanned employee transitions.

*Auditee Response:*

We concur.

OEP agrees that additional measures are needed to minimize the risk of over reliance on key employees. We need to complete a policies and procedures manual and keep it updated. These procedures will identify, review, and approve control activities. Previously, work had begun on a policies and procedures manual but it was not finalized and is now out-of-date.

However, without greater resources, cross-training is not practical at this time. The risk assessment team will be tasked to identify whether there are additional measures or control activities that could be implemented to further reduce this risk.

Anticipated Completion Date: December 31, 2010.

## Other Significant Deficiencies

### **Observation No. 4: Formal Risk Assessment Process Should Be Established**

*Observation:*

OEP has not conducted a formal risk assessment and does not have risk assessment policies and procedures in place to continually assess where and how things could go wrong, evaluate the likelihood of those occurrences, and establish reasonable responses to those potential occurrences.

An entity's performance can be at risk due to internal or external factors. These factors can affect the entity's ability to reach and maintain adherence to its stated or implied objectives. External factors include: economic changes affecting decisions related to financing, capital expenditures, changing customer needs or expectations, new legislation, natural catastrophes, and others. Internal factors including disruption of information systems, quality of personnel hired, methods of training and motivating employees, and changes in management responsibilities can also affect the way certain controls operate. Risks increase at times of change including changes in organization, personnel, and procedures.

OEP has not regularly and formally reviewed its operations for exposure and response to risk.

1. OEP does not have formal policies and procedures in place for periodically reviewing its operations for risks that could jeopardize its ability to continue to function as management intends.
2. During fiscal year 2009, OEP delegated much of the administrative responsibility for its federal programs to subrecipients, both inside and outside of State government. OEP did not effectively monitor and manage the risks present in delegating its responsibilities to those other entities. OEP did not undertake a comprehensive effort to understand the operations at its subrecipients and how the risks in those subrecipient operations directly and indirectly affected OEP's risk in operations. OEP also did not undertake adequate efforts to monitor the results of its subrecipient operations.

Management's assessment of and response to risks facing the organization and its systems is an integral component of internal control. 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. Effective risk assessment practices should be a core element of management's planning activities and should be an ongoing activity.

Without a formal risk assessment activity, OEP may be unaware of and unable to respond timely to significant risks facing its operations.

*Recommendation:*

OEP should establish a risk assessment process to continuously review operations for exposure to risk and respond by eliminating or mitigating the risk where reasonably possible.

1. OEP should develop risk assessment policies and procedures that provide for a regular and continuous risk assessment of its operations. Identifying risks significant to OEP operations, and strategies to mitigate those risks, should enhance the effectiveness of OEP's planning and resource allocation processes and its control processes.
2. OEP will need to regularly review its delegation of responsibilities for managing its federal and other programs to community action agencies and other organizations to ensure OEP's risk assessments consider and react to all risks affecting its programs.

*Auditee Response:*

We concur.

OEP concurs that it does not have a formal risk assessment process, however, it does have many on-going management procedures in place to continually assess programs, identify problems, and implement corrective actions. Largely as a result of Stimulus programs, OEP has been extremely proactive to address its highest risk areas. Actions taken to address this risk include: hiring a compliance officer; implementing monitoring guidance; staff training; regular energy team meetings, etc. As indicated in other responses, OEP has also moved forward with corrective action to strengthen monitoring programs of its fuel assistance program and greatly expanded weatherization program. However, a more formal risk assessment process will be initiated including forming a risk assessment team that will meet regularly. A risk assessment will be documented and regularly updated through this process.

Anticipated Completion Date: Immediate.

**Observation No. 5: Changes To The Low-Income Home Energy Assistance Program Should Be Approved By OEP Management**

*Observation:*

OEP's Low-Income Home Energy Assistance Program (LIHEAP) Program Manager is authorized to, and during fiscal year 2009 did, make changes to OEP's and Community Action Agencies' (CAAs) administration of LIHEAP without requiring the changes to be formally vetted and approved by OEP officials or others.

The federal and State LIHEAP Program requirements are described in:

- Federal regulations,
- State plan,
- Federal State Contracts, and

- Contract, with CAAs.

OEP's policies and procedures for the operation of LIHEAP are further described in OEP's Fuel Assistance Program Procedures (FAP) Manual. The FAP Manual provides guidance to both OEP and the CAAs for the operation of LIHEAP, including eligibility and benefit determinations, waiver and appeals process, recordkeeping, reporting, and financing. LIHEAP operations are not described in State statute or administrative rule.

OEP has delegated broad authority to its LIHEAP Program Manager for the day-to-day operations of LIHEAP. The Program Manager is responsible for review and oversight of CAA LIHEAP operations, including making revisions to the FAP Manual and also monitoring CAA compliance with the Manual's policies and procedures.

The LIHEAP Program Manager reported that changes made by the Program Manager to the FAP Manual during fiscal year 2009 were not subject to a formal OEP review and approval control. While the Program Manager emails changes to the FAP Manual to the CAAs prior to implementation of changes, allowing the FAP Directors to communicate any concerns prior to changes being made, the changes are not regularly forwarded to the OEP Director or others at OEP to ensure the changes are consistent with OEP goals and objectives for LIHEAP. Changes to the FAP Manual may be forwarded to the Director for approval if the LIHEAP Program Manager deems it appropriate, however, the LIHEAP Program Manager reports this process is not the usual practice and generally any comments that may be made by the OEP Director are not documented.

The lack of a consistent and documented review and approval control over changes made to LIHEAP through FAP Manual revisions increases the risk that changes may be made in OEP's and the CAAs' operations that are not consistent with LIHEAP requirements and OEP's goals and objectives for the program.

*Recommendation:*

OEP should establish a formal review and approval control process for changes made to the FAP Manual. Proposed changes should be forwarded to a responsible level of OEP management for a documented review and approval process, prior to implementation. All changes should be documented to provide an audit trail for LIHEAP operations.

*Auditee Response:*

We concur.

All program and policy changes are and always have been discussed with OEP management and approved prior to implementation. However, there are no written procedures for approval.

The FAP Procedures Manual is date specific and is updated each year. A review and approval page will be added to the manual. A procedure will also be added to the manual for documenting changes to any other policy or procedures. These changes will be documented and placed in the program management file. Anticipated Completion Date: September 1, 2010.

## **Observation No. 6: User Access To The Fuel Assistance Program Information System Should Be Limited**

### *Observation:*

OEP's Low-Income Home Energy Assistance Program (LIHEAP) Program Manager has user access authority in the Fuel Assistance Program Information System (FAPS) that is inconsistent with the needs of the position.

OEP's LIHEAP Program Manager has full edit and modify access in FAPS. This access level allows the LIHEAP Program Manager to review and unilaterally change LIHEAP client data at all six Community Action Agencies (CAAs) including LIHEAP recipients and benefit amounts, landlords, and vendors. It appears the LIHEAP Program Manager could add or delete a client and establish or change a benefit amount using this access authority without any review of that change in data. This unnecessary data access authority creates a risk that an inappropriate data change could be used to perpetrate or disguise an error or fraud.

When asked, the LIHEAP Program Manager was unaware the position had this level of FAPS access and agreed the edit and modify access appeared excessive for the needs of the LIHEAP Program Manager position.

### *Recommendation:*

The LIHEAP Program Manager position should not have full edit and modify access in FAPS unless the position can demonstrate a current, valid need for that level of access. While it is important that the LIHEAP Program Manager be able to browse the CAAs' data to be able to effectively monitor the CAAs' LIHEAP activities, it does not appear that the LIHEAP Program Manager should have an occasion to edit or modify CAA data.

### *Auditee Response:*

We concur.

The FAP Manager is now limited to "read-only" access to the FAP software.

## **Observation No. 7: Calculation Of Applicant Income Should Be Clarified**

### *Observation:*

OEP's guidance to Community Action Agencies' (CAAs) operation of the Low-Income Home Energy Assistance Program (LIHEAP) does not appear to be consistent with LIHEAP policy in determining the eligibility of applicants receiving income on an irregular basis.

OEP's Fuel Assistance Program Procedures (FAP) Manual states, "The [LIHEAP] intake process begins by assessing a household's eligibility for a 30 day time period. Income may also be calculated on an annual or year to date (YTD) basis if it would enable otherwise ineligible

households to meet income eligibility. The income documentation would then cover a period of not more than the previous 365 days from the date of application, or the number of days since January 1 of the current calendar year (YTD). Households with an income from an irregular source such as self-employment, rental property, or commissions must have that income documented for a 365 day time period for purposes of the application process.”

During our testing of the eligibility requirements of 120 fuel assistance applicants, we noted the eligibility determination for one applicant did not appear to meet the FAP Manual guidance for income determination. The applicant was a school district employee who chose not to receive paychecks during the summer months.

OEP advises CAAs to calculate the income of LIHEAP applicants who are school district employees using the standard 30-day income period, regardless of whether the applicant is receiving paychecks on a regular 12 month or irregular school year basis. The use of a 30-day income calculation period would qualify essentially all school employees who are paid on a school year basis for LIHEAP assistance if they applied for assistance within the first weeks of the September 1 program start date. For example, in the case of the application tested above, the period used for the income determination calculation covered the period August 25 through September 23, 2008. This period included approximately 15 days when the applicant was on summer break. Although the applicant’s benefit amount was calculated correctly in accordance with OEP’s verbal guidance to the CAAs, had the CAA identified this applicant as receiving income on an irregular basis and calculated the applicant’s income using a 365 day time period, the applicant’s income determination would have resulted in a significantly smaller LIHEAP benefit.

*Recommendation:*

OEP should review the propriety of its guidance to CAAs for calculating applicant income for applicants who receive income in a manner that causes the use of the standard 30-day income period to unfairly represent applicant income during the period of the LIHEAP benefits.

OEP should clarify the application of the policies and procedures in the FAP Manual for applicants receiving income on an irregular basis. The selection of a 30 day or 365 day income determination period should be used to ensure CAAs can evaluate the income that will be available to applicants to purchase energy during the period that assistance is being applied for. OEP’s guidance should not promote the use of an income determination period that is not representative of the regular income expectations of the applicant.

*Auditee Response:*

We concur.

We generally agree with the issue raised, however, OEP first needs to work with the CAAs to evaluate the impact of this change and any implementation issues. This change may raise issues with other employment categories such as temporary or seasonal employees. OEP will document the review of this issue and the final resolution prior to the start of the next program year. Changes will be reflected in the FAP Manual.

Anticipated Completion Date: By July 1, 2010 when the CAAs begin taking applications for Program Year 2011.

**Observation No. 8: Invoices Should Be Reviewed For Accuracy Prior To Payment**

*Observation:*

OEP did not have controls in place during fiscal year 2009 to ensure that its Head Start program expenditures were accurate.

A random sample of 19 non-payroll expenditures included four OEP payments to Community Action Agencies (CAAs) for Head Start program expenditures. OEP did not recognize that supporting documentation for two of the four Head Start invoices included clerical errors which resulted in OEP overpaying the two CAAs \$760 and \$38 respectively.

OEP reports that it did verify that the total requested by the CAAs for Head Start program funds were within the contracted limits but did not consistently verify that Head Start invoices were accurate and properly supported by accompanying documents.

*Recommendation:*

OEP should have controls in place to reasonably ensure that all expenditures of State and federal funds are supported by accurate and complete documentation.

*Auditee Response:*

We concur.

OEP will establish a procedure including the possible use of checklists and routing slips in its federal program compliance manual. The procedure will establish the accountability for review of invoices. Initially, a generic procedure will be established to document invoice review in the short-term. The risk assessment team will be tasked to evaluate and make recommendations regarding a more comprehensive procedure. A more comprehensive procedure will address specific program requirements as the type of documentation required varies among federal programs.

Anticipated Completion Date: Immediate and on-going.

**Observation No. 9: Payroll Duties Should Be Properly Segregated**

*Observation:*

OEP relies upon one key employee to perform essentially all payroll functions. During fiscal year 2009, this employee accumulated all employee timesheets, leave slips, compensatory and overtime slips; entered overtime and leave events into the State's payroll system (GHRIS) and

internal spreadsheets; reallocated employee time to American Recovery and Reinvestment Act (ARRA) related projects in GHRIS; and reviewed the GHRIS Agency Payroll Certification form approving OEP's bi-weekly payroll. The scope of this employee's assigned payroll duties made this employee singly responsible for the incompatible functions of recording, processing, and approving OEP's payroll.

The lack of segregation of incompatible payroll duties increases the risk that payroll errors or frauds that may occur will not be detected and corrected timely. OEP did not have effective controls in place to mitigate the risk resulting from this lack of segregation of payroll duties.

*Recommendation:*

OEP should reassign certain payroll responsibilities to provide for effective review and approval controls over OEP's payroll.

*Auditee Response:*

We concur.

OEP will better segregate payroll duties between the Accountant II and Accountant III. The proposed structure will be reviewed by the risk assessment team and, once finalized, will be documented in the business office procedures manual.

Anticipated Completion Date: September 1, 2010.

**Observation No. 10: Fuel Assistance Program Information System Agreement Should Be Documented**

*Observation:*

One Community Action Agency (CAA) contracts with a vendor to provide and maintain the Fuel Assistance Program System (FAPS), a Web-based information system utilized by the CAAs and OEP to operate the Low-Income Home Energy Assistance Program (LIHEAP) and the Electric Assistance Program, a non-OEP program also managed by the CAAs. The cost for operating FAPS is split between LIHEAP and the other energy program and charged to the CAAs based on the caseload for their programs. During fiscal year 2009, OEP reimbursed the CAAs approximately \$64,000 for FAPS costs related to LIHEAP.

According to OEP, there is no documented agreement between the CAA providing FAPS and the other CAAs and OEP who use the system. While the FAPS users have a general understanding of how the costs for operating FAPS are distributed, the allocation process is not memorialized in a contract or other formal writing. All LIHEAP FAPS costs paid by the CAAs are ultimately charged to LIHEAP through the CAAs subsequent billing of program costs to OEP.

Other important components of a FAPS agreement that should be documented include security protocols for protecting confidential client information posted to FAPS, responsibility for other

data security issues including data access, use, and backup, and responsibility for errors or misuse.

*Recommendation:*

OEP should encourage the CAAs to document their agreement for the operation of FAPS, including the allocation of FAPS costs to FAPS programs and users, issues of data security and use, and system continuity.

*Auditee Response:*

We concur.

OEP will ask the CAAs to document their agreement for the operation of FAPS, including the allocation of FAPS costs to FAPS programs and users, issues of data security and use, and system continuity by the beginning of the next program year.

Anticipated Completion Date: By October 1, 2010 when new contracts go into effect.

**Observation No. 11: Policies And Procedures For Timely Drawdown Of Federal Funds Should Be Established**

*Observation:*

OEP does not have documented policies and procedures addressing the timely drawing of federal funds for its Weatherization Assistance for Low-Income Persons (Weatherization) and Refugee and Entrant Assistance (Refugee) Programs.

OEP's federal programs are funded on a reimbursement basis. Federal participation in program expenditures is drawn from the federal grantor agencies sometime after OEP makes payments to the program participants. Until the amounts are drawn from the federal grantors and received by OEP, the State's General Fund covers the full cost of the programs.

During fiscal year 2009, OEP's practice was to draw federal funds for its Weatherization Program approximately monthly and to draw federal funds for its Refugee and Entrant Assistance Program approximately quarterly. OEP has not reviewed with the State Treasury the most appropriate practice to draw federal funds to minimize cash flow costs to OEP and the State. During fiscal year 2009, OEP drew \$3.9 million and \$1.1 million of federal funds in the Weatherization and Refugee Programs, respectively.

*Recommendation:*

OEP should draw federal program funds as soon as allowed by the federal program guidelines. OEP should confer with the State Treasury and the Department of Administrative Services and establish policies and procedures for drawing federal funds intended to minimize State cash flow costs yet also be efficient for OEP's operations.

*Auditee Response:*

We concur.

OEP does have a policy for federal drawdowns, as follows: contractual payments to vendors are to be drawn down immediately (i.e., the same or next business day following payment by this agency); administrative payments are to be drawn down quarterly following staff time reallocations to ensure that costs have been allocated to each program properly prior to drawing down funds. This policy is not written down; however, it will be incorporated into OEP's procedures manual.

OEP will make every attempt to improve its timeliness of drawing down federal reimbursements. Due to the impact of losing one of its three business office staff, adjustment to the state's NH FIRST financial system, as well as meeting financial reporting requirements imposed by five new stimulus grants, OEP fell behind in complying with its own policy on the timeliness of federal drawdowns. However, it is in the process of recovering from these events and plans to return to its regular drawdown practice in the very near future.

Anticipated Completion Date: Immediate.

## Federal Compliance Comments

### **Observation No. 12: OEP's Subrecipient Monitoring Of The Low-Income Home Energy Assistance Program Should Be Improved**

#### *Observation:*

During fiscal year 2009, OEP did not perform subrecipient monitoring activities in accordance with federal requirements for the Low-Income Home Energy Assistance Program. The Community Action Agencies (CAAs) are subrecipients of OEP's Low-Income Home Energy Assistance Program (LIHEAP).

- OEP did not perform formal, during-the-award, site-visit monitoring procedures to help to ensure:
  - Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements,
  - Performance goals are achieved, and
  - The proper disbursement of and accounting for Federal funds paid to the State under this federal program, including procedures for monitoring the assistance.

According to OEP, the last formal monitoring effort was performed during March 2008. OEP did not document that review of an energy supplier through the completion of standard forms or the issuance of a monitoring report. OEP reported it discontinued its CAA site-visit and energy vendor monitoring efforts due to its conclusion that these efforts were not productive.

- OEP did not effectively monitor and react to the results of subrecipient audits. As a result, OEP did not effectively evaluate the impact of subrecipient activities on OEP's ability to comply with applicable Federal regulations, including gaining reasonable assurance that program expenditures are allowable. Complete copies of subrecipient audit reports were not maintained by OEP. OEP LIHEAP Program employees were not trained in A-133 audit requirements and did not have or retain CAA audit report information required to determine whether subrecipient audits contain control or compliance findings requiring timely and appropriate corrective action.

Federal Office of Management and Budget (OMB) Circular A-133, Subpart D, §\_\_\_.400 (d), (3) and (4) require a pass-through entity, such as OEP, to perform the following for the Federal awards it makes:

- Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- Ensure that subrecipients ...have met the audit requirements of this part for that fiscal year.

Section *M. Subrecipient Monitoring* of the OMB Circular A-133 Compliance Supplement describes a pass-through entity as responsible for: award identification, during the award

monitoring, subrecipient audit monitoring, and evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulation.

Section 10 of the Federal grant agreement for LIHEAP for program year 2009 provides that such fiscal control and fund accounting procedures will be established as may be necessary to assure the proper disbursement of and accounting for Federal funds paid to the State under this title, including procedures for monitoring the assistance provided under this title, and provide that the State will comply with the provisions of Chapter 75 of Title 31, United State Code, commonly known as the "Single Audit Act".

OEP's 2008-2009 Fuel Assistance Program Manual under the heading of Monitoring states that OEP will conduct program and fiscal monitoring of the CAAs for compliance with Federal and State rules and regulations. On-site monitoring will occur throughout the program year and a written report will be provided following each monitoring visit. OEP will also monitor energy suppliers on a random basis and OEP will issue the CAAs a written report containing all findings following each monitoring visit of a vendor in their territory. The Manual contains descriptions of areas subject to OEP monitoring and blank forms for documenting monitoring efforts.

*Recommendation:*

OEP should monitor subrecipient activities in accordance with federal requirements. At a minimum, OEP's subrecipient monitoring efforts must be sufficient to meet Federal program requirements. OEP should also ensure that its on-site monitoring, as described in its Fuel Assistance Program Manual, is performed.

OEP should train its federal program employees in OMB Circular A-133 audit requirements. OEP employees responsible for reviewing and responding to subrecipient audits should have and retain complete copies of the audit reports and have the knowledge and experience to determine whether subrecipient audit reports indicate corrective actions are required by either or both the OEP and the CAA.

*Auditee Response:*

We concur.

The OEP acknowledges its responsibility for the design and implementation of programs and controls to prevent and detect fraud in the administration of federal programs.

The OEP recognizes that improved monitoring documentation and additional on-site monitoring of the Community Action Agencies' (CAA) Low-Income Home Energy Assistance programs (LIHEAP) are needed. Productivity and costs were previously monitored manually using the attachments/forms of the *Fuel Assistance Program Manual*. Some internal control is now being achieved electronically through the CAA's reporting software. Since the implementation of the software, the monitoring forms of the *Fuel Assistance Program Manual* have become obsolete.

While the LIHEAP program manager exercised controls over the program through its reporting software, OEP concurs that an identified area of monitoring weakness in fiscal year 2009 is

detailed financial monitoring/review of the accounting systems of the Community Action Agencies, as well as appropriate documentation of program monitoring. Prior to 2005, the OEP business director conducted annual financial monitoring in coordination with program monitoring by the program staff at each CAA. A new business director was hired in May of 2005, approximately four months after the previous director had resigned. It appears that institutional knowledge was lost relative to the scope and timing of financial monitoring of the CAAs and inadequate procedures were in place to ensure their continuation. An additional factor was the reduction of staff from the merger of the Office of Energy and Community Services and the Office of State Planning in 2003 which resulted in the loss of a number of positions, including the program manager for the weatherization program and a director of community services which oversaw both the LIHEAP and weatherization programs. These changes put additional workload pressure on the business office staff over time and further eroded program staff focus on financial monitoring issues.

The LIHEAP program manager is currently in the process of updating *The Fuel Assistance Program Manual* to reflect the addition of its reporting software. However, comprehensive on-site monitoring needs to be conducted regularly and documented in addition to the electronic monitoring.

A comprehensive monitoring of each CAA will be performed on-site at least once per year and agencies at risk will be monitored more often. OEP is working with the NH Office of Economic Stimulus to develop a comprehensive program for all the CAAs by the end of this program year. Program monitoring of the CAAs will be coordinated with the weatherization program manager to avoid duplicate monitoring of the same financial accounting systems.

Historically, financial monitoring was done by the OEP business office, which did have A-133 audit knowledge. Financial monitoring was not a duty of the program manager. With changes in personnel and increased responsibilities, there is now a need to expand knowledge of A-133 requirements to program managers so they can recognize what is needed for financial tracking and help perform this monitoring.

OEP is pursuing A-133 training options through the Office of Economic Stimulus and other State or Federal agencies or alternatively, using a “best practices” approach, OEP will develop its own training in cooperation with and input from sister states who currently provide the training for their staff. We anticipate training to be defined and developed by May 30, 2010. The OEP also recognizes that we may need additional resources and continued support, outside of our fiscal office, for on-site fiscal monitoring of the CAAs.

## **Observation No. 13: OEP's Subrecipient Monitoring Of The Weatherization Assistance For Low-Income Persons Program Should Be Improved**

### *Observation:*

During fiscal year 2009, OEP did not perform subrecipient monitoring activities in accordance with federal requirements for the Weatherization Assistance for Low-Income Persons Program. The Community Action Agencies (CAAs) are subrecipients of OEP's Weatherization Assistance for Low-Income Persons (Weatherization) Program.

1. OEP, at the time of the award, did not make certain required communications of Federal award information to subrecipients.
2. OEP did not perform formal during-the-award, site-visit monitoring procedures to help to ensure:
  - Federal awards are used for authorized purposes in compliance with laws, regulations, contracts or grant agreements,
  - Performance goals are achieved, and
  - The proper disbursement of and accounting for Federal funds paid to the State under this federal program, including procedures for monitoring the assistance.

The OEP Weatherization Program manager did report several technical monitoring visits were performed; however, those visits included only a limited review of costs related to selected projects.

3. OEP did not effectively monitor and react to the results of subrecipient audits. As a result, OEP did not effectively evaluate the impact of subrecipient activities on OEP's ability to comply with applicable Federal regulations, including gaining reasonable assurance that program expenditures are allowable. Complete copies of subrecipient audit reports were not maintained by OEP. OEP Weatherization Program employees are not trained in A-133 audit requirements and do not have or retain CAA audit report information required to determine whether subrecipient audits report control or compliance findings requiring timely and appropriate corrective action.

Federal Office of Management and Budget (OMB) Circular A-133, Subpart D, §\_\_\_400 (d), (3) and (4) require a pass-through entity, such as OEP, to perform the following for the Federal awards it makes:

- Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- Ensure that subrecipients ...have met the audit requirements of this part for that fiscal year.

Section *M. Subrecipient Monitoring* of the OMB Circular A-133 Compliance Supplement describes a pass-through entity as responsible for: award identification, during the award

monitoring, subrecipient audit monitoring, and evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulation.

Section 4.0 of the U.S. Department of Energy (USDOE) Program Year 2009 Weatherization Program Notice 09-1 grant guidance requires the Grantee to, "conduct a comprehensive monitoring of each subgrantee at least once a year. The comprehensive monitoring must include review of client files and subgrantee records, as well as actual inspection of at least 5 percent of the completed units....By the close of the program year, the Grantee is expected to have completed a comprehensive review of each subgrantee, including review of its latest financial audit. Failure to comply with this requirement is sufficient cause to require special conditions to the grant under 10 CFR 600.212." Exceptions to the annual subgrantee visit requirements can be made subject to documentation and approval by the Project Management Center. Exceptions provide for assessment visits no less often than every other year.

Program Year 2009 Weatherization Program Notice 09-1B grant guidance applicable to the 2009 American Recovery and Reinvestment Act (ARRA) Weatherization grant also requires, "The Grantee must conduct comprehensive monitoring of each subgrantee at least once a year."

The OEP Weatherization Program Administrative Manual provides, "Subgrantees will be monitored on a regular basis. OEP's goal is to perform a technical monitoring visit quarterly with each subgrantee.... Monitoring includes, but is not limited to, the following areas:

1. Management Monitoring: OEP utilizes the "Management Monitoring Instrument" as defined by DOE and supplemented by OEP to evaluate a subgrantee's program delivery and management effectiveness. An annual management assessment will be performed by OEP for each subgrantee....
2. Fiscal Monitoring: OEP Fiscal Office will perform subgrantee site visits to review accounting procedures and to verify the accuracy of financial reports as deemed necessary by OEP....
3. Technical Monitoring: Final inspections of all completed units for both the [US]DOE Weatherization and LIHEAP Weatherization are required to be performed by Weatherization energy auditors. OEP's Weatherization Program Manager and/or Technical Manager will then monitor Ten (10) percent of these units..."

*Recommendation:*

OEP should restart its subrecipient monitoring efforts. At a minimum, OEP's subrecipient monitoring efforts must be sufficient to meet Federal program requirements. OEP should also ensure that its on-site monitoring, as described in its Weatherization Program Administrative Manual, is performed.

OEP should train its federal program employees in OMB Circular A-133 audit requirements. OEP employees responsible for reviewing and responding to subrecipient audits should have and retain complete copies of the audit reports and have the knowledge and experience to determine whether subrecipient audit reports indicate corrective actions are required by either or both the OEP and the CAA.

*Auditee Response:*

We concur.

The OEP acknowledges its responsibility for the design and implementation of programs and controls to prevent and detect fraud in the administration of federal programs. Monitoring of the weatherization program has been an important aspect of our management of the program. OEP has a documented history of competent financial management and program administration in USDOE audits conducted in 1995 of OEP's predecessor agency, Office of Energy and Community Services, and in 2003 and 2006 of the Office of Energy and Planning. A USDOE audit conducted in 2007 reported no findings.

However, in recent years, OEP does recognize that some areas of monitoring need improvement, particularly related to the CAA's on-site monitoring visits, improved documentation of existing monitoring and increased and regular fiscal monitoring. OEP has been proactive in recent months to address these areas. OEP's recent monitoring for the weatherization program focused on program management and technical compliance. Program monitoring visits were made to the CAAs to review client files and subgrantee records. These visits were documented on the USDOE Monitoring Tool; however, these visits should have been translated into formal monitoring reports.

While the weatherization technical manager was performing program monitoring, OEP concurs that an identified area of monitoring weakness in fiscal year 2009 is detailed financial monitoring/review of the accounting systems of the Community Action Agencies, as well as appropriate documentation of program monitoring. Prior to 2005, the OEP business director conducted annual financial monitoring in coordination with program monitoring by the program staff at each CAA. A new business director was hired in May of 2005, approximately four months after the previous director had resigned. It appears that institutional knowledge was lost relative to the scope and timing of financial monitoring of the CAAs and inadequate procedures were in place to ensure their continuation. An additional factor was the reduction of staff from the merger of the Office of Energy and Community Services and the Office of State Planning in 2003 which resulted in loss of a number of positions, including the program manager for the weatherization program and a director of community services which oversaw both the fuel assistance and weatherization programs. These changes put additional workload pressure on the business office staff over time and further eroded program staff focus on financial monitoring issues.

Prior to receipt of this draft audit finding, OEP management and weatherization program staff recognized areas within the program where monitoring practices and procedures needed improvement. A weatherization program manager was hired on May 7, 2009 to augment the work of the existing technical manager. The newly-hired program manager has already increased CAA oversight including: increased documentation for reimbursement, increased monitoring visits, and improved procedures. After review of a reimbursement request generated questions by the auditors, OEP initiated an in-depth financial audit of one CAA using auditors from the N.H. Office of Economic Stimulus and the Department of Revenue. This audit is still ongoing and resulted in suspension of ARRA weatherization for four months. Approval to restart ARRA work

was recently granted contingent upon the CAA continuing to demonstrate complete and accurate accounting procedures in accordance with federal requirements.

A comprehensive monitoring of each CAA will be performed at least once per year and agencies at risk will be monitored more often. OEP will work with the N.H. Office of Economic Stimulus to develop a comprehensive monitoring program for all the CAAs by the end of this program year. Technical monitoring of actual weatherization will continue. Monitoring of the CAAs will be coordinated with the LIHEAP Program Manager to avoid duplicative effort.

Historically, financial monitoring was done by the OEP business office, which did have A-133 audit knowledge. Financial monitoring was not a duty of the program manager. With changes in personnel and increased responsibilities, there is now a need to expand knowledge of A-133 requirements to program managers so they can recognize what is needed for financial tracking and help perform this monitoring.

OEP is pursuing A-133 training options through the Office of Economic Stimulus and other State or Federal agencies or alternatively, using a “best practices” approach, OEP will develop its own training in cooperation with and input from sister states who currently provide the training for their staff. OEP anticipates training to be defined and developed by May 30, 2010. In addition, financial monitoring procedures will be developed and documented to ensure continued institutional knowledge.

#### **Observation No. 14: OEP’s Supervision Of Refugee Program Eligibility Determinations Should Be Improved**

*Observation:*

Lack of effective training and oversight of New Hampshire Department of Health and Human Services’ (DHHS) employees responsible for determination of client eligibility and disbursement of Refugee Cash and Medical benefits resulted in Refugee Cash Assistance (RCA) and Refugee Medical Assistance (RMA) benefits being paid to, and on behalf of, ineligible clients during fiscal year 2009.

Eligibility for RCA benefits is limited to newly arrived refugees who have been determined to be ineligible for other federally-funded cash assistance programs. Title 45 Code of Federal Regulations (CFR) Part 400.53 (a)(2), General eligibility requirements states:

- “(a) Eligibility for refugee cash assistance is limited to those who—
  - (2) Are ineligible for TANF [Temporary Assistance for Needy Families], SSI [Supplemental Security Income], OAA [Old Age Assistance], AB [Aid to Needy Blind], APTD [Aid to Permanently and Totally Disabled], and AABD [Aid to the Aged, Blind and Disabled] programs”

Additionally, per Title 45 CFR Part 400.100 (a)(1), eligibility for RMA benefits is also limited to those refugees who are ineligible for Medicaid or the State Children’s Health Insurance Program

and either receive RCA benefits or meet the State's medically needy financial eligibility standards under Title 45 CFR Part 400.101 (a)(1).

During testing of RCA benefit payments, we noted two of the nine recipients (22%) tested met the eligibility requirements of the State's TANF and Medicaid programs and therefore were ineligible for RCA or RMA benefits. DHHS reported one recipient received a total of \$4,546 of RCA benefits and \$2,676 of RMA benefits while the other recipient received a total of \$2,590 of RCA benefits and \$841 of RMA benefits during fiscal year 2009.

According to DHHS, the noted errors were the result of a lack of training and understanding of program requirements on the part of a limited number of DHHS employees performing this function. DHHS reports the errors in processing were limited in scope and duration and additional training and reinforcement of program requirements have taken place. DHHS reports it determined the total error to be \$20,692 and \$18,739 in the RCA and RMA programs, respectively, during fiscal year 2009.

*Recommendation:*

OEP should review with DHHS its determination of the extent of the errors in DHHS' processing of RCA and RMA benefits.

OEP should review with DHHS controls that should be put into place to limit future errors. Appropriate procedures should be established to allow OEP to effectively supervise DHHS' eligibility and payment activities for compliance with RCA and RMA program requirements.

OEP should consult with the U.S. Department of Health and Human Services, the federal grantor agency, to determine whether corrective action is required regarding payments made to ineligible recipients.

*Auditee Response:*

We concur.

OEP has established a Memorandum of Agreement with DHHS for the transfer of this program from OEP to the Office of Minority Services. This may occur as early as October 1, 2010 but no later than the start of the next biennium. OEP staff managing the refugee programs will ultimately be transferred to DHHS. In the interim, OEP is participating in regular meetings with the Office of Minority Services to better coordinate and continue the process of transferring the oversight and control of the program to DHHS. This finding has been discussed with DHHS for resolution.

*Department of Health and Human Services' Response:*

The New HEIGHTS automated eligibility determination system has been programmed to treat RCA/RMA as the category of last resort. In the cases that were cited, information was misunderstood by workers, which led to the errors. The workers have since been trained. A statewide training in Refugee policy was offered in January 2009. The updated training related to

refugee eligibility is now permanently available on the Centra remote training system for new staff and staff refreshers.

Anticipated Completion Date: Immediate.

### **Observation No. 15: OEP's Supervision Of Refugee Cash Assistance Program Payments Should Be Improved**

#### *Observation:*

Participants in OEP's Refugee Resettlement Program living in unsubsidized housing have regularly received less Refugee Cash Assistance (RCA) benefits than allowed by the program due to the Department of Health and Human Services' (DHHS) information system not being updated to reflect a 2002 program change. DHHS administers the RCA benefits program for OEP.

During testing of RCA benefits provided to a sample<sup>1</sup> of nine recipients, we noted payments to five recipients (56%) were not consistent with RCA program provisions. The benefits provided to these five recipients included a subsidized shelter allowance even though the recipients' files indicated the recipients were entitled to a greater unsubsidized shelter allowance.

These five recipients were underpaid during their period of eligibility between \$120 and \$849 each. The total underpayment to these five recipients was \$2,169.

Pursuant to 45 Code of Federal Regulations (CFR) Section 400.66(a), "In administering a publicly-administered refugee cash assistance program, the State agency must operate its refugee cash assistance program consistent with the provisions of its TANF program in regard to... (2) The determination of benefit amounts (payment levels based on size of the assistance unit, income disregards); (3) Proration of shelter, utilities, and similar needs; and (4) Any other state TANF rules relating to financial eligibility and payments."

In July of 2002, a change to the State's Temporary Assistance to Needy Families (TANF) program provided an increased shelter allowance for recipients in unsubsidized housing. According to the New Hampshire State Plan for the Refugee Resettlement Program and the requirements of 45 CFR Section 400.66(a), RCA benefits for unsubsidized housing should have increased in the same manner as the TANF program benefits. Reportedly, due to an oversight in DHHS' implementation of this change in its information system used for both the TANF and the RCA programs, the higher unsubsidized shelter allowance was not put in place for RCA recipients. DHHS has underpaid eligible RCA recipients since that program change in 2002.

OEP reported it noticed the problem with benefits for unsubsidized housing in November 2008 and met with DHHS personnel to discuss and resolve the issue in January 2009. The system remained uncorrected and eligible participants continued to be underpaid through March 2010.

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<sup>1</sup> Three randomly selected payments to recipients tested on each of three judgmentally selected payment vouchers.

According to OEP, DHHS has stated the necessary system changes are scheduled to be implemented on June 1, 2010.

DHHS reports the total underpayments to all RCA recipients who were in unsubsidized housing for the period July 2002 through February 2010 was \$27,800.

*Recommendation:*

OEP should reemphasize with DHHS the need to expedite the correction of this underpayment problem to ensure eligible RCA recipients are receiving the full assistance provided by the program.

OEP should increase its controls, including its supervision, over the Refugee Resettlement Program. OEP should consider its failure to detect the incorrect RCA payments for more than six years a material weakness in its oversight of DHHS' and its administration of the Refugee Resettlement Program.

OEP should confer with the federal grantor agency to determine the appropriate response to the underpayments, including whether corrective payments should be made.

*Auditee Response:*

We concur (see response to Observation No. 14).

In 2002, OEP met with DHHS to discuss the changes in regulations for refugee cash assistance, which should have resulted in making the necessary changes to make Refugee Cash Assistance (RCA) consistent with the State's Temporary Assistance to Needy Families (TANF) program. As identified in the audit finding, OEP identified the problem with benefits for unsubsidized housing in November 2008 and met with DHHS personnel to discuss and resolve the issue. DHHS agreed, as resources allowed, to implement the necessary software changes in order to make the (RCA) consistent with the (TANF) program.

Anticipated Completion Date: Immediate.

*Department of Health and Human Services' Response:*

New Heights is working on a change to implement July 1, 2010, which will fix this problem.

**Observation No. 16: Required Weatherization Site Inspections Should Be Performed**

*Observation:*

OEP is not in compliance with U.S. Department of Energy (USDOE) Weatherization Assistance for Low-Income Persons (Weatherization) Program guidance regarding annual monitoring visits to each subgrantee, including inspections of 5% of the completed Weatherization Program units.

USDOE Program Year 2008 Weatherization Grant Guidance, section 4.0, Grantee Program Oversight (Program Monitoring), paragraph A, requires the State to “conduct a comprehensive monitoring of each subgrantee at least once a year. The comprehensive monitoring must include review of client files and subgrantees records, as well as **actual inspection of at least 5 percent of the completed units.**” [Emphasis added.]

OEP could not provide evidence that it met the comprehensive monitoring requirements during the April 2008 through March 2009 program year. OEP reported it performed monitoring at four of six subgrantees and completed inspections of 19 out of 637 (3%) completed units. OEP’s reported program monitoring met neither USDOE requirement. Also, while OEP reported it completed inspections of 19 out of 637 (3%) completed units, it could only document having inspected 13 units (2%).

*Recommendation:*

OEP should perform the annually required site monitoring visits and inspections of completed Weatherization units.

OEP should establish policies and procedures to ensure the results of subgrantee monitoring and completed-unit inspections are documented and available for use in managing the program.

OEP should establish policies and procedures to review and supervise the performance of its monitoring responsibilities. OEP management should be advised when staff are not able to meet program requirements in a timeframe that would allow management to determine whether reallocation of effort or other resources are needed and also to advise federal program partners of difficulties with meeting or maintaining program compliance.

*Auditee Response:*

We concur. See responses to Observation No. 18 and Observation No. 21.

**Observation No. 17: Low-Income Home Energy Assistance Program Costs Should Be Supported**

*Observation:*

OEP contracts with six Community Action Agencies (CAAs) to provide LIHEAP fuel assistance services to eligible New Hampshire households. The CAAs are responsible for accepting client applications, determining eligibility, and making fuel assistance payments directly to the clients, energy vendors, or landlords, depending upon the client’s situation. The CAAs recover both the direct costs for energy paid to or on behalf of the clients and an administrative overhead amount from the federal LIHEAP Program administered by OEP.

OEP has not established effective control activities, including obtaining and reviewing relevant Low-Income Home Energy Assistance Program (LIHEAP) data, to support CAA activities and requests for LIHEAP funds.

OEP has not effectively monitored to determine whether CAAs are charging OEP for LIHEAP costs according to federal program requirements, including maintaining required documentation to support the allowability of LIHEAP activities and costs incurred. OEP has not taken effective action to require compliance.

The lack effective controls noted above makes it difficult, if not impossible, to determine whether certain costs charged to the Weatherization Program are allowable.

OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, Attachment A, paragraph C.1. Basic Guidelines, identifies the factors affecting the allowability of costs. Specifically, the Circular states, “To be allowable under Federal awards, costs must meet the following general criteria [excerpt only]:

(b) Be allocable to Federal awards under the provisions of this circular [A-87].

- Section C.3.a. of Attachment A of the Circular further states that, “A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with the relative benefits received.”

(j) Be adequately documented.”

OMB Circular A-122, Cost Principles For Non-Profit Organizations (applicable to subgrantee Community Action Agencies (CAA’s)), Attachment A, paragraph A.2. Basic Considerations, identifies the same factors affecting the allowability of costs as OMB Circular A-87. In addition, in accordance with OMB Circular A-122, Attachment B, Section 8, m. *Support of salaries and wages*, the distribution of salaries and wages to awards must be supported by personnel activity reports and those reports “must reflect an **after-the-fact** determination of the actual activity of each employee.” [Emphasis added.]

We reviewed a sample<sup>2</sup> of 27 energy and energy-related and seven non-energy payments made by OEP to five of the six CAAs for fiscal year 2009 LIHEAP costs. We also reviewed the CAAs’ associated reimbursement requests and the support for those requests. Allowability concerns were noted for costs requested by each of the five CAAs tested. Concerns were noted on one of 27 energy or energy-related and six of the seven non-energy reimbursement requests tested.

#### Energy and Energy-Related Costs:

1. For one CAA reimbursement request submitted for LIHEAP Heating System Repair and Replacement (HRRP) costs, we were unable to agree the costs of materials reported on the project list in the client file to actual invoices or other documentation supporting the costs. We noted the following issues:

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<sup>2</sup> For energy and energy related items, judgmentally selected 27 payment vouchers, tested random selection of five items each. For non-energy items, judgmentally selected seven payment vouchers, tested in their entirety.

- Some costs for materials were not supported by invoices or other documentation,
  - Some costs for materials were listed on the CAA's project listings at prices different than those recorded on corresponding invoices, and
  - In some instances, we were not able to determine how material costs for a specific job were calculated, as the files did not identify which costs comprised the reported amounts.
2. For one HRRP reimbursement request, paid labor costs reported by one CAA were calculated as HRRP labor hours (estimated by Weatherization Assistance for Low-Income Persons Director) multiplied by a \$40 per hour rate. According to the CAA Weatherization Director, this rate represents an average crew hourly rate plus the costs of benefits, tools, and equipment maintenance. The CAA was not able to document how that rate was calculated and demonstrate that the rate charged reasonably reflected the actual LIHEAP costs incurred.

Administrative Costs:

1. One CAA charged \$5,528 of Electric Assistance Program (EAP) costs to LIHEAP, reportedly due to insufficient funding being available in the non-federal Electric Assistance Program. The EAP is nonfederal program administered by another State agency.
2. Multiple instances were noted where CAAs were unable to adequately document the allocation of costs charged to LIHEAP, resulting in unallowable costs:
  - a. All CAAs have access to and utilize the Fuel Assistance Program System (FAPS), an information system used by the CAAs and OEP to administer LIHEAP. FAPS is also used by the CAAs to administer the Electric Assistance Program. One CAA maintains FAPS and allocates the cost of operating FAPS based on each CAA's relative share of LIHEAP and Electric Assistance Program activity. While we don't question the methodology of the allocation, no documentation was available at the CAA to support the actual calculation of the allocated costs.
  - b. One CAA reported its allocation of the salary costs for the executive director to LIHEAP (six hours per two-week pay period) was derived from a time study conducted several years ago. The CAA did not have documentation to support the completion of the original time study or the appropriateness of continuing to use the results of that prior time study.
  - c. One CAA reported \$5,797 of LIHEAP postage expense during one reporting period. While the CAA could document it had purchased and used \$1,797 of that amount, the CAA could not document the purchase and or use of the remaining \$4,000 amount claimed for LIHEAP reimbursement.
  - d. One CAA allocated \$4,000 of its \$14,835 annual financial statement and federal compliance audit costs to LIHEAP. The CAA was not able to document how the amount was determined or whether the costs allocated to LIHEAP was reasonable.
  - e. The \$80,544 in administrative costs claimed by one CAA did not agree to amounts on supporting documentation provided by the CAA to the auditors. When asked about the difference, the CAA employee responsible for preparing the reimbursement request stated the reimbursement request includes estimates of costs, partly based on original budget amounts.

- f. Indirect costs for one CAA were calculated using an outdated indirect cost rate rather than the federally approved indirect rate in effect for the period. The use of the incorrect cost rate resulted in the CAA overcharging OEP by \$425.
- g. For one of the reimbursements selected for testing, the CAA was unable to support the \$20,163 difference between the amount requested for reimbursement and the lower program costs recorded in the CAA's general ledger.
- h. One CAA was unable to provide support for administrative, fringe, and vehicle operation costs or allocated percentages on one LIHEAP reimbursement request.

*Recommendation:*

OEP must establish controls to reasonably ensure that all costs charged to LIHEAP are allowable in accordance with federal regulations. OEP should establish appropriate control activities, information systems, and monitoring efforts that will reasonably ensure that the CAAs are operating LIHEAP in compliance with program rules and regulations.

*Auditee Response:*

We concur.

See our response to Observation No. 18. OEP had made it clear to the CAA Executive Directors that the financing accounting procedures that we have focused on in the Weatherization Program are also applicable to the LIHEAP Program. As indicated in our response to Observation No. 20, we will follow up with a mandatory workshop with the CAA LIHEAP program managers to review these procedures in order to complete CAA staff re-training. A re-established schedule for on-site program monitoring will ensure compliance.

Anticipated Completion Date: October 1, 2010.

**Observation No. 18: Weatherization Program Costs Should Be Adequately Supported**

*Observation:*

OEP has not effectively communicated federal Weatherization Assistance for Low-Income Persons (Weatherization) Program requirements related to allowable costs, including documentation of allowable costs, to the Community Action Agencies (CAAs) administering the Weatherization Program at the local level. In addition, OEP has not required CAAs to adequately support expenditures charged to the Weatherization Program. As noted in Observation No. 13, OEP's monitoring of the CAAs has not been sufficient to detect and correct problems with the CAAs' documentation of Weatherization Program activities.

The lack of effective controls noted above makes it difficult, if not impossible, to determine whether certain costs charged to the Weatherization Program are allowable.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, paragraph C.1. Basic Guidelines, identifies the factors affecting the allowability

of costs. Specifically, the Circular states, “To be allowable under Federal awards, costs must meet the following general criteria [excerpt only]:

- (a) Be necessary and reasonable for the proper and efficient performance and administration of Federal awards.
- (c) Be authorized or not prohibited under State or local laws or regulations.
- (j) Be adequately documented.”

OMB Circular A-122, *Cost Principles For Non-Profit Organizations*, (applicable to subgrantee Community Action Agencies (CAA)), Attachment A, paragraph A.2. Basic Considerations, identifies the same factors affecting allowability of costs as OMB Circular A-87. In addition, OMB Circular A-122 defines reasonable costs as follows:

According to OMB Circular A-122, Attachment B, Section 8, m. *Support of salaries and wages*, the distribution of salaries and wages to awards must be supported by personnel activity reports and those reports “must reflect an **after-the-fact** determination of the actual activity of each employee.” [Emphasis added].

The objective of the Weatherization Assistance Program is to reduce household energy use and costs in the homes of low-income persons by installing energy efficiency improvements. OEP contracts with CAAs to provide these energy efficiency improvements to eligible New Hampshire households. The CAAs determine client eligibility, inspect the housing units to determine what weatherization measures are needed, and install the needed improvements using private contractors or CAA work crews. The CAAs request reimbursement of direct Weatherization expenditures from OEP after the work has been completed and accepted by the client. CAAs generally request reimbursement of Weatherization administrative costs monthly.

We reviewed a sample<sup>3</sup> of 15 OEP payments to five of the six CAAs for Weatherization Program costs during fiscal year 2009. We also reviewed the CAA’s associated reimbursement requests and the support for those requests. Allowability concerns were noted for costs requested by four of the CAAs for reimbursement on 11 of the payments tested.

1. The requested reimbursement for personnel, fringe, or administrative costs for five CAA reimbursement requests were based on estimated percentages of time worked on the Weatherization Program (including ARRA Weatherization). While the CAAs reported the percentages were either estimated or based on a time study conducted by the CAA, there was no documentation available to support the accuracy or reasonableness of the percentages used in the allocations.
2. One CAA charged fringe costs to the personnel category and personnel costs to the administrative category, apparently due to the CAA having previously spent its entire fringe and personnel budgets.
3. One CAA included financing charges (at a rate of 19% for a period of 60 months) for the purchase of two laptop computers, a blower door, and a pickup truck in its Weatherization

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<sup>3</sup> Judgmentally selected 15 payment vouchers, tested random selection of five items each.

reimbursement request. In addition, the CAA did not obtain the required OEP approval prior to the purchase of the truck using Weatherization Program funds. When the transaction was questioned by the auditors, the costs related to the laptop and blower door were subsequently transferred to another non-federal CAA program. The cost for the truck had been transferred prior to the auditor's visit. The CAA reimbursed the Weatherization Program for the costs previously charged for these items.

4. For one of the reimbursements selected for testing, the CAA was unable to support the \$13,100 difference between the amount requested for reimbursement and the lower program costs recorded in the CAA's general ledger.
5. Indirect costs charged by one CAA were calculated using an outdated rate instead of the federally approved indirect rate in effect during the period. The CAA's use of the incorrect rate resulted in the CAA overcharging the Weatherization Program by \$65 for the period.
6. For two reimbursement requests submitted by the same CAA, we were unable to agree the costs of materials reported on the project list to invoices or other documentation supporting the costs. We noted the following issues:
  - Some materials costs were not supported by invoices or other documentation,
  - Some materials costs were listed on the CAAs' project listings at prices different than those recorded on corresponding invoices,
  - In some instances, we were not able to determine how materials costs for a specific job were calculated as there were no notations or other documentation of which costs comprised the reported amounts.
7. Health and safety labor costs reported by one CAA are calculated as estimated health and safety labor hours (estimated by Weatherization Director) multiplied by a \$40 rate. According to the CAA Weatherization Director, this rate represents an average crew hourly rate plus the costs of benefits, tools, and equipment maintenance. The CAA was not able to provide documentation to support how that rate was calculated or otherwise demonstrate whether the rate charged approximates the actual costs incurred.
8. Organization-wide financial audit costs on one CAA reimbursement request were allocated to the Weatherization Program but the CAA was not able to provide documentation supporting how the amount was allocated and whether the allocation reflected a reasonable cost to the Weatherization Program.

*Recommendation:*

OEP should ensure that it effectively communicates all Weatherization Program requirements to the CAAs.

OEP should require CAAs to adequately support all expenses charged to the Weatherization Program and submitted for federal participation.

OEP should establish effective monitoring of the CAAs to ensure that all costs charged to federal programs are allowable in accordance with federal regulations.

*Auditee Response:*

We concur.

Prior to receipt of this draft audit finding, OEP management and weatherization program staff recognized areas within the program where monitoring practices and procedures needed improvement. A weatherization program manager was hired on May 7, 2009 to augment the work of the existing technical manager. The newly hired program manager has already increased CAA oversight including: increased documentation for reimbursement, increased monitoring visits, and improved procedures. All program monitoring visits are documented in a timely manner in written reports. For example, an August 13<sup>th</sup> monitoring report to the Tri-County CAA indicated what cost documentation was missing or incomplete in their files.

In addition, OEP initiated an in-depth financial audit of two CAAs, considered at-risk, using auditors from the NH Office of Economic Stimulus and the Department of Revenue after more significant concerns were first flagged by LBA auditors and later confirmed by OEP staff. One of these CAAs had been previously identified by OEP and others for poor performance. Staff, including the Executive Director, were replaced in 2008 and another CAA took over its Weatherization Program through a Memorandum of Agreement which is still in place. The audit findings highlighted in this report for this CAA were from this problem period. Auditing of program year 2010 for this restructured CAA shows significant improvement and substantial compliance with federal requirements. Note that the remaining four CAAs, though still showing room for improvement, were also in substantial compliance with federal requirements for documentation and accounting procedures. The remaining at-risk CAA is still undergoing remedial measures.

A comprehensive monitoring of each CAA will be performed at least once per year and agencies at risk will be monitored more often. The two CAAs identified in 2009 as at-risk are still undergoing increased monitoring which will continue until all issues are resolved.

OEP had taken additional program-wide initiatives to improve CAA procedures and documentation. A mandatory financial accounting workshop was held with all CAAs on January 5th to review all federal requirements and procedures. The CAAs identified areas that they felt needed to be clarified with the Department of Energy (DOE). OEP has since received confirmation (with written confirmation expected shortly) from DOE contracting specialists on questions raised by the CAAs relative to allowable cost allocation procedures. OEP is in the process of revising its Weatherization Program Manual to reflect the clarifications from DOE. OEP has continued to review these procedures with the CAA Weatherization Directors on monthly conference calls. OEP will also continue to hold mandatory financing accounting workshops on a periodic, as needed basis.

Annual program monitoring, including verifying adequate documentation of costs, will be completed by the end of the program year as required, March 31, 2010. Continued monitoring of the two at-risk CAAs will continue until all issues are resolved.

## **Observation No. 19: Indirect Costs Should Be Charged In Compliance With The Indirect Cost Rate Agreement**

### *Observation:*

A review of OEP's application of the indirect cost rate agreement (ICRA) to the Refugee and Entrant Assistance (Refugee) and Weatherization Assistance for Low-Income Persons (Weatherization) Programs revealed that indirect costs were not charged to the programs in accordance with the ICRA.

- OEP charged indirect costs to the Refugee Program using an outdated cost rate, resulting in a \$1,438 over charge to the federal program.
- OEP requested reimbursement for \$1,638 of State-wide Cost Allocation Plan (SWCAP) charges for the Weatherization Program as a direct program charge, contrary to the requirements of the ICRA. In addition, OEP could not support the basis for an additional \$1,530 of indirect costs charged to the Weatherization Program.

The ICRA entered into between OEP and the U.S. Department of Energy provides OEP with a rate that can be applied to direct program costs to determine the level of reimbursement OEP is entitled to for indirect costs associated with the various Federal programs administered by OEP.

According to Section III – Special Remarks, paragraph, h 3, of the ICRA, the indirect cost rate “includes:

- a. Applicable central service costs allocated through the DHHS-approved State-wide Cost Allocation Plan.”

According to the ICRA in place for State fiscal year 2009, the approved indirect cost rate is intended to provide reimbursement for the applicable central service costs allocated through the U.S. Department of Health and Human Services (USDHHS) approved State-wide Cost Allocation Plan (SWCAP).

During fiscal year 2009, there was no effective review and approval process for SWCAP and other indirect costs charged to the Refugee and Weatherization Programs at OEP.

### *Recommendation:*

OEP should ensure that indirect cost rates are applied in accordance with the approved ICRA's.

OEP should ensure that employees responsible for charging direct and indirect costs to the Refugee and Weatherization Programs are trained in that activity, including the provisions of the ICRA's. OEP's controls should include appropriate control activities and monitoring efforts to promote the accurate charging of costs to these federal programs, in accordance with the ICRA in place.

*Auditee Response:*

We concur.

The OEP Business Director has sought clarification from the Department of Administrative Services. OEP will now include the SWCAP costs within its indirect cost rate.

We believe reimbursement for the indirect costs questioned above were allowable costs, therefore, we are confident that we will not be required to reimburse the U.S. Department of Energy for amounts classified as questioned costs.

OEP will prepare office-wide procedures for managing and monitoring federal programs in accordance with the appropriate federal guidance and regulations. One procedure will include the procedure for establishing OEP's indirect cost rate to be reviewed by the Grants Manager and Director.

Anticipated Completion Date: August 31, 2010.

**Observation No. 20: Compliance With Low-Income Home Energy Assistance Program Eligibility Requirements Should Be Improved**

*Observation:*

OEP contracts with six locally-based Community Action Agencies (CAAs) to provide Low-Income Home Energy Assistance Program (LIHEAP) services to low-income households. OEP relies upon the CAAs to perform the direct client interactions including determining and certifying client eligibility for LIHEAP services.

OEP cannot be reasonably certain that LIHEAP is operating in compliance with OEP and federal guidance. Based on audit testing, during the fiscal year ended June 30, 2009, certain LIHEAP payments have been made based on unsupported CAA client eligibility determinations.

Title 42 *United States Code*, Chapter 94, Subchapter II, Section 8624(b)(2)(B), requires that the State make payments only to households with incomes which do not exceed the greater of (i) an amount equal to 150 percent of the poverty level for the State; or (ii) an amount equal to 60 percent of the State median income.

The federal regulation is further reinforced by OEP's guidance included in the 2008-2009 Fuel Assistance Program Procedures (FAP) Manual which states that the New Hampshire fuel assistance program is based on the following four eligibility requirements:

- The [applicant] household resides in New Hampshire
- Household size
- Household income level, and
- [Applicant has] Responsibility for energy costs of \$100 or more.

The FAP Manual specifies that the local Community Action Agencies shall determine eligibility through the application and certification process and shall ensure that applicants have provided adequate and accurate documentation of gross income. The FAP Manual further states that, “all applications must be complete, with all supporting documentation attached.”

Audit tests of a sample<sup>4</sup> of 120 LIHEAP clients revealed the following instances of noncompliance with LIHEAP eligibility requirements.

1. Household Income Not Calculated Correctly - The household income of six out of 120 applicants (5%) was not calculated correctly resulting in \$1,125 of questioned costs.
  - Examples of errors noted included the use of gross profit instead of the required net profit for calculating self employment income, the use of a medical deduction as income instead of the pension income amount supported by applicant documentation, the use of net pay versus the required gross pay for calculating salaries and wages, not including all paychecks received by an applicant, and not including one applicant’s social security income. The error in calculating self-employment income noted above resulted in the applicant receiving a lower benefit than he/she was eligible for.
2. Lack Of Documentation To Support Household Income - Insufficient documentation was maintained in the client files to support the household income of four out of 120 applicants (3%) resulting in \$5,199 of questioned costs.
  - The spreadsheets documenting the self-employment income of three applicants did not have required source documentation necessary to support the reported amounts. The reported zero income of the fourth applicant was not supported by required verifications and the confirmation of the applicant’s lack of unemployment income in a prior year was used to support a lack of unemployment income in the current year. Because of the lack of information in the files, we were unable to make a conclusion on the eligibility determination for the four applicants.
3. Energy Costs Not Calculated Correctly - The CAAs appeared to have incorrectly calculated the energy costs for 22 of the 120 (18%) tested applicants.
  - In accordance with the FAP Manual, energy costs can be calculated by using the household’s actual annual heating costs or by using heating cost tables prepared by OEP for each CAA. However, the FAP Manual states that “the method used should be in the best interest of the applicant.” Examples of errors noted included the use of an energy cost method that was not in the best interest of the applicant, the exclusion of supplemental electric costs from the energy costs of applicants with power hot air and forced hot water systems, and including a supplemental electric cost in the energy costs of applicants who use electric heat as a primary heating source. While none of the errors in calculating energy costs resulted in questioned costs, one error in calculating energy costs resulted in the applicant receiving a lower benefit than he/she was eligible for.

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<sup>4</sup> Five clients were randomly selected from four judgmentally selected payment vouchers at each of the six CAAs.

4. Improper Segregation Of Duties Over Eligibility Process - The client fuel assistance application was missing one of the required two CAA signatures (either the intake worker's signature or the certifier's signature) for nine out of the 120 (8%) applications tested.
  - The FAP Manual states "the intake process [performed by an intake worker] begins by assessing a household's eligibility for a 30 day time period" and "a certifier reviews all applications for accuracy and completeness and determines eligibility or ineligibility based on the provided information."

CAAs also determine client eligibility for LIHEAP services as a precondition to clients being qualified for Weatherization Assistance for Low-Income Persons (Weatherization) Program participation.

Our testing of CAA eligibility determinations for 63 Weatherization applicants noted the following instances of noncompliance with OEP requirements.

- The household income of one applicant out of the 63 applications tested, or 2%, lacked sufficient supporting documentation, resulting in \$1,050 of LIHEAP questioned costs.
- The energy costs for 10 out of 63 Weatherization Program applicants tested, or 16%, were calculated incorrectly by the CAAs. However, these errors had no effect on the applicant's Fuel Assistance benefit amount.

*Recommendation:*

OEP should re-establish appropriate controls for monitoring the CAAs administration of LIHEAP. OEP should review the errors noted with the CAAs to determine the likely cause and the appropriate response. OEP should determine whether additional program guidance and/or training is needed to improve CAA compliance with LIHEAP policies and procedures.

OEP should consider the need to more fully develop its policies and procedures addressed in the FAP Manual for client income determination to ensure that the directives are clear and consistent with LIHEAP rules and regulations and program objectives.

OEP should ensure the CAAs understand that, the FAP Manual directs the use of a waiver process to cover a client's unusual or emergency situation. CAA Fuel Assistance Program Manager should use the waiver process allowed by the FAP Manual, prior to taking action not otherwise provided for in the FAP Manual.

*Auditee Response:*

We concur.

OEP is revising its LIHEAP Program [FAP] Manual and will hold a mandatory workshop for CAA LIHEAP program managers on eligibility and financial accounting procedures similar to the workshop held for the Weatherization Program. This will include intake workers up through program management staff to review all procedures. An on-site program monitoring schedule will be re-established to review the CAAs' compliance with procedures. The frequency of

monitoring has been hampered by limited resources as a LIHEAP assistant position remains unfilled. OEP will need to use resources from other programs to assist the LIHEAP program manager in returning to required monitoring scope and frequency.

Though OEP concurs with this finding, we would like to point out that audit findings did vary greatly by CAA. The most significant findings related to one of the at-risk CAAs described in an earlier response.

Anticipated Completion Date: October 1, 2010.

### **Observation No. 21: Controls Should Be Designed To Ensure Compliance With Eligibility Policies And Procedures For The Weatherization Program**

#### *Observation:*

OEP has not required Community Action Agencies (CAAs) to maintain Weatherization Assistance for Low-Income Persons (Weatherization) client files in accordance with OEP's guidelines in the State of New Hampshire Weatherization Program Administrative Manual (Manual). The Manual outlines administrative policies and procedures to be followed by the CAAs in the determination of eligibility for, and provision of, weatherization services to the citizens of New Hampshire.

Title 10 Code of Federal Regulations (CFR), Chapter II, Part 440.16 (a) states, "prior to the expenditure of any grant funds, each grantee shall develop, publish, and implement procedures to ensure that [excerpt only]:

- (a) No dwelling unit may be weatherized without documentation that the dwelling unit is an eligible dwelling unit...
- (g) No dwelling unit may be reported to DOE [U.S. Department of Energy] as completed until all weatherization materials have been installed and the subgrantee...has performed a final inspection(s) including any mechanical work performed and certified that the work has been completed in a workmanlike manner..."

The OEP Manual requires CAAs to maintain individual client files that contain specific documentation in part to meet the federal requirements. This documentation includes:

- A completed and certified New Hampshire Weatherization/Fuel Assistance Program (FAP) application.
- A completed Building and Test Data Information Sheet (BTDIS).
- A completed Unit Priority Scorecard.
- A Work Consent and Agreement Form with recipient signatures at all appropriate locations.

Our testing of eligibility of Weatherization Program recipients revealed instances where the CAAs did not follow the policies and procedures in the Manual for maintaining client files. Twenty-eight out of 63 (44%) client files reviewed were missing required documents. A total of 40 required documents were not included in those 28 incomplete files. Other problems noted with documents contained in the 63 client files reviewed included:

- The Weatherization application was not certified by the Weatherization Director in 16 out of 63 (25%) client files reviewed.
- The BTDIS was incomplete in three out of 59 (5%) client files reviewed which required BTDIS forms. In six out of 59 (10%) of these client files reviewed, we were unable to determine if the BTDIS was completed prior to the commencement of weatherization work, as the BTDIS was not properly dated.
- The client satisfaction portion of the Work Consent and Agreement form had not been signed by the applicant in 11 out of 59 (19%) client files reviewed. In addition, in two other instances, the signatures indicating client satisfaction with the work performed were dated prior to the completion of the weatherization work.

*Recommendation:*

OEP should ensure that it effectively communicates all Weatherization Program requirements to the CAAs, including the need to comply with all significant aspects of the Weatherization Program Manual, including client eligibility documentation requirements including.

OEP should establish effective monitoring of the CAAs Weatherization Program activities to ensure that the CAAs are, and remain, in compliance with all significant requirements of the Weatherization Program Manual.

*Auditee Response:*

We concur.

Increased monitoring by OEP has found that the most common omissions with applications were that they were not signed by the responsible Certifier. This has already been addressed through monitoring visits and will continue to be reinforced. Likewise, the most common problem with the BTDIS form is that fields are sometimes left blank. This has been caused in part by an outdated form that does not require all blanks to be completed. The Technical Manager is addressing this by re-designing the form, after which all fields will be required to be completed. OEP will continue to stress correctly completed forms in client files through increased monitoring visits to agencies as identified in our response to Observation No. 18.

OEP also recognizes that omissions in client files should be corrected where they occur, at the job sites. To address this, the Weatherization technical manager has re-established an aggressive monitoring schedule of field visits for each CAA in accordance with federal requirements. OEP's goal is to monitor 10% of the units in each CAA by the end of the program year (March 31, 2010) exceeding the 5% minimum requirement. OEP has contracted with a qualified Weatherization monitor to assist in this effort. Monitoring reports, identifying where technical standards or procedures were not followed, are prepared in a timely manner. The Weatherization technical manager follows up with the appropriate CAA by phone shortly after providing a monitoring report. The results of monitoring reports are also discussed in monthly conference calls with the CAA Weatherization Directors. Finally, quarterly meetings of the Weatherization Directors, CAA auditors and crews will be held starting in April to discuss all technical issues, procedures, and requirements.

## **Observation No. 22: Limitations In The Weatherization Assistance For Low-Income Persons Program Information System Should Be Addressed**

### *Observation:*

OEP does not have an effective information system in place to limit weatherization assistance to dwelling units that have not been previously weatherized by the Weatherization Assistance for Low-Income Persons (Weatherization) program. The lack of an effective Weatherization client information system increases the risk that dwelling units may be improperly reweatherized without detection.

Title 10 of the Code of Federal Regulations (CFR), Chapter II, Part 440.18 (f)(2) states no grant funds shall be used to install or otherwise provide weatherization materials for a dwelling unit previously weatherized with grant funds. OEP's Weatherization Grant Guidance documentation, section 5.15 (Reweathering), clarifies that the final rule does permit State and local agencies to reweatherize homes previously weatherized prior to October 1, 1993.

The Community Action Agencies (CAAs), in their administration of the Weatherization Program under contract to OEP, use systems that are indexed by client/tenant name and not unit location. If a prospective client name does not match a previously assisted client name in the CAA's manual or spreadsheet information systems, the dwelling unit is assumed to be eligible for weatherization assistance. While OEP receives certain information from the CAAs on clients served and dwellings weatherized, the information accumulated since 1993 by OEP is generally regarded as incomplete and not reliable.

In one out of a sample<sup>5</sup> of 63 (1.6%) Weatherization cases reviewed, the auditors noted a dwelling reported as receiving Weatherization services had previously been weatherized by the reporting CAA. According to the CAA, an error in the spelling of the tenant's name in the CAA's client information system prevented the system from identifying the dwelling as having been previously weatherized.

The name-based information systems used by the CAAs depends upon information in several databases or other information systems that have recorded weatherization work performed since 1993. The reliance on information in multiple information systems, covering the period since 1993, further increases the risk that information available in the systems will not prove a reliable control. Audit testing also revealed in 10 out of 15 (67%) instances reviewed at one CAA, weatherization work subject to testing was not recorded in electronic spreadsheets used by the CAA to record and track the completion of weatherization work. This error was not evident at the other CAAs visited.

OEP reported it was aware of the risk related to weak CAA information systems reporting Weatherization Program activity. OEP has not required and assisted CAAs to build better information systems that would track units served by the Weatherization Program by location as well as client name.

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<sup>5</sup> Judgmentally selected 13 payment vouchers, tested random selection of up to five items each.

*Recommendation:*

OEP should strengthen its control environment by responding timely and effectively to recognized risks.

OEP should assist the CAAs to implement effective information systems that would allow the CAAs to track the dwelling units weatherized and to reasonably ensure that units previously weatherized are not reweatherized in noncompliance with Weatherization Program rules.

*Auditee Response:*

We concur.

OEP will continue to work with the CAAs to establish an effective information system to track dwelling unit by address. Though OEP concurs with this finding, the new Weatherization Program manager identified this issue last May and has been working on a resolution with the CAAs and the electric utilities, which provide additional Weatherization resources through a state-funded program. Resolution is hampered by a series of different tracking mechanisms at the CAAs over the years, sometimes starting with paper records, followed by a series of different unconnected databases. In addition, there are issues related to control of the information in existing databases used by the utilities that could result in the CAAs having to duplicate data entry of the needed information. Increased monitoring identified in OEP responses to Observation No. 18 will follow up on the system once in place.

Anticipated Completion Date: December 31, 2010.

**Observation No. 23: Low-Income Home Energy Assistance Program Reports Should Be Adequately Supported**

*Observation:*

OEP has not established policies and procedures and other controls to ensure that data included in their *Low-Income Home Energy Assistance Program (LIHEAP) Grantee Survey Report* and *LIHEAP Household Report* is documented and verifiable.

The *LIHEAP Household Report* and *LIHEAP Grantee Survey Report* for federal fiscal year 2008 submitted by OEP included data that was not supported by OEP's accounting or performance records. For example, on the *LIHEAP Household Report* tested:

- The total number of households reported as having been assisted with LIHEAP weatherization assistance benefits was not supported by OEP's information systems.
- The 354 households in which at least one household member was age five or under reported as having been assisted with winter crisis benefits was an estimate that OEP could not recalculate or otherwise support.

The 354 households reported by OEP on the *LIHEAP Household Report* as having been assisted with winter crisis benefits, where at least one member is age five or under, was an estimation unsupported by database records or other alternative OEP records. Although OEP explained the methodology used to estimate the reported amount, this methodology did not recalculate. In addition, the number of households that were reported by OEP as having been assisted with weatherization assistance benefits was not supported by OEP's information systems.

Other data reported by OEP on the *LIHEAP Grantee Survey Report* that also did not appear to be supported by OEP's information systems include:

- Of the \$29,344,682 Estimated Sources of Funds reported on the *LIHEAP Grantee Survey*, \$51,945 representing funds carried over from federal fiscal year 2007 were unsupported. These carry over funds agreed to OEP's federal fiscal year 2007 *Carryover and Reallotment Report* submitted to the U.S. DHHS, however, this 2007 federal report was not supported.
- Of the \$29,344,682 Estimated Uses of Funds reported in the *LIHEAP Grantee Survey*, \$25,584,827 were unsupported.
- The reported \$629 average household heating assistance benefits and \$363 average winter crisis benefit amounts were unsupported.
- The reported \$48,913 and \$38,203 maximum annual income amounts for heating assistance benefit and weatherization assistance benefits, respectively, were unsupported.

*Recommendation:*

OEP should maintain adequate documentation, whether paper or electronic, to support all required report submittals. OEP should also consider implementing a review and approval control procedure to ensure federal reports; include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with program requirements.

*Auditee Response:*

We concur.

Back up documentation for the Carryover and Reallotment Report is not filed and retained. OEP will correct the collection of data for the Household Report to include the missing category.

OEP will prepare office-wide procedures for managing and monitoring federal programs in accordance with the appropriate federal guidance and regulations. Procedures will include or provide reference to program specific procedures or procedure manuals as appropriate. One procedure will include an annual review of reporting requirements by the Grants Manager and reviewed by the Director.

Anticipated Completion Date: October 1, 2010.

## **Observation No. 24: Submitted Weatherization Program Reports Should Be Adequately Supported**

### *Observation:*

The number of Weatherization Assistance for Low-Income Persons (Weatherization) Program units reported as completed in the *Weatherization Assistance Program Report - Annual Report for the period April 2008 through March 2009* did not agree to the number of completed units reported on a production spreadsheet maintained by OEP. It was unclear which, if either, of the reported completed unit numbers was accurate.

OEP did not maintain documentation or other information required to support the data reported in the Weatherization Program reports.

The 2009 OMB Circular A-133 Compliance Supplement, compliance requirement L - Reporting, requires that reports of federal awards “include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with program requirements.”

OEP is required to file Weatherization Program reports with the U.S. Department of Energy (USDOE). The reports are to include grant outlays by function (i.e. Administration, Training and Technical Assistance, etc.) as well as total units completed with grant funds. The units completed are to be reported by type (i.e. Single Family, Multi-Family, Mobile Home, Shelter, etc.) and by occupancy (i.e. Elderly-Occupied, Disabled-Occupied, etc.). In addition, the report is to include the total number of people assisted with grant funds by category (i.e. Elderly, Persons with Disabilities, Native Americans, and Children).

### *Recommendation:*

OEP should maintain adequate documentation, whether paper or electronic, to support all information included in required reports.

OEP should review its policies and procedures for documenting Weatherization Program activity to ensure that required data and information is captured, determined accurate, and supported by sufficient documentation to allow for review and validation.

OEP should review its process for preparing federal Weatherization reports to ensure there is an appropriate monitoring effort in place that would detect and resolve information that is incorrect or inconsistent with information in supporting systems.

### *Auditee Response:*

We concur.

OEP has a process already in place to collect weatherization information needed to prepare quarterly and annual reports to DOE. The March 2009 report did have one data field that was not being tracked by OEP; this was remedied by the next quarterly report, submitted July 2009. In

addition, OEP is strengthening this reporting process by including checks and balances in the form of additional review and confirmation of the numbers by OEP's Grant Manager. Furthermore, confirmation of production units will be made part of the formal program monitoring that takes place at each community action agency annually.

Anticipated Completion Date: July 1, 2010.

**Observation No. 25: Required Weatherization Assistance For Low-Income Persons Program Report Should Be Filed**

*Observation:*

OEP did not file a federally required Property Certification Report by the June 30, 2009 deadline.

The U.S. Department of Energy (USDOE) federal reporting checklist attached to OEP's Weatherization Assistance for Low-Income Persons (Weatherization) grant award documentation requires OEP to submit a Property Certification Report at the end of each five-year grant period. The report is due within 90 days of the close of the grant period.

The Property Certification Report is intended to identify property purchased with Weatherization grant funds by the grantee and its subgrantees within the five-year grant period.

OEP reported it was unaware of the requirement to file the report. OEP also reported it had not implemented procedures to ensure that information required to be included within the Property Certification Report is collected from subgrantees and tracked.

*Recommendation:*

OEP should establish policies and procedures to reasonably ensure the timely filing of required reports. Policies and procedures should be communicated to program managers and others responsible for federal program compliance, including the filing of required reports.

OEP should devise and maintain procedures that can be monitored, such as the use of a calendar or tickler file, to anticipate and perform required reporting activities in a timely manner.

*Auditee Response:*

We concur.

OEP will prepare office-wide procedures for managing and monitoring federal programs in accordance with the appropriate federal guidance and regulations. Procedures will include or provide reference to program specific procedures or procedure manuals as appropriate. One procedure will include an annual review of reporting requirements by the Grants Manager and reviewed by the Director. The Weatherization Program Manual will also be updated with this requirement.

Note that the Department of Energy (DOE) Weatherization Program Manager had, at first, indicated that the Property Certification Report was not due from OEP at the end of this program year. The correct due date will be indicated in the procedures manual to correct this error.

Anticipated Completion Date: The Property Certification Report will be submitted by July 1, 2010.

**Observation No. 26: Low-Income Home Energy Assistance Program Drawdowns Should Be Performed Timely**

*Observation:*

OEP did not consistently draw federal Low-Income Home Energy Assistance Program (LIHEAP) funds in accordance with the Treasury-State Agreement during fiscal year 2009. OEP performed federal draws on a quarterly basis during the period July 1, through December 31, 2008. During the second half of fiscal year 2009, OEP drew federal program funds on a biweekly or weekly basis.

Title 31 United States Code, Part 205, which implements the Cash Management Improvement Act of 1990 (CMIA), as amended, requires state recipients to enter into agreements (Treasury-State Agreements) that prescribe specific methods of drawing federal funds for certain programs.

As it applies to OEP's operation of LIHEAP, the Treasury-State Agreement requires monthly draws for administrative costs and weekly draws for direct program costs.

A judgmental sample of 15 LIHEAP expenditures was reviewed for timeliness of federal reimbursement. OEP did not request reimbursements for four of the 15 transactions (27%) in the timeframe included in the Treasury-State Agreement. OEP drew federal reimbursement for one direct program expenditure three weeks after the expenditure was incurred and drew federal reimbursement for three administrative expenditures between six and 15 weeks after OEP incurred the program expenditure.

Because OEP did not draw federal reimbursement as soon as the program allowed, the State incurred an unnecessary cash flow cost.

*Recommendation:*

OEP should draw federal reimbursements as soon as allowed by the Treasury-State agreement.

*Auditee Response:*

We concur.

OEP will make every attempt to improve its timeliness of drawing down federal reimbursements. OEP's standard procedure for contractual costs is to drawdown these costs upon disbursement. Due to loss of staff and the changeover to NH First, OEP fell behind on timely draw downs of

contractual payments for the last six months. With staffing levels returned to normal, we are in the process of getting back on schedule and anticipate more timely draw downs in the near future.

However, OEP has a small business office in comparison to the size and complexity of its federal grants. Given the increase in federal grants through the American Recovery and Reinvestment Act (ARRA) and the State restrictions on expanding staff, we may experience some additional delays to contractual draw downs as the ARRA programs ramp up with multiple contractual payments.

Administrative costs can only be drawn down quarterly because that's the frequency with which we reallocate time. When a new payroll system is implemented that allows time to be directly charged to multiple programs, we will be able to meet a monthly drawdown on administration costs.

We will confer with the State Treasurer and the Department of Administrative Services to establish appropriate OEP policies and procedures to draw federal funds intended to minimize State cash flow costs, yet also be efficient for OEP's operations.

#### **Observation No. 27: Controls Over The Refugee Program Should Be Improved**

*Observation:*

OEP does not have sufficient controls in place, including policies and procedures and information sharing, to effectively supervise the administration of its Refugee and Entrant Assistance Program.

Pursuant to the Refugee and Entrant Assistance Program State Plan, the Department of Health and Human Services (DHHS) administers certain aspects of OEP's Refugee and Entrant Assistance Program, including determining recipient eligibility and making Refugee Cash Assistance (RCA) and Refugee Medical Assistance (RMA) payments. DHHS submits reimbursement requests for the cost of these services to OEP. In accordance with the Refugee and Entrant Assistance Program State Plan, OEP is responsible for supervising DHHS' administration of those payments. We noted the following control concerns during the audit:

1. OEP has not established a written memorandum of agreement with the DHHS to clarify each organization's specific responsibilities in the administration of the Refugee and Entrant Assistance Program, including accuracy in RCA and RMA payments, and expectations for reporting financial activity of the Program.
2. DHHS, during fiscal year 2009, did not provide OEP with sufficient supporting documentation to allow OEP to monitor payments for program compliance. DHHS' reimbursement requests did not contain sufficient information such as the number of clients served, specific services provided, or other information necessary for OEP to determine the propriety of the amounts requested for program reimbursement. OEP did not otherwise actively supervise those payments.

We tested three RCA and two RMA payments made by OEP to reimburse DHHS for Refugee and Entrant Assistance Program costs and noted two of the five tested payments contained errors.

- In one tested RMA payment, DHHS' reimbursement request and OEP payment was overstated by a net \$166, due to a \$169 charge being double counted and a \$3 charge being overlooked.
  - In one tested RCA payment, \$172 of charges were not supported by the list of eligible program recipients.
3. OEP did not require DHHS to take corrective action in response to findings from a 2005 U.S. Office of Refugee Resettlement on-site monitoring report. While OEP corrected its procedures in response to the on-site monitoring findings, it took no action to supervise DHHS' response to the findings.

*Recommendation:*

OEP should establish controls, including appropriate policies and procedures and information sharing, to effectively supervise the operation of the Refugee and Entrant Assistance Program, including the accuracy of the Refugee and Entrant Assistance Program payments.

OEP should work with DHHS to establish an agreement that more completely describes the operation of the Refugee and Entrant Assistance Program as described in the State Plan. DHHS should provide sufficient information on a regular basis to allow OEP to effectively supervise DHHS' administration of the Refugee and Entrant Assistance Program.

*Auditee Response:*

We concur (see response to Observation No. 14).

OEP previously requested access to more back up documentation for RCA/RMA case payments. DHHS continues to make available upon request all supporting documentation to allow for monitoring of payments. In addition, in an October 28, 2005 letter, OEP did notify DHHS to take corrective action in response to findings from a 2005 U.S. Office of Refugee Resettlement on-site monitoring report. As indicated in our response to Observation No. 14, OEP is participating in regular meetings with the Office of Minority Services to better coordinate and continue the process of transferring the oversight and control of the program to DHHS. This finding will be further addressed through those coordination meetings.

Anticipated Completion Date: Immediate.

## State Compliance Comments

### **Observation No. 28: Coordinator Of Federal Funds Position Should Be Established**

*Observation:*

OEP did not have a Coordinator of Federal Funds during fiscal year 2009.

RSA 4-C:4, II, established the Coordinator of Federal Funds position within OEP. The duties of the position include the responsibility:

- (a) To seek out federal programs and funds which may be available to New Hampshire, notify the appropriate state department, municipality or other agency, and coordinate the application process. The coordinator shall give priority to federal programs related to economic development and credit.
- (b) To monitor the efforts of state departments, municipalities, and other agencies to apply for and secure federal funds.
- (c) To advise state departments, municipalities, and other agencies within the state of the availability of federal surplus equipment. The coordinator is authorized to contract for services to procure federal surplus equipment on behalf of New Hampshire departments, municipalities, and other agencies within the state.
- (d) To maintain a data base, to which the general court shall have access, concerning all federal funds available to all state departments, municipalities, and other agencies within the state.
- (e) To report on all such federal funds coming into the state of New Hampshire, whether to public or private agencies, to the director of the office of energy and planning who shall annually issue such report to the public.

OEP reports that during fiscal year 2009, it did not have a Coordinator of Federal Funds and it did not meet the responsibilities of RSA 4-C:4, II (a) through (e). According to OEP, the Coordinator of Federal Funds position has never been funded.

This was also a finding in our 1998 audit of the Office of State Planning.

*Recommendation:*

OEP should review RSA 4-C:4 to determine whether the Coordinator of Federal Funds position, and the responsibilities intended of that position, remain of value to OEP and the State.

If OEP determines that the Coordinator of Federal Funds position and the responsibilities intended of that position remain of value, OEP should seek funding for the position.

If OEP determines that the position is not warranted, OEP should consider requesting the statutory direction for the position be appropriately amended.

*Auditee Response:*

We concur (see response to Observation No. 29).

**Observation No. 29: Required Administrative Rules Should Be Adopted**

*Observation:*

OEP has not adopted or kept current all statutorily required administrative rules. The following chart identifies rules that have either expired or not been adopted.

<b>Administrative Rule / RSA</b>	<b>Current Status</b>
RSA 541-A:16, (a) (Organizational Rules)	Rules Not Adopted
RSA 541-A:16 (b) - (d) (Hearing Procedures and Petitions)	Rules Not Adopted
Pln 400 (Requirements For Description Of The Surface Water Resource For Local Water Resource Management And Protection Plans)	Expired 12/19/96
Pln 500 (Local Water Resource Management And Protection Plan Requirements For Both Surface And The Groundwater Resources)	Expired 12/19/96
Pln 600 (Consistency Review Process)	Expired 12/19/96
RSA 12-K:9 (Deployment Of Personal Wireless Service Facilities)	Rules Not Adopted
RSA 125-G:3, VI (High-Level Radioactive Waste)	Rules Not Adopted
RSA 227-E:8 (Connecticut River Valley Resource Commission)	Rules Not Adopted
RSA 4-C:5 (Establishing procedures for grant programs administered by the Office. The rules shall be adopted for all federal or State grant programs in which the Office has authority to establish requirements or procedures or interpret federal requirements or State statutes.)	Rules Not Adopted

A primary purpose of rules is to allow the public to know how to interact with the agency and provide the public with a level of confidence that everyone is treated the same. Rules provide consistency in expectations and behavior in the administration of agency programs. By not having rules in place, policies can be left to the discretion of the person in charge of a program.

*Recommendation:*

OEP should ensure that all statutorily required administrative rules related to the objectives of the Office are adopted as required and remain current.

If OEP determines that statutorily required rules are not necessary for its current operation, OEP should request a change in legislation either eliminating the requirement for the rules or allowing OEP the option of adopting rules.

*Auditee Response:*

We concur.

OEP has begun a review of all statutory requirements, including but not limited to, participation in councils and commissions; requirements for administrative rules; and program requirements. A Legislative Service Request (LSR) will be prepared for the next legislative session to revise appropriate statutes to align those requirements with OEP’s current mission and resources. If administrative rules are still required, they will be prepared and submitted for approval to the Joint Legislative Committee on Administrative Rules (JLCAR).

Anticipated Completion Date: June 30, 2011.

**Observation No. 30: Compliance With State Statutes Should Be Improved**

*Observation:*

OEP is not in compliance with certain state statutes.

<b>RSA #</b>	<b>Description</b>	<b>Condition</b>
4-C:6-a	Requires OEP to annually report (either separately or as part of its annual report) information regarding each economic development program for which state grants and loans have been awarded.	OEP currently does not issue an annual report and has not reported the required information in a separate report.
9-A:1, V	Requires the renewal or revision of a comprehensive development plan (which OEP is to assist the governor in preparing per RSA 9-A:2, I) every 4 years.	OEP is currently in the process of revising the comprehensive plan. The plan was most recently issued in 2000.
20:6	Requires all agencies and institutions of the state to submit their reports to Governor and Council.	OEP does not prepare and file an agency report.
125-G:4 125-G:6 125-G:9	Requires the establishment of the Nuclear Waste Policy Advisory Committee and Nuclear Waste Technical Review Council and related educational programs.	According to OEP, the Nuclear Waste Policy Advisory Committee, the Nuclear Waste Technical Review Council, and related educational programs do not currently exist. OEP reports these bodies exist in statute, but not in practice. OEP also reports there have been high-level waste activities in the state, but OEP has not received any applications to conduct

		nuclear waste related activities within the state which would require OEP's review.
Chapter 164:2, V, Laws of 2004	Requires the Energy Planning Advisory Board to report annually to the governor, the speaker of the house of representatives, and the president of the senate.	The most recent annual report was submitted in 2006.

*Recommendation:*

OEP should develop policies and procedures to prompt a periodic review of its compliance with State statutes to ensure that it fulfills its statutory responsibilities.

If OEP determines that its compliance with certain existing statutes is no longer required or necessary, OEP should request appropriate legislative relief from compliance with those statutes it considers superfluous.

*Auditee Response:*

We concur.

Current legislation proposes to sunset the Nuclear Waste Policy Advisory Committee, Nuclear Waste Technical Review Council and the Energy Planning Advisory Board. OEP has concurred with these decisions.

Relative to submitting a report regarding each economic development program for which state grants and loans have been awarded, this requirement should be repealed because OEP no longer receives economic development loans and grants, see the response to Observation No. 29.

OEP is currently in the process of drafting the comprehensive development plan.

**Observation No. 31: Policies And Procedures To Promote Compliant Filing Of Statements Of Financial Interests Should Be Implemented**

*Observation:*

OEP did not have on file with the Secretary of State during fiscal year 2009 an organizational chart identifying the names and titles of all OEP personnel required to file Statements of Financial Interests. The filing of such a chart is required by RSA 15-A:4.

In addition, 13 out of 36 required filings (including initial and annual filings) for individuals serving on organizations affiliated with OEP who should have filed Statements of Financial Interests were not filed during the fiscal year ended June 30, 2009. Of the 23 Statements of Financial Interests that were filed, 22 were filed from two to 193 days late.

RSA 15-A requires every person appointed by the governor, governor and council, "...to any board, commission, committee, board of directors, authority, or equivalent state entity whether regulatory, advisory, or administrative in nature" to file a Statement of Financial Interests with the Secretary of State to ensure the duties do not give rise to a conflict of interest. Pursuant to RSA 15-A:3, I. (e), any public official designated by the agency head is also required to file.

RSA 15-A:4 states, "Each agency head shall file with the secretary of state an organizational chart identifying the names, titles, and position numbers of persons in his or her department that are required to file a statement of financial interests."

RSA 15-A:6 establishes the deadline to file as "annually no later than the third Friday in January" and, per RSA 15-A:6, "All persons subject to this chapter, except those who are elected, shall file a statement of financial interests within 14 days of assuming the office, position, or appointment that makes the person subject to this chapter, unless the person has previously filed a statement during the calendar year."

#### Council on Resources and Development

The fifteen members of the Council were required to file 22 Statements of Financial Interests (includes initial and annual filings) during fiscal year 2009. Thirteen Statements were not filed, eight were filed from two to 107 days late, and one was filed timely.

#### Connecticut River Valley Resource Commission

All members filed required Statements of Financial Interests, but the Statements were filed from 39 to 193 days late.

#### *Recommendation:*

OEP should establish policies and procedures to ensure a current organizational chart identifying employees required to file Statements of Financial Interests is maintained on file with the Secretary of State.

OEP should establish policies and procedures to annually notify individuals serving on organizations affiliated with OEP of their need to file timely Statements of Financial Interests in accordance with RSA 15-A.

#### *Auditee Response:*

We concur.

The Director of OEP and the Senior Planner, as her delegate, have filed Statements of Financial Interests. We are not aware of any other staff needing to file this disclosure. We have now submitted our organizational chart to the Secretary of State.

OEP has established a procedure to annually notify individuals serving on organizations that OEP manages or is responsible for as chair file timely Statements of Financial Interests in accordance with RSA 15-A.

## **Independent Auditor's Report**

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying financial statements of the New Hampshire Office of Energy and Planning (Office) as of and for the fiscal year ended June 30, 2009, which comprise the Office's financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Office. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements referred to above do not purport to and do not constitute a complete financial presentation of the Office of Energy and Planning in the General Fund in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the matter discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, certain financial activity of the Office as of and for the fiscal year ended June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements referred to above, of the Office. The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 16, 2010 on our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Office Of Legislative Budget Assistant

April 16, 2010

**STATE OF NEW HAMPSHIRE  
OFFICE OF ENERGY AND PLANNING  
STATEMENT OF REVENUES AND EXPENDITURES - GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**Revenues**

**Restricted Revenues**

Federal Revenues	\$ 46,681,460
Federal Revenues - ARRA (Note 4)	1,838,993
Transfers From Other Agencies	1,271,872
Miscellaneous	193,245

**Total Restricted Revenues** 49,985,570

**Total Revenues** **49,985,570**

**Expenditures**

Fuel Assistance	42,476,368
Weatherization	2,864,921
Weatherization - ARRA (Note 4)	1,797,130
Salaries And Benefits	1,750,973
Refugee Resettlement	1,263,210
State Energy Programs	325,822
Other Grants	314,966
Current Expenses And Other	283,544
Head Start	196,208
Energy Programs - Petroleum Violation Escrow	157,070
Municipal/Regional Assistance	95,000
Department Of Information Technology	61,815
Connecticut River Valley Resource Commission	60,000
Salaries And Benefits - ARRA (Note 4)	22,335
Other Expenses - ARRA (Note 4)	11,430

**Total Expenditures** **51,680,792**

**Excess (Deficiency) Of Revenues**

**Over (Under) Expenditures** **(1,695,222)**

**Other Financing Sources (Uses)**

Net Appropriations (Note 2) 1,695,222

**Total Other Financing Sources (Uses)** **1,695,222**

**Excess (Deficiency) Of Revenues And**

**Other Financing Sources Over (Under)**

**Expenditures And Other Financing Uses** **\$ -0-**

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

**STATE OF NEW HAMPSHIRE  
OFFICE OF ENERGY AND PLANNING  
LAND CONSERVATION ENDOWMENT FUND  
BALANCE SHEET  
JUNE 30, 2009**

<b><u>Assets</u></b>	
Investments (Note 3)	\$ 2,274,132
<b>Total Assets</b>	<b><u>2,274,132</u></b>
<b><u>Liabilities</u></b>	
<b>Total Liabilities</b>	<b><u>-0-</u></b>
<b><u>Fund Balance</u></b>	
Reserved For Permanent Trust (Note 3)	2,274,132
<b>Total Fund Balance</b>	<b><u>2,274,132</u></b>
<b>Total Liabilities And Fund Balance</b>	<b><u>\$ 2,274,132</u></b>

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

**STATE OF NEW HAMPSHIRE  
OFFICE OF ENERGY AND PLANNING  
LAND CONSERVATION ENDOWMENT FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

<b><u>Revenues</u></b>	
Interest And Dividends	\$ 57,849
Net Increase (Decrease) In The Fair Value Of Investments	(185,541)
Private Donations	22,500
Grants From Other Agencies	<u>30,900</u>
<b>Total Revenues</b>	<b><u>(74,292)</u></b>
<b><u>Expenditures</u></b>	
Monitoring Activities	<u>90,762</u>
<b>Total Expenditures</b>	<b><u>90,762</u></b>
<b>Excess (Deficiency) Of Revenues Over (Under) Expenditures</b>	<b><u>(165,054)</u></b>
Fund Balance - July 1, 2008	<u>2,439,186</u>
<b>Fund Balance - June 30, 2009</b>	<b><u>\$ 2,274,132</u></b>

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

**STATE OF NEW HAMPSHIRE  
OFFICE OF ENERGY AND PLANNING**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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

The accompanying financial statements of the Office of Energy and Planning (Office), have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

**A. Financial Reporting Entity**

The Office of Energy and Planning (Office), a part of the Executive Department within the Office of the Governor, is an organization of the primary government of the State of New Hampshire. The accompanying financial statements report certain financial activity of the Office, excluding the administratively attached Connecticut River Valley Resource Commission.

The financial activity of the Office is accounted for and reported in the General and Permanent 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. The Office, as an organization of the primary government, accounts for only a small portion of the General Fund and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to the Office cannot be determined. Accordingly, the accompanying Statement of Revenues and Expenditures - General Fund is not intended to show the financial position or change in fund balance of the Office in the General Fund.

**B. Financial Statement Presentation**

The State of New Hampshire and the Office use funds to report on their financial position and the results of their operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The Office 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 specifically accounted for in any other fund. All revenues of governmental funds, other than certain designated revenues, are credited to the General Fund. Annual expenditures that are not allocated by law to other funds are charged to the General Fund.

*Permanent Fund:* The Permanent Fund reports resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the State or its citizenry. The Land Conservation Endowment Fund is a permanent fund.

### **C. Measurement Focus And Basis Of Accounting**

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

### **D. Investments**

Investments are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

### **E. Fund Balances**

Fund balances for all governmental funds are either reserved or unreserved. Reserved fund balances reflect either: 1) assets, which, by their nature, are not available for appropriations (Reserve for Inventories); 2) funds legally segregated for a specific future use (Reserve for Encumbrances); or 3) segregated by legal restrictions (Reserve for Permanent Funds).

### **F. Budget Control And Reporting**

#### *General Budget Policies*

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

The operating budget is prepared principally on a modified cash basis and adopted for the governmental and proprietary fund types with the exception of the Capital Projects Fund. The Capital Projects Fund budget represents individual projects that extend over several fiscal years.

Since the Capital Projects Fund comprises appropriations for multi-year projects, it is not included in the budget and actual comparison schedule in the State of New Hampshire CAFR. Fiduciary Funds are not budgeted.

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

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

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

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services, the encumbrance is liquidated and the expenditure and liability are recorded. The Office's unliquidated encumbrance balance in the General Fund at June 30, 2009 was \$7,873,873.

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

## **NOTE 2 - NET APPROPRIATIONS**

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

## **NOTE 3 - INVESTMENTS**

### **Land Conservation Endowment Fund**

The Land Conservation Endowment Fund (Endowment) was established in 1987 under the former RSA 221-A. According to RSA 162-C:8, I, the Endowment is to be maintained in perpetuity and used only for the purposes of monitoring and enforcing the property rights of persons with ownership interests in property acquired through the former Land Conservation Investment Program. The principal of the Endowment is to be managed by the State Treasurer for the sole purpose of providing interest earnings. Expenditures from the Endowment are to be

for the purposes set forth in RSA 162-C and limited to the interest earned on the Endowment. The Office is responsible for the oversight of income and expenditures of the Land Conservation Endowment Fund. Monitoring responsibilities for all components of the Land Conservation Investment Program have also been assigned to the Office. The State Treasurer is the custodian of the Land Conservation Endowment Fund and invests and reinvests the Land Conservation Endowment Fund in legal instruments allowable under RSA 6:8. The Office reviews with the State Treasurer the investment strategy of the Land Conservation Endowment Fund on a quarterly basis.

**Investments:**

The State Treasury Department has adopted policies to ensure reasonable rates of return on investments while minimizing risk factors. Approved instruments are defined in statute (RSA 6:8, RSA 387:6, RSA 387:6-a, and RSA 387:14). Additionally, investment guidelines exist for operating funds as well as trust and custodial funds. All investments are denominated in U.S. dollars.

At June 30, 2009, the Land Conservation Endowment Fund was invested in the following investment types:

Open-Ended Mutual Funds	
Equity	\$ 1,396,751
Fixed Income	877,203
Total Open-Ended Mutual Funds	<u>2,273,954</u>
Other	<u>178</u>
<b>Total Investments</b>	<b><u><u>\$ 2,274,132</u></u></b>

Equity Securities

The State does not have a formal policy relative to operating funds and mitigation of concentration of credit risk. Although not issuer specific, individual investment guidelines for trust and custodial funds include overall asset allocation limits that are consistent with sound investment principles and practices.

**Custodial Risk:** The custodial risk for investments is the risk that, in the event of failure of the counterparty to a transaction a government will not be able to recover the value of investments that are in the possession of an outside party. Open-ended mutual funds are not exposed to custodial risk because their existence is not evidenced by securities that exist in physical or book entry form.

**Credit Risk:** The risk that the issuer or other counterparty will not fulfill its obligations. The equity mutual funds are not rated.

### Debt Securities

The State invests in several types of debt securities including corporate and municipal bonds, securities issued by the US Treasury and Government Agencies, mutual funds, and investment pools. The Land Conservation Endowment Fund is invested in fixed income mutual funds.

**Credit Risk:** The risk that the issuer will not fulfill its obligations. The State invests in grade securities which are defined as those with a grade B or higher. Obligations of the US Government or obligations backed by the US Government are not considered to have credit risk.

**Interest Rate Risk:** The risk that changes in interest rates will adversely affect the fair value of the State's investments. Interest rate risk is primarily measured and monitored by defining or limiting the maturity of any investment or weighted average maturity of a group of investments. Fixed income mutual funds which consist of shares of funds which hold diversified portfolios of fixed income securities are limited to those with average maturity not to exceed 5 years. Trust and custodial funds manage and monitor interest rate risk primarily through a weighted average maturity approach. The State's weighted average maturity approach is dollar-weighted in terms of years. The specific target or limits of such maturity and percentage allocations are tailored to meet the investment objective(s) and are defined in the investment guidelines associated with those funds. The weighted average maturities of the Land Conservation Endowment Fund's fixed income mutual funds at June 30, 2009 ranged from 1.15 to 8.7 years with an average weighted average maturity of 4.7 years.

**Custodial Credit Risk:** The custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, a government will not be able to recover the value of investments that are in the possession of an outside party. Open-ended mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

### **NOTE 4 - ARRA**

ARRA refers to the American Recovery and Reinvestment Act of 2009.

### **NOTE 5 - EMPLOYEE BENEFIT PLANS**

#### *New Hampshire Retirement System*

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

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

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

All covered Office employees are members of Group I.

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

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the fiscal year ended June 30, 2009, Group I members, were required to contribute 5% and group II members were required to contribute 9.3% of gross earnings. The State funds 100% of the employer cost for all of the Office's employees enrolled in the Plan. The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years based on the Plan's actuary.

The Office's payments for normal contributions for the fiscal year ended June 30, 2009 amounted to 8.74% of the covered payroll for its Group I employees. The Office's normal contributions for the fiscal year ended June 30, 2009 were \$96,582.

A special account was established by RSA 100-A:16, II (h) for additional benefits. During fiscal year 2007, legislation was passed that permits the transfer of assets into the special account for earnings in excess of 10.5% as long as the actuary determines the funded ratio of the retirement system to be at least 85%. If the funded ratio of the system is less than 85%, no assets will be transferred to the special account.

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

#### *Health Insurance For Retired Employees*

In addition to providing pension benefits, RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses within the limits of the funds appropriated at each legislative session. These benefits include group hospitalization, hospital medical care, and surgical care. Substantially all of the State's employees who were hired on or

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

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

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 Standards Board (GASB) Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The ARC and contributions are reported for the State as a whole and are not separately reported for the Office.

**STATE OF NEW HAMPSHIRE  
OFFICE OF ENERGY AND PLANNING  
BUDGET TO ACTUAL SCHEDULE - GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Original Budget</u>	<u>Actual</u>	<u>Favorable/ (Unfavorable) Variance</u>
<b><u>Revenues</u></b>			
<b>Restricted Revenues</b>			
Federal Revenues	\$ 18,329,687	\$ 46,681,460	\$ 28,351,773
Federal Revenues - ARRA (Note 3)	-0-	1,838,993	1,838,993
Transfers From Other Agencies	104,297	1,271,872	1,167,575
Miscellaneous	<u>348,281</u>	<u>193,245</u>	<u>(155,036)</u>
<b>Total Restricted Revenues</b>	<u>18,782,265</u>	<u>49,985,570</u>	<u>31,203,305</u>
<b>Total Revenues</b>	<b><u>18,782,265</u></b>	<b><u>49,985,570</u></b>	<b><u>31,203,305</u></b>
<b><u>Expenditures</u></b>			
Fuel Assistance	15,000,000	42,476,368	(27,476,368)
Weatherization	1,365,208	2,864,921	(1,499,713)
Weatherization - ARRA (Note 3)	-0-	1,797,130	(1,797,130)
Salaries And Benefits	1,952,472	1,750,973	201,499
Refugee Resettlement	759,575	1,263,210	(503,635)
State Energy Programs	65,001	325,822	(260,821)
Other Grants	442,427	314,966	127,461
Current Expenses And Other	314,655	283,544	31,111
Head Start	331,337	196,208	135,129
Energy Programs - Petroleum Violation Escrow	75,000	157,070	(82,070)
Municipal/Regional Assistance	85,000	95,000	(10,000)
Department Of Information Technology	105,676	61,815	43,861
Connecticut River Valley Resource Commission	60,000	60,000	-0-
Salaries And Benefits - ARRA (Note 3)	-0-	22,335	(22,335)
Other Expenses - ARRA (Note 3)	<u>-0-</u>	<u>11,430</u>	<u>(11,430)</u>
<b>Total Expenditures</b>	<b><u>20,556,351</u></b>	<b><u>51,680,792</u></b>	<b><u>(31,124,441)</u></b>
<b>Excess (Deficiency) Of Revenues</b>			
<b>Over (Under) Expenditures</b>	<b><u>(1,774,086)</u></b>	<b><u>(1,695,222)</u></b>	<b><u>78,864</u></b>
<b>Other Financing Sources (Uses)</b>			
Net Appropriations (Note 2)	<u>1,774,086</u>	<u>1,695,222</u>	<u>78,864</u>
<b>Total Other Financing Sources (Uses)</b>	<b><u>1,774,086</u></b>	<b><u>1,695,222</u></b>	<b><u>78,864</u></b>
<b>Excess (Deficiency) Of Revenues And</b>			
<b>    Other Financing Sources Over (Under)</b>			
<b>    Expenditures And Other Financing Uses</b>	<b><u>\$ -0-</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$ -0-</u></b>

The accompanying notes are an integral part of this schedule.

## **Notes To The Budget To Actual Schedule - General Fund For The Fiscal Year Ended June 30, 2009**

### **Note 1 - General Budget Policies**

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

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

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

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

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

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

#### *Variances - Favorable/(Unfavorable)*

The variance column on the Budget To Actual Schedule highlights differences between the original operating budget and the actual revenues and expenditures for the fiscal year ended June 30, 2009. Actual revenues exceeding budget or actual expenditures being less than budget

generate a favorable variance. Actual revenues being less than budget or actual expenditures exceeding budget cause an unfavorable variance.

The unfavorable expenditure variances shown in the Budget to Actual Schedule represent the difference between the actual expenditures incurred during fiscal year 2009 and the original budget in place at the beginning of fiscal year 2009. These unfavorable variances do not represent expenditures incurred in excess of appropriations because the original budget amounts do not include supplemental appropriations. The State and the Office use supplemental appropriations to add appropriations to original budget amounts to reflect changes in levels of operations not provided for in the original budget. During fiscal year 2009, the Office's original expenditure budget amounts were supplemented by \$47.1 million of additional appropriations.

### **Note 2 - Net Appropriations**

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

### **Note 3 - ARRA**

ARRA refers to the American Recovery and Reinvestment Act of 2009.

**STATE OF NEW HAMPSHIRE  
OFFICE OF ENERGY AND PLANNING  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CASH BASIS)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

<b>Federal Catalog Number</b>	<b>Federal Grantor <i>Federal Program Title</i></b>	<b>Expenditures</b>	<b>Pass Thru Percent</b>
	<u>U.S. Department Of Energy</u>		
81.039	<i>National Energy Information Center</i>	\$ 13,500	0%
81.041	<i>State Energy Program</i>	279,357	0%
81.041	<i>State Energy Program-ARRA</i>	19,231	0%
81.042	<i>Weatherization Assistance For Low-Income Persons</i>	1,891,332	94%
81.042	<i>Weatherization Assistance For Low-Income Persons-ARRA</i>	1,734,005	99%
81.119	<i>State Energy Program Special Projects</i>	328,183	100%
	<u>U.S. Department Of Health And Human Services</u>		
93.566	<i>Refugee And Entrant Assistance- State Administered Programs</i>	1,263,943	87%
93.568	<i>Low-Income Home Energy Assistance</i>	42,620,089	100%
93.576	<i>Refugee And Entrant Assistance- Discretionary Grants</i>	187,150	100%
93.584	<i>Refugee And Entrant Assistance- Targeted Assistance Grants</i>	37,047	100%
	<u>U.S. Department Of Homeland Security</u>		
97.023	<i>Community Assistance Program State Support Services Element (CAP-SSSE)</i>	95,438	0%
97.029	<i>Flood Mitigation Assistance</i>	952	0%
97.070	<i>Map Modernization Management Support</i>	94,239	66%
	<b>Total</b>	<b>\$ 48,564,466</b>	

**Notes To The Schedule Of Expenditures Of Federal Awards (Cash Basis)  
For The Fiscal Year Ended June 30, 2009**

**Note 1 - Purpose Of Schedule And Summary Of Significant Accounting Policies**

**A. Purpose Of Schedule**

The accompanying Schedule Of Expenditures Of Federal Awards (Schedule) is a supplementary schedule to the Office of Energy and Planning's (Office) financial statements and is presented for purposes of additional analysis.

**B. Reporting Entity**

The reporting entity is defined in the Notes to the Office's financial statements presented in this report. The accompanying Schedule includes all federal awards of the Office for the fiscal year ended June 30, 2009.

**C. Basis Of Presentation**

The information in the Schedule presents the Office's federal award activity.

a. *Federal Awards* - Federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities.

b. *Pass Thru Percent* - The amount of federal funds, expressed as a percentage of expenditures, passed through by State agencies to various subrecipients.

**D. Basis Of Accounting**

Expenditures are presented in the Schedule on the cash basis of accounting. Expenditures are recorded when paid rather than when the obligation is incurred. The Schedule reflects expenditures for all programs that were active during the fiscal year ended June 30, 2009.

**Note 2 - Categorization Of Expenditures**

The categorization of expenditures by program is based upon the Catalog of Federal Domestic Assistance (CFDA). Changes in categorization of expenditures occur based upon revisions to the CFDA, which is issued in June and December of each year. The Schedule reflects CFDA changes issued through June 2009.

**Note 3 - ARRA**

ARRA refers to the American Recovery and Reinvestment Act of 2009.

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**APPENDIX - CURRENT STATUS OF PRIOR AUDIT FINDINGS**

The following is a summary, as of April 16, 2010, of the status of the observations pertaining to the current operations of the Office of Energy and Planning contained in the audit report of the Office of Energy and Community Services for the fiscal year ended June 30, 1995. A summary of the prior report can be accessed and printed from the Office of Legislative Budget Assistant, Audit Division, website at [www.gencourt.state.nh.us/lba/audit.html](http://www.gencourt.state.nh.us/lba/audit.html).

	<u>Status</u>		
<i>Internal Control Comments</i>			
<i>Reportable Conditions</i>			
1. Internal Control - Revenues	●	●	○
2. Inadequate Reporting And Tracking Of Equipment	●	●	○
3. Segregation Of Duties - Equipment	●	○	○
<i>Compliance Comments</i>			
<i>Federal Compliance</i>			
4. Lack Of Support For The Allocation Of Expenditures To Federal Grants (See Current Observations No. 17 and No. 18)	●	○	○
5. Unallowable Costs Of An Employee Of The Governor's Office	●	●	●
6. Indirect Cost Rate Proposal	●	●	●
7. Equipment - Unallowable Costs (See Current Observation No. 18)	●	○	○
8. Lack Of Documentation Supporting Equipment Costs	●	○	○
9. Federal Reports Filed Late	●	●	●
<i>State Compliance</i>			
10. Submission Of Block Grant State Plans	○	○	○
<i>Management Issues Comments</i>			
13. Petroleum Violation Escrow Account	○	○	○

<u>Status Key</u>	●	●	●	<u>Count</u>
Fully Resolved	●	●	●	3
Substantially Resolved	●	●	○	2
Partially Resolved	●	○	○	4
Unresolved	○	○	○	2

The following is a summary, as of April 16, 2010, of the status of the observations pertaining to the current operations of the Office of Energy and Planning contained in the audit report of the Office of State Planning for the nine months ended March 31, 1998. A summary of the prior report can be accessed and printed from the Office of Legislative Budget Assistant, Audit Division, website at [www.gencourt.state.nh.us/lba/audit.html](http://www.gencourt.state.nh.us/lba/audit.html).

	<u>Status</u>
<b><i>Internal Control Comments</i></b>	
<i>Reportable Conditions</i>	
5. Recording Revenue As A Negative Expenditure	● ● ●
6. Expenditures Charged To Incorrect Class Codes	● ● ●
9. Annual Performance Evaluations For Classified Employees	● ● ●
<b><i>Compliance Comments</i></b>	
<i>State Compliance</i>	
10. Statements Of Financial Interests ( <i>See Current Observation No. 31</i> )	○ ○ ○
13. Coordinator Of Federal Funds ( <i>See Current Observation No. 28</i> )	○ ○ ○
<b><i>Management Issues Comments</i></b>	
16. Disposition Of Equipment Acquired With Federal Financial Assistance	● ● ●
17. Notification To Grantees Of Federal Program Information ( <i>See Current Observation No. 13</i> )	● ○ ○

<u>Status Key</u>	<u>Count</u>
Fully Resolved	● ● ● 4
Substantially Resolved	● ● ○ 0
Partially Resolved	● ○ ○ 1
Unresolved	○ ○ ○ 2