

**JOINT FISCAL COMMITTEE**

Legislative Office Building, Rooms 210-211  
Concord, NH  
Friday, April 19, 2013

**COMMITTEE MEMBERS:**

Rep. Mary Jane Wallner, Chair  
Rep. Ken Weyler  
Rep. Peter Leishman  
Rep. Sharon Nordgren  
Rep. Dan Eaton  
Sen. Chuck Morse  
Sen. Bob Odell  
Sen. Jeanie Forrester  
Sen. Sylvia Larsen  
Sen. Andy Sanborn

(Convened at 10:06 a.m.)

**(1) Acceptance of Minutes of the March 8, 2012 meeting**

CHAIRWOMAN WALLNER: I'll call the April meeting of Fiscal Committee to order and move right into the acceptance of the minutes from March 8<sup>th</sup>.

**\*\*** REP. EATON: So moved.

CHAIRWOMAN WALLNER: Hear a motion. Any discussion of the minutes of March 8<sup>th</sup>? Corrections? I need a second.

REP. WEYLER: Second.

CHAIRWOMAN WALLNER: Representative Eaton moves and Representative Weyler seconds the acceptance of the minutes of March 8<sup>th</sup>. All in favor? Any opposed? The minutes are accepted.

**\*\*\* {MOTION ADOPTED}**

**(2) Old Business**

CHAIRWOMAN WALLNER: Old Business. We have a number of items that are on the table. Do I see any -- yes, Mr. Pattison.

JEFFRY PATTISON, Legislative Budget Assistant, Office of Legislative Budget Assistant: Madam Chairman, if you were to take item 024 off of the table, the Department has requested that that item be withdrawn.

CHAIRWOMAN WALLNER: Thank you. Do I hear a motion?

**\*\*** REP. LEISHMAN: Move.

CHAIRWOMAN WALLNER: Representative Leishman moved.

REP. EATON: Second.

CHAIRWOMAN WALLNER: Representative Eaton second to remove item 024 off the table. Do I hear any discussion? All in favor? Any opposed?

**\*\*\* {MOTION ADOPTED}**

CHAIRWOMAN WALLNER: And the Department of Justice has asked that this be withdrawn; is that correct?

ANN RICE, Deputy Attorney General, Department of Justice: That's correct.

CHAIRWOMAN WALLNER: So we don't need any action. So that item has been withdrawn. Yes, Senator Morse.

**\*\*** SEN. MORSE: Take item number 055 off the table.

CHAIRWOMAN WALLNER: Senator Morse moves to take item

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055 off the table. Do I see a second for that?

REP. EATON: Second.

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: All in favor? Any opposed?

SEN. MORSE: No, I'm in favor.

CHAIRWOMAN WALLNER: Okay. You wish to speak to the motion?

\*\* SEN. MORSE: Well, I move to approve with an effective date of 7/1/13.

CHAIRWOMAN WALLNER: Senator Morse moves to approve the item with a July 1, 2013, effective date.

REP. EATON: Second.

CHAIRWOMAN WALLNER: Do I hear a second? Representative Eaton seconds. Discussion? All in favor? Any opposed?

\*\*\* {MOTION ADOPTED}

CHAIRWOMAN WALLNER: Any further items to come off the table? Yes, Senator Morse.

\*\* SEN. MORSE: I'd take item number 082 off the table.

CHAIRWOMAN WALLNER: Representative Morse moves to take  
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ATTORNEY EATON: Second.

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CHAIRWOMAN WALLNER: -- 082 off the table and Representative Eaton seconds. All in favor? Any opposed?

SEN. FORRESTER: No.

REP. WEYLER: One.

CHAIRWOMAN WALLNER: One.

**\*\*\* {MOTION ADOPTED}**

CHAIRWOMAN WALLNER: Yes, Senator Morse.

SEN. MORSE: I'll move item number 082 with an effective date of 7/1/13.

REP. EATON: Second.

CHAIRWOMAN WALLNER: Senator Morse moves 082, Representative Eaton seconds and moves to have an effective date of July 1, 2013. Any discussion? All in favor? Any opposed?

**\*\*\* {MOTION ADOPTED}**

#### CONSENT CALENDAR

#### **(3) RSA 9:16-A Transfers Authorized:**

CHAIRWOMAN WALLNER: Any other items to come off the table? Seeing none. We'll move on to the Consent Calendar. Are there any items that anyone would like to take off of the Consent Calendar?

REP. WEYLER: Yes.

**\*\*** SEN. MORSE: I'll take item 087 off the Consent

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Calendar.

CHAIRWOMAN WALLNER: Senator Morse asks to take item 087 off the Consent Calendar. Any other items to come off consent? Yes.

SEN. SANBORN: Item 117, Madam Chair.

CHAIRWOMAN WALLNER: Item 117.

MR. PATTISON: That's under Tab 6.

CHAIRWOMAN WALLNER: That's under Tab 6. Why don't we finish this one. Then we'll go -- when we get down there we'll take that one off. Do I hear a motion to accept?

**\*\*** REP. EATON: Move to accept the Consent Calendar with the removal of 087.

SEN. MORSE: Second.

CHAIRWOMAN WALLNER: Any discussion? All in favor of accepting the Consent Calendar?

**\*\*\* {MOTION ADOPTED}**

CHAIRWOMAN WALLNER: Let's now move to item 087 off the Consent Calendar, it's the New Hampshire Veterans Home. Would we like to ask someone to come up from the Veterans Home?

MARGARET LABRECQUE, Commandant, New Hampshire Veterans Home: Good morning. My name is Margaret LaBrecque. I'm the Commandant for the New Hampshire Veterans Home.

CHAIRWOMAN WALLNER: Thank you. Do we have questions of the Commandant? Yes, Senator Morse.

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SEN. MORSE: I think what I've heard I just want an explanation of the item.

MS. LABRECQUE: The item. Yes, okay. We are asking to move \$90,000 from our consulting line up to current expense line. In the current expense line when we put the budget together we did not have a dialysis resident. So a lot of the transportation, approximately a little over \$40,000 for transportation of that resident three days a week down to dialysis and back, as well as normal increases due to the cost of fuel going up. We have received a lot of increases across the board for medical supplies, i.e., gloves and different products that are used on the floor by the nurses.

CHAIRWOMAN WALLNER: Any further questions? Yes, Representative Weyler.

REP. WEYLER: So is this also money -- thank you, Madam Chair. Does this money also go to pay for the treatments 'cause it seems pretty expensive on a per trip basis?

MS. LABRECQUE: Actually, because he's required to have the transportation back and forth that's just for the transportation.

REP. WEYLER: Is it by ambulance?

MS. LABRECQUE: Yes. It's on the medical van, I believe.

REP. WEYLER: It's hundreds of dollars a trip?

MS. LABRECQUE: Yes, sir. That's correct. Almost \$300 a day for us to take him down and back.

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REP. WEYLER: Thank you.

CHAIRWOMAN WALLNER: Further questions? Thank you very much.

MS. LABRECQUE: Thank you.

CHAIRWOMAN WALLNER: Appreciate it. Do I hear a motion on 087?

**\*\*** REP. EATON: Move to approve.

CHAIRWOMAN WALLNER: Representative Eaton moves to approve the item.

SEN. MORSE: Second.

CHAIRWOMAN WALLNER: And Senator Morse seconds. Any discussion? All in favor? Any opposed?

**\*\*\*** **{MOTION ADOPTED}**

**(4) RSA 9:16-c Transfer of Federal Grant Funds:**

CHAIRWOMAN WALLNER: Our next, moving on to Tab 4, transfers of Federal funds. The only item we have on that tab is the Department of Education transfer. Do I hear a motion?

**\*\*** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Representative Eaton moves.

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: And Senator Larsen seconds. Discussion? All in favor? Any opposed? Item passes.

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\*\*\* {MOTION ADOPTED}

- (5) RSA 14:30-a, VI Fiscal Committee Approval Required for Acceptance and Expenditure of Funds Over \$100,000 from Any Non-State Source:

CHAIRWOMAN WALLNER: Moving to Tab 5. Do I see any item people would like to have removed from that tab?

\*\* REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Representative Eaton moves approval.

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: Senator Larsen seconds. Any discussion? All in favor? Any opposed?

\*\*\* {MOTION ADOPTED}

- (6) RSA 14:30-a, VI Fiscal Committee Approval Required for Acceptance and Expenditure of Funds Over \$100,000 from Any Non-State Source and RSA 124:15 Positions Restricted:

CHAIRWOMAN WALLNER: Going now to Tab 6.

REP. LEISHMAN: I'd like to remove 107.

CHAIRWOMAN WALLNER: Representative Leishman would like to remove Item 107.

SEN. SANBORN: Madam Chair, 13-117, please.

CHAIRWOMAN WALLNER: Senator Sanborn would like to

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remove 117.

REP. WEYLER: Give me the numbers again?

CHAIRWOMAN WALLNER: 13-107 and then 13-117. Okay. Any further -- there's only one other item on that tab. Any further? Okay. Do I see a motion to --

REP. EATON: If I might, Madam Chair, just might be easy just to go through those two items and then go for a block.

CHAIRWOMAN WALLNER: Okay, that's fine. Okay. Let's go to 107. We would like to hear from someone from Department of Transportation.

MICHAEL PILLSBURY, Deputy Commissioner, Department of Transportation: Good morning, Madam Chair. For the record, my name is Mike Pillsbury. I'm the Deputy Commissioner. With me is Patrick McKenna, the Director of Finance for Department of Transportation.

CHAIRWOMAN WALLNER: Thank you. Committee have questions of -- yes, Senator Morse.

SEN. MORSE: Can you just explain this transfer? This is I-93 money that's being transferred out of one bucket into a consultant's bucket. Can you explain what's going on?

PATRICK MCKENNA, Director of Finance, Department of Transportation: Yes. This is actually it's a refinement of a previous -- a previously approved Fiscal item and essentially what we're doing is two things. We are establishing a class line here, Class 401 for land and land interest and increasing the Class 46. Most of the original item was placed into construction repairs and materials and

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we're finding that as we're moving through the estimate out is that as we look at spending and construction repair and materials, we really we're breaking apart the projects to more refine those. We have done this in consolidated Federal where we have a whole suite of class lines and that's pretty much what we're doing here.

The funding for this that was established, it's essentially from direct labor that was -- that was bonded direct labor. This was approved about a year ago. And we're -- we're using this for non-participating expenses. So when we're on I-93 and there are items that are not approved by the Federal Highway Administration for reimbursement, we can cover those costs with these funds.

CHAIRWOMAN WALLNER: Further questions? Thank you very much. Appreciate you being here. Do I hear a motion?

REP. EATON: Just --

\*\* SEN. LARSEN: Move approval.

REP. EATON: -- might want to go 117 and then just do the whole block or no?

CHAIRWOMAN WALLNER: No.

REP. EATON: No. Okay. Move to approve.

REP. WEYLER: Larsen moves, Eaton seconds.

REP. EATON: Yes.

REP. WEYLER: To approve.

CHAIRWOMAN WALLNER: All in favor? Any opposed?

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**\*\*\* {MOTION ADOPTED}**

CHAIRWOMAN WALLNER: Now let's move to 117. And I would ask if there is someone from the Insurance office to come forward. Commissioner Sevigny.

ROGER SEVIGNY, Commissioner, Department of Insurance: Good morning, Madam Chair.

CHAIRWOMAN WALLNER: Good morning.

MR. SEVIGNY: Members of the Committee, I have with me Al Couture. Al is our Health Reform Program Manager at the Department responsible for everything to do with health reform, especially with the grants that are applied for and the timing and all of that sort of thing. So I thought if you had any technical questions, Al could help fill in.

I'm Roger Sevigny, by the way, Commissioner of Insurance.

CHAIRWOMAN WALLNER: Welcome.

MR. SEVIGNY: Thank you.

CHAIRMAN WALLNER: I think that the Committee would just like to hear about the item and then Senator Sanborn has a question.

SEN. SANBORN: Yes, ma'am.

MR. SEVIGNY: The item before you is to accept some grant funding for the first part of the Consumer Assistance Partnership. The partnership was approved and we've got a timeline for you that we'll hand out. But the partnership was approved by the -- by the Oversight Committee in February and it consisted of two pieces.

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The first piece has already come before you is the planned management piece where we, the Department, retain regulatory control over the plans that are in the exchange. And we're the ones -- we're granted the authority by the Federal Government to be able to approve rates and forms and that sort of thing as a result of this.

This is the second piece of that partnership program. It's the piece that addresses consumer assistance. This particular part of that grant would be primarily to put in place a program manager that could work with the stakeholders and the team at the Insurance Department, as well as the team at Commissioner Toumpas's Department with regard to the HHS participation in this consumer assistance. And that's essentially what this part of the grant would do.

The rest of the Consumer Assistance Grant was put into our budget. And when I testified before Senate Finance, I provided a significant amount of information that said that the information that I provided was not nearly enough. That we were putting together a really comprehensive plan with regard to how this was going to work. We just didn't have it together yet, because the grant had just been approved by the Federal Government. We still don't have to give you today a comprehensive plan. Certainly, I don't have to tell anybody, this is a really hot topic, all of this stuff with regard to the exchange. It's very politically charged. I recognize that. I also recognize that there's been lots of lobbying on both sides of the aisle with regards to all of this. And I can tell you, those of you who have known me for awhile, I try to present information in as non-partisan a fashion as I can and try to present it factually and let the Legislature make its decision with regard to where this is going. But, again, I come to you without all of the information that we're going

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to be putting together. I was hoping to have a program manager to be able to help put that together. I didn't wait. What I did do, just yesterday, as a matter of fact, I convened a meeting of the stakeholders. That is, industry and agents and brokers, a number of them at my office, to begin to put meat on the bone, so to speak. To begin to talk about what this might look like. To begin to talk about, for example, what is it that agents and brokers can handle without any assistance whatsoever? Can agents and brokers take whatever the number of uninsureds that are going to come to them, there's about 125 or 130 uninsureds. Certainly, if there's Medicaid expansion, many of them would fall into that bucket but many of them wouldn't. And many of them would be looking for insurance. We didn't reach any conclusions with regard to whether agents and brokers can handle all of the, whatever the thousands and I don't have a number, traffic that would come to them for help.

Where we got to, which I think is a really good place, is a survey that's being developed by the Big "I", Bob Nash and the folks that are part of his association, and NAHU, the New Hampshire Association of Health Underwriters. Those are the people that specialize in the sale and servicing of health insurance, the brokers here in the State of New Hampshire. A survey asking those very questions. How much of the business -- how much of, for example, this 21-page application are you, the agent or broker, willing to sit down with the consumer to fill out or not. I don't have an answer for you. So I'm coming to you with not as much information as I'd like to come to you with.

We have been about as transparent as we possibly can be. Anyone that looks at our website will see that it has a wealth of information on all that's transpired, to include all of the grants that we have applied for, all of the grants that have been granted, the amounts that they have

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been granted for, when they have been granted, and if we're in the progress of doing something with them, what it is we are doing with them. And I would offer, if there is anyone that doesn't feel or that feels that they need more information, I'm personally willing to sit down with anybody, either individually, or I'll sit down with the whole Legislature, if you want, and I'll do it weekly, if you want. I want people informed, because you're the ones that make the decision. We're the ones that implement the decisions you make. Let me stop there and see if there are any questions.

CHAIRWOMAN WALLNER: Senator Sanborn.

SEN. SANBORN: Madam Chair, I have several, if you'll allow, trying to get my hands around this.

CHAIRWOMAN WALLNER: Yes.

SEN. SANBORN: Commissioner, thanks so much for coming in. I appreciate it. You just referenced that there have been several grants that the Commission has applied for and this is -- is this the last one?

MR. SEVIGNY: Is this the last one that we'll ever apply for? Is that what you're asking?

SEN. SANBORN: I guess within the next 12 months.

MR. SEVIGNY: You know, I can't think of any others. Can you, Al?

Al COUTURE, Insurance Company Examiner II, Market Conduct, LAH, Department of Insurance: We have not surely decided whether we are going to apply for any, but there will be some additional funding opportunities, but it's way too early to tell whether we want to apply for them or need

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to apply for them.

SEN. SANBORN: Thank you, sir, I appreciate that. And as you indicated, this is a grant specifically to institute the consumer -- Consumer Assistance Partnership portion of the exchange; correct?

MR. SEVIGNY: Right, right.

SEN. SANBORN: And this is where honestly I struggle. I guess I have two questions. As I read RSA law, 420-N, to me it seems to me exceptionally clear that only with a prior approval of the Health Care Oversight Committee can you as Commissioner apply for any public funds or grants. And I haven't honestly, sitting on that Committee, seen this application. And in all honesty, with full acknowledgment, this Committee approved a grant a month ago that, again, the Health Oversight Committee never granted its approval for. So I'm struggling with how I look at our current laws and what I'm seeing seems to be a lot of approvals and applications that haven't had a policy consideration yet. And today we are solely on the Fiscal side. I was wondering if you could comment on that?

MR. SEVIGNY: I am more than willing to take anything to any Committee at any time that any legislator would want. If you believe that we didn't come to the Oversight Committee and that was -- and that we should have, I apologize. I can tell you that I -- this is me speaking now -- viewed the authority granted by the Oversight Committee voting in favor of a partnership as authority to go ahead and file for the grant. If that's the wrong decision on my part, I'm sorry.

SEN. SANBORN: Follow-up, if I may?

CHAIRWOMAN WALLNER: Yes.

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SEN. SANBORN: Thank you so much, Commissioner. I appreciate that. If my recollection is correct, that the approval of the partnership was for a plan management partnership or at least subject to a Memorandum of Understanding as one of the signing votes had indicated, and I don't believe that the Health Care Oversight Committee has approved any Memorandum of Understanding of what the pathway is relative to planned management or what type of partnership or Consumer Assistance Partnership; correct? Would you agree?

MR. SEVIGNY: There is an MOU that's in the works. As a matter of fact, we worked with Representative Hunt on more than one occasion in trying to finalize it so that it can go before the Oversight Committee. It's not finished.

SEN. SANBORN: Thank you, sir. I appreciate that.

MR. SEVIGNY: Sure.

CHAIRWOMAN WALLNER: Further questions? Yes, Representative Weyler.

REP. WEYLER: Just a comment, Madam Chair. I was also contacted by one of the co-chairs of the said Committee, the Oversight Committee, and Representative Hunt said he did not believe he had approved this item.

CHAIRWOMAN WALLNER: Further questions? Thank you very much. I appreciate you being here this morning.

MR. SEVIGNY: Thank you.

\*\* REP. WEYLER: Move to table.

SEN. SANBORN: Second.

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CHAIRWOMAN WALLNER: We have a motion to table. Representative Weyler moved to table and Senator Sanborn seconds. All those in favor? Any opposed?

REP. EATON: No.

REP. NORDGREN: No.

**\*\*\* {MOTION ADOPTED}**

CHAIRWOMAN WALLNER: And we have one item, so the item is on the table and we have one item left, Item 114. Do I hear a motion?

**\*\*** REP. EATON: Move approval.

SEN. MORSE: Second.

CHAIRWOMAN WALLNER: Representative Eaton moves to approve and Senator Morse seconds. All in favor? Any opposed?

**\*\*\* {MOTION ADOPTED}**

**(7) RSA 206:33-b Transfers from Fish and Game Fund:**

CHAIRWOMAN WALLNER: Now we are going to Tab 7. This is a Fish and Game item.

**\*\*** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Representative Eaton moves approval.

REP. LEISHMAN: Second.

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CHAIRWOMAN WALLNER: Representative Leishman seconds. Any discussion? All those in favor? Any opposed?

\*\*\* {MOTION ADOPTED}

**(8) Chapter 224:14, II Laws of 2011, Department of Health And Human Services; Program Eligibility; Additional Revenues; Transfer Among Accounts:**

CHAIRWOMAN WALLNER: Tab 8, Health and Human Services. The first item is item 13-109. Is there a motion?

SEN. MORSE: Can I talk to the Commissioner?

CHAIRWOMAN WALLNER: Yes. Commissioner. Thank you. This is item 13-09 -- 13-109.

SEN. MORSE: I think I have the right item, Commissioner. I think this mentions Phase II in Managed Care. We haven't got to Phase I yet so can you explain?

NICHOLAS TOUMPAS, Commissioner, Department of Health and Human Services: Yes. For the record, Nick Toumpas, Commissioner of Health and Human Services. The item that you have before you is a State Innovation Model Grant that we have pursued that will enable us to take a look at all of our long-term care services and supports across the life spectrum, not just the elderly, the disabled, but also children and long-term care. The key difference here versus what the Managed Care, Step 2, as we called it, is that this looks at all payers. This looks beyond Medicaid. It looks at Medicare. It looks at private insurance. It looks at Veterans Administration. It also looks at one other one that I can't think of. But the -- by looking at the overall -- all of them together that will, as part of that process, will inform what we do going forward with Step 2, as we call it, with the Managed Care Program. So it is

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beyond the Managed Care. So even if we did not -- we -- we went after this and contemplated doing this type of activity even before we were talking about doing Managed Care, because in the long-term care area we have four waivers that we have in place and over the past several years we have been looking at ways in which to be able to consolidate or streamline how those waiver programs work, both in the elderly area, as well as in the DD area. And so this -- this comes at it from a much higher standpoint than just Medicaid and the Managed Care part of it. So as we go through this process coming out of that will be some insights and so forth that will help inform how we move ahead with Step 2 of the Managed Care Program as we get there.

CHAIRWOMAN WALLNER: Further question?

SEN. MORSE: No.

\*\* REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Okay. Representative Eaton moves approval.

SEN. MORSE: Second.

CHAIRWOMAN WALLNER: Senator Morse seconds. Any discussion? All those in favor? Any opposed?

\*\*\* **{MOTION ADOPTED}**

CHAIRWOMAN WALLNER: Motion passes. Item 13-110.

\*\* REP. EATON: Move approval.

SEN. LARSEN: Second.

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CHAIRWOMAN WALLNER: Representative Eaton moves approval, Senator Larsen seconds. Any discussion? All in favor? Any opposed? Motion passes.

**\*\*\* {MOTION ADOPTED}**

CHAIRWOMAN WALLNER: Moving on to 13-115, Health and Human Services item. Do I have a motion?

**\*\*** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Representative Eaton moves approval.

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: Senator Larsen seconds. Any discussion? All in favor? Any opposed?

**\*\*\* {MOTION ADOPTED}**

**(9) Chapter 224:85, I, Laws of 2011, Department of Administrative Services; Consolidation of Certain Business Processing Functions:**

CHAIRWOMAN WALLNER: Moving on to Tab 9 which is Administrative Services.

**\*\*** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Representative Eaton moves approval. Do I have a second?

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: Senator Larsen seconds. Any discussion? All in favor? Any opposed?

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\*\*\* {MOTION ADOPTED}

(10) Chapter 224:210, Laws of 2011, Department of Information Technology; Transfers Among Accounts:

CHAIRWOMAN WALLNER: Moving on to item -- item passes. Moving on to Tab 10.

\*\* REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Department of Information Technology. Representative Eaton moves approval. Do I hear a second?

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: Senator Larsen seconds. Discussion? All in favor? Any opposed?

\*\*\* {MOTION ADOPTED}

(11) Chapter 224:213, Laws of 2011, Department of Justice; Outside Counsel:

CHAIRWOMAN WALLNER: Moving on to Tab 11 which is Department of Justice, and I believe we have a question. Someone here from the Department?

MS. RICE: Good morning, Madam Chair, Members of the Committee. I am Ann Rice with the Attorney General's Office.

CHAIRWOMAN WALLNER: Yes, Representative Leishman.

REP. LEISHMAN: Thank you, Madam Chair. Has the new Attorney General weighed in on this?

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MS. RICE: No. The new Attorney General has not yet been confirmed. So he's not yet in the office.

REP. LEISHMAN: Well, I thought he was confirmed Wednesday?

MS. RICE: Excuse me. He's been confirmed. He's not been sworn in as Attorney General.

REP. LEISHMAN: Okay.

MS. RICE: I don't anticipate he's going to be on board for another month or maybe a little less than that.

REP. LEISHMAN: Hm.

CHAIRWOMAN WALLNER: Okay. Any further questions?

\*\* REP. LEISHMAN: I'll move to table, Madam Chair.

REP. WEYLER: Second.

CHAIRWOMAN WALLNER: Representative Leishman moves to table the item.

REP. WEYLER: Second.

SEN. LARSEN: Parliamentary inquiry.

CHAIRWOMAN WALLNER: Yes.

SEN. LARSEN: Can anyone clarify if we table this if this throws off the possibility that we would be part of the litigation group? Does the timing, if we put it off for the next Fiscal, for example, does that mean that we would not -- that we would miss participating in this litigation

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group?

CHAIRWOMAN WALLNER: The Committee is okay, I would like to ask -- have Attorney General Rice answer that, if possible.

MS. RICE: Thank you.

CHAIRWOMAN WALLNER: Can you restate?

SEN. LARSEN: If you understood my question. If this is tabled, it obviously doesn't come up for at least another month and does that affect New Hampshire's participation in the litigation group?

MS. RICE: No, it wouldn't, because the litigation would be strictly in New Hampshire. The group is the attorneys that are doing it. But this would be strictly New Hampshire litigation so it wouldn't impact that.

SEN. LARSEN: Okay.

CHAIRWOMAN WALLNER: Senator Morse.

SEN. MORSE: If whoever made the table motion could remove it just to ask a couple more questions. I support that.

REP. LEISHMAN: Oh, sure.

REP. WEYLER: Yes.

CHAIRWOMAN WALLNER: Yes. They agree to remove it.

SEN. MORSE: I have a question. If we were to do this and move forward with this, where would the money go if we were to win a verdict here?

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MS. RICE: Well, these would be tax recoveries. So I think that they would be treated like any other tax revenue.

SEN. MORSE: What is that? They go to rooms and meals?

MS. RICE: Yes. Yeah, they're recovered rooms -- meals and rooms tax and the penalties, I believe, go to the General Fund.

SEN. MORSE: Can you just spell that out for us? I mean, if you could just send us something.

MS. RICE: Sure.

SEN. MORSE: If you'd just point to the law I could read it.

CHAIRWOMAN WALLNER: Further question?

REP. WEYLER: Do we need to establish the motion?

\*\* REP. LEISHMAN: Move to table.

REP. WEYLER: Second.

CHAIRWOMAN WALLNER: Representative Leishman moves to table. Representative Weyler seconds. All in favor? All opposed?

REP. NORDGREN: No.

CHAIRWOMAN WALLNER: No.

REP. EATON: No.

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CHAIRWOMAN WALLNER: That was really loud. Let's do a roll --

REP. WEYLER: Roll call?

CHAIRWOMAN WALLNER: Yes, let's do a roll call on that. The motion is to table.

REP. WEYLER: Representative Wallner.

CHAIRWOMAN WALLNER: No.

REP. WEYLER: Representative Rosenwald.

REP. NORDGREN: Call Nordgren instead.

REP. WEYLER: Representative, excuse me.

REP. NORDGREN: Nordgren.

REP. WEYLER: Representative Nordgren.

REP. NORDGREN: No.

REP. WEYLER: Representative Eaton.

REP. EATON: No.

REP. WEYLER: Representative Leishman.

REP. LEISHMAN: Yes.

REP. WEYLER: Representative Weyler. Yes. Senator Morse.

SEN. MORSE: Yes.

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REP. WEYLER: Senator Odell.

SEN. ODELL: Yes.

REP. WEYLER: Senator Larsen.

SEN. LARSEN: No.

REP. WEYLER: Senator Forrester.

SEN. FORRESTE: Yes.

REP. WEYLER: Senator Sanborn.

SEN. SANBORN: Yes.

REP. WEYLER: Six to four, Madam Chair.

CHAIRWOMAN WALLNER: Vote is 6 to 4. The item is laid on the table.

**\*\*\* {MOTION ADOPTED}**

**(12) Chapter 224:371, Laws of 2011, Transfer of Funds:**

CHAIRWOMAN WALLNER: Let's move on to Item 12, Administrative Services. Is there someone here today? Yes.

LINDA HODGDON, Commissioner, Department of Administrative Services: Good morning. For the record, my name is Linda Hodgdon, Commissioner of Administrative Services.

CHAIRWOMAN WALLNER: Thank you. I think we have a question. Senator Morse.

SEN. MORSE: Lakes Region Campus to hire three

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part-time staff to monitor the property. Lakes Region, does that mean Laconia property?

MS. HODGDON: It does, yes.

SEN. MORSE: And the amount you're transferring now I assume is for this year and assuming we don't sell it is that something that's in the budget, too, to have security there next year?

MS. HODGDON: I would like have to look for '14 and '15 to see if there's adequate money for security. I think there is, but I would want to double-check it. What happened when we received the responsibility for that property about four years ago, we are in the fourth year, is that we entered into a contract with Laconia Police Department. And we had them doing security for us that fit within the budget that we had available. That was something that came to us during the Committee of Conference, was kind of late, but we did what we could with Laconia Police Department.

We have been broken into twice. We increased the contract with the Laconia Police Department to the extent that we could. It's about \$60 an hour. The last time we were broken into we were -- had significant losses. There was about \$30,000 in material that was lost. They stole a State truck, tools, copper pipe, wire. So there was significant repairs that needed to be done in those buildings that are actually still needing to be functional. What we're finding is that we don't have a sufficient budget to be able to pay \$60 an hour to the Laconia Police Department to do the level of security that needs to be done. So what we're looking at now was this transfer will allow us to do for the balance of 2013 is to have three part-time people and we'll have them do more than security. They'll be up there doing maintenance and actually have a

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presence. So we are trying to fit within the existing dollars that we have, because we can't continue to afford that same level of presence by the City of Laconia and we clearly, having been broken into twice, know that we need to do something.

CHAIRWOMAN WALLNER: Yes, Senator Morse.

SEN. MORSE: I have to understand one thing and then I have a further question. Basically, there's dollars now that are going to Laconia that we are going to take to fund this -- there are dollars that are going to Laconia Police Department right now that you're going to use to fund this for the balance of this year.

MS. HODGDON: And we're re-allocating from existing dollars within that budget. So we are living within that Lakes Region Campus budget, yes.

SEN. MORSE: Okay. More of a statement than question, but would you believe. The -- when you come to the Senate and explain the budgets that have anything to do with Lakes Region Campus there, I must have missed this one because I saw all the capital.

MS. HODGDON: Yes.

SEN. MORSE: But there is a reason we should be keeping this property.

MS. HODGDON: We still have ongoing operating costs that are up there, because we still have E-911. We still have the Dube Building. There's still several buildings that are up there. But in addition to that, we have those other buildings that we are working on trying to sell and those were the buildings that were broken into. So yes, there is an ongoing operating cost in addition to the

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ongoing capital cost.

CHAIRWOMAN WALLNER: Further question? Senator Sanborn.

SEN. SANBORN: Madam Chair, thank you. Commissioner, thank you so much. I apologize, a little bit of a policy question, but aren't all those buildings mothballed and secured other than the operational ones or are we still more at risk up there at this point?

MS. HODGDON: These were buildings that were locked. These were buildings that were closed and in some cases mothballed but not in all cases. They're not all mothballed.

SEN. SANBORN: Thank you, ma'am. I appreciate it.

CHAIRWOMAN WALLNER: Further question? Thank you very much for coming.

**\*\*** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Representative Eaton moves approval.

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: And Senator Larsen seconds. Any discussion? All in favor? Any opposed?

SEN. MORSE: No.

**\*\*\*** **{MOTION ADOPTED}**

CHAIRWOMAN WALLNER: Senator Morse. One opposed. Okay. The motion passes 9 to 1.

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(13) Miscellaneous:

(14) Informational Materials:

CHAIRWOMAN WALLNER: And now you have a number of informational items and we'll move into the audits.

AUDITS:

RICHARD MAHONEY, Director, Audit Division, Office of Legislative Budget Assistant: Good morning, Madam Chair, Members of the Committee. For the record, I'm Richard Mahoney, Director of Audits, the Office of Legislative Budget Assistant.

The first audit on the agenda today is the Statewide Management Letter. Here to present that report is Greg Driscoll, Partner with KPMG, along with Scott Warnetski, Senior Audit Manager from KPMG, and Stephen Smith who's the Administrator of the DAS, Department of Administrative Services, Bureau of Financial Reporting. So with your permission, Madam Chairman, I'll turn it over to Greg.

CHAIRWOMAN WALLNER: Please. Thank you.

GREG DRISCOLL, Partner, KPMG: Good morning. Thank you, Dick, and good morning to the Committee Members. We are going to talk about the Management Letter today. This is not a separate audit in and of itself. This is essentially a by-product of the audit that we do of the State's Financial Statements. This report includes certain -- identification of certain control deficiencies that we encountered during our audit of the financial statements, as well as any other operational items or best practices that we feel would be beneficial for State management and the Committee Members to be made aware of. So if -- I

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believe you have the report with you. It is the one labeled Management Letter. I'll point out a couple of things in the top letter which is after the cover before we get into the comments.

In that first paragraph it outlines the professional standards under which we perform the audit. And the one thing to point out there is the fact that our testing of internal control is designed for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. So we do not express such an opinion. That is different for public companies, where they do get an opinion on the effectiveness of their internal control but that is not a requirement of our professional standards for an audit of a governmental entity like the State. So we do not express such an opinion and the nature and level of work we do over internal controls is only to provide us evidence that we believe we need to give our opinion on the financial statements.

There are a couple of different layers of control deficiencies that generate different reporting requirements. If you look at the third paragraph in that top letter, the most severe type of deficiency is referred to as a material weakness. And you can see there that a material weakness is defined as a deficiency or a combination of deficiencies in internal control, such that there's a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. And we did have one material weakness in the area of the financial reporting of capital assets in the Highway Department which we discussed to some degree when we presented the CAFR. We've had a misstatement from prior periods related to the understatement of capital assets that we presented to you back when the CAFR was presented.

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And given that, there were control deficiencies that led to that misstatement that had those deficiencies rise to a material weakness. But we can talk about that more in a moment.

The second level is what is referred to as a significant deficiency which is a deficiency or combination of deficiencies in the internal controls that's less severe than a material weakness, yet important enough to merit attention by those charged with governance. We had no such significant deficiencies.

And, lastly, there are items referred to as control deficiencies that, again, even less severe on the chart that we identified as part of this report and we had a couple of those. And then, lastly, we have some best practice comments related to new accounting pronouncements, a report that has been issued on the municipal securities market by the SEC, and a best practice regarding succession planning that we're seeing several of our governments struggle with as those with long-term histories serving the government choose to retire. So that's kind of a landscape of the comments that we've got.

I'll walk you through the material weakness which I believe is on Page 5 -- 4 or 5 of the document, depending on how it's numbered. And, again, we talked about this as part of the CAFR. We then identified to you that we did have a past audit difference related to a prior year understatement of capital assets related to the Highway Department. That was identified actually through an extensive effort made by DOT to cleanse and update their capital asset records. So in a lot of ways that misstatement was identified through the good works by DOT. However, because it did result in a misstatement of the financial statements, we do have to identify it as a control deficiency and a material weakness.

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So we've had material weaknesses in this area in the past so this is not new. However, what we hope is new going forward that the efforts that have been put in place by DOT through this kind of stake in the ground effort to establish a baseline, and some of the controls that the folks at DOT have put in place over accounting for capital assets going forward, we're hoping that this will continue to improve and resolve itself as we get into the 2013 audit.

So, again, this is an evolving area for DOT and an area where we are hopeful that they have made some improvement.

So that is the one material weakness that we have identified. Again, there are several comments that we have listed in section two under other comments. And for those I'll turn it over to our Senior Manager, Scott Warnetski.

SCOTT WARNETSKI, Senior Audit Manager, KPMG: Thank you, Greg. I'm starting with Item 2012-2. It's a comment over the information technology general controls related to NHFirst. So the system was implemented roughly two or three years ago now. It's been in place for that long. If you remember back last year with the results of the 2011 audit, as well as the 2010 audit, we reported a material weakness over information technology general controls.

Now what I mean by information technology general controls, these are sort of high-level controls over a particular IT environment, usually around access rights within the software itself, access to a data center, change controls, change management, overall operations, backups and that sort of stuff. So in the past two years, we found that there was a deficiency that we considered material which was, I believe, the super user access. Too many

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people have unfettered access to the system. The good news is what we found is that has been remediated by the State as of June 30, 2012. And what I'm reporting to you are some of the less severe items here related to data center access, user access rights, and some shared accounts. So I think, overall, probably a positive message here that the sort of most severe stuff has been cleaned up and now they are working towards sort of lower level deficiencies regarding NHFirst.

Moving along to Item 2012-3 regarding inventory of liquor. This is a repeat from last year. The -- we annually observe the Liquor Commission's annual liquor inventory count that they do in March of each year or sometimes April. And what we found last year, we found the same thing this year, is the inventory records are not always being updated based on actual counts performed during that physical inventory. So our recommendation here is that they revisit their policies to ensure that, you know, any perpetual inventory systems are updated based on actual verified accounts during that physical inventory process.

The next one, Item 2012-4, regarding liquor purchases, this is new. While auditing the liquor fund, we found one purchase that sort of fell outside the control environment and, you know, I think resulted in the State making at least initial overpayment to a vendor. These are referred to by the Commission as "power buys" where you purchased enough you get a discount. What we found was the Commission paid the full invoice price or basically the undiscounted price, even though purchase order had a -- had the discounted price that they should have paid. So from what I understand, this is sort of a manual process within the Department and they're looking to implement controls to ensure that this doesn't happen going forward.

And then the next few items, 2012-5, 6, and 7, these

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are the items that Greg referred to as sort of best practice. 2012-5 relates to the new pension standards. The GASB issued their final standard regarding revised accounting for pensions. This is expected -- this will go into effect for the State's year ending June 30<sup>th</sup>, 2015. Essentially, it will change slightly the way the pension liability is calculated. It can result in a larger number depending on some various factors. And then it will also change the way it's shown on the State's financial statements. Currently, the actuarial unfunded liability is shown in the notes to the financial statements and this will now be prominently displayed on the face of the financial statements for the State within the government-wide column on the financial statements.

Following that is the SEC report on the municipal securities market. Again, really FYI that the current leadership at the SEC is looking at ways to potentially regulate the municipal securities market and it's more FYI for the folks at DAS and Treasury to sort of keep abreast of this and, you know, provide any comment, you know, if they can throughout any rulemaking process that may occur.

Following that is 2012-7 regarding succession planning. I think we have had this in the past and thought it be a good idea to bring it up again. Basically, the aging working force and the amount of experience at certain levels within government. These folks are going to be retiring and could result, if not properly planned for, sort of a brain drain, a loss of talent. And if not properly planned for could result in some difficulties during that transition.

And then, finally, on 2012-8 is regarding the processing of tax returns. During 2012 the Department of Revenue implemented a new system to essentially scan tax returns as they come in to be more efficient and, you know,

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populate things more efficiently. You know, go away from the manual processes that they had in place before. It resulted in a lot of work by DRA to implement this system and then subsequently a lot of work to ensure that we had the audit evidence necessary to opine on the financial statements by December 31<sup>st</sup>, 2012, and issue the financial statements by December 31<sup>st</sup>, 2012.

Without going into the gory details, you know, there was -- you know, there was a lot of effort to get this done on DRA's part by the deadline and they did it. Our recommendations here that they continue that effort and get to a point where they're not having to manually verify every tax return coming in and, you know, something like this would not be, you know, a potential impediment to a timely issuance of the State's financial statements.

So, with that, I guess those are the ends of our prepared remarks and that was the last item to discuss. And if you have any questions, be happy to answer them.

CHAIRWOMAN WALLNER: Representative Weyler.

REP. WEYLER: Yes. What is the standard with a Retirement System funding before it's declared bankrupt? Is there any standard?

MR. DRISCOLL: No, there is not. And unlike the public company where you have, you know, government pension groups that monitor, you have ERISA, the pension law, there is no such similar side on public employee retirement systems. You can see them, particularly the large state plans, they are in any, you know, shape of funded ratio from I've seen some down to the high forties where a state that I serve they are in the high nineties. So, again, I think New Hampshire is closer to the, if I remember correctly, in the 50, 60% range funded. You know, that would be considered on

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the lower end, I think, of states. So it is something. And the new GASB standards, they are very specific to say that they only address accounting and financial recording. They make no requirements as to Government's responsibility to fund the pension. They have no authority to do so. So this is, however you choose to fund the pension standards, it is within the prerogative of the individual government entities. These standards only speak to the financial reporting that is a result of those funding decisions. So there is no benchmark or, you know, floor, if you will, of funded ratio where a plan is deemed bankrupt or some other label placed on it.

REP. WEYLER: If it were private, what would be the standard?

MR. DRISCOLL: It would be pretty -- it would basically be when the plan is unable to make benefit payments.

REP. WEYLER: Thank you.

CHAIRWOMAN WALLNER: Further questions? Representative Leishman.

REP. LEISHMAN: Thank you, Madam Chair. You mentioned the Liquor Commission, the overpayment, I believe it was like a \$36,000 overpayment and there was mention in the report about seeking recovery from the vendor. Was that ever received or recovery come back of the 36,000 or is that still an issue outstanding?

MR. WARNETSKI: I'm not sure. I don't know if Steve would know.

STEPHEN SMITH, Administrator, Bureau of Financial Reporting, Department of Administrative Services: I can attempt to find out for you.

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REP. LEISHMAN: Thank you.

CHAIRWOMAN WALLNER: Further question? Thank you.

\*\* REP. WEYLER: I move to accept the report, place it on file and release in the usual manner.

REP. EATON: Second.

CHAIRWOMAN WALLNER: Representative Eaton seconds. All those in favor? Any opposed? Motion passes.

\*\*\* **{MOTION ADOPTED}**

MR. DRISCOLL: Thank you very much.

MR. WARNETSKI: Thank you.

CHAIRWOMAN WALLNER: Thank you.

MR. MAHONEY: Madam Chairman, the second audit on the agenda this morning is the single audit of Federal Financial Assistance Programs. KPMG is also under contract through our office to conduct that audit as well. Here to present the report this morning is Jayme Silva. Jayme is a partner in charge of this work from KPMG, along with Karen Farrell. Karen is the Senior Audit Manager from KPMG responsible for the day-to-day management of the audit.

CHAIRWOMAN WALLNER: Thank you. Welcome.

JAYME SILVA, Partner, KPMG: Thank you. Good morning.

KAREN FARRELL, Senior Audit Manager, KPMG: Good morning.

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MR. SILVA: Before I start this is the -- we are going to talk about the Federal single audit for the year ended June 30<sup>th</sup>, 2012. I refer we're going to be going to the big blue book. Like my counterpart, they had a small letter. We are going to the big book today to discuss.

So I'm going to summarize a little bit what's in this book. And then Karen is going to talk a little bit about what the opinion says for the Federal compliance audit and then Steve has some remarks from a State perspective of some benchmarks, et cetera. If we go right into the detail here, what this basically is the book is divided up into several categories, but what we're trying to do is audit, you know, State Federal expenditures, we are looking at Federal expenditures to ensure compliance with the Federal Compliance Supplement. What I mean by that is these are all, I call it, singular audits. That's what we call the Federal Singular Audit Act that we put together. In fact, we looked at 35 programs. And so when you start talking about Federal compliance, the Federal Government determines sort of the procedures that are prescribed what we do. Unlike GASB, there's more of a range what we can do. But the Federal Government says if you look at a certain program, there are certain procedures from a compliance and internal controls perspective that you do.

So keeping that in mind from sort of a top level sort of get into the report itself. Under the first tab, we have financial statements. This is the statements were presented a month or so ago. This is the CAFR. So there's financial statements here along with financial statements and footnotes. So that's been discussed at a previous meeting. So I will go over that or flip by that.

In the second tab, we have reports on compliance and internal control. There's two reports here. One Greg and Scott talked about the top one a little bit. This is where

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he talked about the material weakness for capital assets. So this -- the first report relates to the financial statement audit. So really D-1 and D-2 really relate to financial statement audit from internal controls and also from a compliance perspective, compliance to other matters. Again, Greg talked about from a controlled perspective on the financial statement audit. I'll address from the compliance and other matters which is on Page D-2 I'll reference. So there's actually no non-compliance for the financial statement audit. So in those few sections on D-2 that's what the form of the report is stating.

So we go to D-3. I'm going to skip D-3 for now because Karen is going to cover that after I go through just sort of the nuts and bolts of the report. This is actually what we're here to talk about today. This is actually internal control and compliance from Federal compliance purposes. So I'm going to go over that just for a minute.

So the next tab I call the Schedule of Expenditures of Federal Awards. What this is doing is it's taking, you know, it's a complete listing of all Federal expenditures by Federal program, identification number, and by Federal agency. So you can see there's \$1.8 billion of Federal expenditures for the year ending June 30<sup>th</sup>, 2012. This lists it by agency and by program and by ID number so you can see where the money is being expended for what program.

The next tab, Current Year Findings and Questioned Costs. I'm going to spend just a few minutes on this side of the tab. This is actually a very good summary from F-1 through F-4 which defines from a financial statement audit and Federal awards what types of things we found, and what qualifications we had for particular major programs. That's on F-1. When you go to F-2, F-3, and F-4, those are the programs that we actually were subject to our audit. So

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there's 35 programs that were subject to our audit and they list them out in detail what programs were audited. So if you go by that, F-7 through -- I apologize for the numbering here -- F-165. These are all our current year findings and questioned costs. There's 64 comments and I'm not going to go in detail at all on these. But this is where really the build-out of the entire report of the findings and questioned costs and they break out and I'll skip 2012-1, but if you go to 2012-2, there's a finding, there's criteria, there's a condition, cause, effect, questioned costs, recommendation and the auditee corrective action plan. So those are very -- I wouldn't say form driven but the way the comments are listed out there's a format that we follow. So for all 64 comments that's how they're formatted and presented in the report itself. Again, those are all current year reports.

So we go to the status of prior year findings and questioned costs which is the next tab. These are all findings from the previous last few years. And so there's a summary again, a fairly good summary, G-1 through G -- well, G-7, G-11. There's a summary out through G-15 that lists, you know, findings that we -- you know, they'll say whether they have been resolved or they're unresolved. If they're unresolved, they carry back into the current year findings pretty much. Again, that's a good synopsis of prior year findings. And, again, if you go back to the G series, all the way down to G-163, those are all the prior years' findings that we list that have been referenced in previous audits that we presented in years past. So that's the, you know, again, my word, nuts and bolts of the report. It's fairly detailed.

What I want to do is I want to go back to the reports on compliance and internal control. I'm going to hand it off to Karen. She's going to cover the report in some detail starting on D-3.

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MS. FARRELL: Thanks, Jayme. So, you know, as Jayme mentioned this is really kind of the crux of this single audit. And it's the report on D-3 is broken down into three parts. In the first part is our opinion on the State's compliance with the Federal requirements that are included in the OMB A-133 compliance supplement and also requirements that are included in all the various grant awards. There are 14 different compliance areas that are included in that supplement and many of them or some of them, I guess, may comply to a specific program and others may not apply to that specific program. But this opinion really answers the question, did the State comply with the Federal requirements. And of the 35 audited programs, 12 were qualified for significant non-compliance. And on D-4, there's actually a pretty good summary of that.

So the table on D-4 essentially lists the findings that's referenced back in the F section. And in the finding itself it actually lists the criteria that we audit again. The Catalog of Domestic Assistance number, which is the Federal identification number, the program name, and then the compliance requirement.

Just to kind of generally go over what some of these compliance requirements mean for the ones that were qualified, there was one program was qualified for period of availability which is essentially us trying to determine whether the expenditure was being paid within the grant period. The same program was qualified for a maintenance of effort and earmarking. So maintenance of effort is, essentially, did the State meet the level of the spending that was required for the program. And earmarking is essentially, did the State spend a certain percentage or maybe populate a particular facet of the program. Like in this instance for substance abuse enough wasn't spent on prevention programs.

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Four of these programs were qualified for subrecipient monitoring. That's when the State passes through the Federal funds to a third party who has some operational responsibility and then the monitoring of that operational responsibility to ensure that they're complying with the Federal requirements was either lacking or was weak.

Three were qualified for cash management and that's essentially determining that the drawing of the Federal funds happens within the Federal time frame that's prescribed. Two were qualified for allowability and that is ensuring that the costs were allowable within the circulars or in accordance with the circulars and in accordance with the grant agreements and were they properly supported.

Three were qualified for reporting and that's ensuring that all of the proper reports that were required were submitted accurately and completely. And then one was qualified for procurement. And that's ensuring that they're following the State's procurement policy and the Federal procurement policy. And in this instance it was more of a Federal policy ensuring that the contractor or vendor was not suspended or debarred. In total, I think there were 12 programs that I mentioned.

So on the top of -- so those are the ones that are qualified because they're severe enough to really say, okay, they didn't comply with those specific requirements.

On the top of D-5, we also have listed 44 findings where they are non-compliance issues but not that significant. Okay. So I think that, in total, there were probably two programs that didn't have either an internal control or compliance finding associated with that.

Now, I'll -- the second part of this relates to the

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internal control over compliance. So really it's management's responsibility for establishing and maintaining an effective internal control structure over the compliance requirements. And as Greg had mentioned, we do not give an opinion on this internal control. But what we are required to do is test it to ensure that they have control structure in place to ensure that compliance will occur. And then what we do is report these findings that are then broken down into three categories; the material weakness, significant deficiency, and other. And the material weakness, as Greg had mentioned, is an instance where there's a reasonable possibility that a material non-compliance may exist without being presented or detected. So the second paragraph on D-5 from the bottom actually lists the material weaknesses that we identify -- excuse me -- that we identified. There were 33 in the current year and 13 in the prior year.

If you flip the page, on the top of D-6, this is the category for significant deficiencies. Those are less severe findings than a material weakness but important enough to report. And there were 27 current year significant deficiencies compared with 38 in the prior year.

In the third category I mention was other and that's more like performance improvements that really don't meet the requirements to be reported in the single audit. Those are typically just discussed with management as we are performing the audit.

The final section has to do with our opinion on the Schedule of Expenditures of Federal Awards that Jayme mentioned to and this is on E-1. And, again, this is the summary of all of your Federal expenditures. And this summary was really derived from the underlying accounting records that was also used to create the financial

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statements and it's subject to the audit procedures that were performed during the financial statements. So because of that, we kind of have an in relation to opinion where we then conclude that the SEFA was fairly stated in all material respects in relation to the basic financial statements.

So that's really the end of my prepared comments. We'd be happy to take some questions, and I know that Steve Smith does have some comments he'd like to go over.

MR. SMITH: Good morning. Just a couple of comments. You have before you, as you can see, it's a pretty thick report, getting thicker. It represents about 350 separate Federal programs. And that translates into about 850 approximately individual grants or contract awards. And so Admin Services working with the agencies we gather the information, we compile this report and then work with the auditors to actually produce what you see in front of us. And through those efforts I would like to acknowledge Diana Smestad, Karen Hammond and Kelly Brown in our office who spent a lot of hours working with the auditors and pulling this together.

Some of the -- as a result of the audit some of the recurrent themes which we will make an effort to try to work with agencies to help them where we can, are areas of cash management, reporting requirements, subrecipient monitoring, as well as compliance with the Davis-Bacon Act. Those are some prevalent common themes that we are going to try to address to see if we can bring resolution on these with the agencies. So the State has work to do to reduce the non-compliance and to strengthen the controls over these Federal programs. Although I will say we are not aware of any disruption of Federal money coming into the state, so nothing has reached the level where something has been ineligible.

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I'd like to thank KPMG. We did have a March 31st deadline of electronic submission to the Federal Clearinghouse, a cognizant agency of the Federal Government. So I'd like to thank their efforts for their work, as well as the all hands on deck to try to meet that deadline which we did. So with that, I'm happy to take any questions.

CHAIRWOMAN WALLNER: Thank you. Do we have questions? Yes. Senator Odell

SEN. ODELL: Thank you. Thank you, Madam Chair. The figure of \$1.8 billion was mentioned. And I looked at in E section, I see them program by program. Is there a place where that I can see that 1.8 billion?

MS. FARRELL: Yes, there is a total.

MR. SILVA: If you go to Page E-58. It's a grand total of all Federal assistance.

MS. FARRELL: Spent.

MR. SILVA: Spent. Sorry, correct.

SEN. ODELL: Got it. Perfect. Thank you.

MR. SILVA: Okay.

CHAIRWOMAN WALLNER: Further questions? I guess you explained everything to us. Thank you.

MS. FARRELL: Thank you.

CHAIRWOMAN WALLNER: Thank you very much.

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**\*\*** REP. WEYLER: Move we accept the report, place it on file, and release it in the usual manner.

REP. EATON: Second.

CHAIRWOMAN WALLNER: Representative Weyler moves that we accept the report, and Representative Eaton seconds. Any discussion? All those in favor? Any opposed? The motion passes.

**\*\*\*** **{MOTION ADOPTED}**

CHAIRWOMAN WALLNER: We accept the audit. Thank you very much.

MS. FARRELL: Thank you.

MR. MAHONEY: Madam Chair, the final audit on the agenda today is a performance audit conducted by our office of the Department of Safety, Division of Motor Vehicles and the custom service functions that the Division provides to our citizens. With me this morning to present the audit report to the Committee is Vilay Diccico. Vilay is a Senior Audit Manager with our office who was responsible to supervise the work on a daily basis. And we are also joined by Director Rick Bailey who's the Director of the Division of Motor Vehicles.

CHAIRWOMAN WALLNER: Thank you. Thank you.

VILAY DICICCO, Senior Audit Manager, Audit Division, Office of Legislative Budget Assistant: Good morning, Madam Chair, and Members of the Committee. My name is Vilay Diccico. I'm here this morning to present the performance audit of the Division of Motor Vehicles Customer Service Report.

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The purposes of our audit were to determine whether customers were satisfied with DMV services, if hours of operation met customers' needs, whether DMV tracks wait times, deploys staff to respond to wait times and communicate wait times to customers, whether service times was consistent among locations, and whether the DMV has instituted training for its staff.

Our executive summary can be found on Page 1. Our audit found customers were overwhelmingly satisfied with services provided by the DMV and wait time to obtain services was reasonable. More than 95% of customers from the six DMV locations we visited were satisfied with the service and at least 80% of customers said the hours were convenient. The majority of customers also reported wait times were acceptable and we found with the exception of one location, customers waited an average of less than eight minutes to receive service.

The DMV has established a robust training program for its employees using both on-site and web-based learning environments. The curriculum has helped to improve consistency at these locations.

While DMV customer service operations are generating positive responses, we identified some areas of improvement. Our recommendations summary is on Page 3.

Our report contains four Observations with recommendations, all of which the DMV concurs. None of these recommendations require legislative action.

Our background starts on Page 5. The DMV has 14 locations across the state and is responsible for issuing driver's licenses and ID cards, registering vehicles and boats, ensuring compliance with driving related financial responsibility, issuing titles and administering motor

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vehicle laws with some exceptions. Customer interactions are handled by the Bureau of Operations which oversees daily transactions at customer service counters across the state, as well as customer phone calls at its contact center.

During Fiscal Year 2012, the Bureau's 78 full-time and 18 part-time employees issued over 340,000 licenses and ID cards, and in conjunction with municipal clerks registered over 1.6 million motor vehicles and 90,000 boats. Its contact center during this time handled an average of 1500 calls per day.

In 2009, the DMV implemented changes to address customer service concerns and to help alleviate wait times at its locations. These changes are discussed on Page 6.

Our first section starting on Page 9 addresses customer satisfaction and hours of operation. As shown in Table 1, customers we surveyed were overwhelmingly satisfied with DMV services in all categories and the vast majority of customers surveyed responded the DMV's hours of operation were convenient. While 19% of customers suggested weekend or evening hours would improve convenience, we did not find a significant demand for ultimate hours of operation. Although customer feedback was generally positive, Observation number 1 on Page 10 recommends the DMV improve communication with its customers by improving signage at all its locations, providing information about busy times on its website, better communicating information about on-line license renewal issues, and better explaining the license renewal process.

Our next section starting on Page 13 addresses wait time and service time. As shown in Table 2 on Page 13, in five of the six locations we visited, customers waited an average of less than eight minutes to receive service.

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While wait time in Manchester averaged over 32 minutes, 84% of customers we surveyed at that location still reported the wait time was acceptable. We also found service times comparable among locations.

Table 3 on Page 15 shows average service time was less than seven minutes and in five to six locations customers spent a total of less than 15 minutes at the DMV. Wait time at the contact center was -- also appeared reasonable. On average, customers waited under three minutes to reach contact center representative at the end of Fiscal Year 2012.

While wait times and service times were reasonable, Observation 2 on Page 16 addresses DMV's need to develop and track performance measures to further improve its operations.

Our section on training starts on Page 19. We found the DMV has developed a robust training program for its employees, which includes mandatory and refresher courses and utilizes a combination on-site and on-line training methods. To improve consistency, training was centralized under a single training coordinator.

While the training program meets the needs of its employees, Observation 3 on Page 20 recommends the DMV improve training documentation and its recordkeeping.

Our next section on Page 23 addresses risk management. While the DMV has a fraud detection and deterrence policy, as well as required reporting -- fraud reporting, we found the DMV could improve its risk assessment and mitigation process. We found the DMV's process does not include all appropriate levels of management and risk assessment instrument is based on assessing only known risks instead of all potential risk to the agency's operation.

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Additionally, given the opportunities for fraud to occur, the DMV does not perform follow-up background checks of its employees. Nor does it require financial background check for most employees, including its counter staff. We found some policies and procedures, as well as training, could be further developed and increased.

On Page 27, we present two other issues and concerns, including reviewing employee safety and security, as well as improving internal communication. The remainder of our report includes our objective, scope, and methodology, results of our survey of Operations Bureau employees, a map of DMV locations and services, and the current status of Observations from prior audit reports. That concludes my presentation. I'd be happy to answer any questions you have.

CHAIRWOMAN WALLNER: Thank you for your help. Yes. Representative Weyler.

REP. WEYLER: Congratulations, Director Bailey. It's a good report and a big improvement.

RICK BAILEY, DIRECTOR, Division of Motor Vehicles, Department of Safety: Thank you.

CHAIRWOMAN WALLNER: Further questions.

REP. NORDGREN: Yes.

CHAIRWOMAN WALLNER: Representative Norgdren.

REP. NORDGREN: Thank you, Madam Chair. As a Representative from the Upper Valley, I would probably totally disagree with this report. I have received numerous complaints. We now don't have a DMV office in Lebanon. People have to go to Claremont. I had one constituent

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e-mail me a few weeks ago that she called the Concord office and tried to get a phone number for the Claremont office. The person who answered the phone in Concord was rude and said there wasn't any phone in Claremont and she couldn't call. I've had members of retirement communities not be able to call Claremont and instead have to drive to Claremont to make an appointment to have a road test because they need one for renewal of their license.

It also was an issue when we had to have ID cards for voting last fall. It was a huge problem for people without transportation, which happens in rural areas of New Hampshire, to travel to Claremont. So there are a lot of issues going on in the Upper Valley that I have not seen any one solution to since the office left Lebanon. That was my venting. Thank you very much.

MR. BAILEY: Representative Norgdren, I respectfully disagree with a couple of points. Certainly, any of the places in the State of New Hampshire where there is not a local DMV office there is a challenge for transportation. Whether that's the Peterborough area, the Lebanon area, or the Pittsburg area, I absolutely agree with you. There are places in the state where folks that don't have easy mobility are challenged simply because of the number and locations of offices that we have. But that is driven directly by the amount of staff and resources that we have to do that.

As far as issues for scheduling appointments or reaching, one of the reasons that we cannot support phone calls to local offices because that takes people away from the counters and away from people that are standing in line. There is nothing that someone could do on a phone at a substation that is not handled by the folks in Concord, any scheduling, any appointments. As to a comment that someone was rude, I can't speak to that. On occasion it

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happens. We work very diligently to ensure that it doesn't. But the folks in the Lebanon area, truly, it's a population center. There isn't a local office. I understand that. But at this point in time there are not resources to address that or Peterborough or some of the other areas where we have challenges.

REP. NORDGREN: If I may follow-up?

CHAIRWOMAN WALLNER: Follow-up.

REP. NORDGREN: I think it would be good if there were maybe some PR. I mean, obviously, there are retirement communities in the Upper Valley and that seems to be where the issues are. The person actually who e-mailed me is not in a retirement community. But she was -- that was a person who was treated rudely. But it seems like that's where the problems are, your retirement communities trying to either get their renewal, get their photo ID for voting. Maybe there's some way that issue can be addressed. I mean, even if you could have somebody for a few hours in Lebanon, it would certainly help the situation, especially with the transportation issue. There's a large transient population in Lebanon, transient where there's a lot of apartments. There's a lot of people who just don't have a way to get to Claremont.

MR. BAILEY: I understand, Representative. And we see that same thing in parts of the Lakes Region with closing of the Belmont substation in that area two years ago. We have heard some of the same concerns and we try to work with education and we'll be happy to take a look at it. But the driving factor is the resources to have more locations open.

CHAIRWOMAN WALLNER: Further question? Representative Leishman.

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REP. LEISHMAN: Now I would just actually commend Mr. Bailey. I'm from Peterborough and in the past I heard a number of complaints where people the closest one -- well, if you can avoid going over Temple Mountain over to Keene and overwhelmingly people are happy when they get there. So since you've come to the Division, I think I've heard less complaints. So I would commend you on doing a better job.

MR. BAILEY: Representative Leishman, thank you very much but it really it's a credit to the staff. Over the past couple of years, they have done a great job at adapting to new approaches, some new technology and a recommitment to the public service and to serving the customers. And so they really deserve the credit.

CHAIRWOMAN WALLNER: Further questions? Great. Thank you very much for joining us this morning.

**\*\*** REP. WEYLER: I move we accept the report, place it on file, and release in the usual manner.

REP. EATON: Second.

CHAIRWOMAN WALLNER: Representative Weyler moved we accept the report and Representative Eaton seconds. Any discussion? All in favor? Any opposed? The motion passes.

**\*\*\*** **{MOTION ADOPTED}**

CHAIRWOMAN WALLNER: I believe that concludes our agenda for today. And next meeting, we are going to leave it up to you.

SEN. MORSE: Just going to have to be in June. June 7<sup>th</sup>?

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CHAIRWOMAN WALLNER: June 7<sup>th</sup>. Okay. We'll make it June 7th. I think that's a Friday. And we'll see you back here in the same place. Thank you.

(Concluded at 11:25 a.m.)

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## CERTIFICATION

I, Cecelia A. Trask, a Licensed Court Reporter-Shorthand, do hereby certify that the foregoing transcript is a true and accurate transcript from my shorthand notes taken on said date to the best of my ability, skill, knowledge and judgment.

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