

**STATE OF NEW HAMPSHIRE  
OFFICE OF THE GOVERNOR  
OFFICE OF STATE PLANNING**

**AUDIT REPORT  
FOR THE NINE MONTHS ENDED  
MARCH 31, 1998**

**STATE OF NEW HAMPSHIRE  
OFFICE OF THE GOVERNOR  
OFFICE OF STATE PLANNING**

**TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
<b>INTRODUCTORY SECTION</b>	
Reporting Entity .....	1
Organization .....	1
Responsibilities .....	1
Funding .....	2
Prior Audit .....	5
Audit Objectives And Scope .....	5
<b>CONSTRUCTIVE SERVICE COMMENTS SECTION</b>	
<b>Auditor's Report On Compliance And On Internal Control Over Financial Reporting</b> .....	6
<i>Internal Control Comments</i>	
<i>Reportable Conditions</i>	
1. Improving Controls Over Revenue Processing .....	8
2. Improving Controls Over The CDBG Computer System .....	9
3. Improving Controls Over The Distribution Of Signed Checks .....	10
4. Improving Controls Over The Accounting For A CDBG Loan .....	12
5. Recording Revenue As A Negative Expenditure .....	14
6. Expenditures Charged To Incorrect Class Codes .....	14
7. Improving Documentation Of CDBG Program Activities .....	15
8. Improving Documentation Of On-Site Monitoring Of CZM Grants .....	17
<i>Compliance Comments</i>	
<i>State Compliance</i>	
9. Annual Performance Evaluations For Classified Employees .....	18
10. Statements Of Financial Interests .....	19
11. Authorization For The Transfer Of Funds .....	19
12. Compliance With CZM Program Rules .....	20
13. Coordinator Of Federal Funds .....	21
<i>Federal Compliance</i>	
14. Federal Financial Status And Cash Transaction Reports .....	22
<b>Auditor's Report On Management Issues</b> .....	23
<i>Management Issues Comments</i>	
<i>Management Issues</i>	
15. Year 2000 Compliance .....	24
16. Disposition Of Equipment Acquired With Federal Financial Assistance .....	25
17. Notification To Grantees Of Federal Program Information .....	26

**TABLE OF CONTENTS (Continued)**

**PAGE**

**FINANCIAL SECTION**

<b>Independent Auditor's Report</b> .....	28
<b>Financial Statements</b>	
Combined Statement Of Revenues And Expenditures - Budget And Actual General And Special Funds .....	30
Balance Sheet - Non-Expendable Trust Fund Land Conservation Endowment Fund .....	32
Statement Of Revenues, Expenses, And Changes In Fund Balance Non-Expendable Trust Fund - Land Conservation Endowment Fund .....	33
Statement Of Cash Flows - Non-Expendable Trust Fund Land Conservation Endowment Fund .....	34
Notes To The Financial Statements .....	35
<b>Supplementary Information</b>	
Schedule Of Budgetary Components - General Fund .....	44
Schedule Of Budgetary Components - Special Fund .....	45
Schedule Of Expenditures Of Federal Awards (Cash Basis) .....	46
<b>APPENDIX A - Comments Related To An Administratively Attached Organization             The Connecticut River Valley Resource Commission</b> .....	47
<b>APPENDIX B - Current Status Of Prior Audit Findings</b> .....	51

**STATE OF NEW HAMPSHIRE  
OFFICE OF THE GOVERNOR  
OFFICE OF STATE PLANNING**

**Reporting Entity**

The reporting entity of this audit and audit report is the Office of State Planning (Office), within the Office of the Governor, excluding two administratively attached organizations: the Connecticut River Valley Resource Commission and the Squam Lakes Public Access Trust Program.

**Organization**

The Office is established under RSA 4-C:1 within the Office of the Governor. Administrative operations at the Office are under the supervision and direction of a Director who serves at the pleasure of the Governor. At March 31, 1998, the Office had a total of 44 permanent full-time positions and three part-time positions.

The Office is located at 2 ½ Beacon Street in Concord. The Office also has one satellite office located at 152 Court Street in Portsmouth.

**Responsibilities**

Pursuant to RSA 4-C:1, the general duties and responsibilities of the Office include:

- I. Planning for the orderly development of the state and the wise management of the state's resources.
- II. Compiling, analyzing, and disseminating data, information, and research services as necessary to advance the welfare of the state.
- III. Encouraging and assisting planning, growth management, and development activities of cities and towns.
- IV. Encouraging the coordination and correlation of state planning by agencies of state government.
- V. Participating in interstate, regional, and national planning efforts.
- VI. Administering federal and state grant-in-aid programs assigned to the Office by statute or executive order.
- VII. When requested by one or more towns under RSA 261:153, V, studying the adequacy of the additional fee collected to pay fees for the collection and disposal of motor vehicle wastes. If the Office deems it necessary, it shall submit proposed legislation affecting such fees.
- VIII. Maintaining a current list of contractors and facilities approved by the Office for the collection and disposal of motor vehicle waste.
- IX. Participating and advising in matters of land use planning regarding lakes and rivers management programs.
- X. Performing such other duties as the Governor may assign.

## **Responsibilities (Continued)**

In response to these duties and responsibilities, the Office undertakes a number of programs and activities including:

- Municipal And Regional Planning Assistance
- State Development Plan
- Council On Resources And Development (CORD)
- Federal Programs, Intergovernmental Review Process
- NHGRANIT - Geographic Information System
- Land Conservation Investment Program
- State Comprehensive Outdoor Recreation Planning Program
- Scenic And Cultural Byways Program
- Water Protection Assistance Program
- Coastal Zone Management (CZM) Program
- Community Development Block Grant (CDBG) Program
- Data Management
- Governor's Recycling Program

Financial support for these programs comes from federal grants as well as from the State's General and Special Funds. The federally funded CDBG program accounted for approximately 88% of the Office's revenues and 73% of the Office's expenditures during the nine months ended March 31, 1998. The CDBG program is funded through the U. S. Department of Housing and Urban Development. The objectives of the program are to benefit low and moderate income persons, to eliminate slums and blighting influences, and to eliminate serious and immediate threats to a community's health and welfare.

The Office issues three categories of CDBG grants:

- Housing - including rehabilitation, replacement, and the formation of housing cooperatives.
- Public facilities - including the upgrading and expansion of public water and sewer systems, streets, sidewalks, daycare centers, senior/community centers, open space, and recreation areas.
- Economic development - including activities that create and retain employment through business financing, the provision of public facilities, or other economic development efforts.

## **Funding**

The Office is funded by appropriations in the General and Special Funds. Fiscal year 1998 appropriations combined with supplemental warrants, balances forward, and transfers resulted in spending authority of \$580,000 and \$28.6 million in the General and Special Funds, respectively.

## Funding (Continued)

Estimated restricted revenue combined with supplemental warrants and balances forward resulted in anticipated fiscal year 1998 restricted revenue of \$139,000 and \$27.2 million in the General and Special Funds, respectively. The actual financial activity of the Office, as reported in the General and Special Funds for the nine months ended March 31, 1998, is summarized in the following table and is shown graphically on page 4.

(in thousands)	<u>Nine Months Ended March 31, 1998</u>		
	<u>General Fund</u>	<u>Special Fund</u>	<u>Total</u>
<b>Restricted Revenues</b>	<u>\$ 36</u>	<u>\$ 9,034</u>	<u>\$ 9,070</u>
<b>Expenditures</b>	<u>\$ 353</u>	<u>\$ 11,046</u>	<u>\$ 11,399</u>

The Office is responsible for aspects of the State's Land Conservation Investment Program including monitoring the income, expenditures, and the financial reporting for the Land Conservation Endowment Fund, a non-expendable trust fund. The State Treasury is the custodian of the Fund and invests the Fund as directed by the Office. Total cash and investments in the Land Conservation Endowment Fund at March 31, 1998 and at June 30 for the five previous fiscal years are shown on the following graph.



## **Prior Audit**

The most recent prior financial and compliance audit of the Office was for the year ended June 30, 1988. Appendix B to this report on page 51, contains a summary of the current status of the observations contained in that prior report. Copies of the prior audit report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

## **Audit Objectives And Scope**

The primary objective of our audit is to express an opinion on the fairness of the presentation of the financial statements. As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, we considered the effectiveness of the internal controls in place at the Office and tested the Office's compliance with certain provisions of applicable state and federal laws, regulations, contracts and grants. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Internal controls,
- Revenues and appropriations,
- Expenditures and encumbrances,
- Non-expendable trust funds,
- Equipment, and
- State and federal compliance.

Our reports on compliance and on internal control over financial reporting, management issues, the related observations and recommendations, our independent auditor's report, and the financial statements of the Office of State Planning, as of and for the nine months ended March 31, 1998, are contained in the report that follows.

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

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying financial statements of the Office of State Planning as of and for the nine months ended March 31, 1998, and have issued our report thereon dated July 2, 1998, which was qualified with respect to the lack of presentation of the financial position of the Office in the General and Special Funds and the understatement of revenue in the General and Special Funds. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Office of State Planning's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance which are described in observations No. 9 through No. 14 of this report.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Office of State Planning's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Office's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in observations No. 1 through No. 8 of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions referred to above is a material weakness.

This report is intended for the information of the management of the Office of State Planning and the Fiscal Committee of the General Court. However, this report, upon its acceptance by the Fiscal Committee of the General Court, is a matter of public record and its distribution is not limited.

*Office of Legislative Budget Assistant*  
Office Of Legislative Budget Assistant

July 2, 1998

**Internal Control Comments**  
**Reportable Conditions**

**Observation No. 1 - Improving Controls Over Revenue Processing**

*Observation:*

During our review of Office procedures for processing receipts and revenues, we noted the following areas where the Office could revise its current procedures to provide increased internal controls over the receipt, recording, and depositing of revenue.

- During the period November 1997 through March 1998, checks received by the Rural Development Council were not recorded on a Record of Daily Receipt (A-15) prior to the checks being transferred to a second individual. This was a violation of management's policies.
- Checks are not restrictively endorsed immediately upon receipt.
- The review of the checks and A-15 performed by the Office is not documented and does not include a review of the deposit or the Cash Receipt (A-17) document.

Effective internal controls over receipt and revenue processing include procedures that require all receipts to be initially recorded as received, that all checks are restrictively endorsed upon receipt, and that receipts are not unnecessarily transferred between individuals without documenting responsibility for the receipts. Effective internal controls lessen the risk that lost or stolen receipts would go undetected.

*Recommendation:*

The Office should revise its current procedures for processing receipts and revenues to provide increased internal controls over the process.

- Checks received by the Rural Development Council should be recorded on an A-15 prior to the checks being transferred to a second individual.
- Checks should be restrictively endorsed immediately upon receipt.
- The review of the checks and A-15 should be performed after the preparation of the deposit and should include procedures to ensure that all checks received and recorded on the A-15 are included in the deposit and that revenue is properly recorded on the A-17 prior to posting to the State's accounting system, NHIFS. This review should be documented in the accounting record.

## **Reportable Conditions (Continued)**

### **Observation No. 1 - Improving Controls Over Revenue Processing (Continued)**

#### *Auditee Response:*

The Office of State Planning (OSP) concurs in part with these recommendations. With regard to the first recommendation, it should be noted that failure to properly record receipt of checks received by the Rural Development Council during the time cited was the result of staff turnover. The RDC staff consists of an Executive Director and Program Assistant both of whom had resigned during the period of the noted observation. Routine office functions were assigned to a temporary employee who was in the process of becoming familiar with all of the required duties including the recording of checks. In the future, new employees will be promptly instructed on the proper procedures to record checks on the A-15.

With regard to the second and third recommendations, OSP will follow the procedures outlined as follows. In order to address a separation of duties concern expressed during a prior audit, OSP secretaries (who are supervised by the Director) were assigned the responsibility of opening the mail and listing all checks received on the A-15. In the future, the secretaries will restrictively endorse all checks made payable to the State of New Hampshire or the Office of State Planning before listing on the A-15.

Checks received by State Planning are deposited into individual revenue accounts. OSP's Business Administrator, who is familiar with the numerous office accounts, needs to determine to which program the funds are to be applied before the A-17 is completed. It is essential that the new funds be deposited to the correct account to ensure accurate tracking and to eliminate unnecessary work in correcting allocation errors. In the future, the Business Administrator will initial the A-15 form before forwarding to the Account Technician for completion of the A-17. Before forwarding the A-17 to Treasury, the Accountant I will complete a final review by comparing the original listing of the checks by the secretaries and the checks deposited.

### **Observation No. 2 - Improving Controls Over The CDBG Computer System**

#### *Observation:*

During our review of the internal controls over the Community Development Block Grant (CDBG) computer system, we noted the following areas where controls over the system could be improved.

- Modifications to the CDBG database are performed in-house by an Office employee. There are no formal policies and procedures to control changes to the database. Changes to the programs are not required to be formally documented, authorized, and approved prior to being implemented.

## **Reportable Conditions (Continued)**

### **Observation No. 2 - Improving Controls Over The CDBG Computer System (Continued)**

#### *Observation (Continued):*

- System and user documentation is not maintained for the CDBG database system. This documentation is essential to ensure continued operations if key operating personnel leave Office employment.

#### *Recommendation:*

- Policies and procedures should be implemented to better control modifications to the CDBG database system. All system changes should be formally authorized, approved, and documented prior to being implemented.
- A complete library of system and user documentation should be maintained to describe and support the CDBG system.

#### *Auditee Response:*

State Planning staff concur with these recommendations and will take the following actions to address them:

- The CDBG Program Manager presently has sole authority to authorize and approve any changes to the CDBG database. However, there is now no formal procedure spelled out to initiate and implement modifications. A policy and procedure for changes will be developed by OSP staff and will be incorporated in the system and user documentation manual.
- OSP staff agree that there is a need for system and user documentation for the CDBG database. A manual will be prepared as soon as possible covering all pertinent information in order to minimize disruption in the event that key personnel leave OSP.

### **Observation No. 3 - Improving Controls Over The Distribution Of Signed Checks**

#### *Observation:*

During our review of Office procedures for processing payments, we noted the following areas where the Office could revise its current procedures for distributing signed checks to provide increased controls over Office payments.

- According to Office personnel, some Community Development Block Grant (CDBG) grantees request that grant checks be available for pick-up at the Office, rather than having the Office mail the checks. The Office does not require written documentation from the grantee for the release of the check when it is picked up by the grantee official

## **Reportable Conditions (Continued)**

### **Observation No. 3 - Improving Controls Over The Distribution Of Signed Checks (Continued)**

#### *Observation (Continued):*

at the Office. Allowing checks to be picked up at the Office unnecessarily raises the risk that CDBG payments may be lost, stolen, or misdirected.

- In some situations, signed checks are returned to the individual who requested preparation of the check or approved the check for payment contrary to good internal control policy. Returning checks to the requester or approver sometimes occurs in order for documentation to be enclosed with the check prior to mailing to a vendor or service provider. Although including documentation with payments tends to reduce confusion for payees, in order to lower the risk of misdirected payments, individuals who either request or approve payments should generally not also have access to the resulting signed checks.

#### *Recommendation:*

- CDBG grant payments should be mailed to grantees. To avoid increased risks associated with handling signed checks, the Office should not allow CDBG grant checks to be picked up at the Office.
- The Office should review its procedures for distributing signed checks to ensure that they appropriately address the risks associated with handling signed checks.

#### *Auditee Response:*

OSP concurs in part with this recommendation as follows:

- New Hampshire communities receiving CDBG grants occasionally need the reimbursement of their funds quickly and a check picked-up at the OSP Office helps them during this financial need. State Planning will continue to work with communities to keep the need for emergency checks to a minimum. When it is necessary, OSP shall assure itself that the individual is an authorized representative of the community and will require that individual to sign for receipt of the check through OSP's Business Office.
- OSP will keep to a minimum the handling of signed checks by restricting the use to Business Office personnel only.

## **Reportable Conditions (Continued)**

### **Observation No. 4 - Improving Controls Over The Accounting For A CDBG Loan**

#### *Observation:*

Essentially all Community Development Block Grants (CDBG) issued by the Office are true "grants" that do not require repayment. However, during fiscal year 1995, the Office issued one CDBG grant to a community to fund a \$330,000 loan to a private company. The proceeds of the loan were used to replace equipment destroyed in a fire and thereby retain jobs in the community. The grant was structured as a loan that the company would repay directly to the Office. The repayment of the loan was to begin in March 1996.

We noted the following issues related to the Office's accounting for this CDBG loan:

- A. In July 1996, the Office granted the company a waiver to postpone repayment of the loan until 1997. This waiver was granted by the Office without seeking prior approval of Governor and Council as required by the loan agreement.
- B. As of March 31, 1998, the Office had received only three of the required quarterly payments since the repayment period began. Although the loan repayments are due on a quarterly basis, the company had not made a payment on the loan since July 1997. There is no documentation to indicate that the Office has taken steps to collect on the delinquent account.
- C. The method used by the Office to record the loan repayments causes offsetting understatements of both CDBG program income and expenditures.
- D. The Office has no formal written policies and procedures for collecting the loan repayments.

#### *Recommendation:*

The Office should improve its accounting for this CDBG loan. Specifically:

- A. The Office should adhere to the requirements in the original loan agreement. Revisions to terms of the original loan agreement should only be made based on a written instrument signed by the parties to the agreement, subject to the approval of Governor and Council.
- B. The Office should pursue collection of the outstanding loan repayments. The Office should work with the community, the company, and if necessary the Department of Justice to establish an appropriate schedule for repayment of the loan.
- C. The Office should work with its Department of Administrative Services business supervisor to establish a method to account for loan repayments that does not understate CDBG program income and expenditures.

**Reportable Conditions (Continued)**

**Observation No. 4 - Improving Controls Over The Accounting For A CDBG Loan  
(Continued)**

*Recommendation (Continued):*

- D. The Office should establish formal written policies for collecting loan repayments. The policies should include actions that should be taken if scheduled repayments are missed and the proper accounting for the payments as determined above.

*Auditee Response:*

OSP concurs with this recommendation and the following steps have been or will be taken to improve accounting for CDBG loans:

- A. OSP has worked with the community and the company and renegotiated the terms of the loan and repayment schedule.
- B. A contract amendment has been prepared incorporating the new terms and schedule and will be reviewed by Governor and Council at its meeting of November 18, 1998. If approved, the amended contract will be carefully monitored for adherence to the revised terms and conditions.
- C. With regard to the loan repayments resulting in understatement of CDBG program income and expenditures, OSP's Business Administrator has held discussions with the business supervisor and LBA Audit staff in an attempt to resolve this issue. A mutually satisfactory solution has not been agreed upon to date, however, we will continue to work on this problem.
- D. The CDBG staff will work with the Business Office to develop written policies for collecting loan repayments including actions to be taken if scheduled payments are missed and the proper accounting for payments. It should be noted that OSP will continue to pursue its policy that loan repayments remain at the local level in order to capitalize revolving loan funds rather than directing loan payments to OSP.

## **Reportable Conditions (Continued)**

### **Observation No. 5 - Recording Revenue As A Negative Expenditure**

#### *Observation:*

The Office recorded its share of the proceeds from a grantee's sale of an asset as a reduction of current period expenditures thereby understating both revenue and expenditures of the period and also allowing the Office the opportunity to spend more than its budgeted appropriations in the affected account.

The Office received \$3,000 as its share of the proceeds from the sale of a horizontal baler used for recycling cardboard. The baler was purchased by a grantee as part of an Office recycling grant in 1992. The grant contained the stipulation that if the grantee subsequently sold the baler, a portion of the proceeds would revert to the Office. The Office recorded the \$3,000 receipt upon the sale of the baler as a negative expenditure in the State's accounting system. Recording a receipt as a negative expenditure reduced total reported expenditures by the amount of the receipt and also understated revenue by the same amount.

#### *Recommendation:*

The Office should establish procedures to ensure that money received by the Office is properly categorized. Only transactions that represent refunds of current period expenditures should be recorded as negative expenditures. Essentially all other receipt transactions should be recorded as revenue.

#### *Auditee Response:*

State Planning concurs with this recommendation and will establish procedures to properly categorize revenue being returned to the agency.

### **Observation No. 6 - Expenditures Charged To Incorrect Class Codes**

#### *Observation:*

During our testing of a sample of Office expenditures, we noted instances where the Office charged expenditures to Class 90 program accounts when other budgeted accounts would appear more appropriate. For example,

- The Office charged \$154 of rent expense, normally charged to Class 22 (rents and leases other than state), to Class 90 (recycling projects and grants).
- Payroll expenditures for two non-classified employees, normally paid out of payroll Class 16, were charged to Class 90 grant accounts for part of the audit period.

## **Reportable Conditions (Continued)**

### **Observation No. 6 - Expenditures Charged To Incorrect Class Codes (Continued)**

#### *Observation (Continued):*

When asked the reason for charging these expenditures to the Class 90 accounts, the Office responded that it took this action due to the lack of available appropriations in the more appropriate accounts or to use up available funds remaining in the Class 90 accounts from the prior year.

#### *Recommendation:*

The Office should charge its expenditures to the accounts for which appropriations were budgeted. If budgeted appropriations are insufficient, the Office should request a transfer of funds or supplemental appropriations to fund the expenditures. If funds are not made available, the expenditures should not be incurred.

#### *Auditee Response:*

OSP disagrees in part with this recommendation. In preparing the FY 1998-1999 biennial budget, the use of Class 90 funds was specifically discussed with the Appropriations Committee and LBA staff for special project related activities. The line item was actually titled "Recycling Projects" for this purpose. In preparing future agency budgets, funds will be allocated as recommended above. If funds are subsequently found to be insufficient in a specific line item, transfers will be requested.

### **Observation No. 7 - Improving Documentation Of CDBG Program Activities**

#### *Observation:*

During our testing of the Office's Community Development Block Grant (CDBG) program activities, we noted areas where the Office could improve its documentation to ensure that CDBG program activities are supported by records that do not require further explanation or research. For example:

- We noted several instances in our testing of CDBG payments to grantees where the Office was unable to explain how the documentation provided by the grantee supported the requested grant payments. In these instances, the Office contacted the grantee to obtain clarifications of bills and invoices used to support the CDBG payment requests. In all instances tested, the Office was able to demonstrate that the documentation it maintained was sufficient to support the tested CDBG payment. However, the fact that the Office was unable to explain the appropriateness of the tested payment without first obtaining further explanations of the documentation from the grantees indicates that the Office could improve its policies and practices for obtaining and maintaining documentation supporting its CDBG payments.

## **Reportable Conditions (Continued)**

### **Observation No. 7 - Improving Documentation Of CDBG Program Activities (Continued)**

#### *Observation (Continued):*

- We encountered difficulty in agreeing the reported total number of persons and number of low and moderate income persons affected by projects as reported in the CDBG Performance Evaluation Report (PER) to supporting documentation. These numbers were based on several different sources and in most instances changed over the course of the project. While we were ultimately able to agree the reported numbers to supporting documentation, the task was difficult and cumbersome. The Office does not maintain documentation supporting these reported numbers in a consistent manner nor does it have policies or procedures to ensure that readily accessible documentation is maintained to support the original determination of these reported numbers, and all subsequent revisions to these reported numbers, over the course of a project.

#### *Recommendation:*

The Office should improve its documentation of CDBG program activities.

- The Office should require that grantee requests for payments be sufficiently documented to avoid the need for additional explanation. The approval for payment should be based on sufficiently referenced supporting invoices and bills to document the appropriateness of the requested payment without any further explanation required.
- The Office should establish policies and procedures for documenting the number of persons and number of low and moderate income persons affected by projects reported on the PER. Readily accessible documentation should be maintained to support the original determination of, and all subsequent revisions to, these reported numbers.

#### *Auditee Response:*

OSP concurs with this recommendation. With regard to adequate documentation for payment requests, CDBG staff will seek to clarify the documentation supporting each CDBG payment request. If the supporting documentation is not self explanatory, then a detailed explanation will be written in the comment section of the form.

With regard to low and moderate income documentation to the PER, the present method of reporting will be discontinued in the near future. The State will be required to use HUD's new Integrated Disbursement and Information System (IDIS). Once this system is up and running, the CDBG staff will set up procedures to provide adequate documentation of low and moderate income benefit.

**Reportable Conditions (Continued)**

**Observation No. 8 - Improving Documentation Of On-Site Monitoring Of CZM Grants**

*Observation:*

A pass-through entity of federal funds, such as the Office passing through Coastal Zone Management (CZM) program funds, is responsible for monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers the federal awards in compliance with federal requirements. As part of its monitoring efforts, the Office makes on-site visits to CZM grantees.

Office personnel perform on-site visits to CZM grantees to review financial and programmatic records and to observe operations, etc. However, the results of these on-site monitoring visits are not documented in the CZM project files.

The Office also monitors CZM project grants by reviewing periodic project reports and information accompanying payment requests. These monitoring efforts are documented by the Office.

*Recommendation:*

The Office should maintain documentation of its on-site monitoring visits to CZM grantees. The documentation should include sufficient information on the purpose and results of the visits to evidence the Office's performance of appropriate monitoring efforts.

*Auditee Response:*

We accept this recommendation. However, it should be pointed out that we believe that the present system of monitoring has been effective in ensuring compliance. In the future CZM personnel will better document each site visit by preparing memos to the file recording the purpose and results of the visit with a copy transmitted to the grantee.

**Compliance Comments**  
**State Compliance**

**Observation No. 9 - Annual Performance Evaluations For Classified Employees**

*Observation:*

The Office does not prepare annual performance evaluations for full-time employees as required by RSA 21-I:42, XIII, N. H. Admin. Rules, Per 801.06, and as suggested by appropriate internal control practices.

RSA 21-I:42, XIII, requires the Department of Administrative Services, Division of Personnel to develop and implement a performance evaluation system for all classified employees which includes, among other points, annual written evaluations. N. H. Admin. Rules, Per 801.06 states that “[e]ach appointing authority shall be responsible for conducting at least one evaluation per year for each full-time classified employee pursuant to RSA 21-I:42, XIII.”

The control environment of an organization has a pervasive influence on the way business activities are structured, objectives established, and risks assessed. The control environment influences the control consciousness of its people. Effectively controlled entities strive to develop and retain competent people, as well as establish appropriate policies and procedures to foster shared values and teamwork in pursuit of the organization’s objectives. One of the primary control procedures suggested for use in striving to retain competent employees and to ensure that employees are aware of and meet the organization’s control objective is the preparation of periodic formal job performance evaluations. Employee evaluations provide feedback necessary to ensure that both the employer’s and employee’s needs are recognized and appropriately considered.

*Recommendation:*

The Office should conduct regular written evaluations for all full-time classified employees. The results of these evaluations should be used to assist the Office in its human resources activities and also assist employees to better meet the needs of the Office.

*Auditee Response:*

We concur. The OSP will review its practice of performing employee evaluations on an annual basis.

## **State Compliance (Continued)**

### **Observation No. 10 - Statements Of Financial Interests**

#### *Observation:*

The Office has not monitored to ensure that all of the members of its associated organization have filed Statements of Financial Interests as required by RSA 21-G:5-a.

- Two members of the eight-member Community Development Advisory Committee did not file Statements of Financial Interests due by July 1, 1997.

Neither of the members who failed to file Statements of Financial Interests were prohibited from carrying out their duties as required by RSA 21-G:5-a.

#### *Recommendation:*

The Office should establish procedures to ensure that all members of its associated organization, the Community Development Advisory Committee, submit Statements of Financial Interests in a timely manner.

#### *Auditee Response:*

We accept this recommendation. CDBG personnel will review procedures and take steps necessary to ensure that all members of the CDBG Advisory Committee submit Statements of Financial Interests in a timely manner.

### **Observation No. 11 - Authorization For The Transfer Of Funds**

#### *Observation:*

The Office did not seek the proper approvals prior to transferring a \$2,338 available balance from the Community Stewardship Project to the Municipal/Regional Training Fund. The transfer was inappropriately effected by the Office using a Cash Receipt (A-17) document instead of a transfer of appropriation document.

RSA 9:16-a allows departments to transfer funds subject to the prior approval of both the Fiscal Committee and Governor and Council. The Office did not submit this transfer for the prior approval of Fiscal Committee and Governor and Council and therefore did not receive the required approvals prior to making the transfer.

#### *Recommendation:*

The Office should submit all planned transfers to Fiscal Committee and Governor and Council for their approval prior to transferring funds.

**State Compliance (Continued)**

**Observation No. 11 - Authorization For The Transfer Of Funds (Continued)**

*Auditee Response:*

OSP recognizes that Fiscal Committee and Governor and Council approvals are necessary for all fund transfers and regularly follows this procedure. Failing to do so in the above-cited case was simply an oversight. OSP personnel will review internal procedures to ensure that proper approvals are secured for all future fund transfers.

**Observation No. 12 - Compliance With CZM Program Rules**

*Observation:*

An Office grantee used Coastal Zone Management (CZM) grant funds to purchase \$2,500 of computer equipment contrary to program rules. Per N. H. Admin. Rule, Pln 903.06 (a), equipment purchases over \$1,500 are not considered eligible for funding through the New Hampshire coastal program.

While the grantee reported the expenditure in its request for reimbursement, the Office employee who reviewed the request for reimbursement did not recognize the expenditure as an unallowable cost under the Office's administrative rules and authorized payment to the grantee.

*Recommendation:*

The Office should review the causes for the above situation and establish procedures to prevent similar noncompliance with the rules in the future. The Office should ensure that its employees and grantees are familiar with program rules and that the grant payment review process is sufficiently detailed to detect noncompliance on the part of the grantees.

*Auditee Response:*

We accept this recommendation. The responsible employee, while aware of the rule, did not catch this expenditure. CZM personnel will review procedures and train employees to ensure future compliance with applicable rules.

**State Compliance (Continued)**

**Observation No. 13 - Coordinator Of Federal Funds**

*Observation:*

The Office has not established a coordinator of federal funds position as required by RSA 4-C:4, II.

*Recommendation:*

The Office should either establish a coordinator of federal funds position or request that the legislation requiring the position be amended.

*Auditee Response:*

When the next legislative session convenes, OSP personnel will discuss the future disposition of the coordinator of federal funds position with the appropriate legislative committee.

## Federal Compliance

### **Observation No. 14 - Federal Financial Status And Cash Transaction Reports**

*Observation:*

The Office did not file Federal Financial Status (SF-269) and Federal Cash Transactions (SF-272) reports for a U. S. Department of Commerce, NOAA grant (No. NA77OZ0192) for the quarter July through September 1997.

Due to confusion over the start date of a new reporting requirement, the Office did not file financial information related to a Coastal Zone Management grant from the U. S. Department of Commerce. This grant began on July 1, 1997. When the Office filed its newly scheduled semiannual reports as of March 31, 1998, it did not include the financial information for the quarter July through September 1997.

The effect of not issuing the reports is that the federal grantor agency has not been informed of the financial activity in the grant during the quarter July through September 1997.

*Recommendation:*

The Office should contact the U. S. Department of Commerce to determine the appropriate method for reporting the financial activity of the grant for the quarter July through September 1997.

*Auditee Response:*

We concur with this recommendation. The reporting requirements for the Coastal Zone Management Program were changed by Joseph A. Uravitch, Chief, Coastal Programs Division to reduce the reporting workload for grantees. The actual reporting periods needed were not outlined in Mr. Uravitch's memorandum announcing the changes. An initial and follow up memorandum from OSP were issued requesting clarification. OSP has recently received verbal clarification and the reports have been filed.

## **Auditor's Report On Management Issues**

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying financial statements of the Office of State Planning as of and for the nine months ended March 31, 1998 and have issued our report thereon dated July 2, 1998, which was qualified with respect to the lack of presentation of the financial position of the Office in the General and Special Funds and the understatement of revenue in the General and Special Funds.

We conducted our audit in accordance with generally accepted auditing standards 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.

In planning and performing our audit of the financial statements of the Office of State Planning as of and for the nine months ended March 31, 1998, we noted certain issues related to the operation of the Office that merit management consideration but do not meet the definition of a reportable condition as defined by the American Institute of Certified Public Accountants, and were not issues of noncompliance with laws, rules, or regulations.

Those issues that we believe are worthy of management consideration but do not meet the criteria of reportable internal control or compliance conditions are described in observations No. 15 through No. 17 of this report.

This report is intended for the information of the management of the Office of State Planning and the Fiscal Committee of the General Court. However, this report, upon its acceptance by the Fiscal Committee, is a matter of public record and its distribution is not limited.

*Office of Legislative Budget Assistant*  
Office Of Legislative Budget Assistant

July 2, 1998

**Management Issues Comments**  
**Management Issues**

**Observation No. 15 - Year 2000 Compliance**

*Observation:*

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that make operations beyond the year 1999 troublesome. For many years, programmers eliminated the first two digits from a year when writing programs. For example, programmers would designate January 1, 1965 as "01/01/65" instead of "01/01/1965." On January 1, 2000 at 12:00:01 a.m., the internal clock in computers and other equipment will roll over from "12/31/99" to "01/01/00." Unfortunately, many programs (if not corrected) will not be able to distinguish between the year 2000 and the year 1900. This confusion may cause the programs to process data inaccurately or stop processing data altogether.

It is incumbent upon management to determine the scope of the Year 2000 issue on the operations of the organization and to plan and take steps to make systems and other equipment Year 2000 compliant prior to its causing a disruption of government services.

In meeting this responsibility, the Office reports that:

- The Director is aware of the Year 2000 issue and has assigned the Office computer committee the task of identifying problems and taking steps necessary to resolve them.
- An inventory of Year 2000 problem areas has been completed and is described in the Office's information technology plan.
- An assessment of hardware, software, and applications has been carried out and is also described in the Office's information technology plan.
- Steps are underway or have been taken to correct [Year 2000 issues]. For example, changes to the CDBG database date fields have already been made so that the full correct date can be entered. Further changes will be made to the database by December 31, 1998 to make it fully compliant with the Year 2000.

*Recommendation:*

The Office should continue to: be aware of the Year 2000 issue and its implications on the Office's operations; monitor the compliance of its systems and the systems of the Office's vendors, service providers, and other organizations with which the Office interacts and relies upon; and validate and test its systems to ensure that the Office's operations will not be disrupted by either the Office's systems or outside systems that prove to be noncompliant.

## **Management Issues (Continued)**

### **Observation No. 15 - Year 2000 Compliance (Continued)**

#### *Auditee Response:*

OSP acknowledges this recommendation and is proceeding with the step reported above.

### **Observation No. 16 - Disposition Of Equipment Acquired With Federal Financial Assistance**

#### *Observation:*

The Office categorizes equipment purchased with federal financial assistance to be entirely federally funded, regardless of the proportions of federal and other funds used to purchase the equipment. When equipment purchased in part or in whole using federal funds is surplus by the Office, the federal awarding agency is reimbursed with the entire amount of the proceeds of the sale of the surplus equipment, again, regardless of the proportion of federal and other funds used to purchase the equipment.

According to the U. S. Office of Management and Budget's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, referred to as the "Common Rule", when equipment acquired under federal grants is disposed of:

- Items of equipment with a fair market value at the time of disposal of less than \$5,000 may be disposed of with no obligation due to the federal awarding agency.
- Items of equipment with a fair market value at the time of disposal of more than \$5,000 may be disposed of and the federal awarding agency shall be entitled to an amount calculated by multiplying the current market value or proceeds from the sale by the federal awarding agency's share of the equipment.

#### *Recommendation:*

The Office should confirm with its federal awarding agencies that the Common Rule's requirements for equipment accounting applies to the equipment purchased by the Office with federal assistance. Once confirmed, the Office should ensure that the State retains the proceeds from the sale of surplus Office equipment as allowed by the federal rules.

#### *Auditee Response:*

The Office of State Planning uses the State of New Hampshire's policy regarding the disposal of federally purchased equipment. We were not aware of the "common rule" governing federal property. State Planning will check with our federal programs as to their acceptance of the "common rule" and if it applies, we will dispose of federal property according to these procedures.

## **Management Issues (Continued)**

### **Observation No. 17 - Notification To Grantees Of Federal Program Information**

#### *Observation:*

The Office could improve its process for providing federal program information to its grantees.

The Office generally provides good and adequate federal program information to its grantees. We did note, however, that the Office does not notify grantees in writing of the *Catalog of Federal Domestic Assistance* (CFDA) title, number, award name, and the name of the federal agency that originally granted the program funds. While this information is provided orally by the Office to its grantees upon request, it would be more efficient and effective for the Office to communicate this information to its grantees in writing by including it in the grant agreements or other documentation provided to grantees.

#### *Recommendation:*

The Office should include the CFDA title, number, award name, and the name of the federal agency that originally granted the program funds in its grant agreements or other documentation provided to grantees.

#### *Auditee Response:*

We accept this recommendation. The CFDA title, number, award name and applicable federal agency will be transmitted with each notice of grant award and/or grant agreement.

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## **Independent Auditor's Report**

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying financial statements of the Office of State Planning as of and for the nine months ended March 31, 1998, as listed on the table of contents. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 more fully discussed in Note 1, the financial statements referred to above are not intended to present the financial position of the Office of State Planning in the General and Special Funds.

As discussed in Note 4, the Office was not required by State accounting policies to, and therefore did not, record accounts receivable at March 31, 1998 in accordance with generally accepted accounting principles and thus understated General and Special Fund revenues by \$64,000 and \$1,863,000, respectively, for the nine months ended March 31, 1998.

In our opinion, except for the matters discussed in the previous paragraphs, the financial statements referred to above present fairly, in all material respects, certain financial activity of the Office of State Planning as of and for the nine months ended March 31, 1998, in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph. The accompanying Schedules of Budgetary Components and Expenditures of Federal Awards (Cash Basis) are presented for the purpose of additional analysis and are not required parts of the financial statements of the Office of State Planning. Such information has been subjected to the auditing procedures applied in our audit of the financial statements referred to in the first paragraph and, in our opinion, is fairly presented 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 July 2, 1998 on our consideration of the Office of State Planning's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

*Office of Legislative Budget Assistant*  
Office Of Legislative Budget Assistant

July 2, 1998

STATE OF NEW HAMPSHIRE  
OFFICE OF THE GOVERNOR  
OFFICE OF STATE PLANNING

COMBINED STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL - GENERAL AND SPECIAL FUNDS  
FOR THE NINE MONTHS ENDED MARCH 31, 1998

	General Fund		
	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
<b><u>Revenues</u></b>			
<b><u>Restricted Revenues</u></b> (Note 4)			
Community Development			
Block Grants	\$ -0-	\$ -0-	\$ -0-
Coastal Zone Management	-0-	-0-	-0-
Scenic By-Ways	-0-	-0-	-0-
Other Federal Funds	-0-	-0-	-0-
Route 16 Demonstration Project	-0-	-0-	-0-
Land Conservation Investment			
Program	76,566	-0-	(76,566)
Transfers From Other Agencies	57,999	22,252	(35,747)
Miscellaneous	4,000	13,363	9,363
<b>Total Restricted Revenues</b>	<b><u>\$ 138,565</u></b>	<b><u>\$ 35,615</u></b>	<b><u>\$ (102,950)</u></b>
<b><u>Expenditures</u></b>			
Community Development			
Block Grant Program	\$ -0-	\$ -0-	\$ -0-
Administration	130,177	84,894	45,283
Coastal Zone Management Program	-0-	-0-	-0-
Scenic By-Ways Program	-0-	-0-	-0-
N.H. Estuaries Program	-0-	-0-	-0-
Route 16 Demonstration Project	-0-	-0-	-0-
Recycling Project	164,784	100,300	64,484
Municipal/Regional Assistance	87,599	57,078	30,521
Water Assistance Planning	57,999	27,346	30,653
Land Conservation Investment			
Program Monitoring	84,249	53,777	30,472
National Park Service	-0-	-0-	-0-
Other	54,846	29,463	25,383
<b>Total Expenditures</b>	<b><u>\$ 579,654</u></b>	<b><u>\$ 352,858</u></b>	<b><u>\$ 226,796</u></b>
<b>Excess (Deficiency) Of Revenues</b>			
<b>Over (Under) Expenditures</b>	<b><u>\$ (441,089)</u></b>	<b><u>\$ (317,243)</u></b>	<b><u>\$ 123,846</u></b>

The accompanying notes are an integral part of these financial statements.

<u>Special Fund</u>			<u>Totals (Memo Only)</u>		
<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
\$ 24,046,568	\$ 8,019,131	\$ (16,027,437)	\$ 24,046,568	\$ 8,019,131	\$ (16,027,437)
965,343	332,250	(633,093)	965,343	332,250	(633,093)
799,871	317,125	(482,746)	799,871	317,125	(482,746)
1,184,779	271,888	(912,891)	1,184,779	271,888	(912,891)
133,274	80,406	(52,868)	133,274	80,406	(52,868)
-0-	-0-	-0-	76,566	-0-	(76,566)
63,193	15,000	(48,193)	121,192	37,252	(83,940)
30,641	(1,586)	(32,227)	34,641	11,777	(22,864)
<u>\$ 27,223,669</u>	<u>\$ 9,034,214</u>	<u>\$ (18,189,455)</u>	<u>\$ 27,362,234</u>	<u>\$ 9,069,829</u>	<u>\$ (18,292,405)</u>
\$ 23,840,689	\$ 8,432,844	\$ 15,407,845	\$ 23,840,689	\$ 8,432,844	\$ 15,407,845
1,707,446	1,258,564	448,882	1,837,623	1,343,458	494,165
794,812	433,349	361,463	794,812	433,349	361,463
817,686	339,579	478,107	817,686	339,579	478,107
838,645	238,858	599,787	838,645	238,858	599,787
133,274	100,634	32,640	133,274	100,634	32,640
-0-	-0-	-0-	164,784	100,300	64,484
-0-	-0-	-0-	87,599	57,078	30,521
-0-	-0-	-0-	57,999	27,346	30,653
-0-	-0-	-0-	84,249	53,777	30,472
82,863	51,318	31,545	82,863	51,318	31,545
396,379	190,877	205,502	451,225	220,340	230,885
<u>\$ 28,611,794</u>	<u>\$ 11,046,023</u>	<u>\$ 17,565,771</u>	<u>\$ 29,191,448</u>	<u>\$ 11,398,881</u>	<u>\$ 17,792,567</u>
<u>\$ (1,388,125)</u>	<u>\$ (2,011,809)</u>	<u>\$ (623,684)</u>	<u>\$ (1,829,214)</u>	<u>\$ (2,329,052)</u>	<u>\$ (499,838)</u>

STATE OF NEW HAMPSHIRE  
OFFICE OF THE GOVERNOR  
OFFICE OF STATE PLANNING

BALANCE SHEET  
NON-EXPENDABLE TRUST FUND  
LAND CONSERVATION ENDOWMENT FUND  
MARCH 31, 1998

<b><u>Assets</u></b>	
Cash And Cash Equivalents	\$ 88,809
Investments	<u>2,134,602</u>
<b>Total Assets</b>	<b><u>\$ 2,223,411</u></b>
<b><u>Liabilities And Fund Balance</u></b>	
Liabilities:	
Due To General Fund	\$ 53,777
Fund Balance	<u>2,169,634</u>
<b>Total Liabilities And Fund Balance</b>	<b><u>\$ 2,223,411</u></b>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW HAMPSHIRE  
OFFICE OF THE GOVERNOR  
OFFICE OF STATE PLANNING

STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND BALANCE  
NON-EXPENDABLE TRUST FUND  
LAND CONSERVATION ENDOWMENT FUND  
FOR THE NINE MONTHS ENDED MARCH 31, 1998

<b>Operating Revenues:</b>	
Dividends And Interest	\$ 69,277
Net Increase (Decrease) In The Fair Value Of Investments	<u>174,143</u>
Total Operating Revenues	243,420
<b>Operating Expenses:</b>	
Monitoring Activities	<u>53,777</u>
Net Operating Income (Loss)	189,643
Fund Balance July 1, 1997	<u>1,979,991</u>
<b>Fund Balance March 31, 1998</b>	<b><u>\$ 2,169,634</u></b>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW HAMPSHIRE  
OFFICE OF THE GOVERNOR  
OFFICE OF STATE PLANNING**

**STATEMENT OF CASH FLOWS  
NON-EXPENDABLE TRUST FUND  
LAND CONSERVATION ENDOWMENT FUND  
FOR THE NINE MONTHS ENDED MARCH 31, 1998**

<b><u>Cash Flows From Operating Activities:</u></b>	
Operating Income (Loss)	\$ 189,643
Adjustments To Reconcile Operating Income To Net Cash Provided By Operating Activities:	
Increase (Decrease) In Accounts Payable	(13,917)
Change In Fair Value Of Investments	<u>(174,143)</u>
Net Cash Provided By Operating Activities	1,583
<b><u>Cash Flows From Investing Activities:</u></b>	
Purchase Of Investments	(268,991)
Proceeds From Sales/Maturities Of Investments	<u>261,237</u>
Net Cash Provided (Used) By Investing Activities	<u>(7,754)</u>
<b>Net Increase (Decrease) In Cash And Cash Equivalents</b>	<b>(6,171)</b>
Cash And Cash Equivalents, July 1, 1997	<u>94,980</u>
<b>Cash And Cash Equivalents, March 31, 1998</b>	<b><u>\$ 88,809</u></b>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW HAMPSHIRE  
OFFICE OF THE GOVERNOR  
OFFICE OF STATE PLANNING**

**NOTES TO THE FINANCIAL STATEMENTS  
NINE MONTHS ENDED MARCH 31, 1998**

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

The financial statements of the Office have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**A. Financial Reporting Entity**

The Office of State Planning is an organization of the Office of the Governor and the primary government of the State of New Hampshire. The accompanying financial statements report certain financial activity of the Office excluding two administratively attached organizations: the Connecticut River Valley Resource Commission and the Squam Lakes Public Access Trust Program. The financial activity of the Office is accounted for in the General, Special, and Fiduciary 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 and Special Funds and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to the Office cannot be determined. Accordingly, the accompanying financial statements are not intended to show the financial position of the Office in the General and Special Funds and the changes in these fund balances are not reported on the accompanying financial statements.

**B. Basis of Presentation - Fund Accounting**

The State of New Hampshire and the Office use funds and account groups 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. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### B. Basis of Presentation - Fund Accounting (Continued)

#### *Governmental Fund Types*

##### General Fund

The General Fund accounts for all financial transactions not specifically accounted for in any other fund. By law, and with certain exceptions, all revenues of governmental funds are paid daily into the State Treasury. All such revenues, 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.

##### Special Revenue Fund

The Special Fund, one of the State's Special Revenue Funds, is used to account for specific revenue sources that are legally restricted to expenditures for specific purposes. Federally funded programs at the Office are accounted for in the Special Fund.

#### *Fiduciary Fund Types*

##### Non-Expendable Trust Fund

Transactions related to assets held by the Office in a trustee capacity are accounted for in the fiduciary fund type. Because the Office is functioning in a fiduciary capacity, the authority to employ, dispose of, or otherwise use the assets is determined not by legislative appropriations, but by the statutes and administrative rules that created the trustee relationship. The Office is trustee of the Land Conservation Endowment Fund, a non-expendable trust fund. The principal of the Fund is non-expendable, whereas the earnings on the principal are used to support the Fund's purpose. The financial statements of a non-expendable trust fund include a balance sheet, a statement of revenues, expenses, and changes in fund balance, and a statement of cash flows.

#### *Account Groups*

##### General Fixed Assets

General fixed assets acquired for use by the Office for the performance of its operations are reflected in the General Fixed Assets Account Group at the time of acquisition. As of March 31, 1998, the Office had recorded in the General Fixed Assets Account Group the cost of general fixed assets based on available historical cost records. Donated fixed assets are recorded at fair market value at the time donated.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### C. Measurement Focus And Basis Of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All government funds are accounted for using the flow of current financial resources measurement focus and reported on a modified accrual basis of accounting. Accordingly, the State of New Hampshire accounts for its financial transactions relating to the General and Special Funds on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when measurable and available to finance operations of the fiscal period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized in the period in which obligations are incurred as a result of the receipt of goods or services.

Non-expendable trust funds are accounted for on a flow of economic resources measurement focus and reported on an accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred. The net appreciation (depreciation) in fair value of investments is recorded as an increase (decrease) in investment income in the non-expendable trust fund based on the valuation of investments as of the date of the financial statements. For the purposes of the statement of cash flows, the State and the Office consider mutual fund cash reserves to be cash equivalents as cash may be deposited or withdrawn at any time without prior notice or penalty.

### D. Budgetary Data

#### *General Budget Policies*

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature. This budget 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 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 appropriations for individual projects, which while intended to be expended over a biennium, may be extended by legislation over several additional fiscal years. The fiduciary fund type is not budgeted.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### D. Budgetary Data (Continued)

#### *General Budget Policies (Continued)*

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. As shown on the Schedule of Budgetary Components - General Fund on page 44, and Special Fund on page 45, the final budgeted amount includes the initial operating budget plus supplemental appropriation warrants, balances brought forward, and transfers.

Unexpended balances of appropriation 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. Capital Projects Fund appropriations are scheduled to lapse two years from the date appropriated unless extended or designated as non-lapsing by law.

Budgetary control is at the department level. All departments are authorized to transfer appropriations within their departments with the prior 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.

A Combined Statement Of Revenues And Expenditures - Budget And Actual - General And Special Funds is presented as part of the Office's financial statements.

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

The variance column on the Combined Statement Of Revenues And Expenditures - Budget And Actual - General And Special Funds highlights differences between budget and actual revenue and expenditures. For revenue, these variances are caused by actual revenue exceeding budget generating a favorable variance or actual being less than budget generating an unfavorable variance. For expenditures, a favorable variance results from actual expenditures being less than the amount budgeted for the fiscal year. The favorable expenditure variances represent a combination of ending available balances and unliquidated encumbrances. Unfavorable expenditure variances represent actual expenditures for the reporting period exceeding the amounts budgeted for the fiscal year.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **D. Budgetary Data (Continued)**

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

When statements are presented at an interim date, a date other than a June 30 fiscal year end, the variance reflects the difference between the budget period amount, twelve months in the case of the General and Special Funds, and a partial year's actual revenue and expenditures. Thus, on the nine month financial statements dated March 31, 1998, unfavorable variances in General and Special Fund revenues are expected, because nine months of actual revenues are compared to the amount of revenue expected to be collected in the twelve month period. Similarly, favorable expenditure variances are expected as nine months of expenditures are compared to amounts expected to be expended in the twelve month budget period.

#### *Encumbrances*

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services the encumbrance is liquidated and the expenditure and liability are recorded. The Office's General and Special Fund unliquidated encumbrance balances at March 31, 1998 were \$35,788 and \$11,351,887, respectively.

### **E. Fixed Assets - General**

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition costs are reflected as expenditures in governmental funds, and the related assets are reported in the General Fixed Assets Account Group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Assets in the General Fixed Assets Account Group are not depreciated.

### **F. Interfund And Intrafund Transactions**

The State accounts for interfund and intrafund transactions as described below:

Reimbursements - Various departments charge user fees for such services as centralized data processing, accounting and auditing, purchasing, personnel, and maintenance. In addition, the Department of Administrative Services charges rent to those departments that are housed in state-owned buildings. These fees and rent are not considered material and are recorded as revenue by the servicing department and as expenditures by the user department.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. Interpretation Of Totals (Memo Only) Columns**

Total columns have been included in the Combined Statement of Revenues and Expenditures - Budget and Actual - General and Special Funds. The total columns include interfund activity and are presented only to facilitate financial analysis. Data in these columns do not present financial activity in conformity with generally accepted accounting principles. Intra-agency eliminations have not been made in the aggregation of this data.

**NOTE 2 – INVESTMENTS**

The State Treasurer, under the authority of RSA 11:1, acts as custodian of the Office's fiduciary fund investments. In accordance with RSA 11:5, all trust funds in the custody of the Treasurer are invested and reinvested in legal instruments allowable under RSA 6:8. The Office notifies the Treasurer, at least biennially, of the investment objectives of the Office's fiduciary fund.

At March 31, 1998, the Office's fiduciary fund was invested in SEC-registered mutual fund investments, United States Government Obligations, and corporate bonds. The Office's fiduciary fund investments are reported at fair value based on quoted market prices and are categorized as follows.

	Category			Non Classified	Fair Value
	1	2	3		
<b>Land Conservation Endowment Fund</b>					
Mutual Fund Cash					
Reserves	\$ -0-	\$ -0-	\$ -0-	\$ 88,809	\$ 88,809
Government Obligations	1,016,743	-0-	-0-	-0-	1,016,743
Corporate Bonds	153,515	-0-	-0-	-0-	153,515
Mutual Funds	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>964,344</u>	<u>964,344</u>
<b>Total Investments</b>	<b><u>\$1,170,258</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$ 1,053,153</u></b>	<b><u>\$ 2,223,411</u></b>

Categories of investment risk are defined as:

Category 1: insured or registered in the Office's name or securities held by the Office or its agent in the Office's name.

Category 2: uninsured and unregistered with securities held by the counterparty's trust department or agent in the Office's name.

Category 3: uninsured and unregistered with securities held by the counterparty or by its trust department or agent but not in the Office's name.

**NOTE 3 – GENERAL FIXED ASSETS ACCOUNT GROUP**

Equipment is recorded at historical cost if known, estimated cost if historical cost is unknown, or fair market value at date of acquisition if the asset is donated.

The following is a schedule of equipment balances and activity reported by the Office to the Department of Administrative Services for the nine months ended March 31, 1998. Equipment purchases are funded through budgeted appropriations.

Equipment Balance at July 1, 1997	\$ 383,729
Additions	63,036
Deletions	<u>(39,209)</u>
<b>Equipment Balance at March 31, 1998</b>	<b><u>\$ 407,556</u></b>

**NOTE 4 – REVENUE RECOGNITION**

The Office is required by State accounting policies to accrue revenue and record accounts receivable in the governmental funds at each June 30 fiscal year end. The Office is not required to, and therefore did not, accrue revenue and record accounts receivable at March 31 in the General and Special Funds. The effect of not accruing revenue and recording accounts receivable at March 31, 1998, was to understate General Fund and Special Fund revenues in the amounts of \$64,000 and \$1,863,000, respectively, on the Combined Statement of Revenues and Expenditures - Budget and Actual - General and Special Funds.

**NOTE 5 – NON-EXPENDABLE TRUST FUND**

The Land Conservation Endowment Fund was established 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 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. N. H. Admin Rule, Land 1101.02, assigns the Office the responsibility 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 Treasury is custodian of the Fund. The State Treasury invests the Fund as directed by the Office and the Office reports the results of operation of the Fund.

## NOTE 6 – EMPLOYEE BENEFIT PLANS

### *New Hampshire Retirement System*

The Office, as an organization of the State government, participates in the New Hampshire Retirement System (Plan). The Plan is a defined benefit plan and covers substantially 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 employees and teachers. Group II consists of firefighters and police officers.

Group I - Members contributing through age 60 qualify for a normal service retirement allowance based on years of creditable service. The yearly pension amount is  $1/60$  (1.67%) of average final compensation (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 are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service. In addition, any Group I member who has completed at least 20 years of creditable service that, when combined with his or her age equals at least 70, is entitled to retire and have benefits commence immediately at a reduced service retirement allowance.

Group II - After attaining the age of 45, members with 20 years of creditable service qualify to receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members in service at age 60 qualify to receive a prorated retirement allowance.

Members of both groups are entitled to disability allowances and also death benefit allowances subject to various requirements and rates based on AFC or earnable compensation. All covered Office employees are members of Group I.

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the nine months ended March 31, 1998, Group I and II members were required to contribute 5% and 9.3%, respectively, 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 contribution costs for the nine months ended March 31, 1998 amounted to 3.86% of the covered payroll for its Group I employees. The Plan does not make separate measurements of assets and pension benefit obligation for individual employers. The New Hampshire Retirement System Comprehensive Annual Financial Report contains detailed information regarding the Plan as a whole, including information on payroll, contributions, actuarial assumptions and funding method, and historical trend data. The New Hampshire Retirement System operates on a fiscal year ending June 30.

## NOTE 6 – EMPLOYEE BENEFIT PLANS (Continued)

### *Deferred Compensation Plan*

The Office, as an organization of the State government, offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all State employees, permits the employees to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the Plan, all property rights purchased with those amounts, and all income attributable to those amounts, property or rights, are (until paid or made available to the employees or other beneficiaries) solely the property and rights of the State (without being restricted to the provisions of benefits under the Plan), subject only to the claims of the State's general creditors. Participants' rights under the Plan are equal to those of general creditors of the State in an amount equal to the fair market value of the deferred account for each participant.

### *Postemployment Health Care Benefits*

In addition to the benefits described above, the Office, as an organization of the State government, provides postemployment health care benefits, in accordance with RSA 21-I:30, to all retired employees and their spouses on a non-contributory basis, as authorized by State statute.

During the nine months ended March 31, 1998, the State paid for the full cost of health insurance premiums for the retired employees and spouses on a pay-as-you-go basis. The cost of the health insurance for the Office employees and spouses is a budgeted amount and is paid from an appropriation made to the administrative organization of the New Hampshire Retirement System. Accordingly, the cost of health insurance benefits for the retired Office employees and spouses is not included in the Office's financial statements.

**STATE OF NEW HAMPSHIRE  
OFFICE OF THE GOVERNOR  
OFFICE OF STATE PLANNING**

**SCHEDULE OF BUDGETARY COMPONENTS  
GENERAL FUND  
FOR THE NINE MONTHS ENDED MARCH 31, 1998**

	<u>Operating Budget</u>	<u>Supplemental Appropriation Warrants</u>	<u>Balances Brought Forward</u>	<u>Net Transfers In/(Out)</u>	<u>Budget</u>
<b><u>Revenues</u></b>					
<b><u>Restricted Revenues</u></b>					
Land Conservation Investment Program	\$ 74,999	\$ 1,567	\$ -0-	\$ -0-	\$ 76,566
Transfers From Other Agencies	54,499	-0-	3,500	-0-	57,999
Miscellaneous	<u>-0-</u>	<u>4,000</u>	<u>-0-</u>	<u>-0-</u>	<u>4,000</u>
<b>Total Restricted Revenues</b>	<b>\$ 129,498</b>	<b>\$ 5,567</b>	<b>\$ 3,500</b>	<b>\$ -0-</b>	<b>\$ 138,565</b>
<b><u>Expenditures</u></b>					
Administration	\$ 127,043	\$ 3,134	\$ -0-	\$ -0-	\$ 130,177
Recycling Project	154,489	5,151	5,144	-0-	164,784
Municipal/Regional Assistance	80,996	1,567	5,036	-0-	87,599
Water Assistance Planning	54,499	-0-	3,500	-0-	57,999
Land Conservation Investment Program Monitoring	74,999	1,567	7,683	-0-	84,249
Other	<u>28,900</u>	<u>4,000</u>	<u>21,946</u>	<u>-0-</u>	<u>54,846</u>
<b>Total Expenditures</b>	<b>\$ 520,926</b>	<b>\$ 15,419</b>	<b>\$ 43,309</b>	<b>\$ -0-</b>	<b>\$ 579,654</b>
<b>Excess (Deficiency) Of Revenues Over (Under) Expenditures</b>	<b>\$ (391,428)</b>	<b>\$ (9,852)</b>	<b>\$ (39,809)</b>	<b>\$ -0-</b>	<b>\$ (441,089)</b>

**STATE OF NEW HAMPSHIRE  
OFFICE OF THE GOVERNOR  
OFFICE OF STATE PLANNING**

**SCHEDULE OF BUDGETARY COMPONENTS  
SPECIAL FUND  
FOR THE NINE MONTHS ENDED MARCH 31, 1998**

	<u>Operating Budget</u>	<u>Supplemental Appropriation Warrants</u>	<u>Balances Brought Forward</u>	<u>Net Transfers In/(Out)</u>	<u>Budget</u>
<b><u>Revenues</u></b>					
<b><u>Restricted Revenues</u></b>					
Community Development					
Block Grants	\$ 8,794,477	\$ 1,929,190	\$ 13,322,901	\$ -0-	\$ 24,046,568
Coastal Zone Management	684,375	65,649	252,791	(37,472)	965,343
Scenic By-Ways	186,967	69,122	551,870	(8,088)	799,871
Other Federal Funds	553,500	222,163	499,961	(90,845)	1,184,779
Route 16 Demonstration Project	-0-	4,386	128,888	-0-	133,274
Transfers From Other Agencies	37,793	15,000	10,400	-0-	63,193
Miscellaneous	<u>29,500</u>	<u>1,141</u>	<u>-0-</u>	<u>-0-</u>	<u>30,641</u>
<b>Total Restricted Revenues</b>	<b><u>\$ 10,286,612</u></b>	<b><u>\$ 2,306,651</u></b>	<b><u>\$ 14,766,811</u></b>	<b><u>\$ (136,405)</u></b>	<b><u>\$ 27,223,669</u></b>
<b><u>Expenditures</u></b>					
Community Development					
Block Grant Program	\$ 8,592,563	\$ 1,925,225	\$ 13,322,901	\$ -0-	\$ 23,840,689
Administration	1,616,024	47,733	51,484	(7,795)	1,707,446
Coastal Zone Management Program	517,127	62,365	252,792	(37,472)	794,812
Scenic By-Ways Program	186,967	69,122	569,685	(8,088)	817,686
N.H. Estuaries Program	450,000	107,095	376,395	(94,845)	838,645
Route 16 Demonstration Project	-0-	4,386	128,888	-0-	133,274
National Park Service	72,463	-0-	10,400	-0-	82,863
Other	<u>145,793</u>	<u>115,601</u>	<u>130,985</u>	<u>4,000</u>	<u>396,379</u>
<b>Total Expenditures</b>	<b><u>\$ 11,580,937</u></b>	<b><u>\$ 2,331,527</u></b>	<b><u>\$ 14,843,530</u></b>	<b><u>\$ (144,200)</u></b>	<b><u>\$ 28,611,794</u></b>
<b>Excess (Deficiency) Of</b>					
<b>Revenues Over (Under)</b>					
<b>Expenditures</b>	<b><u>\$ (1,294,325)</u></b>	<b><u>\$ (24,876)</u></b>	<b><u>\$ (76,719)</u></b>	<b><u>\$ 7,795</u></b>	<b><u>\$ (1,388,125)</u></b>

STATE OF NEW HAMPSHIRE  
OFFICE OF THE GOVERNOR  
OFFICE OF STATE PLANNING

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(CASH BASIS)  
FOR THE NINE MONTHS ENDED MARCH 31, 1998

<u>Federal Catalog Number</u>	<u>Federal Grantor/Federal Program</u>	<u>Expenditures</u>
	<u>Department Of Agriculture</u>	
10.999	Agricultural and Rural Economic Research	\$ 63,005
	<u>Department Of Commerce</u>	
11.419	Coastal Zone Management Administration Awards	516,801
	<u>Department Of Housing And Urban Development</u>	
14.228	Community Development Block Grants/ State's Program	8,527,982
	<u>Environmental Protection Agency</u>	
66.456	National Estuary Program	238,858
66.461	Wetlands Protection - Development Grants	33,469
66.606	Surveys, Studies, Investigations, And Special Purpose Grants	38,295
66.808	Solid Waste Management Assistance	7,783
66.999	EPA Habitat Restoration Grant	<u>42,496</u>
	<b>Total</b>	<b><u>\$ 9,468,689</u></b>

## APPENDIX A

### Comments Related To An Administratively Attached Organization The Connecticut River Valley Resource Commission

During our audit of the Office of the Governor - Office of State Planning, the following three issues related to the Connecticut River Valley Resource Commission (Commission), an organization administratively attached to the Office of State Planning, came to our attention. As the Commission was not part of the scope of the audit of the Office of State Planning, these comments were not included in that report.

Included with each comment is the Commission's response. Each of these comments would fall under the category of state compliance if they were included in the standard audit report framework.

#### Observation No. 1 - Adoption Of Rules

##### *Observation:*

The Connecticut River Valley Resource Commission has not adopted rules, pursuant to RSA 541-A.

RSA 227-E:8, I-IV, direct the Commission to adopt rules, after public hearing and pursuant to RSA 541-A, relative to:

- I. Regional promotional programs and other incentive programs for recreational facilities, resources, and services.
- II. Criteria for the identification of priority recreational facilities and land.
- III. Establishing procedures for grants administered by the Commission.
- IV. The administration of the Commission.

##### *Recommendation:*

The Commission should work with the Joint Legislative Committee on Administrative Rules to adopt rules as required by RSA 227-E:8. If the Commission determines that the required rules are not necessary for its current operation, the Commission should request a change in the legislation either eliminating the requirement for the rules or allowing the Commission the option of adopting rules.

##### *Commission Response:*

The Connecticut River Valley Resource Commission has not adopted rules under the authorities of RSA 227-E:8, I-IV, for the following reasons:

- I. Promotional programs and other incentive programs for recreational facilities, resources, and services would put the Commission in the position of duplicating responsibilities of the NH Department of Resources and Economic Development.

## APPENDIX A (Continued)

### Observation No. 1 - Adoption Of Rules (Continued)

#### *Commission Response (Continued):*

That Department, through its Office of Travel and Tourism, supports regional chambers of commerce and travel councils in promoting the recreational resources and other assets of the Connecticut River Valley. In addition, the Department's Office of Parks and Recreation engages in promotion of state park resources. Thus, the Connecticut River Valley Resource Commission has not developed rules under the above authorization, and has no plans to do so.

- II. Criteria for the identification of priority recreational facilities and land have been established by the Office of State Planning in the State Comprehensive Outdoor Recreation Plan, and in the Public Access Plan for New Hampshire's Lakes, Ponds, and Rivers. Currently, a new Commission on Land and Community Heritage has recently been established, and will be advising the Legislature on criteria and needs. The Connecticut River Valley Resource Commission does not believe that our duplication of the other endeavors would be in the best interest of the state.

The Connecticut River Corridor Management Plan, completed in 1997 by the Connecticut River Joint Commissions, identifies further priority for public land protection and access to the river. Responsibility for providing that land protection and access resides with existing state agencies. Neither the Connecticut River Joint Commissions, nor its component NH and VT Commissions believe it advisable to exercise authority that would duplicate other state efforts.

- III. The Connecticut River Valley Resource Commission does not administer any grants, and thus does not need to establish rules for doing so.
- IV. The Connecticut River Valley Resource Commission joined with the Vermont Connecticut River Watershed Advisory Commission in 1990 to establish a non-profit organization, the Connecticut River Joint Commissions to carry out the purposes and activities of the two commissions, thus fulfilling the legislative mandates from both states to work cooperatively with each other. The Connecticut River Valley Resource Commission holds an annual election of officers, submits a budget request through the Office of State Planning, and responds to inquiries directed solely to the New Hampshire Commission. In all matters of financial and program administration, the Commission acts through the Connecticut River Joint Commissions, and thus it would appear that the Commission does not conduct activities that would warrant its own administrative rules.

## **APPENDIX A (Continued)**

### **Observation No. 2 - Statements Of Financial Interests**

#### *Observation:*

Ten of the thirteen-member Connecticut River Valley Resource Commission did not file Statements of Financial Interests due by July 1, 1997. The other three members of the Commission filed statements that were one to two months late.

RSA 21-G:5-a states "Every member of every executive branch board, commission, advisory committee, ...shall file by July 1 of each year a verified written statement of financial interests...." Members of the Connecticut River Valley Resource Commission appear to be required by the statute to file statements.

None of the members who failed to file Statements of Financial Interests were prohibited from carrying out their duties as required by RSA 21-G:5-a.

#### *Recommendation:*

The Connecticut River Valley Resource Commission should establish procedures to ensure that all of its members submit Statements of Financial Interests in a timely manner.

#### *Commission Response:*

The Connecticut River Joint Commissions adopted an amendment to its by-laws in May, 1997 to address the requirements of RSA 21-G:5-a with regard to annual disclosure of any financial interest in the activities of the organization.

New Hampshire Commission members have been made aware of the filing requirement. While not many of them filed in 1997, most of them have done so in 1998. As a result of the Audit Division's report, the members of the Connecticut River Valley Resource Commission pledge themselves to complying with the requirement in a timely manner.

### **Observation No. 3 - Annual Report Of The Commission**

#### *Observation:*

The fiscal year 1997 annual report issued by the Connecticut River Valley Resource Commission in conjunction with the Vermont Commission did not comply with the requirements of RSA 227-E:9.

RSA 227-E:9 requires the Commission to submit annually, on or before September 1, a report of its activities and expenditures to the governor, the speaker of the house of representatives, and the president of the senate. The Commission submitted a report of the Connecticut River Joint Commission, a non-profit organization established in 1990 as a combination of the New Hampshire Connecticut River Valley Resource Commission and

## APPENDIX A (Continued)

### Observation No. 3 - Annual Report Of The Commission (Continued)

#### *Observation (Continued):*

the Vermont Connecticut River Watershed Advisory Committee, to the governor and to the legislature. The 1997 Joint Commission report was filed during March 1998, more than six months after the September 1 deadline. The Joint Commission report also did not contain a report of the New Hampshire Commission's or the Joint Commission's expenditures.

#### *Recommendation:*

The Connecticut River Valley Resource Commission should submit an annual report that complies with RSA 227-E:9. The Commission should either request the Joint Commission to revise its reporting to comply with the statute, issue a separate complying report, or request an appropriate revision to RSA 227-E:9 that would allow the Commission to submit a timely and informative report.

#### *Commission Response:*

The Connecticut River Valley Resource Commission of New Hampshire and the Connecticut River Watershed Advisory Commission of Vermont, acting together as the Connecticut River Joint Commissions, have annually submitted a report to the governor, speaker of the house of representatives and the president of the senate, as well as to other state officials in both New Hampshire and Vermont. This report has been prepared and filed on a calendar year basis.

The Audit Division has brought to our attention the requirement of RSA 227-E:9 that annual reports be based on the fiscal year, rather than the calendar year, and that they include a financial statement. We have changed the timing of our annual report to comply with the legislative requirement.

In 1998, it will not be possible to have a financial statement before mid-October. We note that the Attorney General's Office requires audits of non-profits to be submitted four and a half months after the close of the fiscal year. For the year ending June 30<sup>th</sup>, that due date would be mid-November. Our accountant is currently working on the Connecticut River Joint Commission's audit for last fiscal year. The first opportunity for Commission review and approval will take place at the September 28, 1998 meeting. Thus, we will provide the audited statement, with any revisions that may be required by the Commissions, after that date.

We anticipate that in future years, it will continue to be difficult to complete an audit and have it approved by a Commission that meets only monthly, and to accomplish this within two months after the close of the fiscal year. We will however, do our best to comply.

**APPENDIX B**

**CURRENT STATUS OF PRIOR AUDIT FINDINGS**

The following is a summary, as of July 2, 1998, of the status of the observations contained in the audit report of the Office of State Planning for the fiscal year ended June 30, 1988. A copy of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

	<u>Status</u>
<b><i>Internal Control Comments</i></b>	
<i>Reportable Conditions</i>	
1. Overstatement Of Revenue And Expenditures	● ● ●
2. Segregation Of Duties	● ● ●
3. Lost Interest Income	● ● ●
4. Accounts Payable	● ● ●
<b><i>Compliance Comments</i></b>	
<i>State Compliance</i>	
5. Indirect Costs	● ● ●
6. Federal Financial Reporting (See Current Observation No. 14)	● ● ○
7. Federal Drawdowns	● ● ●
8. Subrecipient Reporting	● ● ●
9. Audit Fund Set-Aside	● ● ●
10. Equipment Inventory Records	● ● ●

<u>Status Key</u>		<u>Comments By Status Type</u>
Fully Resolved	● ● ●	9
Substantially Resolved	● ● ○	1
Partially Resolved	● ○ ○	0
Unresolved	○ ○ ○	0

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