

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF STATE
FINANCIAL AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**



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To The Fiscal Committee Of The General Court:

We have audited the financial statement of the New Hampshire Department of State (Department), for the fiscal year ended June 30, 2020 and have issued our report thereon dated August 9, 2021.

This financial audit report presents information related to our audit in two sections; a management letter section and a financial section. The management letter section, prepared by the auditors, is a byproduct of the audit of the Department's financial statement. This section contains an auditor's report on internal control over financial reporting and on compliance and other matters and related audit findings.

The financial section of this report, with the exception of the independent auditor's report on the Department's financial statement, was prepared by the financial management of the Department, with assistance from the Department of Administrative Services, Bureau of Financial Reporting. In addition to the auditor's report, the financial section of the report includes the financial statement and notes to the financial statement.

This report can be accessed in its entirety on-line at:

<http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>

A handwritten signature in black ink that reads "Stephen C. Smith".

Office Of Legislative Budget Assistant

August 9, 2021

STATE OF NEW HAMPSHIRE
DEPARTMENT OF STATE

FINANCIAL AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

MANAGEMENT LETTER SECTION

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Abbreviations Used

DAS	Department of Administrative Services
Department	Department of State
DHHS	Department of Health and Human Services
HAVA	Help America Vote Act
IT	Information Technology
NHFirst	New Hampshire State Government Accounting and Financial Reporting System
NHVRIN	New Hampshire Vital Records Information Network System

* Audit comment suggests legislative action may be required.

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

To The Fiscal Committee Of The General Court:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the New Hampshire Department of State (Department), which comprise the Statement of Revenues and Expenditures – Governmental Funds for the fiscal year ended June 30, 2020, and the related notes to the financial statement and have issued our report thereon dated August 9, 2021. Our report on the financial statement was modified as the Statement of Revenues and Expenditures – Governmental Funds does not purport to and does not constitute a complete financial presentation of the Department in the Governmental Funds in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the following observations, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a

material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in Observations No. 1 and No. 2 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Observations No. 3 through No. 7 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Observations No. 8 through No. 13.

Department of State's Responses To Findings

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

Purpose Of This Report

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



Office Of Legislative Budget Assistant

August 9, 2021

Internal Control Comments
Material Weaknesses

Observation No. 1: Establish A Formal Risk Assessment Process

Observation:

The Department reported it did not have a formal risk assessment process in place for its financial accounting and reporting functions, including no information technology (IT) security risk assessment for the STAR system, used for processing securities transactions, and the QuickStart system, used primarily for processing corporate and other business filings as well as vital records transactions. According to the Department, while there was no formal process in place, internal controls have been implemented since the prior audit and other solutions are put in place on an as needed basis for risks such as cybersecurity, access permissions, and workplace injury.

A formalized risk assessment process may have assisted the Department in detecting and responding to the following financial accounting and reporting weaknesses addressed in the ensuing Observations contained in this report:

1. Revenue Reported in Incorrect Accounting Period

A total of \$7.3 million unrelated to fiscal year 2020 was recorded in the State accounting system, NHFirst, and reported in the State's Annual Comprehensive Financial Report. The \$7.3 million was comprised of approximately \$6.7 million in unspent federal revenues received in advance and \$576,000 of revenues received and deposited for rejected corporate filings, as more fully described in Observation No. 3.

2. Revenue Reconciliation Between NHFirst and Department Subsystems

The Department was unaware of a difference noted in an account balance at fiscal year-end because it did not perform periodic reconciliations between revenues recorded in its subsystems to NHFirst, as more fully described in Observation No. 4.

3. Termination Pay Error

The Department was unaware of a \$23,711 error it made in the termination pay calculation for a long-term employee, as more fully described in Observation No. 5.

4. Delayed Employee Pay Increments

In October 2019, the Department made a \$20,993 retroactive payment to compensate an employee for missed pay increments dating back to July 2014. The Department was unaware it owed the employee for missed pay increments until the employee brought it to the Department's attention, as more fully described in Observation No. 5.

Management's assessment of, and response to, risks facing an organization is an integral component of internal control. The purpose of an entity's risk assessment efforts is to identify, analyze, and respond to risks that could affect the entity's ability to achieve its objectives. An effective and documented risk assessment process should be a core element of management's planning activities, and should be an ongoing process.

The absence of formal policies and procedures promoting the active review and consideration of risk places the Department in a largely reactive mode where risks are not recognized in time to allow for efficient and effective avoidance or mitigation.

A similar comment was noted in our prior audit of the Department.

Recommendation:

The Department should establish and document a formal risk assessment process for recognizing, evaluating, and responding to risks that could affect its ability to achieve its financial accounting and reporting objectives. The process should include an IT security risk assessment for the STAR and QuickStart systems to ensure the Department's assets are adequately protected.

The Department should regularly review its financial and operational activities for indicators of risk exposure and establish and monitor controls to address those risks. Department employees with particular areas of expertise and knowledge of Department operations should participate in the review to ensure that details of operations that may not be obvious to management are appropriately considered. A periodic, documented review of the risk assessment by management should be incorporated into the process.

Auditee Response:

We concur. The Department agrees that it should establish and document a formal risk assessment process. Our responses to the specific citations below appear in Observations 3, 4 and 5. Since the last financial audit the Department has taken significant steps to develop the foundation for a formal risk assessment process. These include PCI compliance which is an annual formal audit of the credit card environment in some divisions within the Department, substantial completion of a Continuity of Operation Plan (COOP), informal IT risk assessment (including cyber-security programs), Department wide segregation of duties with financial operations and the cross training of employees serving critical functions. Using risk assessment procedures, the Department successfully conducted elections under pandemic conditions during a challenging presidential election cycle. The Department will work to formalize the documentation of these processes.

Observation No. 2: Independent Service Auditor's Reports Should Be Obtained And Reviewed For Securities Transactions

Observation:

The Department did not request or receive service auditor's reports from either of the two service organizations it relied on to remit approximately \$17.6 million in securities license and registration filings revenues to the State during fiscal year 2020.

Management is responsible for establishing and maintaining a system of internal control for both internal operations and services provided by third parties that are critical to operations. When management relies on a service organization's internal controls, its responsibilities extend to

understanding the design and operating effectiveness of those controls in place at the service organizations. Such understanding is often accomplished by obtaining and reviewing a Service Organization Control (SOC) report, known as a SOC 1 Type 2 report, and ensuring that the required complementary user entity controls noted within the report are in place and operating effectively at the user entity (the Department).

A similar comment was noted in our prior audit of the Department.

Recommendation:

The Department should annually obtain SOC 1 Type 2 reports from the service organizations responsible for processing securities license and registration transactions on its behalf. Once obtained, the Department should review the reports and ensure that relevant complementary user entity controls are in place and operating effectively.

Until such time as SOC reports can be obtained, the Department should continue to closely monitor securities license and registration filing revenues remitted to the State. The monitoring process should be performed periodically throughout the year, and should include analytic procedures and other trend analyses to ensure anomalies are detected and corrected by the Department in a timely manner.

Auditee Response:

We concur. Broker-dealer and Investment Advisor licensing is jointly and uniformly administered by all fifty state securities regulators who are also members of the North American Securities Administrators Association (NASAA). Firm and Agent data is remitted to N.H. from a variety of sources via electronic filings. The service organizations described in this audit observation are also subject to a layer of oversight by NASAA.

Neither of the service organizations prepare or provide SOC 1, Type 2 service auditor's reports to any of the other 49 state securities regulators. However, the Department acknowledges and understands the importance of these reports. The Department will inform both organizations of the value of these reports, to find a way to receive SOC 1, Type 2 reports annually. In the interim, the Department will continue to closely monitor revenues remitted to the State as recommended in the audit finding.

Significant Deficiencies

Observation No. 3: Financial Accounting And Reporting Process Should Be Improved

Observation:

The Department did not report revenues it received in advance, and revenues it was due, to the Department of Administrative Services (DAS) at fiscal year-end in accordance with State accounting policies and government accounting standards.

The following weaknesses in the Department's financial reporting process were noted during the audit:

1. The Department did not report unearned revenue to DAS at fiscal year-end, contrary to State policy requiring unearned revenue exceeding \$250,000 to be submitted on an Exhibit B. Specifically:
 - a. Federal revenues in the amount of \$6.7 million received in advance, and unspent as of June 30, 2020, were not reported to DAS as unearned revenue at year-end, resulting in an overstatement of General Fund revenues reported in the State's Annual Comprehensive Financial Report for the fiscal year ended June 30, 2020. Of the \$6.7 million, the Department properly recorded \$3.2 million and accepted a proposed audit adjustment of \$3.5 million to properly recognize the unearned revenue in the Department's financial statement.
 - b. Revenues in the amount of \$576,000 for rejected corporate filings that may be refunded or resubmitted were not reported to DAS as unearned revenue at year-end, resulting in an overstatement of General Fund revenues reported in the State's Annual Comprehensive Financial Report for the fiscal year ended June 30, 2020. The Department accepted a proposed audit adjustment to properly recognize the unearned revenue in the Department's financial statement.
2. The State portion of vital record search fees collected under RSA 5-C:10, II, and outstanding at year-end was not recorded in NHFirst or reported to DAS as accounts receivable, contrary to State policy. Additionally, the Department was unable to produce a historical system report or provide other documentation of the outstanding balance as of June 30, 2020. A system report provided to the auditors on April 23, 2021, the date of our audit inquiry, reported an outstanding accounts receivable balance for the State portion of vital record search fees of approximately \$57,000.

Recommendation:

The Department should take steps to further strengthen its financial accounting and reporting process.

Business office personnel should perform a thorough review of the State's closing procedures to familiarize themselves with the policies and ensure the Department complies with the State's reporting requirements. This review should be made a priority as it is critical to DAS' ability to accurately recognize and report revenues in the State's Annual Comprehensive Financial Report.

All accounts receivable outstanding at year-end maintained in the Department's subsystems should be recorded in NHFirst, as required, so that outstanding balances are subjected to the monitoring controls and periodic reporting mechanisms provided by NHFirst. The Department should retain system documentation supporting accounts receivable balances on a periodic basis, such as monthly.

Auditee Response:

We concur. During the audit period the Department of State received two, one-time, payments from the federal government to address specific election related concerns of national significance; cyber security and the pandemic.

1a. The Department received \$6.7 million from the federal government in the form of "Title I Payments" which was deposited in the "Election Fund" created under RSA 5:6-d in compliance with federal legislation known as the Help America Vote Act (HAVA). These funds are one-time payments that are continually appropriated and non-lapsing to the Department specifically for HAVA programs. Of the \$6.7 million received in fiscal year 2020, \$3.2 million were to be used specifically for conducting elections under pandemic conditions, and \$3.5 million were to be used for elections security including cyber security. Since these funds were distributed to New Hampshire and the other states by the U.S. Election Assistance Commission (EAC) as Title I Payments, it was not clear to the Department these funds should have been considered unearned. In the event we receive similar payments in the future, we will seek the appropriate advice from the DAS to get their opinion on whether those funds should be included on an Exhibit B or not.

1b. The Department acknowledges the \$576 thousand in rejected corporate filings subject to refunds or resubmission should be reported as unearned income at the end of the fiscal year. The implementation of a new file system changed the way the rejected funds were handled and, in the process, the Department did not report these funds as unearned at year end. The Department has taken steps to work with the DAS to report rejected corporate filings that may be refunded or resubmitted on forms provided by DAS.

2. In recent years, the Department has made significant improvements in the management of amounts owed to the State by the cities and towns for their vital record activity. Moving from a passive receipt of submitted funds to a monthly invoicing system with approvals and oversight, the Department is now able to report the total due the State at any given time. The Department has taken steps to work with the DAS to report accounts receivable for City and Town vital record activity remaining due at year-end on forms provided by DAS.

Observation No. 4: System Revenues Should Be Periodically Reconciled To NHFirst

Observation:

The Department does not periodically reconcile revenues recorded in its STAR system, used for processing securities transactions, or QuickStart system, used primarily for processing corporate filings and vital records transactions, to the State accounting system of record, NHFirst. As a result, the Department was unaware of a difference between its subsystems and NHFirst during fiscal year 2020 and could not effectively address problems requiring technical support from the Department's software vendor as described below:

Unknown Difference

1. The Department was unaware of a \$64,000 duplicate recording error in NHFirst related to Internal Revenue Service (IRS) receipts for Uniform Commercial Code (UCC) filings, until the auditors brought it to the Department's attention. This error was corrected during the fiscal year 2020 closing process.

Known Differences

2. The Department was aware of a \$576,000 difference between its QuickStart system and NHFirst revenue accounts for rejected corporate filings revenues. According to the Department, the QuickStart system is not properly programmed to post rejected corporate filings revenues to the proper revenue account. The Department reported it requested a programming change from the vendor to correct the error but, approximately ten months later as of the April 21, 2021 date of audit inquiry, no changes had been made.
3. The Department was aware of a \$53,000 difference between its QuickStart system and NHFirst revenue accounts for the city and town portion of UCC filing fees collected. According to the Department, the QuickStart system is not properly programmed to account for certain UCC filing fees that are ineligible for quarterly disbursement to New Hampshire cities and towns. The Department reported it requested a programming change from the vendor to correct the error but, as of the April 21, 2021 date of audit inquiry, no changes had been made.

Control activities, such as reconciliations, are one of the essential components of internal control that help management mitigate risks to help ensure the achievement of objectives.

A similar comment was noted in our prior audit of the Department.

Recommendation:

The Department should establish policies and procedures to ensure revenue reconciliations between the Department's subsystems and NHFirst are performed on a monthly basis. Differences between the systems should be investigated and resolved in a timely manner.

The Department should follow up with the vendor to ensure requested program changes are completed in a timely manner.

The reconciliations should also be formally documented and include evidence of management's review and approval.

Auditee Response:

We concur. The Department reconciles all deposits made through QuickStart and the Star system to NHFirst on an individual basis as they occur. The unknown error discovered during the auditor's reconciliation was an adjustment, not a deposit through QuickStart. The Department recognizes the benefit of performing a periodic reconciliation to ensure timely discovery of any inaccuracies and will work toward implementation of this process.

1. Although the auditors indicated that there was a \$64,000 duplicate recording error in NHFirst, they did not mention that there was a corresponding \$64,000 negative balance in a separate revenue account. The legacy subsystem worked differently to record the electronic payments and during the transition to the new system, the account used to receive these records was not updated. This software error was corrected months ago and should not be an issue moving forward. Both revenue accounts occur in the same accounting unit and revenue class and therefore the funds in each account move as a lump sum to the General Fund at year end. This error was corrected during the Fiscal Year 2020 closing process.
2. The Department acknowledges a known error in the QuickStart software system dealing with rejected corporate filing revenue. The vendor providing maintenance and support to the Department was recently acquired by another company and the new company has struggled to provide necessary support. While the Department is working to resolve the software issues, the differences between NHFirst and QuickStart will continue to be manually reconciled.
3. The Department acknowledges a known error in the QuickStart software system dealing with UCC (Uniform Commercial Code) filing fees collected. The vendor providing maintenance and support to the Department was recently acquired by another company and the new company has struggled to provide necessary support. While the Department is working to resolve the software issues, the differences between NHFirst and QuickStart will continue to be manually reconciled.

Observation No. 5: Controls Over Payroll Should Be Strengthened

Observation:

The Department has not established sufficient controls over payroll to reduce the risk of processing errors and omissions.

The Department's payroll expenditures totaled approximately \$6.4 million during fiscal year 2020, representing 58% of the Department's total General Fund expenditures.

During the audit, the following weaknesses in internal control over payroll processing were noted:

1. The Department's Financial Management Policy does not include procedures to document its practices for employee compensation and benefits, even though payroll expenditures account for the majority of the Department's General Fund expenditures.
2. Review and approval of payroll changes were not appropriately evidenced during the audit period and, as a result, the segregation of duties between the employee processing payroll changes and the employee approving those changes could not be observed. Payroll changes included the bi-weekly input of changes to hours worked and leave taken by one employee and the subsequent approval by another employee. Additionally, the processing of new hires, position changes, and step increments were completed by one employee with verbal approval by management.
3. Six of 12 eligible classified employees sampled did not receive an annual performance evaluation during the fiscal year ended June 30, 2020, contrary to Administrative Rule Per 801.06 (a).
4. An error in a termination pay calculation, resulting from the use of a worksheet containing a formula error, resulted in an underpayment to the employee in the amount of \$23,711. The error went undetected, until auditor inquiry, despite multiple levels of review both within the Department and at DAS.
5. The Department underpaid an employee for more than five years because it failed to provide the employee with pay increments, in accordance with RSA 94:3, dating back to 2014. In October 2019, upon inquiry by the employee, the Department made a \$20,993 retroactive payment for the missed increments.
6. The Department paid two unclassified employees more than the maximum annual salaries allowed by RSA 5:3 and RSA 94:1-a, I and III. One employee was overpaid by \$1,000 and the other employee was overpaid by \$72.

Control activities, such as verification processes, supervisory approvals, and performance reviews, are essential components of internal control that help management mitigate risks to help ensure the achievement of objectives. Documentation of these controls can help to establish accountability over the procedures performed and reduce the risk of processing errors and omissions.

A similar comment was noted in our prior audit of the Department.

Recommendation:

The Department should establish procedures to strengthen controls over its payroll process. Employee compensation and benefit practices should be incorporated into the Department's current Financial Management Policy. The control procedures and corresponding supervisory approvals should be documented to improve accountability and demonstrate an adequate segregation of duties over the process.

The Department should take steps to ensure all full-time classified employees receive annual performance evaluations in accordance with Administrative Rule. Evaluations should be performed regardless of whether an employee is due a pay increment.

Significant, non-recurring payroll transactions, such as retirement or termination pay, should be carefully scrutinized to ensure accuracy in processing prior to payment. Department management should recalculate all formulas used to process significant, non-recurring payments during the review and approval process.

Tracking mechanisms should be put in place to ensure employees are paid in accordance with statute and receive pay increments timely. The Department should perform a thorough review to ensure all employees on the Department's payroll are paid in accordance with statute and have been granted pay increments they are entitled to.

Auditee Response:

We concur. The implementation of the NH FIRST statewide payroll system has significantly improved payroll processes for the Department. We will work to evidence compensating controls where approval procedures are absent in NHFirst.

1. While the Department does address the disbursement of funds for expenditures in the current Financial Management Policy, it does not specifically address procedures to document practices for employee compensation and benefits. The Department follows the procedures and guidelines associated with NHFirst distributed by the Department of Administrative Services (DAS). The Department will work to further document the procedures regarding the payroll process into the Financial Management Policy.
2. Payroll changes are segregated between employees. We will work to better evidence this process.
3. Due to the unique pandemic conditions of Fiscal Year 2020 some of the annual performance evaluations were not performed. The Department will work to bring all reviews up to date.
4. Non-recurring payroll transactions are reviewed not only by Department staff but staff of DAS payroll as well. We will continue to review all processes to try to eliminate errors. This error has been corrected.
5. Non-recurring payroll transactions are reviewed not only by Department staff but staff of DAS payroll as well. We will continue to review all processes to try to eliminate errors.
6. The error occurred when changes were made to the statewide labor grade system. The appropriate adjustments have been made and the error was corrected.

Observation No. 6: Controls Over Management Reporting Should Be Established

Observation:

The Department has not established sufficient controls over management reporting to reduce the risk of communicating erroneous, misleading, or untimely information.

We noted the following instances where the Department could benefit from the implementation of more stringent controls over its information and communication activities:

1. The fourth quarter Vital Records Improvement Fund report submitted to the Vital Records Improvement Fund Advisory Committee in accordance with RSA 5-C:17 contained several clerical errors. The report overstated revenues and expenditures for the quarter by approximately \$447,000 and \$323,000, respectively, due to the erroneous inclusion of third quarter activity in the fourth quarter report. Additionally, a \$227,000 clerical error was also noted in the fourth quarter report. The Department was unaware of the errors as the quarterly reports are not reviewed by a person independent of the report preparation process prior to submission to management for use in Committee meetings.
2. The Department did not file the fiscal year 2019 annual report on the uses of the Vital Records Improvement Fund with the Vital Records Improvement Fund Advisory Committee by December 31, 2019, as required by RSA 5-C:18. According to the statute, the report shall contain revenue and expenditure activity, accomplishments achieved, an outline of project and programs to be conducted in the ensuing fiscal year, and recommendations for additional legislation, and other matters. Subsequent to auditor inquiry, the fiscal year 2020 report was filed with the Committee in May 2021, more than four months after the due date.
3. The Department did not timely file the calendar year 2019 report on claims against the state to the Department of Administrative Services, Division of Risk and Benefits, as required by RSA 541-B:11-a. According to the statute, the report shall be filed annually. The calendar year 2019 report was due to be filed in calendar year 2020, but the report was not filed until March 2021, subsequent to auditor inquiry.
4. The Department reported Recount Administrative and Fee Account revenues and expenditures totaling \$102,000 and \$86,000, respectively, in the State's Dedicated Funds Report for fiscal year 2020 even though none of the reported activity was for the administration of recounts, contrary to RSA 660:31, as more fully described in Observation No. 9.
5. The Department does not retain certain QuickStart reports, such as the Vital Records Aging Report and Refundable Rejected Filings Report, supporting certain revenue transactions processed at year-end. These reports support funds that may need to be refunded due to rejected corporate filings or amounts due the Department for the State portion of vital record search fees. As noted in Observation No. 3, due to system limitations, the reports cannot be generated for historical dates and must be run on demand. During the audit, the

Department could not provide a QuickStart system-generated support for a \$638,000 transaction recorded in NHFirst primarily for refundable rejected corporate filings or support for balances outstanding at June 30, 2020 from New Hampshire towns and cities for the State portion of vital record search fees.

Information and communication is one of the five integral components of internal control. Management uses quality information to support the internal control system. Quality information is information that is current, complete, accurate, accessible, and provided on a timely basis. Effective information and communication are vital for an entity to achieve its objectives.

Recommendation:

The Department must ensure the information it shares is quality information. Without quality information, the users of the information will be unable to make informed decisions and evaluate performance in achieving key objectives and addressing risks.

The Department should establish and implement internal controls over its management reporting process. Control procedures should include an independent review by someone other than the preparer to ensure the data contained in management reports is complete, accurate, and timely prior to release.

Auditee Response:

We concur. The Department generates hundreds of reports over the course of a year. Occasionally errors are made as described in the audit report. The Department will take measures to improve the review of the specific items identified below.

1. The Department acknowledges that there was a formula error that resulted in incorrect amounts reported in one of the quarterly reports submitted during fiscal year 2020 to the Vital Records Improvement Fund Advisory Committee.
2. The Department acknowledges that the report required in RSA 5-C:18 was not filed as a formal report. However, the matters outlined in this statute are regularly discussed at each of the Vital Records Improvement Fund Advisory Committee regular meetings and are documented in those meeting minutes. The Department has begun and will continue to prepare this report in a formal format going forward.
3. The Department acknowledges that the Board of Claims report on “claims against the state” was filed late and the Department will report this information timely in the future.
4. The Department agrees with the auditors’ suggestion in Observation No. 9 regarding the recording of these funds and will work with the Department of Administrative Services to create a new accounting unit to exclusively account for statewide voter checklist revenue collected and disbursed pursuant to RSA 654:31.

5. The Department acknowledges that the manually printed copy of the report run at the time of the year end transaction was inadvertently not kept with the transaction record of the adjustment. This was an error for this specific transaction mentioned in the audit report, and these types of reports are normally kept with all such transactions. The QuickStart system was not designed to generate these reports for dates in the past. Software changes will have to be made to permit this type of reporting functionality.

Observation No. 7: Information Technology Plans Should Be Established

Observation:

The Department has not established plans that are critical to its information technology (IT) environment and financial accounting and reporting processes.

Several significant IT systems were used by the Department to process securities transactions, corporate and vital records filings, voter registration information, and the associated revenues during the audit period. During our review of the Department's IT controls and related processes over these systems, we noted the following plans had not been established by the Department:

1. Information Technology Plan – in accordance with RSA 9:4-b, each executive department shall prepare an information technology plan and submit it to the information technology council. The plan is to be prepared on a biennial budget basis and shall define the capital and operating budgets necessary for implementing the plan, including new information technology initiatives and existing operations.
2. Disaster Recovery Plan – the purpose of a disaster recovery plan is to document plans and procedures in the event of a disaster, including disaster recovery strategies, essential resources, and procedures necessary to implement a recovery process.
3. Business Continuity Plan – the purpose of a business continuity plan is to document plans and procedures in the event of a significant change in the way a business conducts its daily business functions. The Department reported it established a business continuity plan in 2010 that was never finalized and is in need of updating.

Effective planning is essential to minimize business interruptions in the event of an unforeseen occurrence and relies heavily upon an organization's risk assessment activities.

Recommendation:

The Department should establish an information technology plan in accordance with RSA 9:4-b, as required, to strengthen its IT control structure.

The Department should also establish disaster recovery and business continuity plans. The plans should be formally documented and distributed to employees with plan roles and responsibilities, and those employees should be appropriately trained. The Department should regularly test the

plans to ensure the plans remain relevant and effective, and employees are practiced in implementing the plans.

Auditee Response:

We concur. The Department has informal planning, and has discussed and planned for contingencies as described below, however we agree these plans and processes should be formally documented.

1. Informal Information Technology Plans are constantly being created and evaluated. Depending on the election cycle and the availability of staff, these plans are set in motion and completed. The Department must retain its ability to respond quickly to legislative actions, especially related to elections.
2. The Department has in place an informal Disaster Recovery Plan. It involves the multiple routine backup systems that are both on-site and off-site. It includes the ability to produce statewide checklists for each jurisdiction should something befall the statewide voter registration system prior to an election. The Department has virtualized its servers for the ability to recreate a server should something unfortunate happen that does not allow the server to be corrected but rather deleted and removed.
3. As the audit finding has indicated, the Department had an almost finalized working Business Continuity Plan in place. Although details within the plan may have changed, the “big picture” concept has not and that plan can be picked up and worked on as time becomes available.

Compliance Comments
State Compliance

Observation No. 8: Investor Education Fund Should Be Used For Its Statutory Purpose

Observation:

The Department charged certain costs to the Investor Education Fund which do not appear to align with the statutory purpose of the Fund.

The Investor Education Fund (Fund) was established pursuant to RSA 421-B:6-601 (h), "...to provide information to residents of this state about investments in securities, to help investors and potential investors evaluate their investment decisions, protect themselves from unfair, inequitable, or fraudulent offerings, choose their broker-dealers, agents, or investment advisers more carefully, be alert for false or misleading advertising or other harmful practices, and know their rights as investors."

Expenditures charged to the Fund during fiscal year 2020 totaled approximately \$133,000. Nine of 13 expenditures tested did not appear to relate to the statutory purpose of the Fund as described below:

- The purchase of a minivan in the amount of \$28,462 occurred in June 2020 after in person investor education programs had been suspended as a result of the COVID-19 pandemic. According to the Department, the van is not used exclusively by the Securities Division but is also shared with other divisions for ballot deliveries, transporting documents between offices, and for other uses as needed. As a result, the reasonableness and necessity of the costs charged to the Investor Education Fund are in question.
- Eight of the expenditures tested, totaling \$3,084, were travel reimbursements or related expenditures for attending meetings of the National Association of Secretaries of State. The vast majority of topics included in the conference agendas were elections-related, contrary to the proper uses of the Fund according to the statute.

Recommendation:

The Department should implement policies and procedures to ensure that costs charged to the Investor Education Fund meet the statutory purpose of the Fund. The Department should not charge the Fund for operations of the Department that are unrelated to its statutory purpose.

Auditee Response:

We do not concur. The Department feels the expenditures related to the Investor Education Fund meet the statutory purpose of the fund (RSA 421-B:6-601(h)). The vehicle purchased is used for Securities purposes. Our auditors use the vehicle for on-site examinations of broker dealers and investment advisor firms located throughout the state. The auditors also act as investigators and use the vehicles in furtherance of investigations, to deliver subpoenas and interview witnesses. The

two auditors are on the road separately four days a week. Other Securities employees use the vehicles to attend court hearings, meet with counterparts in neighboring states on joint cases, and attend conferences and training sessions. During state elections it is necessary the vehicle also be available for election purposes.

The costs associated with attending national conferences are directly related to securities and investor education. Meetings of the National Association of Secretaries of State (NASS) cover many issues. NASS has standing committees on Securities, Corporations, Elections, and Archives, and all convene at the winter and summer conference. The expenses of the meetings are divided between the divisions and staff attending the meetings and are not charged exclusively to the Investor Education Fund. We do not feel these occurrences are outside the statutory purpose.

LBA Rejoinder:

The Department states the vehicle is used for election purposes which is not an appropriate charge to the Fund in accordance with RSA 421-B:6-601 (h). The Summer 2019 and Winter 2020 NASS conference agendas included minimal discussion on investor education and significant discussion on elections, such as election security, cybersecurity, voting systems, and countering foreign interference which is not an appropriate charge to the Fund. The Department should ensure all costs charged to the Fund align with the statutory purpose of the Fund and, when appropriate, allocate costs to other divisions intended to benefit from the purchase and use of those goods or services.

Observation No. 9: Voter Checklist Financial Activity Should Be Accounted For In A Separate Account

Observation:

Voter checklist sales and disbursement activity is accounted for in the Recount Administrative and Fee Account, contrary to statute.

New Hampshire towns, cities, and the Department furnish copies of recent public voter checklists to any person requesting such a copy for a fee pursuant to RSA 654:31, III and IV. The town and city portion of the fees collected by the Department for the sale of the public voter checklists are remitted to the cities and towns on an annual basis.

The Department collected \$102,000 and disbursed \$86,000 to the towns and cities from the sale of public voter checklists during fiscal year 2020. This voter checklist activity is recorded by the Department in the Recount Administrative and Fee Account which, pursuant to RSA 660:31, is to be used for the administration of recounts.

The recording of sales and disbursement activity for the sale of the public voter checklists in the Recount Administrative and Fee Account obscures the financial activity recorded and reported for this Account in the Dedicated Funds Report submitted annually to the Department of Administrative Services as noted in Observation No. 6.

Recommendation:

The Department should establish policies and procedures to ensure the Recount Administrative and Fee Account is used only for recording financial activity related to recounts as required by RSA 660:31. This will help ensure the accurate reporting of the Recount Administrative and Fee Account activity in the State's Dedicated Funds Report.

The Department should consider establishing a new account in NHFirst to record fees collected and subsequently disbursed by the Department for the sale of the public voter checklists.

Auditee Response:

We concur. The Department collects payment for statewide voter checklist sales throughout the fiscal year and properly disburses 94% of the funds back to the cities and towns pursuant to RSA 654:31. These amounts are disbursed near the end of each fiscal year for all checklist sales since the last disbursement. The Department agrees with the auditors' suggestion and will work with the Department of Administrative Services to create a new accounting unit to exclusively account for statewide voter checklist revenue collected and disbursed pursuant to RSA 654:31.

Observation No. 10: Administrative Rules Should Be Adopted and Approved As Required By Statute

Observation:

The Department has not adopted administrative rules for the governance of professional bondsmen, as required by RSA 598-A:4. Additionally, there is no written documentation to support the Secretary of State's approval of the administrative rules adopted by the Board of Auctioneers (Board) as required by RSA 311-B:3, I.

RSA 598-A:4 states that, "all professional bondsmen shall be governed by rules which shall be adopted under RSA 541-A by the secretary of state or his designee." As of August 2021, the Department has not adopted the required rules.

RSA 311-B:3, I, states that, "the board [of Auctioneers], with the approval of the secretary of state, shall adopt rules, pursuant to RSA 541-A, relative to..." licensure, including qualifications, establishment of fees, the application process, ethical and professional standards, disciplinary actions, hearing procedures, and eligibility for certificates of authorization. The Department was unable to provide evidence of the Secretary of State's approval of the Board's administrative rules. According to the Department, the Board Chairman's submission of the rules to the Office of Legislative Services for approval implies the rules were approved by the Secretary of State.

Recommendation:

The Department should adopt the administrative rules required by RSA 598-A:4 and maintain written documentation of their approval of the Board of Auctioneers' administrative rules as

required by RSA 311-B:3, I. Formal documentation of the Secretary of State's approval of the Board's administrative rules would eliminate confusion over the approval process and document compliance with the statute.

If the Department determines the requirements of the above noted statutes are not necessary, the Department should request an appropriate revision to the statutes.

Auditee Response:

We concur. Due to recent court bail reform measures, the Department has experienced a significant decline in the number of registered bail bondsmen. No new applications for registration have been received during the past two years. The sole remaining bondsman in the state has chosen to only serve in one county. We will bring this to the attention of the Legislature.

Observation No. 11: Statements Of Financial Interests Should Be Filed And State Filing Officer Should Report Non-Filers As Required By Statute

Observation:

Eleven of 43 individuals associated with the Department of State and its related boards and committees did not file statements of financial interests with the Secretary of State for fiscal year 2020 as required by RSA 15-A. Additionally, nine of the 43 individuals filed the required statement late.

Certain members of the Department of State, the Board of Auctioneers, Board of Claims, State Historical Records Advisory Board, Ballot Law Commission, and Vital Records Improvement Fund Advisory Committee are required filers under RSA 15-A:3, I (c) as they represent public officials designated by the agency head to file the required statement or individuals appointed by the Governor and Council to an equivalent state entity that is regulatory, advisory, or administrative in nature.

Statements of financial interests are due annually by the third Friday in January, or within 14 days of assuming office or appointment. For calendar year 2020, statements of financial interests were required to be filed with the Secretary of State no later than January 17, 2020.

During our review of statements of financial interest filings, we noted the following:

- Two of the 13 Department employees tested filed late.
- Three of the five members of the Board of Auctioneers filed late.
- Two of the five members on the Board of Claims filed late, and one member did not file.
- Five of the six members of the State Historical Records Advisory Board did not file.
- Two of the eight members of the Ballot Law Commission filed late, and two members did not file.
- Three of the five members of the Vital Records Improvement Fund Advisory Committee did not file.

Although the Department did designate an individual to serve as the State Filing Officer in accordance with RSA 21-G:28-a, I, we noted the list of filers maintained by the State Filing Officer was incomplete, inaccurate, and is not subject to an independent review process. Additionally, the Filing Officer did not send a list of individuals who did not file or whose forms were incomplete to the appropriate Legislative or Executive Branch Ethics Committees or the Attorney General, as required by RSA 21-G:28-a, II (c).

Recommendation:

The Department's Boards and Committees should establish procedures to ensure members submit statements of financial interests by the required filing deadline in accordance with RSA 15-A.

The Department should continue to send annual reminders to employees and Board and Committee members to inform them of the filing requirements and encourage compliance. Additionally, the list of filers should be reviewed for completeness and accuracy by a person independent of the process. Once the review process is complete, the State Filing Officer should send a list of non-filers and filers with incomplete forms to the appropriate Committee or to the Attorney General, as required.

Auditee Response:

We concur in part. RSA 21-G:28-a III requires each appointing authority under RSA 15-A:3 to provide the secretary of state with the name, address and appointment date of persons required to file. When we do not receive this information from the appointing authority, we cannot provide a complete list of persons who did not file. The Department will continue to send annual reminders to employees and Board and Committee members to inform them of the requirements.

Observation No. 12: Memorandum Of Understanding Should Be Reviewed Annually As Required

Observation:

The Department, in conjunction with the Department of Health and Human Services (DHHS), has not performed and documented an annual review of the Memorandum of Understanding (MOU) in place to address the role of each agency in maintaining the state's vital records system, as required by RSA 126:24-cc.

The MOU outlines the respective Departments' roles and responsibilities in maintaining the state's vital records system. The Department of State could not provide evidence that an annual review of the MOU has been conducted each year to ensure the responsibilities of the Department of State and DHHS were appropriately covered by the MOU, or if changes were required. The MOU was last signed in July 2015.

As of August 2021, the Department reported a new MOU is being drafted.

Recommendation:

The Department, in conjunction with DHHS, should perform an annual review of the MOU describing the role of each agency in maintaining the state's vital records system, as required by RSA 126:24-cc. The review should be formally documented and indicate whether revisions are necessary.

If the review indicates revisions are required, a new version of the MOU with appropriate updates should be agreed upon and documented. If no changes are needed, this should also be formally documented to provide evidence of compliance with the statute.

Auditee Response:

We concur. The Department expects to complete the revision of the MOU in the near future. DHHS and the Department have been exchanging draft edits and are in the final stages of completing the revision. The Department plans to document its annual review and create a record when that review does not prompt modification of the MOU.

Observation No. 13: Outdated Statutes Should Be Amended Or Repealed

Observation:

The Department has not kept current certain statutes under its purview based on changing conditions, as described below.

RSA 5:13 Commissions and Boards Functioning Within Department

Two of the three entities listed in the statute, the Boxing and Wrestling Commission and the Joint Board of Licensure and Certification, are not functioning "within the department of state as a separate organizational entity" as cited in the statute. The statute was last updated in July 2011.

RSA 5:50 Grants Review Committee

This statute, effective July 2002, refers to a Local Government Records Management Improvement Program (Program). The New Hampshire Municipal Records Board is required to appoint a Grants Review Committee that will screen grant applications related to the Program and then make recommendations on funding to the State Archivist. According to the Department, the Legislature never funded the Program and the Grants Review Committee doesn't exist.

RSA 421-B:6-614 Fees, Uniform Securities Act - Article 6 – Administration and Judicial Review

The statute provides for initial, amendment, renewal, and late filing fees that are covered under section 18 (b) of the Securities Act of 1933. According to the Department, these securities do not require a registration. As a result, there are no filings and no fees are collected.

Recommendation:

The Department should seek to amend or repeal statutes that are outdated or no longer relevant to the Department. Statutes under the Department's purview should be reviewed on a regular basis to ensure they continue to be current and relevant to the Department's mission and objectives.

Auditee Response:

We concur in part. While the Department is not completely up-to-date eliminating outdated or no longer relevant statutes, the Department does review and take action to address outdated statutes as evidenced in HB 186 of the 2021 Session.

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Current Status Of Prior Audit Findings

The following is a summary, as of August 9, 2021, of the current status of the observations contained in the financial audit of the New Hampshire Department of State for the ten months ended April 30, 2007. That report can be accessed at, and printed from, the Office of Legislative Budget Assistant website:

<http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>

Status

Internal Control Comments

Significant Deficiencies (Material Weaknesses In Bold)

Administration

- | | | |
|--|---|---|
| <p>1. Internal Controls Must Be Improved
 <i>Establish and maintain appropriate controls to safeguard operations and review the fundamentals of internal controls to understand how effective controls would assist the Department in establishing and meeting its objectives. (See Current Observation No. 1 through No. 7)</i></p> | ● | ○ |
| <p>2. All Significant Aspects Of The Department’s Control Structure Should Be Documented
 <i>Establish and document the performance of important functions and tasks, including the control structure, to both meet the responsibility to the State for succession planning and also to lessen the risks of disruptions to operations from unanticipated employee changes and other unexpected disruptive events. (See Current Observation No. 5)</i></p> | ● | ○ |
| <p>3. Appropriate IT Controls Must Be Adopted
 <i>Recognize the risk associated with the operation and maintenance of critical IT systems and establish a suitable control structure that will provide reasonable assurance that the systems will operate as intended and be protected from foreseeable failure. (See Current Observation No. 7)</i></p> | ● | ○ |
| <p>4. Formal Risk Assessment Policies And Procedures Should Be Established
 <i>Establish risk assessment policies and procedures that formalize the risk assessment process and provide for a regular and continuous risk assessment of operations. (See Current Observation No. 1)</i></p> | ○ | ○ |
| <p>5. Formal Fraud Reporting Policy Should Be Established
 <i>Establish a fraud reporting policy, provide employees with fraud awareness training, and take measures to ensure that the policy facilitates and encourages reporting and protects all parties involved.</i></p> | ○ | ○ |

	<u>Status</u>
<u>Revenue</u>	
6. Controls Must Be Improved Over Revenue Processing <i>Perform a Department-wide review of revenue processing with an intention to establish appropriate controls, and request and review reports from all service organizations. (See Current Observation No. 2 and No. 4)</i>	● ○
7. Controls Over Processing Mutual Fund Registrations Must Be Improved <i>Establish appropriate controls over the processing of mutual fund registrations to provide reasonable assurance that revenues collected for the registration of mutual funds are complete and accurate.</i>	● ●
8. Controls Over The Operation Of The New Hampshire Vital Records Information Network (NHVRIN) System Must Be Improved <i>Establish controls over the NHVRIN system that provide reasonable assurance that the activity reported by the system and the revenue collected from that activity is accurate.</i>	● ●
9. Revenues Should Be Deposited Into Statutorily Designated Accounts <i>Correct the component of the NHVRIN system that generates the Record of Daily Receipts to ensure that revenues collected by the Office of Vital Records are allocated into the statutorily designated accounts.</i>	● ●
10. Federal Participation In Program Expenditures Should Be Collected Timely <i>Establish policies and procedures for the timely collection of federal participation in program expenditures, including the regular monitoring of program expenditures and the drawing of federal reimbursement as soon as provided for in the program.</i>	● ●
11. Controls Should Be Improved Over Collection Of Miscellaneous Fee Revenues <i>Improve controls over the collection of revenues from miscellaneous fees, including performing reasonableness reconciliations and depositing revenues daily.</i>	● ●
12. Effective Reconciliation Procedures Should Be Incorporated Into Online Returns Filing System <i>Incorporate effective reconciliation procedures into the online business reports filing system to allow for recognition and resolution of differences in reported information.</i>	● ●

		<u>Status</u>
13.	<p>Input Edit Controls Should Be Improved In The Secretary Of State Knowledge Base (SOSKB) System</p> <p><i>Develop controls within the SOSKB system to provide for a multi-step location edit check to ensure the accurate recording and reporting of filed information. This would also help to ensure revenues are distributed as provided in statute.</i></p>	● ●
<u>General Expenditures</u>		
14.	<p>Effective Controls Over The Expenditure Process Must Be Established</p> <p><i>Improve controls over the expenditure process and ensure that all five components of internal control are adequately addressed in the expenditure control process.</i></p>	● ●
15.	<p>The Corporate Administration Account Should Only Be Used For The Statutory Purpose Of The Account</p> <p><i>The Department should only charge the costs of administering the New Hampshire Business Corporation Act, Uniform Commercial Code - Secured Transactions, and other information technology costs of the Department to the Corporate Administration Account.</i></p>	● ●
<u>Help America Vote Act/Election Fund</u>		
16.	<p>The General Fund Should Not Be Used To Supplant The Election Fund In The Funding Of Help America Vote Act Expenditures</p> <p><i>Establish policies and procedures for determining, reviewing, and maintaining the required balance in the Election Fund.</i></p>	● ●
17.	<p>Effective Accounting Procedures For The Help America Vote Act Programs Should Be Established</p> <p><i>Establish effective accounting procedures over HAVA programs and ensure employees responsible for the operation and oversight of the Department's HAVA activities are sufficiently trained in both the general financial and operational requirements of federal programs and the specific requirements of the HAVA programs.</i></p>	▲ ▲
18.	<p>Only Allowable Costs Should Be Charged To Help America Vote Act Program</p> <p><i>Only the costs for allowable activities should be charged to the HAVA program and costs charged should be adequately supported.</i></p>	● ●

Status

- | | | |
|---|---|---|
| 19. Written Procurement Policies And Procedures Should Be Established For Federal Program Expenditures | ● | ○ |
| <i>Establish written procurement policies and procedures for all significant Department expenditures, including expenditures funded from federal HAVA payments. Continue to work with the respective federal agencies and others to resolve the differences in opinion as to the applicability of the common federal administrative laws and regulations reported in the Catalog of Federal Domestic Assistance to HAVA program activity.</i> | | |
| <u>Payroll And Contractor Expenditures</u> | | |
| 20. Controls Over Payroll Must Be Improved | ● | ○ |
| <i>Improve controls over the expenditure process, including payroll, and ensure that all five components of internal control are adequately addressed in the payroll expenditure control process. (See Current Observation No. 5)</i> | | |
| 21. Risk To Operations Resulting From Employing Relatives Should Be Addressed | ● | ● |
| <i>Consider the effect of the appearance of conflicts of interests that results from the practice of hiring family members of management employees to determine whether it should continue the practice in new hiring decisions going forward.</i> | | |
| 22. Controls For Documenting Leave Accounting For Other Than Classified Workers Should Be Improved | ● | ● |
| <i>Improve controls for documenting leave accounting for other than classified workers. Also document in the payroll records all employee decisions regarding the accrual of leave time, and record accruals and usage of leave time in the State payroll system.</i> | | |
| 23. Relationship With Independent Contractors Should Be Documented | ● | ● |
| <i>Fully document relationships with independent contractors in contract documents that describe the scope, duration, and deliverables of the work to be provided and payment and other agreed-to particulars that will protect the interests of both the Department and the contractors.</i> | | |
| 24. Controls Over Contracts, Including Changes To Contract Provisions, Should Be Improved | ● | ● |
| <i>Improve information and communication controls to ensure that all appropriate Department employees are made aware of contract provisions and changes to contract provisions to ensure that the provisions are incorporated into the Department's control structure and procedures, including authorizing and making payment on contractor invoices.</i> | | |

	<u>Status</u>	
<u>Other</u>		
25. Equipment Accountability And Reporting Controls Should Be Established <i>Establish equipment accountability and reporting controls utilizing DAS equipment controls as a reasonable baseline framework for equipment accounting and reporting requirements.</i>	●	●

Compliance Comments

Federal Compliance

26. Federal Approval Should Be Requested Prior To The Expenditure Of Help America Vote Act Funds For Capital Assets <i>Contact the federal Election Assistance Commission (EAC) to request approval for the expenditure of HAVA funds for the capital construction project and review the HAVA program guidance and other federal regulations to ensure the Department is cognizant of all program requirements.</i>	●	●
27. Federal Program Reports Should Be Completed And Filed <i>Annually report program activity to the EAC, and continue to work with the respective federal agencies and others to resolve the differences in opinion as to the applicability of the common federal administrative laws and regulations reported in the Catalog of Federal Domestic Assistance to HAVA program activity.</i>	▲	▲

State Compliance

28. Capital Budget Status Reports Should Be Filed <i>Complete and file the capital budget status reports required by statute.</i>	●	●
29. Archive Inventory And Procedures Manual Should Be Prepared <i>Establish and maintain a descriptive inventory and photographic reproduction collection of all portraits and artifacts that belong to the State, and establish a manual for the State's archives and records management in compliance with statute.</i>	●	●
30. Resolution Of Inconsistency In Statutes For The Director Of Vital Records Position Should Be Requested <i>Request a legislative resolution to the current inconsistency in the statutes that apparently provide for an unclassified Director of Vital Records but do not provide a salary for the position</i>	●	●

Status Key

			<u>Count</u>
Resolved	●	●	20
Remediation In Process (Action Beyond Meeting And Discussion)	●	○	6
Unresolved	○	○	2
Resolved As Reported By Department (Not In Scope In Current Audit)	▲	▲	2

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**STATE OF NEW HAMPSHIRE
DEPARTMENT OF STATE**

**AUDITED FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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STATE OF NEW HAMPSHIRE
DEPARTMENT OF STATE

AUDITED FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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State of New Hampshire

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Independent Auditor's Report

To The Fiscal Committee Of The General Court:

Report on the Financial Statement

We have audited the accompanying financial statement of the New Hampshire Department of State (Department), which comprises the Statement of Revenues and Expenditures – Governmental Funds for the fiscal year ended June 30, 2020, and the related notes to the financial statement, which collectively comprise the Department’s basic financial statement.

Management’s Responsibility for the Financial Statement

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

Auditor’s Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis For Qualified Opinion

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

Qualified Opinion

In our opinion, except for the matter described in the Basis For Qualified Opinion paragraph, the financial statement referred to above presents fairly, in all material respects, the respective revenues and expenditures of the Department's portion of the State of New Hampshire's Governmental Funds for the fiscal year ended June 30, 2020 in accordance with accounting principles generally accepted in the United States of America.

Emphasis Of Matter

As discussed in Note 1, the financial statement referred to above reports certain financial activity of the Department. It does not purport to, and does not, present fairly the financial activity of the State of New Hampshire as of June 30, 2020 in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis information and the budget to actual schedule for the General and Capital Projects Funds that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statement is not affected by this missing information.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2021, on our consideration of the Department's internal control over financial reporting and on

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

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

August 9, 2021

**State of New Hampshire
Department of State
Statement of Revenues and Expenditures – Governmental Funds
For the Fiscal Year Ended June 30, 2020**

Revenues	General Fund	Capital Projects Fund	Total Governmental Funds
Unrestricted Revenues			
Securities Registrations	\$ 24,964,700	\$ -0-	\$ 24,964,700
Securities Licenses	16,663,092	-0-	16,663,092
Annual Return Filing Fees	2,959,865	-0-	2,959,865
Corporate Fees	686,000	-0-	686,000
Uniform Commercial Code	547,175	-0-	547,175
Miscellaneous Fees	484,011	-0-	484,011
Notaries Public And Justices Of The Peace	297,275	-0-	297,275
Total Unrestricted Revenues	46,602,118	-0-	46,602,118
Restricted Revenues			
Corporate Administration	9,947,315	-0-	9,947,315
Securities Administrative Fines And Penalties	1,883,001	-0-	1,883,001
Vital Records Improvement Fund	1,218,029	-0-	1,218,029
Securities Unit Investment Trusts	603,000	-0-	603,000
Federal Funds	580,285	-0-	580,285
UCC Filing Fees - Town Portion	402,210	-0-	402,210
HAVA Election Fund	262,587	-0-	262,587
Notary Fee Account	148,525	-0-	148,525
Statewide Voter Checklist Sales	101,551	-0-	101,551
Other	10,195	-0-	10,195
Total Restricted Revenues	15,156,698	-0-	15,156,698
Total Revenues	61,758,816	-0-	61,758,816
Expenditures			
Salaries And Benefits	6,442,859	-0-	6,442,859
Information Technology	1,786,617	-0-	1,786,617
Current Expenses	1,666,020	-0-	1,666,020
Transfers To Other State Agencies	518,718	-0-	518,718
UCC Filings - Town Portion	400,680	-0-	400,680
Capital Projects	-0-	86,831	86,831
Statewide Voter Checklist Sales - Town Portion	85,911	-0-	85,911
Board of Claims Payments	21,788	-0-	21,788
Total Expenditures	10,922,593	86,831	11,009,424
Excess (Deficiency) Of Revenues Over (Under) Expenditures	50,836,223	(86,831)	50,749,392
Other Financing Sources (Uses)			
Net Appropriations (Note 2)	-0-	86,831	86,831
Total Other Financing Sources (Uses)	-0-	86,831	86,831
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	\$ 50,836,223	\$ -0-	\$ 50,836,223

The notes to the financial statement are an integral part of this statement.

**State of New Hampshire
Department of State
Notes to the Statement of Revenues and Expenditures – Governmental Funds
For the Fiscal Year Ended June 30, 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statement of the Department of State (Department) has been prepared with the assistance of the Department of Administrative Services in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

A. REPORTING ENTITY

The financial activity of the Department is accounted for and reported in the State's General Fund and Capital Projects Fund, in the State of New Hampshire's Annual Comprehensive Financial Report (ACFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the ACFR. The Department, as an organization of the primary government, accounts for only a portion of the General Fund and Capital Projects Fund and those assets, liabilities, and fund balances as reported in the ACFR that are attributable to the Department cannot be determined. Accordingly, the accompanying General Fund and Capital Projects Fund financial statement is not intended to show and does not report the financial position or fund balances of the Department in the General Fund or Capital Projects Fund.

B. FINANCIAL STATEMENT PRESENTATION

The State of New Hampshire and the Department use funds to report on their financial position and results of their operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The Department reports its financial activity in the funds described below:

Governmental Fund Type:

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

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

C. REPORTING PERIOD

The accompanying financial statement of the Department is presented for the fiscal year ended June 30, 2020.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers revenues to be available if they are collected within 60 days after year end. Receivables not expected to be collected within 60 days are offset by deferred inflows of resources. An exception to this policy is federal grant revenue, which generally is considered to be available if collection is expected within 12 months after year end. Taxes, grants, licenses, and fees associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period when available. However, for requirements payments received under the Help America Vote Act (HAVA), revenues received in the current fiscal year that went unexpended are recognized as unearned revenues.

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

E. REVENUES AND EXPENDITURES

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

Unused restricted revenues at year end are either lapsed or generally recorded as committed or assigned fund balance. When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the State’s general policy to use restricted resources first. In the governmental funds, when expenditures are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the State’s general policy to spend committed resources first followed by assigned and unassigned resources, respectively.

In the governmental fund financial statements, expenditures are reported by function.

F. BUDGET CONTROL AND REPORTING

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

The operating budget is prepared principally on a modified cash basis and adopted for the governmental funds.

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

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

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

G. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

H. UNEARNED REVENUE

In the governmental fund financial statements, unearned revenue is recognized when cash, receivables, or other assets are recorded prior to being earned, as described in Note 1.D. As of June

30, 2020, unearned revenue for the Department in the General Fund totaled \$7.3 million comprised of approximately \$3.5 million for the Help America Vote Act (HAVA) Election Security federal requirements payments, approximately \$3.3 million for HAVA Coronavirus Aid, Relief, and Economic Security (CARES) Act federal award, and \$576,000 in refundable corporate filings.

2. OTHER FINANCING SOURCES

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

3. RISK MANAGEMENT AND INSURANCE

The State and the Department are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; and natural disasters. The State generally retains the risk of loss except where the provisions of law require the purchase of commercial insurance or a risk assessment has indicated that commercial insurance is economical and beneficial for the State or the general public. In such instances, the State may elect to purchase commercial insurance. There are approximately 26 such commercial insurance programs in effect. These include, but are not exclusive to, state owned real property insurance, fleet automobile liability, inland marine insurance, foster parent liability, ski area liability for Cannon Mountain, data security and privacy cyber liability insurance, and a fidelity and faithful performance bond. In general, claims settled in the past three years under the insurance programs have not exceeded commercial insurance coverage. As of June 30, 2020, there are no outstanding fleet claims that are currently expected to exceed the policy coverage. The State's exposure per claimant is limited by law to a total of \$475 thousand under RSA 541-B:14 and the State's current fleet policy coverage is \$250 thousand per claimant.

Claim liabilities not covered by commercial insurance are recorded by the State when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Claim liabilities not covered by commercial insurance relate primarily to worker's compensation claims and health benefit claims.

4. EMPLOYEE BENEFIT PLANS

NEW HAMPSHIRE RETIREMENT SYSTEM

Plan Description: The New Hampshire Retirement System (NHRS) is the administrator of a cost-sharing multiple-employer Public Employee Retirement System established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. NHRS is a contributory defined-benefit plan providing service, disability, death, and vested retirement benefits to members and beneficiaries. NHRS covers substantially all full-time State employees, public school teachers and administrators, permanent firefighters, and police officers within the State of New Hampshire. Full-time employees of political subdivisions, including counties, municipalities, and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation. NHRS is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists

of firefighters and police officers. All assets are in a single trust and are available to pay retirement benefits to its members and beneficiaries.

Group I members at age 60 (age 65 for members beginning service on or after July 1, 2011) qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is $1/60$ (1.667%) of average final compensation multiplied by years of creditable service ($1/66$ of AFC times creditable service for members beginning service on or after July 1, 2011). AFC is defined as the average of the three highest salary years for members vested as of January 1, 2012 and five years for members not vested as of January 1, 2012. At age 65, the yearly pension amount is recalculated at $1/66$ (1.515%) of AFC multiplied by years of creditable service.

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

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

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

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

All covered Department employees are members of Group I.

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

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

Funding Policy: NHRS is financed by contributions from the members, the State and local employers, and investment earnings. By statute, Group I members contributed 7.0% of gross earnings. Group II firefighter members contributed 11.80% of gross earnings and group II police officers contributed 11.55% of gross earnings. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the NHRS actuary using the entry age normal funding method and are expressed as a percentage of gross payroll. The State contributed 10.88% of gross payroll for Group I members.

The Department's required and actual contributions for the fiscal year ended June 30, 2020 were \$455,819, which included an amount for other postemployment benefits of \$40,118.

OTHER POSTEMPLOYMENT BENEFITS

The State also participates in two Other Postemployment Benefit (OPEB) plans - (1) New Hampshire Retirement System (NHRS) which is a cost sharing OPEB plan (medical subsidy portion of the pension trust) administered through a trust that meets the criteria in paragraph 4 of GASB 75 (Trusted OPEB Plan), and (2) State's single employer (primary government with component units) defined benefit OPEB plan which is not administered through a trust that meets the criteria in paragraph 4 of GASB 75 (Non Trusted OPEB Plan). The actuarial liabilities and expenses of the OPEB plans do not flow to the Department level financial statement.

General Information About The New Hampshire Retirement System Trusted OPEB Plan

Plan Description: Pursuant to RSA 100-A:52, RSA 100-A:52-a, and RSA 100-A:52-b, NHRS administers a cost-sharing multiple employer defined benefit postemployment medical subsidy healthcare plan designated in statute by membership type. This plan has been previously defined as the Trusted OPEB Plan but is also commonly referred to as the "medical subsidy plan". The membership groups are Group II Police Officers and Firefighters and Group I State Employees.

Benefits Provided: The Trusted OPEB Plan provides a medical insurance subsidy to qualified retired members. The medical subsidy is a payment made by NHRS to the former employers of its members, or their insurance administrator, toward the cost of health insurance for a qualified retiree, spouse, and certifiably dependent children with a disability who is living in the household and being cared for by the retiree. Under specific conditions, the qualified beneficiaries of members who die while in service may also be eligible for the medical subsidy. The eligibility requirements for receiving Trusted OPEB Plan benefits differ for Group I and Group II members. Eligibility for the medical subsidy payment is determined by the relevant RSA's, however, the medical subsidy plan is closed to new entrants. The State is a recipient of these medical subsidy payments on behalf of its former employees.

Contributions: Pursuant to RSA 100-A:16, III, and the biennial actuarial valuation, funding for the medical subsidy payment is via the employer contribution rates set forth by NHRS. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the NHRS actuary using the entry age normal funding method and are expressed as a percentage of gross payroll. The State contributed 1.05% of gross payroll for Group I members, 3.66% of gross payroll for Group II firefighter members,

and 3.66% of gross payroll for Group II police officer members. Employees are not required to contribute to the Trusted OPEB Plan.

The State Legislature has the authority to establish, amend and discontinue the contribution requirements of the medical subsidy plan. Employer contributions made by the State to NHRS for the medical subsidy component amounted to \$40,118 for the fiscal year ended June 30, 2020.

General Information About The Non-Trusted OPEB Plan

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

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