

**STATE OF NEW HAMPSHIRE  
GOVERNOR'S OFFICE OF  
ENERGY AND COMMUNITY SERVICES**

**AUDIT REPORT  
FOR THE YEAR ENDED  
JUNE 30, 1995**

**STATE OF NEW HAMPSHIRE  
GOVERNOR'S OFFICE OF ENERGY AND COMMUNITY SERVICES**

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**STATE OF NEW HAMPSHIRE  
GOVERNOR'S OFFICE OF ENERGY AND COMMUNITY SERVICES**

**INTRODUCTION**

**BACKGROUND**

The Governor's Office of Energy and Community Services was established on November 19, 1991 by Executive Order 91-6 which combined the former Governor's Office of Energy and Division of Human Resources into one office.

The Governor's Office of Energy and Community Services is responsible for the distribution of federal aid to communities and non-profit agencies for a variety of energy conservation and community improvement programs.

**ORGANIZATION**

The office is headed by a Director who is appointed by, and serves at the pleasure of, the Governor. The Governor also appoints the entire operating staff of the office to non-classified positions that serve at his pleasure.

As of June 30, 1995 the Governor's Office of Energy and Community Services employed 19 non-classified employees.

The Governor's Office of Energy and Community Services is located at 57 Regional Drive in Concord, New Hampshire.

**RESPONSIBILITIES**

The Governor's Office of Energy and Community Services' responsibilities include, but are not limited to, the following:

- Assist low income persons, the homeless, and refugees.
- Encourage employment of the state's senior citizens.
- Promote food and nutrition programs.
- Provide state residents with energy related information and assistance aimed at promoting energy conservation, conversion to alternative energy sources, and energy research.
- Promote energy conservation and recycling among state agencies and municipalities.

## **INTRODUCTION (Continued)**

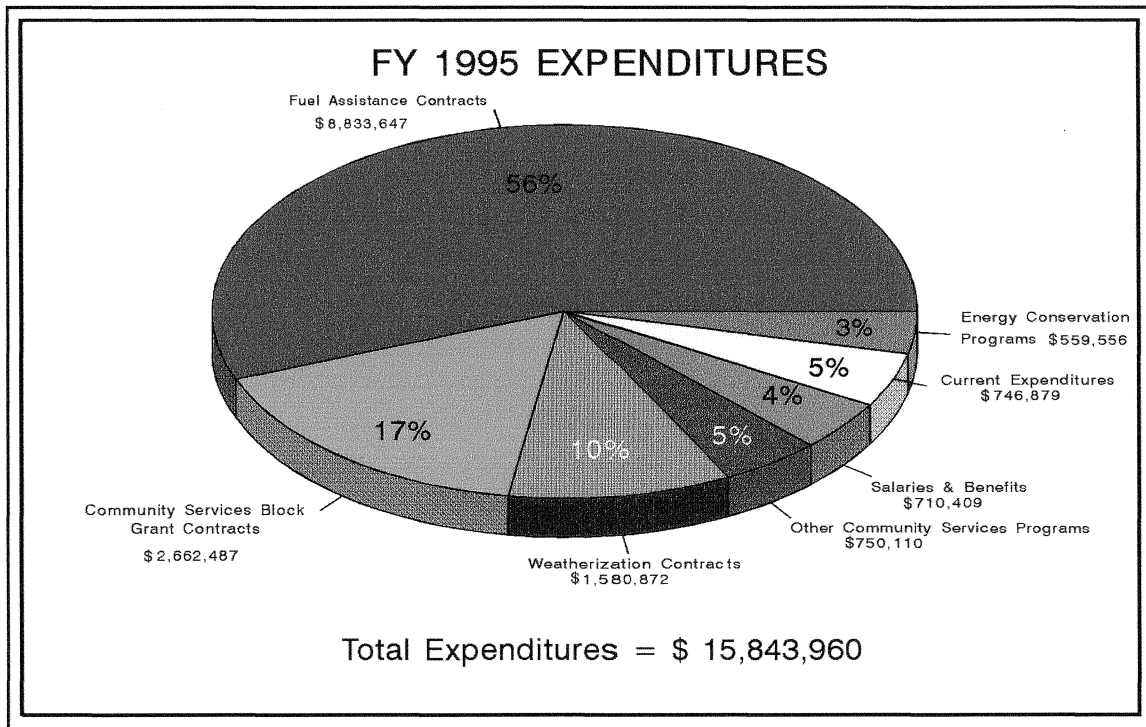
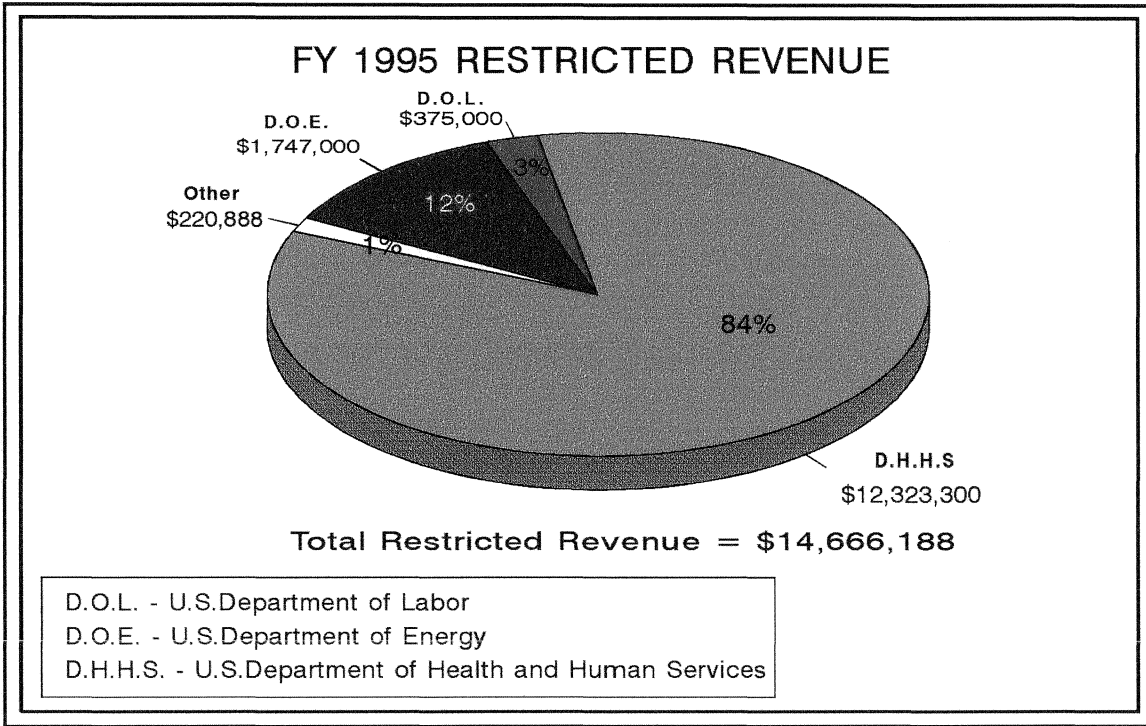
### **FUNDING**

The Governor's Office of Energy and Community Services operates on appropriations from the State's Special Fund. The office's total expenditure budget for fiscal year 1995 was \$29,045,570. Actual expenditures for the same period totalled \$15,843,960.

Estimated restricted revenue combined with balances forward and transfers resulted in anticipated fiscal year 1995 restricted revenues of \$24,500,101. Actual restricted revenue for the same period totalled \$14,666,188. The agency's largest revenue source is federal financial assistance in the form of direct grants, pass through funds, and interest on petroleum violation escrow funds which accounted for 99.9% of the total fiscal year 1995 restricted revenue. The graphs on the following page depict revenues and expenditures by category for fiscal year 1995.

**INTRODUCTION (Continued)**

**GOVERNOR'S OFFICE OF ENERGY AND COMMUNITY SERVICES**



**STATE OF NEW HAMPSHIRE**  
**GOVERNOR'S OFFICE OF ENERGY AND COMMUNITY SERVICES**

**AUDIT OBJECTIVES AND SCOPE**

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

- Internal control structure
- Appropriations and revenues
- Expenditures and encumbrances
- Equipment
- Federal and state compliance.

Our reports on internal control structure, federal and state compliance, and management issues, the related observations and recommendations, our independent auditor's report, and the financial statement are contained in the report that follows.

**AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE**

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - SPECIAL FUND of the Governor's Office of Energy and Community Services for the year ended June 30, 1995, and have issued our qualified report thereon dated November 9, 1995.

We conducted our audit in accordance with generally accepted auditing standards and *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 of material misstatement.

The management of the Governor's Office of Energy and Community Services is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statement of the Governor's Office of Energy and Community Services for the year ended June 30, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been



placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Those matters that we consider to be reportable conditions are presented on the following pages.

## REPORTABLE CONDITIONS

### OBSERVATION NO. 1 - INTERNAL CONTROL - REVENUES

#### OBSERVATIONS:

The Governor's Office of Energy and Community Services (GOECS) receives approximately 99% of its revenues from federal funds by direct-wire transfer to the State Treasury. The majority of non-federal revenue is from fees charged to individuals and corporate sponsors for workshops conducted by GOECS. These fees account for almost 100% of cash and check receipts and are received directly by GOECS. In fiscal year 1995 GOECS received \$14,090 in workshop fees. The following observations relate to the collection of those fees.

- RSA 6:11 states that "If more than \$100 is in possession of any State department or institution such funds shall be on deposit in the related department's bank account or in a treasury bank account." The Department of Administrative Services' Manual of Procedures, Adm 401.03 (expired), states that cash receipts shall be deposited with the State Treasurer weekly. In addition, Adm 402.02 (expired) requires that a record of daily receipt is to be kept for all revenue at the point of receipt and that the daily receipt form be reconciled to the amount posted to the ledger. We noted that at GOECS the Executive Secretary opens the mail and forwards any receipts to the Business Office for posting to the New Hampshire Integrated Financial System (NHIFS) and deposit. Not all of the receipts are recorded by the Executive Secretary upon collection. The receipts that are recorded are not reconciled to the amounts posted to NHIFS. In addition we noted that checks received for conference fees are held by the Executive Secretary undeposited until after the conference has been held. For example, three electric companies paid a total of \$4,000 to sponsor an Energy Conservation Homebuilders (ECH) workshop. The checks were received on December 20, 1994 but not deposited with the State Treasurer until sixteen days later on January 5, 1995. In another instance 37 checks for an ECH workshop were received between the dates of February 6, 1995 to March 17, 1995. These checks totaled \$3,350 and were not deposited until April 21, 1995.
- An effective system of internal control segregates duties so that one person cannot commit an error or irregularity without the error or irregularity being discovered by another employee in the normal course of their regular duties in a timely manner. The person in the Business Office who receives unrecorded cash and checks, also prepares the deposit, records the transaction to NHIFS, records the transaction to the ENERGY 1 general ledger system, and prepares the A-17 cash receipt. This could allow an error or irregularity to occur and not be detected in a timely manner.

OBSERVATION NO. 1 - INTERNAL CONTROL - REVENUES (Continued)

OBSERVATIONS (Continued):

- We noted two instances, during our testing of conference fee revenues, where GOECS employees substituted personal checks for cash received in payment of conference fees.

We consider the above observations to be serious violations in the proper handling of cash receipts.

RECOMMENDATIONS:

- All receipts at the GOECS should be recorded promptly by the person who initially receives them and forwarded daily to the Business Office for processing and deposit.
- The Business Office should deposit all receipts at least weekly or more frequently if amounts held become excessive.
- The A-17 receipt form should be reconciled to the daily receipt form by a person independent of both the initial recording of receipts and the preparation of the A-17.
- The GOECS should prohibit the intermingling of state and personal funds.

AUDITEE RESPONSE:

- GOECS accepts the recommendations as stated and has developed two procedures to ensure compliance. On the specifics, GOECS comments that checks have been held so that they could be returned directly to conference registrants who fail to attend and therefore request a refund. This process has allowed conference costs to be reconciled promptly without imposing unnecessary costs on the State by requiring the reprocessing of refunds. According to the personnel involved, on two occasions personal checks were substituted for cash as cash deposits are difficult to handle and not secure. A petty cash account would have eliminated these circumstances but, due to their complexity and potential for problems, GOECS has never maintained one.

In most cases in the future, GOECS will return to its previous policy of having a private sector cosponsor collect all registration fees, make all payments and accept any profit or loss.

## OBSERVATION NO. 2 - INADEQUATE REPORTING AND TRACKING OF EQUIPMENT

### OBSERVATIONS:

The Department of Administrative Services requires all agencies to report any additions or deletions of equipment monthly on a P-21 Equipment Adjustment Report. At fiscal year end, all agencies are required to file a P-16 Equipment Inventory Report detailing all state-owned equipment under the control of the agency. Annually, each agency is required to perform a complete physical inventory of its equipment. We have noted during our testing of the equipment records at the Governor's Office of Energy and Community Services (GOECS) that the beginning balance per the fiscal year 1994 P-16 plus the monthly adjustments per the P-21s was \$171,108 more than the \$323,138 reported on the fiscal year 1995 P-16. At the end of fiscal year 1995 GOECS performed its first complete physical inventory since the agency was formed in fiscal year 1992. As a result of that physical inventory, GOECS determined that the actual value of its equipment inventory was \$425,881 or \$102,743 more than reported on the P-16 at year end. Based on our testing of monthly reports and a sample of 120 equipment items we have noted the following errors that contributed to the variances noted above:

- GOECS did not report additions and deletions of computer related equipment on the monthly P-21 Equipment Adjustment Reports.
- We were unable to identify three sample items using the GOECS equipment identification number or serial number listed in the equipment records. While we observed items that appeared to match the description in the equipment records, we had to rely on agency personnel to determine if these were the items selected in our sample.
- We physically identified four equipment items that were not included in the equipment records.
- Fifteen equipment items were listed at a value of \$0 in the equipment records. We estimate the historical cost of these items to be \$26,130.
- The GOECS' share of the VAX mainframe computer was recorded twice in the equipment records overstating the equipment balance by \$30,000.
- A chair was included on the equipment listing at a cost of \$10,178. This was either recorded incorrectly or was for a group of chairs that appear to be valued at less than the \$100 threshold for equipment items.
- The separate components of a computer system were properly included in the equipment records as separate items, however the cost of the entire system was assigned to each component thereby double counting the cost of the entire system.

OBSERVATION NO. 2 - INADEQUATE REPORTING AND TRACKING OF EQUIPMENT  
(Continued)

RECOMMENDATIONS:

- GOECS should adopt procedures for insuring that all changes to their equipment records are included on the P-21s submitted to the Department of Administrative Services.
- GOECS should ensure that all equipment items are properly identified with GOECS identification numbers. For equipment systems with individual pieces that can be easily interchanged with other systems, such as a computer monitor, GOECS should assign each major piece its own identification number and cost. For equipment systems, with individual pieces that cannot be easily interchanged or it is the intention of the GOECS to keep these pieces together as one unit over the useful life, GOECS should ensure that the description on the equipment records includes all major components. The equipment records should also include the serial numbers for equipment items. This would establish an audit trail to the equipment records, and provide for better security over these assets.
- GOECS should perform a complete physical inventory annually and follow up on any discrepancies noted from the physical counts.
- The inventory reported to the Department of Administrative Services should include only items valued at \$100 or more and with a useful life of over one year.
- GOECS should adopt procedures for maintaining its equipment records that will ensure that all equipment is properly included on its equipment inventory records at either its historical cost (purchase price) or at its estimated fair market value at the time of donation. In instances where supporting documentation is not available, the GOECS should adopt a reasonable estimation method and use it to estimate the cost of equipment at the date of purchase, or fair market value at the date of donation.

AUDITEE RESPONSE:

The GOECS recognizes problems with the equipment inventory records and has attempted to correct the deficiencies noted. Each of the 250 pieces of equipment identified as belonging in the GOECS inventory was located and when necessary re-labeled.

1) GOECS had been filing the P-21 form for most of its equipment. Under the new procedure for computer equipment and the improvements made to the inventory database, GOECS will be able to track all equipment accurately.

2) Apparently the labels identifying these pieces of equipment had fallen off and have since been replaced.

**OBSERVATION NO. 2 - INADEQUATE REPORTING AND TRACKING OF EQUIPMENT**  
**(Continued)**

**AUDITEE RESPONSE (Continued):**

3) GOECS has annually conducted an equipment inventory and now will ensure that any questions and discrepancies are rectified before the inventory is shelved for the year.

4) GOECS has removed all items with a value under \$100 from the inventory reported to Administrative Services but will maintain an in-house inventory of lower value items.

5) GOECS has established a system to ensure that proper procedures are followed and documentation is retained for all equipment purchased.

GOECS notes that a significant number of deficiencies in the inventory were corrected during the audit period. The database was updated, procedures regarding the purchase and recording of equipment in the inventory were prepared and all equipment was located.

GOECS will continue to research deficiencies to update the database in order to increase its accuracy and will ensure that all information is properly entered. Again, all equipment has been located and accounted for.

**OBSERVATION NO. 3 - SEGREGATION OF DUTIES - EQUIPMENT**

**OBSERVATION:**

An effective internal control structure should segregate the duties of purchasing, record keeping, performing the periodic physical inventory, and disposal of the equipment. During our review of the internal control structure of the GOECS we noted that the Assistant Director of Computer Services is responsible for maintaining the detail equipment inventory records, performing the annual physical inventory count for computer related equipment, and investigating any discrepancies between the records and the physical counts.

**RECOMMENDATION:**

The GOECS should assign an individual to perform the annual physical inventory who does not take part in any other aspect of the equipment inventory process to aid in the timely detection and correction of errors or irregularities. Any discrepancies found with the inventory should be investigated by an individual who is independent of the record keeping and physical inventory count.

OBSERVATION NO. 3 - SEGREGATION OF DUTIES - EQUIPMENT (Continued)

AUDITEE RESPONSE:

GOECS accepts the recommendation as a wise one and has prepared a written procedure which assigns to the receptionist and the Assistant Director of Computer Services the duty of performing the inventory of all equipment jointly. The Assistant Director of Computer Services keeps the responsibility of maintaining the inventory on the database.

GOECS has been completing a receiving and inspection form for all but computer equipment which had been ordered and processed under a different procedure. Under the new procedure, all equipment is treated in the same manner.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the management of the Governor's Office of Energy and Community Services and the Fiscal Committee of the General Court. This restriction is not intended to limit the distribution of this report, which upon its acceptance by the Fiscal Committee, is a matter of public record.

*Office of Legislative Budget Assistant*  
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

November 9, 1995

**AUDITOR'S REPORT ON FEDERAL AND STATE COMPLIANCE**

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - SPECIAL FUND of the Governor's Office of Energy and Community Services for the year ended June 30, 1995, and have issued our qualified report thereon dated November 9, 1995.

We conducted our audit in accordance with generally accepted auditing standards and *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 of material misstatement.

Compliance with state and federal laws, regulations, contracts, and grants applicable to the Governor's Office of Energy and Community Services is the responsibility of the agency's management. As part of obtaining reasonable assurance about whether the financial statement is free of material misstatement, we performed tests of the Governor's Office of Energy and Community Services' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statement was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

We have noted on pages fourteen through twenty-six instances of noncompliance with federal regulations and state statutes, while not material to the financial statement, we believe to be worthy of report mention.

This report is intended for the information of the management of the Governor's Office of Energy and Community Services and the Fiscal Committee of the General Court. This restriction is not intended to limit the distribution of this report, which upon its acceptance by the Fiscal Committee, is a matter of public record.

*Office of Legislative Budget Assistant*

OFFICE OF LEGISLATIVE BUDGET ASSISTANT

November 9, 1995



## **FEDERAL COMPLIANCE**

The Governor's Office of Energy and Community Services (GOECS) was responsible for the administration of 15 federal programs in fiscal year 1995 as noted on the Schedule of Federal Financial Assistance on page forty-four. Total federal assistance (cash basis) received in fiscal year 1995 from three federal agencies totaled \$14,435,907. The following six observations relate to the GOECS' compliance with federal laws and regulations. Observations four through seven question \$1,089,103 in costs of certain federal programs. A Schedule of Questioned Costs is provided on page twenty-three showing the breakdown of questioned costs by federal program. Observations four and five were also presented as observations in the fiscal year 1994 State of New Hampshire Single Audit Report. All six federal compliance observations will be included in the fiscal year 1995 State of New Hampshire Single Audit Report.

### **OBSERVATION NO. 4 - LACK OF SUPPORT FOR THE ALLOCATION OF EXPENDITURES TO FEDERAL GRANTS**

#### **OBSERVATION:**

OMB Circular A-87 "Cost Principles for State and Local Governments" requires that charges to federal awards for salaries and benefits, whether treated as direct or indirect costs, be based on approved payrolls.

During our evaluation of the payroll allocation for the GOECS, we determined that for the first four months of fiscal year 1995, GOECS allocated administrative costs (current expenses, rents, maintenance, equipment, and travel) and employee salaries and benefits to federal grants based on estimates made by employees, and not actual time from agency payrolls. Although the use of budget estimates is allowable under OMB Circular A-87, GOECS did not prepare monthly activity reports, or perform quarterly comparisons and adjustments based on actual activity as required under OMB Circular A-87. Furthermore, GOECS was unable to provide documentation to support the percentages used to allocate administrative costs and employee salaries and benefits to federal programs (i.e., a historical analysis or time study supported by actual employee time per federal program). For the remainder of fiscal year 1995 GOECS charged salaries and benefits based on actual time spent per submitted time sheets. For many of the pay periods the source documentation needed to trace the time from the time sheets to the federal ledgers was not kept. For the pay periods where documentation was kept we noted that the allocation spreadsheet had errors in the formulas used to allocate time as well as keying errors that went undetected by GOECS personnel. GOECS does not have procedures in place that would detect these errors.

**OBSERVATION NO. 4 - LACK OF SUPPORT FOR THE ALLOCATION OF EXPENDITURES TO FEDERAL GRANTS (Continued)**

**OBSERVATION (Continued):**

Since GOECS was unable to meet the criteria of OMB Circular A-87 for allocating administrative costs and employee salaries and benefits to federal programs, we could not determine whether the allocation of administrative costs, and employee salaries and benefits to federal programs was reasonable and necessary for the administration of these federal programs in accordance with OMB Circular A-87.

The GOECS administers the Low Income Home Energy Assistance Program Block Grant and the Community Services Block Grant, which are not required to follow the cost principles of OMB Circular A-87. However, all expenditures charged to a federal program must be valid expenditures of that program. Due to the errors noted above we were unable to determine if the two block grants were properly charged for only their share of administrative costs.

As a result of the lack of support for the allocation of employee salaries and benefits, and administrative costs, as well as the numerous undetected errors in the system, we are questioning all of these costs.

**QUESTIONED COSTS:** \$ 1,008,003 (See Schedule of Questioned Costs on page twenty-three.)

**RECOMMENDATION:**

GOECS should adhere to OMB Circular A-87, by allocating administrative costs and employee payroll and benefits to federal programs based on actual GOECS payrolls using an allocation methodology approved by their federal cognizant agency. This will provide the required support for and allocation of these expenditures.

**AUDITEE RESPONSE:**

The GOECS believes that it has met the requirements of OMB A-87 for the allocation of costs to federal grants. Prior to November of 1994, the GOECS required each staff person to prepare and submit a time sheet detailing the actual hours each spent on the job using a mechanism approved by the Department of Energy. At the recommendation of auditors, in November of 1994, that system was modified with each staff person keeping track of each quarter hour spent on each of the 26 programs individually. New computerized time sheets which formed the basis of allocation of costs from actual time for each separate payroll were developed.

As that system was obviously too ponderous, a time study mechanism was developed with each staff person keeping track of the actual hours each spent on individual programs over a month starting March 17. Actual time was used for that payroll and for the subsequent one. The succeeding payrolls have used the average of the two previous pay periods as the basis to allocate costs. All original time sheets for this period exist and can be readily compared to the allocation of costs.

**OBSERVATION NO. 4 - LACK OF SUPPORT FOR THE ALLOCATION OF EXPENDITURES TO FEDERAL GRANTS (Continued)**

**AUDITEE RESPONSE (Continued):**

GOECS has analyzed the spreadsheet characterized as having numerous errors, and has been able to identify none. What may have been mistaken for errors were allocations of costs, such as computer maintenance, un-attributable to any specific program. These were split between the six major program categories in the office, in effect, becoming indirect cost pools. Any attempt to more accurately allocate the 0.39% of the payroll charged to each major program involved would seem to fail the test of reasonableness but currently is being done.

Strict segregation of costs among the six major programs may not be necessary because they are permitted to expend funds in support of one another. They are the Low Income Home Energy Assistance Program (LIHEAP) which by statute is required to coordinate with the Community Services Block Grant Program (CSBG), the Weatherization Assistance Program (WAP) and other low income energy programs and allowed to share funds with WAP. WAP is responsible for the administration of the Weatherization Technical Assistance program. The State Energy Conservation Program is required to provide the administrative funding for all six EXXON funded programs; does provide administrative funding for the additional 11 oil overcharge funded programs; and can also support LIHEAP and WAP. Office of Refugee Resettlement Cash and Medical is responsible for providing the administrative support for both Social Services and State Legalization Impact Assistance Grant. CSBG is permitted to expend funds in support of the Senior Employment Program, LIHEAP, Refugee Programs and WAP.

Finally, the U.S. Department of Labor in its June 30, 1995 Final Determination relative to a similar finding in the 1994 Single Audit, which prompted the changes described above, allowed all questioned costs for the Senior Community Service Employment Program. They noted that "...when applied retrospectively, the plan (as outlined in a May 1995 letter) shows that the charges were equitable." GOECS believes that the other federal agencies, the U.S. Departments of Energy and Health and Human Services, will make similar determinations.

**OBSERVATION NO. 5 - UNALLOWABLE COSTS OF AN EMPLOYEE OF THE GOVERNOR'S OFFICE**

**OBSERVATION:**

OMB Circular A-87 "Cost Principles for State and Local Governments" Attachment B states, "The salaries and expenses of the Office of the Governor of a State, or the chief executive of a political subdivision, are considered a cost of general State or local government and are unallowable." During fiscal year 1995, travel expenses and a portion of the salary of one

**OBSERVATION NO. 5 - UNALLOWABLE COSTS OF AN EMPLOYEE OF THE GOVERNOR'S OFFICE (Continued)**

**OBSERVATION (Continued):**

individual employed in the Office of the Governor were charged to federal programs. Federal funding of these expenses is in direct violation of OMB Circular A-87.

**QUESTIONED COSTS:** \$ 20,709 (See Schedule of Questioned Costs on page twenty-three.)

**RECOMMENDATION:**

GOECS should adopt procedures for reviewing expenses to ensure compliance with OMB Circular A-87. Only expenses that are reasonable and necessary for the administration of federal programs should be reimbursed with federal funds.

**AUDITEE RESPONSE:**

The Governor's Office of Energy and Community Services believes that funding for the position of Energy Advisor is entirely appropriate, being "...reasonable and necessary for the administration of (these) federal programs." All positions in the Governor's Office of Energy and Community Services are appointments of the Governor. This position differed from others in the GOECS only in that it was part-time for GOECS and part-time for the Governor's Office. The position required the submittal of time sheets and was paid according to reported hours. The GOECS has received approval from the U.S. Department of Energy, the federal cognizant agency, to fund this position each time it has been requested: nine of the past thirteen years. The position was specifically singled out to USDOE in the letter which accompanied this portion of the 1995-96 State Plan expressly noting that it was part-time with the Governor's Office. The USDOE once again approved this position.

As noted in the revised edition of OMB Circular A-87, employees who work under particular conditions must provide personal activity reports: i.e. time sheets. Those conditions include Section 11 h. (4) (e) "An unallowable activity and a direct or indirect cost activity." As noted above, the position was paid based on time sheets documenting the time spent on these federal programs.

GOECS has a responsibility to prepare a plan describing how it intends to carry out federal energy programs within the state. The U.S. Department of Energy has the responsibility to approve or reject such plan. If GOECS support of this position is inappropriate, the U.S. Department of Energy would not have approved the plan.

The Justice Department has rendered an opinion that A-87 does not preclude funding this position.

**OBSERVATION NO. 6 - INDIRECT COST RATE PROPOSAL**

**OBSERVATION:**

Prior to the merging of the Division of Human Resources and the Governor's Energy Office into the Governor's Office of Energy and Community Services (GOECS) in fiscal year 1992, the Division of Human Resources received an indirect cost rate agreement from the U.S. Department of Health and Human Services. The agreement covered the period from July 1, 1991 to June 30, 1995 and approved a predetermined rate for the period of 2.9%. After the merger of the two offices into the GOECS, it was decided to use the approved rate for the new entity. A predetermined rate is designed for an agency whose expenditures change little over a set period of time and no adjustment for the over/under-recovery of indirect costs is expected. If a significant change affecting the indirect costs is expected the agency is required to renegotiate a new rate. The merging of two offices into a single entity would constitute a major change requiring renegotiation. The former Governor's Energy Office last negotiated an indirect cost rate in fiscal year 1992 prior to the merger.

When developing the indirect cost rate, the Division of Human Resources used only the allocated costs from the Statewide Cost Allocation Plan. All other agency specific indirect costs are allocated based on a number of factors depending on the type of expenditures. For example, rent is allocated based on the square footage of the office and the hours worked on each federal program of the person who occupies the space. This methodology of allocating indirect cost was not part of the GOECS' indirect cost rate proposal and has never been approved by the federal cognizant agency.

Due to the lack of a renegotiated indirect cost plan we are questioning all indirect cost payments for fiscal year 1995.

**QUESTIONED COSTS:** \$22,081 (See Schedule of Questioned Costs on page twenty-three.)

**RECOMMENDATION:**

The GOECS should immediately renegotiate a new indirect cost rate and include the methodology of allocating all indirect costs.

**AUDITEE RESPONSE:**

When the Governor's Energy Office and the Division of Human Resources merged in 1991, the then Fiscal Manager calculated an indirect cost rate for the new office at 3.04% for FY '93. She was informed by the U.S. Department of Energy Contracting Officer that the U.S. Department of Health and Human Services' rate should be utilized until the current rate expired in 1995, because the difference between the rates was so small (2.9 vs. 3.04 %). Submittal of a new rate was unnecessary. Subsequent state plan submittals containing that rate have been presented by GOECS to the U.S. Department of Energy, the U.S. Department of Labor and the U.S. Department of Health and Human Services and have been accepted in each year.

**OBSERVATION NO. 6 - INDIRECT COST RATE PROPOSAL (Continued)**

**AUDITEE RESPONSE (Continued):**

GOECS submitted a new rate to the U.S. Department of Energy in June of 1995; wrote DOE in January as follow-up; and is currently awaiting approval of the new plan.

**OBSERVATION NO. 7 - EQUIPMENT - UNALLOWABLE COSTS**

**OBSERVATION:**

OMB Circular A-87 "Cost Principles for State and Local Governments" specifically indicates that expenses of the Office of the Governor of a state are considered a cost of general state government and are unallowable.

During our testing of equipment for the Governor's Office of Energy and Community Service (GOECS), we noted that four of 60 equipment selections from our test of overstatement were located at the Office of the Governor and in reviewing the equipment listing, we found an additional 22 equipment items that were located at the Office of the Governor. The total cost of this equipment of \$38,310 was charged directly to federal programs. Federal funding of this expense is in direct violation of OMB Circular A-87. Due to the lack of documentation supporting equipment costs, as discussed further in Observation No. 8, we were unable to determine which federal program(s) were used to purchase this equipment.

**QUESTIONED COST:** \$38,310 (See Schedule of Questioned Costs on page twenty-three.)

**RECOMMENDATION:**

The GOECS should adopt procedures for reviewing expenses, to ensure compliance with OMB Circular A-87. Only equipment expenses that are reasonable and necessary for the administration of federal programs and do not include expenses of general state government should be reimbursed with federal funds.

**AUDITEE RESPONSE:**

All of the equipment identified here was acquired for the purposes of the federal programs whose funds purchased it. The equipment cited falls into three categories:

1) Obsolete equipment that had been acquired many years ago for the VAX main frame computer system jointly utilized by the two predecessors of GOECS both of which used the equipment for the purposes of the federal programs. This equipment probably should have been removed from the GOECS inventory through the state process when GOECS discontinued most of its use of the VAX in September 1993, but as GOECS still utilizes the system for some specialized purposes it was kept as back-up for the aging system. This

**OBSERVATION NO. 7 - EQUIPMENT - UNALLOWABLE COSTS (Continued)**

**AUDITEE RESPONSE (Continued):**

equipment had been traded and substituted for compatible equipment in the Governor's Office that had failed. Surplusing this equipment would not have been cost-effective to either the federal government or state. (Total new purchase price \$26,515.62)

2) Equipment that was acquired for the use of the Governor's Energy Advisor for the purposes of federal energy programs. (Total new purchase price \$3,464); and

3) Equipment that was acquired for the use of the Office of Volunteerism under the federal Community Services Block Grant for their work in connection with dealing with "...the root causes of poverty" as permitted by the grant. This equipment should never have appeared on the GOECS inventory. (Total new purchase price \$5,331).

GOECS has concluded that the equipment involved is surplus to this office's needs and it has been disposed of as specified by State and Federal procedures.

**OBSERVATION NO. 8 - LACK OF DOCUMENTATION SUPPORTING EQUIPMENT COSTS**

**OBSERVATION:**

The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* section .32 requires that "property records must be maintained that include a description of the property, a serial number or other identification number, the source of the property, who holds the title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property". Additionally, documentation (i.e., payment vouchers or invoices) should be maintained to support the reported cost of the property.

During our testing of equipment items, we noted the following:

- The equipment database did not include the percentage of Federal participation or funding source for many of the equipment items. This information is needed for ensuring that the respective federal programs are allocated their share of any proceeds upon disposition of an asset.
- The GOECS is not maintaining payment vouchers (PVs) and invoices to support the reported costs for its equipment and has no formal procedure in place for ensuring that this documentation is available for all equipment items. Additionally, we found that the equipment database did not reference this documentation for a number of equipment items. This information is important in providing an audit trail to supporting documentation.

**OBSERVATION NO. 8 - LACK OF DOCUMENTATION SUPPORTING EQUIPMENT COSTS**  
**(Continued)**

OBSERVATION (Continued):

- The equipment database references purchase orders instead of PVs. The cost quoted on a purchase order is an estimate and quite often is not the actual price paid.

RECOMMENDATION:

- The equipment database should reference supporting documents, as well as the federal grant(s) used to purchase equipment and the percentage of federal participation.
- GOECS should adopt procedures for maintaining copies of PVs and invoices to support the recorded costs of their equipment, until equipment items are surplus.
- The GOECS should ensure that the actual cost of equipment from PVs or invoices, and not the estimated cost of equipment from purchase orders, is recorded in the database.

AUDITEE RESPONSE:

GOECS concedes the absence of PVs and certain pieces of data regarding equipment on the inventory. New procedures have been developed which should prevent similar lapses in the future.

Most of the missing information has been found and attempts are being made to locate the other missing information.

GOECS notes that all equipment has been identified and accounted for.

**OBSERVATION NO. 9 - FEDERAL REPORTS FILED LATE**

OBSERVATION:

As part of our testing of the Governor's Office of Energy and Community Services' compliance with federal regulations we tested several programs for the timely filing of federal financial reports.

- Of the four quarterly Cash Transaction Reports (PMS 272) required during fiscal year 1995 one was submitted two days late and one was never submitted.
- The Refugee Assistance program and the Weatherization program each submitted one quarterly Financial Status Report (SF 269) fourteen and seven days late, respectively.



**OBSERVATION NO. 9 - FEDERAL REPORTS FILED LATE (Continued)**

**OBSERVATION (Continued):**

- The Energy Conservation for Institutional Buildings program submitted eight out of sixteen Financial Status Reports tested between three and 31 days late and failed to submit two Financial Status Reports.

**RECOMMENDATION:**

The GOECS should develop a system of preparing and submitting federal financial reports in a timely manner. The ENERGY 1 grants management system could be programmed to print most of these reports decreasing the amount of time it takes to prepare them.

**AUDITEE RESPONSE:**

The GOECS concurs with the observation and the recommendation. Staff turnover both in the Fiscal Office and the Refugee and Weatherization Offices have been a primary cause of late reports as new staff gets up-to-speed. As all positions are now filled, and with adequate support and training, GOECS expects reports to be completed on-time in the future. Reports are current through the reporting period ending December 1995.

**STATE OF NEW HAMPSHIRE  
GOVERNOR'S OFFICE OF ENERGY AND COMMUNITY SERVICES**

**FEDERAL COMPLIANCE  
SCHEDULE OF QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 1995**

<u>CFDA #</u>	<u>FEDERAL PROGRAM</u>	<u>ADMIN. COSTS OBS 4</u>	<u>UNALLOWABLE PERSONNEL OBS 5</u>	<u>INDIRECT COST OBS 6</u>	<u>OTHER EQUIPMENT OBS 7</u>	<u>TOTAL</u>
17.235	SENIOR COMMUNITY SERVICE EMPLOYMENT	\$ 12,908	\$ -0-	\$ 323	\$ -0-	\$ 13,231
81.041	STATE ENERGY CONSERVATION	123,788	10,032	3,591		137,411
81.042	WEATHERIZATION ASSISTANCE	119,277	2,148	1,902		123,327
81.050	ENERGY EXTENSION SERVICE	1,413	220	49		1,682
81.052	ENERGY CONSERVATION FOR INSTITUTIONAL BUILDINGS	61,591	676	1,682		63,949
*81.079	REGIONAL BIOMASS ENERGY PROGRAMS	35,434	2,012			37,446
81.090	STATE HEATING OIL GRANTS	19,774	207	509		20,490
93.566	REFUGEE ASSISTANCE	89,103		2,329		91,432
93.568	LOW-INCOME HOME ENERGY ASSISTANCE	179,601		9,050		188,651
93.569	COMMUNITY SERVICES BLOCK GRANT	86,717		2,352		89,069
NONE	PETROLEUM VIOLATION ESCROW	267,678	5,149			272,827
*NONE	REGIONAL ENERGY PLAN	10,719	265	294		11,278
VARIOUS	VARIOUS GRANTS PRIOR YEARS				38,310	38,310
		<u>\$1,008,003</u>	<u>\$20,709</u>	<u>\$22,081</u>	<u>\$38,310</u>	<u>\$1,089,103</u>

\*These grants are pass through grants from other than federal agencies who are responsible for resolving any questioned costs.

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## STATE COMPLIANCE

### OBSERVATION NO. 10 - SUBMISSION OF BLOCK GRANT STATE PLANS

#### OBSERVATION:

RSA 124:13 requires that each department responsible for block grants shall prepare and submit its proposed plan to the presiding officers of the legislature at least 30 days before the required legislative public hearing. In addition each department is required to make copies of the plan available to the public at least 30 days before the hearing.

RSA 124:13-a requires energy overcharge funds (PVE funds) disbursed by the U.S. Department of Energy be subject to the same planning requirements as block grants. The state agency responsible for planning for the distribution of federal fuel assistance block grants shall be responsible for submitting plans under RSA 124:13 for the expenditure of any energy overcharge funds.

The Governor's Office of Energy and Community Services (GOECS) is responsible for the Community Services Block Grant (CSBG) and the federal fuel assistance block grant also known as the Low-Income Home Energy Assistance Program (LIHEAP). In addition, GOECS is the agency responsible for expenditure of PVE funds. We noted that GOECS does not submit their block grant state plans to the legislature or hold public legislative hearings as required by RSA 124:13. The federal government does not require a state plan for the expenditure of PVE funds but approves the expenditure of funds on a project by project basis and requires a report of PVE expenditures annually. This report is not submitted to the legislature or subject to a legislative public hearing. Both block grants administered by GOECS have federal requirements for a public hearing and in fiscal year 1995 GOECS complied with the hearing requirement, however, the plans were made available to the public by advertisement in the news media only a few days before the public hearing and not 30 days prior as required by RSA 124:13.

#### RECOMMENDATION:

GOECS, in conjunction with the Attorney General's Office, should determine the current applicability of RSA 124:13 and RSA 124:13-a and either seek the repeal of the requirements for state plans or comply with the provisions of the statutes.

#### AUDITEE RESPONSE:

GOECS has submitted an estimated budget for block grant and oil overcharge funds to the Legislature in each budget cycle. This budget has included a narrative section. GOECS has then presented written and oral testimony describing the programs to appropriate committees. It has never been suggested that these efforts did not meet the Legislature's full intent of RSA 124:13 or 13-a. Submission of State Plans, which are prepared as applications for funding under the block grants for the relevant years,

OBSERVATION NO. 10 - SUBMISSION OF BLOCK GRANT STATE PLANS (Continued)

AUDITEE RESPONSE (Continued):

would not be possible since they cannot be prepared before the amount of funding to be granted to the State is known. This knowledge is not available until after the federal budget is complete, never before October of the year in which those funds are to be initially spent, by which time the State budget is already in effect and the Legislature is in adjournment.

It is the understanding of GOECS that the Legislative Budget hearings are, in fact, public hearings, meeting the requirements of RSA 124:13 and no additional hearings are necessary.

In response to this finding, GOECS has requested the opinion of the Department of Justice in a letter dated February 12, 1996.

AUDITOR'S REPORT ON MANAGEMENT ISSUES

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - SPECIAL FUND of the Governor's Office of Energy and Community Services for the year ended June 30, 1995, and have issued our qualified report thereon dated November 9, 1995.

We conducted our audit in accordance with generally accepted auditing standards and *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 of material misstatement.

In planning and performing our audit of the financial statement of the Governor's Office of Energy and Community Services for the year ended June 30, 1995 we noted certain issues related to the operation of the office that merit management consideration but do not meet the definition of a reportable condition as defined by the American Institute of Certified Public Accountants, and were not issues of noncompliance with laws, rules or regulations.

Those issues that we believe are worthy of management consideration but do not meet the criteria of reportable conditions or noncompliance are included on pages twenty-eight through thirty-two.

This report is intended for the information of the management of the Governor's Office of Energy and Community Services and the Fiscal Committee of the General Court. This restriction is not intended to limit the distribution of this report, which upon its acceptance by the Fiscal Committee, is a matter of public record.

*Office of Legislative Budget Assistant*

OFFICE OF LEGISLATIVE BUDGET ASSISTANT

November 9, 1995

## MANAGEMENT ISSUES

### OBSERVATION NO. 11 - ENERGY 1 FEDERAL LEDGER SYSTEM

#### OBSERVATION:

The Governor's Office of Energy and Community Services (GOECS) is responsible for the administration of 15 federal programs with total expenditures of over 15 million dollars in fiscal year 1995. Each federal program can consist of several different grants and subgrants. During fiscal year 1995 GOECS accounted for over fifty grants and/or subgrants. Each program requires the tracking of budgets, revenues, and expenditures to a level that can enable GOECS to prepare reports, track available balances, and make management decisions in a timely manner on a grant level basis. Some expenditures benefit more than one program and must be allocated among the various grants. Each grant remains open for several years and needs to be reported on the September 30th federal fiscal year as well as the June 30th state fiscal year. There are also many users of this information who must be able to rely on the information to be accurate and timely so they may make informed decisions. It is imperative that the system used to track federal expenditures be flexible enough to provide information to a variety of users in a timely and accurate manner.

The GOECS uses an in-house developed federal ledger system on a VAX mainframe computer called the ENERGY 1 system. The system tracks revenues, expenditures and grant balances and provides management reports. During the course of our audit we used information provided by the ENERGY 1 system as well as reports provided by the system. From our experience, as well as observations on the system provided to us by agency personnel, we noted the following problems with the system:

- 1) The information that is entered into the State's integrated financial system (NHIFS) must be reentered into ENERGY 1. In some cases, prior to entry into the ENERGY 1 system, the information must first be entered into a spreadsheet for allocation among the various grants and then keyed into the system. All this keying and rekeying of numbers increases the likelihood that errors will be made. It is a labor intensive and time consuming task.
- 2) Information is not always timely. GOECS personnel must reconcile ENERGY 1 to NHIFS at the end of every month. If variances are encountered they must be researched and corrected before the information can be used. At year end, ENERGY 1 must be reconciled to NHIFS before it can be closed out. While the variances between the two systems are being corrected, no new information can be entered. For fiscal year 1995 this process wasn't completed until the end of August. After the system is completely reconciled, the entire year must be archived because the system does not have enough computer memory to hold two full years of data. Then the ending balances, and new fiscal year budgets must be manually entered on a class level for each of the over 700 classes. This process took over one month to

OBSERVATION NO. 11 - ENERGY 1 FEDERAL LEDGER SYSTEM (Continued)

OBSERVATION (Continued):

complete. After this process the fiscal year 1996 transactions can be entered. As of November 2, 1995 only the transactions for July had been entered. The agency has gone three months without having information available necessary for the preparation of required reports and management of the programs.

- 3) There is no systems documentation or written manuals on the maintenance and structure of the system. To compound this problem there is only one person at the agency who understands the entire system. If for any reason she is unavailable and the system malfunctions it would be very difficult for anyone else to be able to troubleshoot or maintain the system.
- 4) The reports provided by the system are presented in a format that is of limited value. In order to complete federal financial reports the information must be taken and entered into spreadsheets and then manually entered into the federal reports. All the data is contained in the system but the system is missing the key fields or tables needed to organize the information into a format useful for federal reporting.

We feel that the limitations of the ENERGY 1 system contributed, at least in part, to many of the observations generated over the course of our audit.

RECOMMENDATION:

GOECS should immediately seek alternatives to the ENERGY 1 system as it is presently programmed. This may mean reprogramming to enable the present system to meet the needs of the agency or switching to an entirely new grants management system. GOECS should seek the opinion of all users of the system so that they may design a system that can meet the needs of the various user groups. The system should be easy to use and understand and produce useful reports in a timely manner. The system should also be adequately documented so that in the event that key personnel should become unavailable other personnel could take over and maintain the system.

AUDITEE RESPONSE:

GOECS concurs and is in the process of converting to a system which will allow the elimination of the ENERGY 1 system. The new system will allow transfer of data from the IFS system to Lotus using Monarch software. This will bring the financial records into the PC network and allow phase out of ENERGY 1. It is the GOECS's intent to end all use of ENERGY 1 by the beginning of FY '97.



## OBSERVATION NO. 12 - HIGH TURNOVER OF KEY ACCOUNTING PERSONNEL

### OBSERVATION:

The three components of an internal control system are the control environment, the accounting structure and the control procedures. A breakdown in any of these three components increases the risk that an error or irregularity can occur and not be detected by employees during the normal course of their duties.

The control environment represents the collective effect of various factors on establishing, enhancing or mitigating the effectiveness of specific policies and procedures. The control environment reflects the overall attitude, awareness and actions of management concerning the importance of control and its emphasis in the entity. An organization may have an adequate accounting system and control procedures in place but if the control environment is inadequate these could be rendered ineffective.

Part of an effective control environment is the experience and competence of key accounting personnel. In order for a business office to function properly, a degree of consistency and stability is required. During the past two fiscal years the business office at the Governor's Office of Energy and Community Services (GOECS) has been in a constant state of change. **Since the beginning of fiscal year 1994 GOECS has had four different Business Administrators and six different accounting personnel in a three person office.** Several of these people were from outside of state government and had to learn both the State's accounting system as well as federal reporting requirements. We believe that this lack of consistency in personnel not only contributed to the majority of the observations noted in our Report on Internal Control Structure on pages five through twelve and our Report on Federal and State Compliance on pages thirteen through twenty-six but also directly contributed to the following problems we encountered during our audit:

- Revenues were posted to the wrong revenue source codes. Each revenue source code is set up to track the revenues of a particular program. By posting to the wrong revenue sources the NHIFS reports show available balances overstated in some programs and understated in others.
- At June 30, 1994 GOECS failed to record any federal accounts receivable. At June 30, 1995 GOECS understated the accounts receivable balance by \$581,653 and the deferred revenue balance by \$334,081. In addition, most of the accounts receivable that were recorded at June 30, 1995 were recorded in the wrong revenue source code.
- Ending available balances were brought forward into both fiscal years 1994 and 1995 incorrectly. In some cases available balances were closed out to the wrong revenue sources overstating the available balance in one revenue source with a corresponding understatement in another. In another instance \$6,000 was brought forward into fiscal year 1996 when it should have lapsed.

OBSERVATION NO. 12 - HIGH TURNOVER OF KEY ACCOUNTING PERSONNEL (CONTINUED)

OBSERVATION (Continued):

- Five contracts that were encumbered in fiscal year 1995 expired in September of 1994 and yet the encumbrance was not closed out at June 30, 1995 overstating encumbrances at year end by \$613,402.
- The majority of federal funds at GOECS are drawn down automatically through the CMIA (Cash Management Improvement Act) system. The remaining federal draws, which consist mostly of administrative expenses, must be manually requested from the federal government. GOECS did not perform these draws on a timely basis in fiscal year 1995. Administrative expenses incurred between October 1, 1994 and February 28, 1995 were not requested until June of 1995. At one point GOECS had an unreimbursed balance of \$2.5 million. This represents cash unavailable to the State for investment. Had the State been able to invest these funds, the General Fund could have realized over \$25,000 in interest on investments.

RECOMMENDATION:

It is essential that there be some semblance of stability in the business office. To the extent possible, GOECS should strive to insulate the business office from turnovers. However, when there are changes in accounting personnel, GOECS should lessen the learning time by developing a detailed manual of procedures for all its business office functions and responsibilities. This may help prevent some of the errors noted in this observation in particular and many others in this report from reoccurring. Until this manual is completed and current accounting personnel are adequately trained in the state accounting system, GOECS should continue to seek training and guidance from the Department of Administrative Services.

AUDITEE RESPONSE:

GOECS is painfully aware of the consequences of turnover in the financial office. With a long-time business manager retiring; her successor relocating to the West Coast and her successor unable to remain in the position, problems in finding qualified individuals with experience in the State system have demonstrated the complexities in dealing with three federal agencies and twenty-five programs without a strong training program. Procedures manuals can be excellent guides but their preparation must be a relatively low priority as the immediate responsibilities of a fiscal office must be met on time with great accuracy and understanding of state and federal rules and regulations.

OBSERVATION NO. 13 - PETROLEUM VIOLATION ESCROW ACCOUNT

OBSERVATION:

Between August 1973 and January 1981, the U.S. Department of Energy (DOE) established and enforced controls on oil company allocations and pricing of crude oil and refined petroleum products. In those instances where the parties injured by oil companies' overcharges were not readily identifiable, the oil companies were required, among other actions, to make payments to a DOE oil overcharge escrow account at the U.S. Treasury. These funds and associated interest income were redistributed to the states based on terms of legislation, court settlements, and DOE regulations. The State of New Hampshire has used these funds, referred to as Petroleum Violation Escrow (PVE) funds, for energy conservation and assistance programs, including energy grant programs administered by DOE and the U.S. Department of Health and Human Services.

PVE funds are held in their own bank account by the State Treasurer. The GOECS is the state agency responsible for the administration of these funds. Since the first PVE funds were received in 1983, New Hampshire has received over \$19 million of settlement funds which have earned over \$4.7 million in interest. During this period the State has expended approximately \$20 million of these funds leaving a remaining balance of \$3.7 million at June 30, 1995 per GOECS records.

We noted that the ending balances per GOECS records do not agree to the balances reported by the State Treasury. Both the fiscal year 1994 and the fiscal year 1995 GOECS reported ending available balances were approximately \$500,000 greater than those reported by Treasury. A small amount of the variance is due to timing differences between the recording of revenue and expenditures of the two systems but the rest remains unexplained. GOECS has never reconciled its records to Treasury's records.

RECOMMENDATION:

GOECS should research the variances between its records and the State Treasury's records and make adjustments as needed. GOECS should also perform periodic reconciliations between the two systems.

AUDITEE RESPONSE:

GOECS is in the process of reconciling these discrepancies.

**INDEPENDENT AUDITOR'S REPORT**

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the accompanying STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL - SPECIAL FUND of the Governor's Office of Energy and Community Services for the year ended June 30, 1995. The financial statement is the responsibility of the management of the Governor's Office of Energy and Community Services. Our responsibility is to express an opinion on the financial statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully discussed in NOTE 2, the Governor's Office of Energy and Community Services does not have complete financial records to support the amounts included in the General Fixed Assets Account Group. Accordingly, we were unable to examine sufficient evidential matter to support such amounts.

As more fully discussed in NOTE 1, the financial statement referred to in paragraph one is not intended to present the financial position of the Governor's Office of Energy and Community Services.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had our audit not been limited in scope as discussed in the third paragraph and the matters discussed in the fourth paragraph, the financial statement referred to in the first paragraph presents fairly, in all material respects, certain financial activity of the Governor's Office of Energy and Community Services for the year ended June 30, 1995 in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statement referred to in the first paragraph. The accompanying Schedule of Budgetary Components-Special Fund and the Schedule of Federal Financial Assistance are presented on pages forty-three and forty-four, respectively, for the purpose of additional analysis and are not required parts of the financial statement of the Governor's Office of Energy and Community Services. Such information has been subjected to the auditing procedures applied in our audit of the financial statement referred to in the first paragraph and, in our opinion, are fairly presented in all material respects in relation to the financial statement taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 9, 1995 on our consideration of the Governor's Office of Energy and Community Services' internal control structure and a report dated November 9, 1995 on its compliance with laws and regulations.

*Office of Legislative Budget Assistant*  
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

November 9, 1995

**STATE OF NEW HAMPSHIRE  
GOVERNOR'S OFFICE OF ENERGY AND COMMUNITY SERVICES**

**STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL - SPECIAL FUND  
FOR THE YEAR ENDED JUNE 30, 1995**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>FAVORABLE/ (UNFAVORABLE) VARIANCE</u>
<b><u>RESTRICTED REVENUE</u></b>			
FEDERAL FUNDS	\$ 24,484,946	\$ 14,652,098	\$ (9,832,848)
OTHER RESTRICTED REVENUE	<u>15,155</u>	<u>14,090</u>	<u>( 1,065)</u>
<b>TOTAL RESTRICTED REVENUE</b>	<b><u>\$ 24,500,101</u></b>	<b><u>\$ 14,666,188</u></b>	<b><u>\$ (9,833,913)</u></b>
 <b><u>EXPENDITURES</u></b>			
FUEL ASSISTANCE CONTRACTS	\$ 12,505,133	\$ 8,833,647	\$ 3,671,486
COMMUNITY SERVICES BLOCK GRANT CONTRACTS	3,336,484	2,662,487	673,997
WEATHERIZATION CONTRACTS	2,971,958	1,580,872	1,391,086
OTHER COMMUNITY SERVICES PROGRAMS	1,262,467	750,111	512,356
SALARIES AND BENEFITS	1,021,208	710,409	310,799
CURRENT EXPENDITURES	1,331,029	746,879	584,150
ENERGY CONSERVATION PROGRAMS	3,451,598	559,555	2,892,043
PETROLEUM VIOLATION FUNDS	<u>3,165,693</u>	<u>-0-</u>	<u>3,165,693</u>
<b>TOTAL EXPENDITURES</b>	<b><u>\$ 29,045,570</u></b>	<b><u>\$ 15,843,960</u></b>	<b><u>\$ 13,201,610</u></b>

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

**STATE OF NEW HAMPSHIRE**  
**GOVERNOR'S OFFICE OF ENERGY AND COMMUNITY SERVICES**

**NOTES TO THE FINANCIAL STATEMENT**

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

**A. FINANCIAL REPORTING ENTITY**

The Governor's Office of Energy and Community Services (GOECS) established under Executive Order Number 91-6 is an organization of the primary government of the State of New Hampshire. The financial activity of GOECS is accounted for in the Special Fund of the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the CAFR. GOECS, as an organization of the primary government, accounts for only a small portion of the Special Fund and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to GOECS cannot be determined. Accordingly, the accompanying financial statement is not intended to show the position of GOECS in the Special Fund and the change in this fund balance is not reported on the accompanying financial statement.

**B. BASIS OF PRESENTATION - FUND ACCOUNTING**

*Financial Statement*

The financial statement of GOECS has been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

*Fund Accounting*

The State of New Hampshire and GOECS use funds and account groups to report on their financial position and the results of their operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

## NOTES TO THE FINANCIAL STATEMENT (Continued)

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

#### GOVERNMENTAL FUND TYPES

##### *Special Fund*

The State allocates to the Special Fund expenditures and revenues of programs which, by statute, operate primarily from specific program revenues, such as user fees or federal grants-in-aid. The unexpended balances of appropriations for programs that lapse are transferred to the General Fund.

#### ACCOUNT GROUPS

##### *General Fixed Assets (unaudited)*

General fixed assets acquired by GOECS for the performance of its operations are reflected in the General Fixed Assets Account Group at the time of acquisition. As of the fiscal year ended June 30, 1995, GOECS has recorded in the General Fixed Assets Account Group the cost of general fixed assets based on available historical cost records. Donated fixed assets are recorded at their fair market value at the time donated.

#### **C. BASIS OF ACCOUNTING**

The State of New Hampshire accounts for its financial transactions relating to the Special Fund on the modified accrual basis of accounting, under which revenues are recognized when measurable and available to financial operations during the year. "Measurable" means the amount of the transaction can be determined and "available" means the amount is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized in the period in which obligations are incurred as a result of the receipt of goods or services.

#### **D. BUDGETARY DATA**

##### *General Budget Policies*

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature as provided by RSA 9:8. This budget consists of three parts: part I is the Governor's program for meeting all expenditure needs as well as estimating revenues to be received; 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 operation of GOECS is included in the Special Fund budget.



## **NOTES TO THE FINANCIAL STATEMENT (Continued)**

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

The New Hampshire biennial budget is composed of the initial operating budget and supplemented by additional appropriations. These additional appropriations and estimated revenues from various sources are authorized by Governor and Council, annual session laws, and existing statutes which require appropriations under certain circumstances. As shown on the Schedule of Budgetary Components - Special Fund on page forty-three, the final budgeted amount includes the initial operating budget plus supplemental appropriation warrants, balances brought forward and transfers.

A Statement of Revenues and Expenditures - Budget and Actual - Special Fund is presented as GOECS' financial statement.

#### *Encumbrances*

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services the encumbrance is liquidated and the expenditure and liability are recorded. GOECS' unliquidated encumbrance balance for the Special Fund at June 30, 1995 was \$5,188,580.

#### **E. FIXED ASSETS - GENERAL (unaudited)**

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

#### **F. COMPENSATED ABSENCES**

Full-time employees of GOECS are entitled to annual and sick leave with full pay on the basis of the employee's scheduled work week and years of service. Annual and sick leave are computed at the end of each completed month of service. GOECS is not required to report a liability for compensated absences at June 30, 1995 to the Department of Administrative Services for inclusion in the Comprehensive Annual Financial Report.

## NOTES TO THE FINANCIAL STATEMENT (Continued)

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

#### **G. INTERFUND AND INTRAFUND TRANSACTIONS**

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

Reimbursements - Various departments charge fees on a user basis for such services as centralized data processing, accounting and auditing, purchasing, personnel and maintenance. These fees are not considered material and are recorded as revenue by the servicing department and as expenditures by the user department. GOECS made indirect cost payments, in accordance with the State Cost Allocation Plan, to the Department of Administrative Services during fiscal year 1995 of \$22,080.

### NOTE 2 -- GENERAL FIXED ASSETS ACCOUNT GROUP (Unaudited)

#### *Equipment*

The following is a schedule of equipment balances and activity, as reported by GOECS, in the General Fixed Assets Account Group for the fiscal year ended June 30, 1995:

Balance 7/01/94	Additions	Deletions	Adjustments	Balance 6/30/95
\$478,726	\$102,147	\$(86,627)	\$(171,108)	\$323,138

Changes in GOECS' equipment balances are reported to the Department of Administrative Services, Bureau of Purchase and Property at the end of each fiscal year for inclusion in the State's Comprehensive Annual Financial Report. Presently, GOECS does not have complete financial records to support the amounts reported in the General Fixed Asset Account Group.

### NOTE 3 -- COMMITMENTS AND CONTINGENCIES

#### *Operating Leases*

GOECS leases 5,830 square feet of office space at 57 Regional Drive, Concord, New Hampshire. The lease period is three years, from June 1, 1993 to May 31, 1996. Lease payments are made in advance on a monthly basis. During fiscal year 1995 lease payments totaled \$46,640. The outstanding lease commitment at the end of fiscal year 1995, is \$42,753. GOECS also leased two copiers during fiscal year 1995 with annual lease payments totalling \$5,940.

## NOTES TO THE FINANCIAL STATEMENT (Continued)

### NOTE 4 -- EMPLOYEE BENEFIT PLANS

#### *New Hampshire Retirement System*

GOECS as an organization of state government participates in the New Hampshire Retirement System (the Plan). The Plan is a contributory defined benefit plan and covers (substantially) all full-time employees of GOECS. The Plan qualifies as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. New Hampshire Revised Statutes Annotated (RSA), Chapter 100-A established the Plan and the contribution requirements.

The Plan, which is a cost-sharing, multiple-employer Public Employees Retirement System (PERS), is divided into two membership groups. Group I consists of employees and teachers. Group II consists of fire fighters and police officers. All employees of the GOECS who are members of the Plan are members of Group I.

Group I - Members contributing through age 60 qualify for a normal service retirement allowance based on years of creditable service. The yearly pension amount is  $1/60$  (1.67%) of average final compensation (AFC), multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. At age 65 the yearly pension amount is recalculated at  $1/66$  (1.5%) of AFC multiplied by years of creditable service. Members in service with 10 or more years of creditable service who are between age 50 and 60 are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service. In addition, any Group I member who has completed at least 20 years of creditable service that, when combined with his or her age equals at least 70, is entitled to retire and have benefits commence immediately at a reduced service retirement allowance.

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

Members of both groups are entitled to disability allowances and also death benefit allowances subject to various requirements and rates based on AFC or earnable compensation.

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the fiscal year ended June 30, 1995, Group I and II members were required to contribute 5% and 9.3%, respectively, of gross earnings. The State funds 100% of the employer cost for all of GOECS's employees enrolled in the Plan. The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years by the Plan's actuary.

## NOTES TO THE FINANCIAL STATEMENT (Continued)

### NOTE 4 -- EMPLOYEE BENEFIT PLANS (Continued)

GOECS' payments for normal contribution costs for the fiscal year ended June 30, 1995 amounted to 2.65% of the covered payroll. The Plan does not make separate measurements of assets and pension benefit obligation for individual employers. The New Hampshire Retirement System Comprehensive Annual Financial Report contains detailed information regarding the Plan as a whole, including information on payroll, contributions, actuarial assumptions and funding method, pension benefit obligation and ten year historical trend data. The New Hampshire Retirement System operates on a fiscal year ending June 30.

#### *Deferred Compensation Plan*

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

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

#### *Postemployment Health Care Benefits*

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

During the fiscal year ended June 30, 1995, the cost of health insurance premiums for their retired employees and spouses was paid on a pay-as-you-go basis. The cost of the health insurance for retired employees and spouses is a budgeted amount and is paid from an appropriation to the New Hampshire Retirement System and is not a part of GOECS' financial statement.

## **NOTES TO THE FINANCIAL STATEMENT (Continued)**

### **NOTE 5 -- FEDERAL FINANCIAL ASSISTANCE**

GOECS receives federal financial assistance from the U.S. Department of Labor, U.S. Department of Energy and the U.S. Department of Health and Human Services under 15 different programs as noted in the Schedule of Federal Financial Assistance on page forty-four. During the fiscal year ended June 30, 1995 GOECS received reimbursement of expenditures in the amount of \$14,435,907 (cash basis).

### **NOTE 6 -- PETROLEUM VIOLATION ESCROW FUNDS**

Between August 1973 and January 1981, the U.S. Department of Energy (DOE) established and enforced controls on oil company allocations and pricing of crude oil and refined petroleum products. When DOE alleged that an oil company committed civil violations of its regulations, it resolved the violations primarily by negotiating settlements or by taking legal action in Federal courts.

In those instances where the parties injured by the oil companies' overcharges were not readily identifiable, the oil companies were required, among other actions, to make payments to a DOE oil overcharge escrow account at the U.S. Treasury. These funds and associated interest income are redistributed to injured parties or to the states based on terms of legislation, court settlements, and DOE regulations. The State of New Hampshire has used these funds for energy conservation and assistance programs, including energy grant programs administered by DOE and the Department of Health and Human Services.

The following is a schedule of petroleum violation escrow account balances and activity, for the fiscal year ended June 30, 1995:

<b>SETTLEMENT</b>	<b>BALANCE 7/01/94</b>	<b>FY 1995 RECEIPTS</b>	<b>FY 1995 EXPENDITURES</b>	<b>BALANCE 6/30/95</b>
EXXON	\$1,182,477	\$ 59,972	\$131,968	\$1,110,481
STRIPPER WELL	\$2,615,772	\$128,615	\$698,679	\$2,045,708
WARNER	\$ 71,251	\$ 3,639	\$ 1,553	\$ 73,337
AMOCO	\$ 12,961	\$ 671	\$ -0-	\$ 13,632
BELRIDGE / PALO PINTO	\$ 5,082	\$ 263	\$ -0-	\$ 5,345
	<b>\$3,887,543</b>	<b>\$193,160</b>	<b>\$832,200</b>	<b>\$3,248,503</b>

**STATE OF NEW HAMPSHIRE  
GOVERNOR'S OFFICE OF ENERGY AND COMMUNITY SERVICES**

**SCHEDULE OF BUDGETARY COMPONENTS - SPECIAL FUND  
FOR THE YEAR ENDED JUNE 30, 1995**

	<u>1995 OPERATING BUDGET</u>	<u>SUPPLEMENTAL APPROPRIATION WARRANTS</u>	<u>BALANCE BROUGHT FORWARD</u>	<u>TRANSFERS IN/ (OUT)</u>	<u>BUDGET</u>
<b><u>RESTRICTED REVENUE</u></b>					
FEDERAL FUNDS	\$16,895,582	\$4,319,678	\$3,269,686	\$ -0-	\$24,484,946
OTHER RESTRICTED REVENUE	<u>-0-</u>	<u>22,250</u>	<u>( 7,095)</u>	<u>-0-</u>	<u>15,155</u>
<b>TOTAL RESTRICTED REVENUE</b>	<b><u>\$16,895,582</u></b>	<b><u>\$4,341,928</u></b>	<b><u>\$3,262,591</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$24,500,101</u></b>
<b><u>EXPENDITURES</u></b>					
FUEL ASSISTANCE					
CONTRACTS	\$10,685,400	\$ 625,387	\$1,194,346	\$ -0-	\$12,505,133
COMMUNITY SERVICES BLOCK					
GRANT CONTRACTS	1,833,980	380,000	1,122,504	-0-	3,336,484
WEATHERIZATION CONTRACTS	1,491,500	207,000	1,273,458	-0-	2,971,958
OTHER COMMUNITY SERVICES					
PROGRAMS	681,564	547,486	38,417	(5,000)	1,262,467
SALARIES AND BENEFITS	1,021,208	-0-	-0-	-0-	1,021,208
CURRENT EXPENDITURES	762,675	504,079	59,275	5,000	1,331,029
ENERGY CONSERVATION					
PROGRAMS	665,000	2,068,189	718,409	-0-	3,451,598
PETROLEUM VIOLATION					
FUNDS	<u>-0-</u>	<u>-0-</u>	<u>3,165,693</u>	<u>-0-</u>	<u>3,165,693</u>
<b>TOTAL EXPENDITURES</b>	<b><u>\$17,141,327</u></b>	<b><u>\$4,332,141</u></b>	<b><u>\$7,572,102</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$29,045,570</u></b>

**STATE OF NEW HAMPSHIRE  
GOVERNOR'S OFFICE OF ENERGY AND COMMUNITY SERVICES**

**SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - CASH BASIS  
FOR THE YEAR ENDED JUNE 30, 1995**

<b>FEDERAL CATALOG NUMBER</b>	<b>FEDERAL GRANTOR/FEDERAL PROGRAM</b>	<b>RECEIPTS</b>	<b>DISBURSEMENTS</b>
<b>U.S. DEPARTMENT OF LABOR</b>			
17.235	Senior Community Service Employment Program	\$ 366,162	\$ 376,054
<b>U.S. DEPARTMENT OF ENERGY</b>			
81.041	State Energy Conservation	104,844	180,755
81.042	Weatherization Assistance for Low Income Persons	1,298,278	1,294,041
81.050	Energy Extension Service	1,654	20,554
81.052	Energy Conservation for Institutional Buildings	212,014	430,932
81.079	Regional Biomass Energy Programs	5,243	44,286
81.090	State Heating Oil Grants	9,102	20,508
NONE	Regional Energy Plan	8,000	11,288
NONE	Petroleum Violation Escrow	193,160	441,539
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
93.566	Refugee and Entrant Assistance- State Administered Programs	537,860	405,258
93.568	Low-Income Energy Assistance	8,908,854	9,584,717
93.569	Community Services Block Grant	2,657,847	2,705,737
93.571	Community Services Block Grant Discretionary Awards - Community Food and Nutrition	8,374	15,000
93.572	Emergency Community Services for the Homeless	34,456	34,428
93.576	Refugee and Entrant Assistance- Discretionary Grants	<u>90,059</u>	<u>90,059</u>
	<b>TOTAL</b>	<b><u>\$14,435,907</u></b>	<b><u>\$15,655,156</u></b>