

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF SAFETY
DIVISION OF FIRE SAFETY
BUREAU OF BUILDING SAFETY
AND CONSTRUCTION**

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

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF SAFETY
DIVISION OF FIRE SAFETY
BUREAU OF BUILDING SAFETY AND CONSTRUCTION**

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

**STATE OF NEW HAMPSHIRE
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Reporting Entity And Scope

The reporting entity of this audit and audit report is the Bureau of Building Safety and Construction (Bureau) within the Department of Safety, Division of Fire Safety. The scope of this audit and audit report includes the financial activity of the Bureau for the six months ended December 31, 2008. Unless otherwise indicated, reference to the Bureau or auditee refers to the Bureau of Building Safety and Construction. Reference to the Department refers to the Department of Safety and reference to the Division refers to the Division of Fire Safety.

Organization

The Bureau of Building Safety and Construction operates as a functional unit within the Division of Fire Safety. The Division of Fire Safety is established by RSA 21-P:12. The Bureau has four major sections: Electricians, Fuel Gas Fitters, Modular Housing, and Manufactured Housing. A Deputy State Fire Marshal who reports to the Assistant Director of the State Fire Marshal's Office administers the Bureau. The Assistant Director reports to the State Fire Marshal who reports to the Commissioner of the Department of Safety.

The Bureau of Building Safety and Construction is located at 110 Smokey Bear Boulevard, Concord, New Hampshire.

Responsibilities

The Bureau of Building Safety and Construction is responsible for administering code enforcement for the Division including:

- Licensing of electricians. The Electrician's Section processes original and renewal electrician license applications, writes and administers electrical examinations, performs inspections of electrical installation work performed in the State, assists municipalities with inspections when necessary, performs investigations, assists with fire investigations when necessary, and presents disciplinary actions to the Electrician's Board.
- Licensing of gas fitters. The Fuel Gas Fitter's Section processes gas fitter's license applications, performs inspections of gas fitter's installation work performed in the State, assists municipalities with inspections when necessary, performs investigations, assists with fire investigations when necessary, and administers disciplinary actions against licensees.
- Licensing of lightning rod installers and dealers.
- Voluntary certification of heating technicians.
- Issuance of permits for flames, pyrotechnics, or other means of special effects for entertainment, exhibition, demonstration, or simulation before a proximate audience.

- Inspection of manufactured housing for compliance with installation standards. The Bureau is responsible for inspecting manufactured homes for compliance with installation standards in those communities that do not have a building official. The Division of Fire Safety also acts as the liaison to the Manufactured Housing Installation Standards Board. All installers of manufactured homes are required to be licensed by the Bureau.
- Approval of modular building manufacturers and third party inspection agencies. The Bureau is responsible for the certification of third party inspection agencies and manufacturers, issuing approved labels for modular buildings that have been certified, and investigating complaints pertaining to modular buildings.
- Approval of building plans.
- Enforcement of electrical codes.
- Enforcement of mechanical safety codes.
- Administration of the Federal Emergency Management Agency (FEMA) Hotel and Motel Fire Safety Act of 1990.

The Bureau was staffed with 15 full-time and two part-time employees at December 31, 2008.

Funding

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

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

Total Revenues	\$ 747,114
Total Expenditures	<u>577,075</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>\$ 170,039</u>

Prior Audit

There has been no prior financial audit of the Bureau of Building Safety and Construction.

Audit Objectives And Scope

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

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

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

To The Fiscal Committee Of The General Court:

We have audited the Statement of Revenues and Expenditures, General Fund, of the New Hampshire Department of Safety, Division of Fire Safety, Bureau of Building Safety and Construction (Bureau) for the six months ended December 31, 2008 and have issued our report thereon dated May 21, 2009, which was qualified as the financial statement does not constitute a complete financial presentation of the Bureau. 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 Bureau's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Bureau's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bureau'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. 8 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 describe above, we believe Observation No. 1 is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Bureau's financial statement is free of material misstatement, we performed tests of the Bureau's compliance with certain provisions of laws, rules, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted immaterial instances of noncompliance which are described in Observations No. 9 and No. 10.

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

This report is intended solely for the information and use of the management of the New Hampshire Department of Safety, Division of Fire Safety, Bureau of Building Safety and Construction, others within the Department, and the Fiscal Committee of the General Court and is not intended to be used by anyone other than these specified parties.

Office Of Legislative Budget Assistant

May 21, 2009

Internal Control Comments
Material Weakness

Observation No. 1: Controls Over Revenue Processing Must Be Improved

Observation:

The Bureau has not established appropriate controls to ensure revenues are recorded in the accounting system and deposited in a controlled and timely manner. During the six months ended December 31, 2008, the Bureau reported \$747,114 of revenue of which \$402,025 was gas fitters fees, \$289,916 was electricians fees, and the remaining \$55,173 was comprised of fees for other licenses, certifications, and permits issued by the Bureau.

The Bureau does not have a centralized revenue process. Multiple Bureau employees are responsible for processing specific revenues. For instance, typically one Bureau employee processes gas fitters' and heating technician licenses and revenue, another employee processes electrician license revenue, another employee processes electrical apprenticeship revenue, and yet another employee processes applications and revenue for electrical licensing exams. According to Bureau practice, each person responsible for processing a specific revenue type handles all aspects of the process without an effective review and approval process, resulting in inappropriate segregations of duties. These employees typically receive the mail related to their revenue type, review applications or other accompanying documents for adherence to all requirements, input the applicant information into the corresponding licensing database to issue or renew a license, record the payment in the corresponding licensing database, prepare a record of daily receipts, verify payments received, and ensure the accumulated checks and other receipts are picked up by courier for delivery to the Department of Safety Business Office for recording in the State's accounting system (NHIFS) and deposit. No other Bureau employee reviews, verifies, or approves the information and transactions processed by these Bureau employees.

Specific instances of deficiencies in the Bureau's revenue process include:

- Checks received as payment are not restrictively endorsed and processed for deposit upon receipt. Checks may be returned to the sender if any missing or incorrect information on the application prevents the application from being immediately processed.
- In instances where the payment is processed but the application is returned to the sender due to missing information, the Bureau does not have policies and procedures for documenting the return of the application and for following up on applications with outstanding issues or problems.
- Due to the Bureau's revenue procedures, which include forwarding receipts to the Department Business Office for deposit, Bureau revenue was not deposited timely. Twenty-nine out of 33 receipts selected for testing (88%) were deposited one to six business days after receipt.
- Transactions related to licensing electricians are not recorded in a single database, complicating the review and reconciliation of associated revenues. Transactions for licensing electricians and issuing electrician apprentice ID cards are recorded in different databases.

Transactions related to electrician exams are tracked on a spreadsheet and not a database. Recording all related transactions in a single data set would increase the utility of the data and the control of the related processes, including reconciliations of revenues.

- The Bureau does not prepare a record of daily receipts (initial listing of receipts) for heating, modular housing, manufactured housing, pyrotechnic, and lightning rod fees collected by the Bureau. In lieu of the record of daily receipts, the Bureau prepares individual “invoice” forms similar to a cash receipt slip for each transaction. Each invoice is numbered when prepared based on a review of the prior number issued. The Bureau prepares these “invoices” to both prompt licensees to renew their licenses and also to support the revenues given to the Business Office for deposit and recording in NHIFS. Confusion over the Bureau’s use of invoices resulted in an erroneous posting of a \$7,000 accounts receivable when copies of invoices intended to prompt license renewals were understood by the Department’s Business Office to represent amounts owed to the Bureau. Lack of clear documentation on invoices may also have contributed to errors in the Bureau’s and Business Office’s recording of revenue transactions as noted in the following bullet.
- The Bureau does not have a process in place to verify that receipts sent over to the Department Business Office are properly and timely recorded in NHIFS. We noted the following errors in the Bureau and Business Office’s recording Bureau financial activity. The Bureau was not previously aware of these recording errors.
 - A \$75 Manufactured Housing Installer Fee was posted to the Heating Technician revenue source.
 - A \$300 Modular Housing fee was posted to the Manufactured Housing revenue source.
 - Two \$500 Manufactured Housing fees were posted to the Modular Housing revenue source.A \$43,525 Manufactured Housing fee, which was recorded twice in error during fiscal year 2008, was also initially identified during the audit.
- The Bureau does not reconcile financial information in its various licensing databases to revenue recorded in the State’s accounting system (NHIFS) to ensure that all revenue was properly recorded. Reviews performed by the auditors identified 14 license numbers not recorded in the Bureau’s database. According to information in the gas fitters license number logbook and corresponding applications, the missing numbers appear to represent actual licenses issued that were either not entered or were entered and subsequently deleted from the database. The Bureau was not aware of the discrepancy and had no explanation for the missing records.
- The Bureau does not efficiently track upgrades to gas fitters licenses. An upgrade represents a change from a lower-level to a higher-level license. For example, a licensed installer may become a licensed service technician. Upgrades are recorded in the gas fitters’ licensing database by notation in the remarks section of the database. No other entries are made in the database, preventing the Bureau from using the database to easily quantify license upgrade revenue.
- Modular housing inspections, manufactured housing inspections, certificates of compliance, and installer license renewals are not tracked in a database or other central record. Spreadsheet invoices generated to process daily receipts are the only support for revenue collected. These invoices are saved on a network drive shared by Bureau employees.
- The Bureau does not maintain a fee schedule or other centralized fee listing.

Recommendation:

The Bureau should work with the Department of Safety Business Office to review its revenue process and implement appropriate controls. The Bureau and Department should consider whether control and efficiency could be improved by having the financial aspects of the Bureau's licensing process centralized in the Department's Business Office.

If the financial aspects of the Bureau's licensing process are to remain at the Bureau, the Bureau must take steps to improve controls. Accountability over receipts must be established upon receipt and maintained through deposit. Responsibility for custody of receipts must be segregated from access to supporting accounting records. While the Bureau's planned implementation of on-line licensing will provide certain control opportunities, the Bureau should also centralize its in-Bureau receipt processing activities to limit the number of employees handling receipts. Receipts should be immediately recorded, split off from applications, and further processed for deposit, allowing applications to be subsequently processed by other Bureau employees without concern for tracking and safeguarding accompanying receipts.

In instances where applications are determined to be not complete or compliant with rules, refunds could be issued.

Auditee Response:

We concur.

The Division has already initiated the transfer to the licensing function of the Electricians to the License 2K (L2K) software program. The Gas, Modular, Manufactured Housing, Voluntary Certifications of Fire Protection Technicians, Voluntary certifications of Heating Technicians, Lightning Rod Installers and Cigarette Certifications will all be transitioned to the new licensing management software during the next fiscal year. This will provide for better tracking of fees collected against licenses and certifications issued and subsequently used to verify against deposits through the Division of Administration.

The identified deficiencies are being addressed as follows:

- We have requested a validation stamp from the Division of Administration to use as we process the checks received. Checks are no longer returned to sender when applications are incomplete; they are deposited into the NH State Treasury.
- Policies are being prepared to facilitate an orderly process when an application is returned.
- All transactions are to be entered in the L2K and the Division is preparing to link exams to the data base.
- The use of invoices has been addressed and will not be used for the renewal notification. A Notification of renewal will simply be a mailing in advance of the due date approaching.
- The Fire Marshal Bureau is collaborating with the Division of Administration to establish an effective method to capture the daily deposit receipts and verification of posting through the State's new accounting system (ERP). (See Observation No. 2)

- The Fire Marshal's office has conducted a review of the license numbers and no discrepancies were noted.
- The database does not have the capability to enter the fee collected for an upgrade. The upgrade is entered into the comments section at this time. The next biennium will see the licensing program entered into the L2K database.
- The modular, manufactured housing certificates of compliance and licenses for installers will be part of the L2K upgrade budgeted for the next biennium.
- We have also requested and received multiple locking bank bags from the Division of Administration to facilitate a secure transfer from our remote office location to the Division of Administration.

The Division of Fire Safety is collaborating with the Division of Administration to establish procedures to address concerns noted. Our administration staff is developing a reconciliation process with the Division of Administration to verify in a timely manner all fees taken in for collection against the proper revenue accounts posted into ERP.

Other Significant Deficiencies

Observation No. 2: Revenues Should Be Recorded In Statutorily Designated Accounts

Observation:

During the six months ended December 31, 2008, the Bureau did not consistently deposit its revenues in the accounts specified in statute.

RSA 319-C:6-b directs fees related to the licensing of electricians be recorded in the non-lapsing Fire Standards and Training and Emergency Medical Services Fund with fees collected in excess of actual operating expenses of the Electricians' Board deposited as General Fund unrestricted revenue.

- During the six months ended December 31, 2008, the Bureau deposited all fees from the licensing of electricians (total of \$289,916) in the General Fund. None of the fees were deposited in the Fire Standards and Training and Emergency Medical Services Fund, contrary to statute.

According to the Department, depositing electrician license fees in the General Fund was a conscious decision to maintain the identity of the amounts collected in order to more closely track the electrician's fees and to monitor the Bureau's progress towards achieving the Bureau's 125% cost recovery requirement.

Recommendation:

The Department and Bureau should record fees in the accounts designated by statute. If the Department and Bureau determine that the revenue recording requirements in current statutes do not best meet the needs of the Department, Bureau, or State, the Department and Bureau should seek to have the statutes appropriately amended.

Auditee Response:

We concur.

RSA 319-C:6-b does require the fees collected be deposited into the Fire and Emergency Medical Services (EMS) Fund with the excess after covering all costs, being lapsed to the General Fund as a 125% Bureau. The issue is that if these funds are initially deposited into the Fire and EMS Fund they would simply have to be moved back to this organization in bulk before the year end close so that the lapse process could take place. The way the Agency has been recording these fees into the Organization initially makes them available for the lapse at year end.

The statute is not clear and in fact maybe in conflict. If the Legislative intent was for the funds to be deposited into the Fire and EMS Fund then the 125% language should have been dropped. If,

however, the intent was for the funds in excess of costs to go to the General Fund then the reference to the Fire and EMS Fund should have been eliminated.

A bill was filed in the 2009 session to have all fees from this Bureau deposited into the General Fund with the General Fund funding the operation. This bill was retained by House Ways and Means. The Agency will continue to encourage a legislative change to clarify this statute.

The Division of Fire Safety is working with the Division of Administration in developing procedures to provide a review of submitted deposits to insure they are credited to the correct accounts.

Observation No. 3: License Fees Should Not Be Waived Without Authority

Observation:

The Bureau waives license renewal fees for electricians employed by the Bureau as Electrical Inspectors. According to the Bureau, it has been a long-standing practice of the Electricians' Board (Board) to waive license renewal fees for its licensed employees. The Bureau has continued this Board practice but was unable to demonstrate it had the authority to waive the fees.

RSA 319-C:6-b directs the Board to establish, with the approval of the Commissioner of the Department of Safety, certain fees including fees for the examination of applicants, fees for licensure, and fees for renewal of licensure for electricians. Licenses issued by the Bureau are valid for three years and expire on the last day of the month of the licensee's birth.

According to the Bureau, license renewal fees have been waived in recognition that the employee's use of an electrician's license is limited to their work for the Bureau, as the Bureau does not allow its Electrical Inspectors to perform electrical work that could become subject to Bureau inspection. This restriction is intended to prevent possible conflicts of interest.

Recommendation:

License fees, including license renewal fees, should be charged to all electricians as provided in statute and administrative rule.

If the Department and Bureau determines it is appropriate to continue to waive license renewal fees for its Electrical Inspectors, the Department and Bureau should review with legal counsel whether it has the authority to do so. All determinations affecting the application of fees should be appropriately documented in the Department and Bureau records.

Auditee Response:

We concur.

The waiver of the license renewal fees for the states electrical inspectors employed by the Division, was a policy that was initiated by the Electrician's Board prior to their transfer to the Division of Fire Safety by the legislature. The electrical inspectors and licensing clerical staff have been notified that no fees shall be waived unless specifically listed in the statute or rules.

The records kept on hand will indicate the license fees in question shall be paid upon the next application for renewal and each renewal thereafter.

Observation No. 4: Policies and Procedures Should Be Established For The Periodic Review Of Fees And The Methodology For Setting Fees

Observation:

The fees established by the Bureau did not comply with the State statute and Operating Budget during the six months ended December 31, 2008, which direct that fees should recover at least 125% of direct expenses of certain Bureau programs.

The State's 2008-2009 Operating Budget contains a footnote applicable to the Electricians' Board, Gas Fitters' Licensing, and Modular Housing Inspectors programs which directs that "...fees shall recover, on an annual or biennial basis the full cost of the program including the cost of support and administrative services provided by other agencies, or 125% of the direct cost of the board or commission relating to the program, whichever is greater." While the Budget footnote did not specifically apply to the Bureau's Manufactured Housing Inspector program, RSA 205-D:12 requires that program fees be sufficient to produce estimated revenue equal to 125% of direct costs.

During the six months ended December 31, 2008, fees and other revenues as recorded in the State's accounting system (NHIFS) reported the Bureau recovered 115%, 162%, 75%, and 40% of direct costs, respectively of the Electricians' Board, Gas Fitters' Licensing, Modular Housing Inspectors, and Manufactured Housing Inspector programs. According to the Bureau, it does not have policies and procedures or other formal methodology for reviewing and setting fees. The Bureau reports it reviews the fees annually to compare budgeted expenditure and revenues to maintain the 125% recovery rate.

For fiscal year 2009, estimated revenues for the Bureau's programs were budgeted to recover 100% of direct program expenditures. At June 15, 2009, NHIFS reported the Bureau recovered 130%, 112%, 56%, and 40% of direct costs, respectively of the Electricians' Board, Gas Fitters' Licensing, Modular Housing Inspectors, and Manufactured Housing Inspector programs.

Recommendation:

The Bureau should establish policies and procedures for the regular review of its fees and a methodology for revising fees when appropriate. The Bureau should request the assistance of the Department's Business Office. The policies and procedures should encompass how often and when the fees should be reviewed; the documentation, including calculations, to be maintained of the fee review process; what information should be evaluated to determine if the fees need to be changed; the people responsible for performing the calculations and evaluations, and the review and approval process for any recommended revisions to the fees.

Auditee Response:

We concur.

The Division in collaboration with the Business Office is establishing a formal policy for reviewing established fees and to identify what records need to be kept for review if needed.

The review of fees collected was limited to a six month period and this Bureau is comprised of sections that are directly linked to the construction trades, which the economic downturn has had an impact on revenues. The review covered a period that was the final stage of the electricians changing from a one year license to a three year license and the gas fitters were in the last stage of the start up where trades people were getting their initial licenses.

The need to provide the service that the legislature had required has not slowed down and in fact has increased due to consumer complaints. These sections in many cases are interdependent on each other to maintain public safety and consumer protection as the legislature desired. The need exists for a complete review of these trades for possible consolidation into one licensing group and funding source to improve the efficiency.

Observation No. 5: Effectiveness Of Voluntary Certification Programs Should Be Reviewed

Observation:

The Department and the Bureau of Building Safety and Construction have been only partially successful in promoting the voluntary certification programs that they are charged with implementing. The Bureau reports that it has never collected any revenue from the voluntary fire service equipment program. The Bureau collected \$2,075 of revenue from the voluntary heating equipment installers and service personnel program during the six months ended December 31, 2008. As noted in Observation No. 9, the Department has not adopted required rules for either program.

RSA 153:5-b, effective January 1, 2005, established a committee to assist the Commissioner of the Department of Safety with the implementation of a voluntary certification program for people engaged in the inspection, installation, and servicing of portable fire extinguishers and

fixed fire extinguishing systems, fire sprinkler systems, and fire alarm and detection systems in this state.

RSA 153:16-b, I, effective August 17, 2003, requires the State Fire Marshal to establish a voluntary certification program for certifying: 1) individuals involved in the installation of residential and non-residential heating equipment systems, water heating systems, or appliances using heating oil, and 2) individuals involved in the servicing and repair of heating equipment, water heating systems, or appliances using heating oil.

The minutes of the Heating Advisory Committee reported the high fee (\$150 for a two-year certificate) and the lack of promotion of the program by the Fire Marshal's Office as discouraging technicians from applying for the voluntary certification. The Committee recognized that "Amelia's Law" shifted the Committee and Fire Marshal's focus to establishing the Gas Fitter's Licensing Program, as the licensing of gas technicians was mandatory and had to be accomplished by a specific date.

Recommendation:

The Department and Bureau should review the effectiveness of its voluntary certification programs intended to bring increased safety and reliability to the profession and consumer. The Department and Bureau should determine whether additional promotion alone will sufficiently increase awareness of and participation in the programs.

If the Department and Bureau determine it is unlikely the voluntary programs will garner sufficient levels of acceptance, the Department and Bureau should consider whether the value of the programs warrant requesting statutory changes to make the programs mandatory.

Auditee Response:

We concur.

The Division has been proactive in promoting the Voluntary Certification program for fire protection systems and heating systems.

The Voluntary Committee that was formed by the statute for fire protection systems pursuant to RSA 153:5-b has worked countless hours over the past couple of years developing rules that involve many complex systems and issues associated with implementing such a program. They recently completed their work and the Division has begun the process of preparing the rules for the Joint Legislative Committee on Administrative Rules process. The program will be promoted upon approval of the rules through the public safety organizations and professional trade organizations. It should be noted this is not a mandatory licensing program, it is voluntary.

Promoting the Voluntary Certification program for heating installers has changed when the legislature enacted the mandatory licensing of gas fitters. The Division has focused our limited man hours available on establishing that program and now has returned to reviewing and updating the rules for the voluntary heating systems certification. The Division has been actively

promoting it through the trade organizations, the NH Association of Fire Chiefs and the NH Fire Prevention Society. This program should be mandatory to be an effective consumer protection program.

Observation No. 6: Effective Controls Over Payroll Should Be Implemented

Observation:

Significant deficiencies exist in all components of the Bureau's payroll controls.

The Bureau has not demonstrated an appropriate control environment over payroll, as Bureau management has not established a suitable payroll structure and process to reasonably ensure that payroll is accurately processed, recorded, and paid. The lack of management's prior awareness of the payroll weaknesses noted by the audit indicates the Bureau has not performed or reacted to a reasonable risk assessment. Payroll errors noted during the audit indicate the Bureau's control activities, communication, and monitoring efforts could be improved.

Specific concerns relate primarily to an ineffective segregation of duties over payroll responsibilities at the Bureau, especially a lack of an effective review and approval function. Source payroll records including timesheets and leave slips are accumulated and summarized on a Weekly Time Report, which is signed by Bureau management and forwarded to the Department Business Office for further payroll processing. The work of the Bureau employee who aggregates the information from the source payroll records and prepares the Weekly Time Report is not sufficiently supervised to reasonably ensure that payroll errors or frauds that might occur would be detected and corrected in a reasonable period of time. Bureau management signs the Weekly Time Reports in a routine manner without access to, or consideration of the accuracy of, source payroll records.

The Bureau employee who prepares the Weekly Time Report regularly revises their own and other employee leave slip and timesheet information without consistently notifying the employees or supervisors who may have previously provided authorizing signatures on those payroll documents. In some instances, this employee contacts the Department's Business Office to revise previously submitted Weekly Time Report information for employee payroll records, including their own payroll records, subsequent to management's approval of the Weekly Time Report resulting in unapproved changes to the Bureau's payroll.

A lack of management review of source payroll records limits the effectiveness of management's monitoring of the Bureau's payroll process. Payroll errors that would be apparent from a review of source payroll records noted during the audit include undocumented overtime, inappropriate use of administrative overtime coding, inappropriate use of sick leave, undocumented changes to leave slips, and inconsistencies in information posted to leave slips and timesheets.

Recommendation:

The Bureau, in consultation with the Department's Business Office, should establish appropriate policies and procedures for processing Bureau payroll that include complete and accurate source documents, effective review and approval controls, expected employee work-time and leave-time accounting activities, and controlled procedures for revising previously submitted and approved payroll records.

Bureau management must become more effective in its review and approval of payroll. Employees should not be in a position to change their own or other employee payroll records without management's reasoned approval for those changes.

Inconsistencies or errors in source payroll records should be resolved with employees and supervisors and documented to reasonably ensure the Bureau's payroll is based on complete and accurate information.

Auditee Response:

We concur.

Corrective action has been taken to strengthen the internal controls over payroll preparation in the Division. An additional step has been added to the review process at the Bureau supervisor level prior to Division management performing the final review and approval of the payroll prior to submitting it to the Division of Administration payroll office. Additional training has been conducted with personnel preparing the payroll to ensure thorough understanding of the administrative overtime classification as well as all other payroll categories on the time sheet.

Additional corrective action has been taken to strengthen the internal preparation and administrative review process for payroll.

In addition, the Department is undertaking a review of its payroll procedures from a global perspective and will be issuing additional guidelines in the near future to all persons who prepare and approve payroll in any of its Divisions. At a minimum these additional guidelines will require the original payroll to be signed by an Administrative approver at the time it is submitted to Payroll. If any changes are needed after that original sign-off they can be made by email to the Payroll office but must be forwarded through the Administrative approver's email indicating approval of the change. The Division of Administration, Payroll office is currently discussing the payroll preparation process in use in some of other larger state agencies to determine any other "best practices" which should be included in these additional guidelines. Once complete the Payroll office will conduct training with all payroll preparers in all Divisions on the new guidelines to assure compliance.

Observation No. 7: Controls Over Compliance With Year-End Accounting Procedures Should Be Improved

Observation:

State policies and procedures for closing the fiscal year 2008 accounting records were either not effectively communicated to or not adequately understood by the Bureau, resulting in approximately \$39,000 of receipts on hand at June 30, 2008 being recorded as fiscal year 2009 revenue. The Department's Business Office also did not detect the Bureau's error.

According to the State of New Hampshire *Annual Closing Review* for Fiscal Year 2008,

“Special attention must be paid to ensure a proper revenue cutoff. The following rules should be followed: (“deposited” means deposited with the State Treasurer or with a Treasury Depository) ...Cash received as of June 30 but not deposited until after June 30:

Record as an FY 2009 cash receipt AND record a FY 2008 account receivable on an A-34 in the 13th period.”

The Bureau recorded the amount on hand at June 30, 2008 as both a fiscal year 2009 cash receipt and 2009 revenue, contrary to the directive in the *Annual Closing Review* and prior notice from the Department's Business Office.

Recommendation:

The Department and Bureau should review the cause of the lack of effective communication related to the fiscal year 2008 close of the accounting records. The Department and Bureau should take appropriate and reasonable steps necessary to limit future instances of miscommunication.

The Department should review its monitoring procedures to reasonably ensure that its accounting units are aware of and comply with State and Department policies and procedures.

Auditee Response:

We concur.

At the close of State fiscal year 2009 business, it has been determined there was no cash in transit. To ensure the effective processing during the final day of the fiscal year, the checks received by the Division of Fire Safety were processed and hand carried to the Division of Administration for deposit. The Division staff has been instructed that fees received in June of any year, will not be carried over for processing on July 1 or thereafter.

Observation No. 8: Statements Of Financial Interests Should Be Filed With The Secretary Of State As Required

Observation:

The Bureau does not have policies and procedures for providing guidance to associated board members and others for filing Statements of Financial Interests (Statements).

- Four of six individuals required to file Statements in calendar year 2008 did not file. The two individuals that did file Statements filed them 20 and 47 days late, respectively.
- All six individuals filed Statements in calendar year 2009, however the Statements were filed between 25 and 58 days late.

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

Recommendation:

The Bureau should establish policies and procedures to assist board members and other required employees to file timely Statements of Financial Interests.

Auditee Response:

We concur.

The Division of Fire Safety will provide oversight to the boards on the submittal of these reports on time as required.

Compliance Comments

Observation No. 9: Administrative Rules Should Be Complete And Current

Observation:

The Department and Bureau have not adopted or kept current all statutorily required administrative rules.

The following chart identifies rules that have either expired or not been adopted:

Administrative Rule / RSA	Current Status
Saf-C 102.11 (Division of Fire Safety)	**
Elec 100 (Organizational Rules)	**
Elec 200 (Practice and Procedure)	Expired On 05/01/2008
Elec 303.02 (Passing Grade)	Expired On 05/01/2008
Elec 303.04 (Exam Fees and Refunds)	Expired On 05/01/2008
Elec 304 (Reciprocity- <i>reserved</i>)	Expired On 04/24/1990
Elec 305.01 (Corporation/Partnership)	Expired On 05/01/2008
Elec 401.02 (Armed Forces Inactive Status)	Expired On 05/01/2008
Elec 402 (Disciplinary Action)	Expired On 05/01/2008
Saf-C 3300 (Modular) except for Saf-C 3302	Expired On 05/17/2007
RSA 153:5-a (Inspection, Installation, and Servicing of Portable Fire Extinguishers and Fixed Fire Extinguishing Systems, Fire Sprinkler Systems, and Fire Alarm and Detection Systems)	Rules Not Adopted
RSA 153:5-c (Special Effects Permit) Rules For \$250 or \$400 Permit Fee	Rules Not Adopted
RSA 153:16-b, III (Heating Equipment Installers and Service Personnel) Rules For Voluntary Certification Fees	Rules Not Adopted

** Appears obsolete due to reorganization of Electricians' Board within the Bureau on July 1, 2005.

Recommendation:

The Department and Bureau should continue in their efforts to ensure that all statutorily required administrative rules related to the objectives of the Bureau are adopted and remain current.

Auditee Response:

We concur.

The Saf-C 102.11 is in need of an update and several statutory changes have been added to the Division and this will be completed in the next year (by July 2010).

The RSA 153:16-b, III rules prescribed by this section deals specifically with the fees have been completed. They have been reviewed by the Department attorney and approved by the Commissioner.

All other referenced rules have been updated and submitted for the Joint Legislative Committee on Administrative Rules process.

Observation No. 10: Equipment Inventory Should Be Performed Annually

Observation:

The Department and the Bureau do not perform an annual physical equipment inventory in strict compliance with State policy. The Department performs an inventory of its equipment on a three-year cycle that subjects the Bureau's equipment to inventory observation once every three years. The most recent physical inventory of the Bureau's equipment was performed in December 2007. The Bureau reported that its equipment inventory balance at December 31, 2008 was \$248,315.

State policy requires agencies to perform and report a complete annual observation and check of all State equipment. The Department of Administrative Services (DAS) defines equipment for this purpose to be equipment with an original cost of \$100 or more with an expected useful life of greater than one year. In contrast, federal cost guidelines use the lesser of \$5,000 or the local government's capitalization threshold to define equipment purchased with federal program funds. For State financial reporting purposes, DAS capitalizes equipment with an original cost of \$10,000 or more with an expected useful life of greater than one year.

The Department reported that it owns 43,402 items of equipment with a total original cost of \$49,249,638 that meets the \$100 or more DAS equipment inventory criteria at June 30, 2008.

Recommendation:

The Bureau should perform an annual physical inventory of equipment as required by State policy.

The Department and Bureau should establish policies and procedures that will allow the Bureau to complete and report an annual physical inventory of equipment in compliance with State policy and within resources available to the Bureau and Department.

The Department of Administrative Services should review the practicality, including the efficiency and effectiveness, of its \$100 criteria for agency equipment observation and reporting. While the DAS's low equipment inventory cost threshold provides for a high level of accountability over equipment, the burden of such stringent criteria makes agency compliance costly and problematic.

Auditee Response:

We concur.

We agree that the Division of Administration is not "touching" each piece of equipment annually but rather is using a "cycle counting" program over a three-year period. The Department has developed and implemented a three year inventory plan due to the vast number of pieces of Department equipment meeting the \$100 cost criteria and the fact that the Department's equipment is located at mountain top transmitter sites, Police Departments, Town/City Clerk's offices, National Guard Armories, as well as offices in Concord and remote locations throughout the State.

Under the Department's current process, Division of Administration Equipment Control personnel go to each location and do a physical inventory once in three years. During the off two years, a printout of each location's inventory is sent to that location for verification and sign off. These documents are returned to Concord and kept on file. The Department feels that, due to limited resources, this "best effort" meets the intent of the annual inventory rule.

As noted above, a contributing factor to the significant time and effort necessary to complete this task is the State's \$100 cost criteria for equipment control processes. To quantify this statement, a review of the Department's inventory listing reveals if the State's equipment inventory threshold was raised to \$500, for example, the Department would not need to inventory and count 25,325 items, or 58% of its currently reported equipment items. These items that would not meet the example criteria have a cost value of \$5,948,950, or 12% of the Department's reported equipment inventory.

We would welcome the Department of Administrative Services' review of the \$100 cost criteria for equipment control purposes.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying Statement of Revenues and Expenditures, General Fund, of the New Hampshire Department of Safety, Division of Fire Safety, Bureau of Building Safety and Construction (Bureau) for the six months ended December 31, 2008. This financial statement is the responsibility of the management of the Bureau. Our responsibility is to express an opinion on this financial statement based on our audit.

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated May 21, 2009 on our consideration of the Bureau's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Office Of Legislative Budget Assistant

May 21, 2009

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF SAFETY
DIVISION OF FIRE SAFETY
BUREAU OF BUILDING SAFETY AND CONSTRUCTION
STATEMENT OF REVENUES AND EXPENDITURES - GENERAL FUND
FOR THE SIX MONTHS ENDED DECEMBER 31, 2008**

Revenues

Restricted Revenues

Gas Fitter License Fees	\$ 402,025
Electrician License Fees	289,916
Modular Housing Inspector Fees	46,208
Manufactured Housing Inspector Fees	6,250
Heating Equipment Installer Fees	2,075

Total Restricted Revenues 746,474

Unrestricted Revenues

Miscellaneous License Fees	<u>640</u>
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Total Unrestricted Revenues 640

Total Revenues 747,114

Expenditures

Salaries And Benefits	502,592
Current Expenses	39,135
Travel	18,593
Equipment	14,461
Other	2,294

Total Expenditures 577,075

Excess (Deficiency) Of Revenues

Over (Under) Expenditures 170,039

Other Financing Sources (Uses)

Net General Fund Appropriations (Note 2)	<u>-0-</u>
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Total Other Financing Sources (Uses) -0-

**Excess (Deficiency) Of Revenues And
Other Financing Sources Over (Under)**

Expenditures And Other Financing Uses \$ 170,039

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

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF SAFETY
DIVISION OF FIRE SAFETY
BUREAU OF BUILDING SAFETY AND CONSTRUCTION**

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

The Bureau of Building Safety and Construction (Bureau) is an organization of the primary government of the State of New Hampshire. The accompanying financial statement reports certain financial activity of the Bureau.

The financial activity of the Bureau is accounted for and reported in the General Fund in the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the CAFR. The Bureau, as a portion of a department of the primary government, accounts for only a small portion of the General Fund and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to the Bureau cannot be determined. Accordingly, the accompanying Statement of Revenues and Expenditures, General Fund, is not intended to show the financial position or fund balance of the Bureau of Building Safety and Construction.

B. Financial Statement Presentation

The State of New Hampshire and the Bureau 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 Bureau reports its financial activity in the fund described below.

Governmental Fund Type:

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

C. Measurement Focus And Basis Of Accounting

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

D. Budget Control And Reporting

General Budget Policies

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

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

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

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

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

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services, the encumbrance is liquidated and the expenditure and liability are recorded. The Bureau's unliquidated encumbrance balance in the General Fund at December 31, 2008 was \$26,010.

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

NOTE 2 - NET GENERAL FUND APPROPRIATIONS

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

NOTE 3 - EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The New Hampshire Bureau of Building Safety and Construction (Bureau), 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 Bureau. 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 Bureau employees are members of Group I.

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

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the six months ended December 31, 2008, Group I members were required to contribute 5% and Group II members were required to contribute 9.3% of gross earnings. The State funds 100% of the employer cost for all of the Bureau'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 Bureau's payments for normal contributions for the six months ended December 31, 2008 amounted to 8.74% of the covered payroll for its Group I employees. The Bureau's normal contributions for the six months ended December 31, 2008 were \$27,720.

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>.

Other Postemployment Benefits

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

The cost of the health benefits for the Bureau'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 Bureau's financial statement.

The State Legislature currently plans to only partially fund (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of Governmental Accounting Standard Board (GASB) Statement No. 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 Bureau.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF SAFETY
DIVISION OF FIRE SAFETY
BUREAU OF BUILDING SAFETY AND CONSTRUCTION
BUDGET TO ACTUAL SCHEDULE - GENERAL FUND
FOR THE SIX MONTHS ENDED DECEMBER 31, 2008**

<u>Revenues</u>	<u>Original Budget</u>	<u>Actual</u>	<u>Favorable/ (Unfavorable) Variance</u>
Restricted Revenues			
Gas Fitter License Fees	\$ 593,272	\$ 402,025	\$ (191,247)
Electrician License Fees	507,248	289,916	(217,332)
Modular Housing Inspector Fees	175,482	46,208	(129,274)
Manufactured Housing Inspector Fees	27,906	6,250	(21,656)
Heating Equipment Installer Fees	<u>-0-</u>	<u>2,075</u>	<u>2,075</u>
Total Restricted Revenues	<u>1,303,908</u>	<u>746,474</u>	<u>(557,434)</u>
Unrestricted Revenues			
Miscellaneous License Fees	<u>300</u>	<u>640</u>	<u>340</u>
Total Unrestricted Revenues	<u>300</u>	<u>640</u>	<u>340</u>
Total Revenues	<u>1,304,208</u>	<u>747,114</u>	<u>(557,094)</u>
Expenditures			
Salaries And Benefits	933,429	502,592	430,837
Current Expenses	164,901	39,135	125,766
Travel	62,342	18,593	43,749
Equipment	91,992	14,461	77,531
Other	<u>51,244</u>	<u>2,294</u>	<u>48,950</u>
Total Expenditures	<u>1,303,908</u>	<u>577,075</u>	<u>726,833</u>
Excess (Deficiency) Of Revenues			
Over (Under) Expenditures	<u>300</u>	<u>170,039</u>	<u>169,739</u>
Other Financing Sources (Uses)			
Net General Fund Appropriations (Note 2)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Other Financing Sources (Uses)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Excess (Deficiency) Of Revenues And			
Other Financing Sources Over (Under)			
Expenditures And Other Financing Uses	<u>\$ 300</u>	<u>\$ 170,039</u>	<u>\$ 169,739</u>

The accompanying notes are an integral part of this schedule.

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

Note 1 - General Budget Policies

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

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

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

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

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

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

Variances - Favorable/(Unfavorable)

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

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

Note 2 - Net General Fund Appropriations

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