

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF JUSTICE**

**AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 1995
AND THE SIX MONTHS ENDED
DECEMBER 31, 1995**

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF JUSTICE**

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STATE OF NEW HAMPSHIRE DEPARTMENT OF JUSTICE

INTRODUCTION

BACKGROUND AND ORGANIZATION

Chapter 300, Laws of 1985, reorganized the Office of the Attorney General (OAG) as the Department of Justice (DOJ). The reorganization reflected the General Court's recognition of, 1) the need for more career opportunities within the OAG, 2) an increasing need for greater emphasis on consumer protection and environmental protection, 3) a rising demand on the OAG in the areas of criminal justice and assistance to other State departments, and 4) a need for assistance in the administration of the OAG by the establishment of intermediate levels of supervision.

New Hampshire Revised Statutes Annotated (RSA) 21-M, effective July 1, 1985, established the DOJ. In accordance with RSA 21-M, the DOJ is responsible for the following general functions:

- Advising and representing the State and its executive branch agencies in all civil matters.
- Supervising and conducting criminal investigations and prosecutions.
- Enforcing the various consumer protection and antitrust laws of the State.
- Assisting and advising those agencies charged with protecting the environment and enforcing the environmental laws of the State.

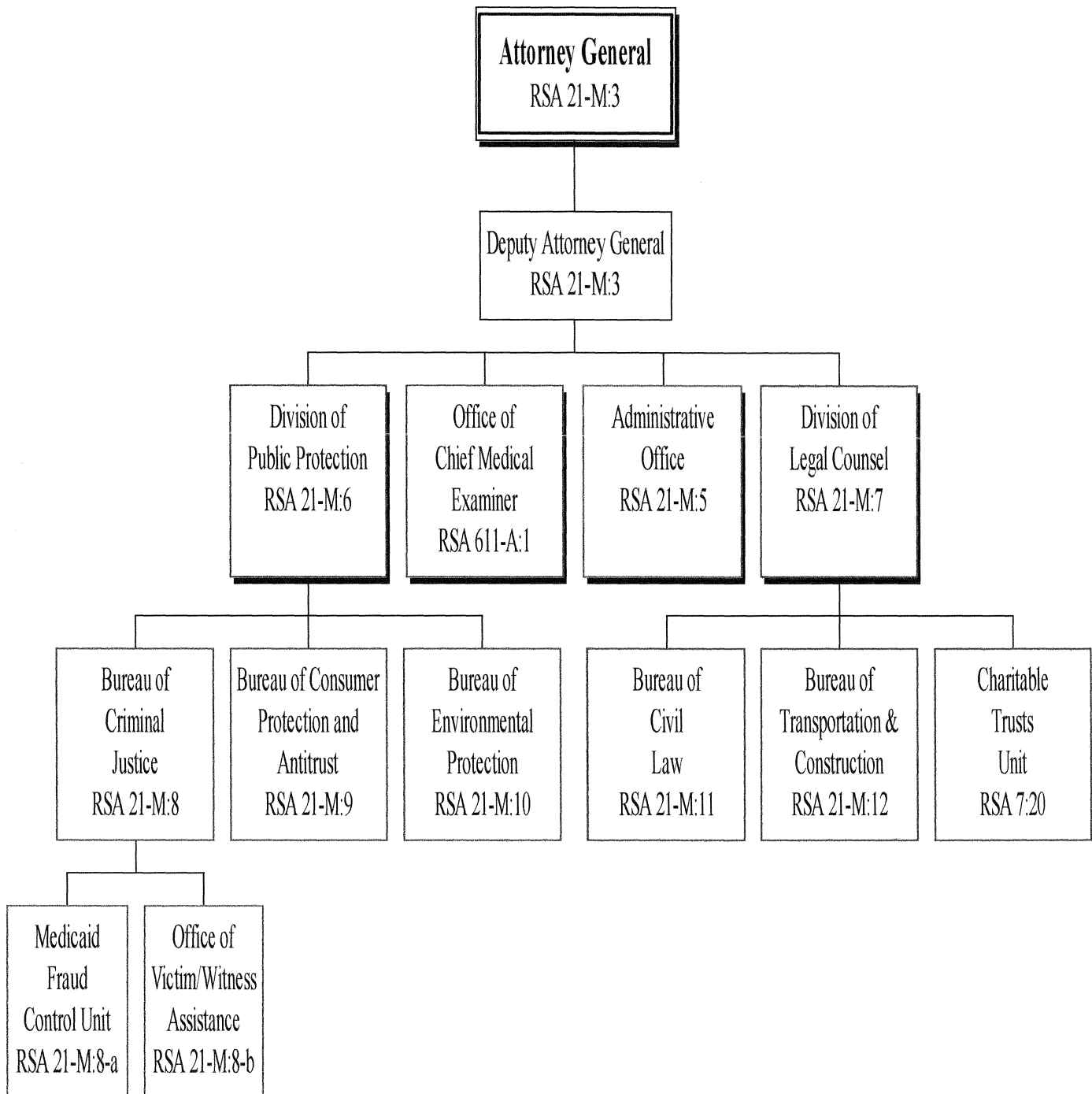
The DOJ is under the executive direction of the attorney general, a constitutional officer appointed by the Governor, with the consent of the Council, to a four year term. The attorney general nominates a deputy attorney general for appointment by the Governor, with the consent of the Council, also to a four year term. Assistant attorneys general are appointed by the attorney general to five year terms, subject to the approval of the Governor and Council.

The DOJ is organized through the Division of Public Protection, the Division of Legal Counsel, the Office of Chief Medical Examiner, and the Administrative Office. The Division of Public Protection is comprised of the Bureau of Criminal Justice, the Bureau of Consumer Protection and Antitrust, and the Bureau of Environmental Protection. The Division of Legal Counsel is comprised of the Bureau of Civil Law, the Bureau of Transportation and Construction, and the Charitable Trusts Unit. The organizational structure is presented in a chart on the following page. The functions of these bureaus, offices, and unit are described on pages three through five.

INTRODUCTION (Continued)

BACKGROUND AND ORGANIZATION (Continued)

ORGANIZATION CHART



Source: New Hampshire Revised Statutes Annotated (RSA)

INTRODUCTION (Continued)

BACKGROUND AND ORGANIZATION (Continued)

Division of Public Protection

Bureau of Criminal Justice

The Bureau of Criminal Justice prosecutes and supervises the investigation of all non-negligent homicides committed in New Hampshire and the majority of manslaughters occurring in the State. The Bureau represents the State in all criminal appeals before the New Hampshire Supreme Court, as well as before federal courts on habeas corpus petitions. The Bureau's attorneys also prosecute and supervise the investigation of cases in specialized areas of the criminal law, including major drug trafficking and asset forfeiture cases, highway traffic enforcement, white collar crime, Medicaid fraud, public corruption, and the use of deadly force by law enforcement officials.

Within the Bureau of Criminal Justice are the Medicaid Fraud Control Unit and the Office of Victim/Witness Assistance. The Medicaid Fraud Control Unit's duties include the investigation and prosecution of violations of State laws pertaining to fraud in, 1) the administration of the Medicaid program, 2) the provision of medical assistance under the State Medicaid program, and 3) the activities of providers of medical assistance under the State Medicaid program. The Office of Victim/Witness Assistance provides information and services to victims and witnesses in criminal cases prosecuted by the attorney general.

Bureau of Consumer Protection and Antitrust

The Bureau of Consumer Protection and Antitrust's chief responsibilities are, 1) the enforcement of New Hampshire's Consumer Protection Act and related statutes, 2) the regulation of subdivision and condominium developments within the State, 3) the enforcement of New Hampshire's antitrust statutes, and 4) the provision of consumer information and mediation services to the public.

Bureau of Environmental Protection

The Bureau of Environmental Protection performs two related but distinctly different statutory functions. The Bureau is responsible for, 1) the criminal and civil enforcement of environmental laws, and 2) the provision of legal counsel, advice, and representation to those State agencies charged with natural resource protection and management.

INTRODUCTION (Continued)

BACKGROUND AND ORGANIZATION (Continued)

Division of Legal Counsel

Bureau of Civil Law

The Bureau of Civil Law serves as legal counsel to executive departments and agencies of State government. In this capacity, the Bureau provides legal opinions, reviews contracts and leases, and advises agencies regarding administrative procedures. This bureau also represents the State and its agencies before administrative tribunals and State and federal trial and appellate courts.

Bureau of Transportation and Construction

The Bureau of Transportation and Construction acts as legal counsel for the Department of Transportation (DOT). This bureau represents the State in all eminent domain actions, real estate, tort and contract cases arising out of the design, construction, and maintenance of the State highway system and other public facilities. In addition, this bureau provides the DOT with general legal advice and represents the DOT in administrative proceedings and in litigation in the Superior and Supreme Courts.

Charitable Trusts Unit

The Charitable Trusts Unit supervises charitable trusts and charitable solicitations (fund raising campaigns) through a registration and annual reporting system. Charitable trusts include any individual, group of individuals, corporation, or other legal entity which administers property primarily or exclusively for the relief of poverty, the advancement of education or religion, the promotion of health, governmental or municipal purposes, or the promotion of other purposes deemed beneficial to the community. The Charitable Trusts Unit is also responsible for the enforcement of laws pertaining to solicitations by police, firefighter, and law enforcement associations. This unit initiates investigations and litigation to enforce the terms of charitable trusts, for breach of duty by trustees and directors of charitable organizations, and for violation of charitable solicitation laws.

Office of Chief Medical Examiner

The Office of Chief Medical Examiner is supervised by the chief medical examiner, a physician experienced in forensic medicine who is certified by the American Board of Pathology to possess special competence in forensic pathology. The chief medical examiner is authorized under RSA 611-A:7 to order and/or conduct autopsies and shall comply with requests by the attorney general or county attorneys to perform autopsies. The Office also

INTRODUCTION (Continued)

BACKGROUND AND ORGANIZATION (Continued)

Office of Chief Medical Examiner (Continued)

provides consulting and training services to a variety of parties such as, State and local police officers, county investigators and attorneys, and health care providers.

Administrative Office

The Administrative Office is responsible for internal Department administrative functions which include, 1) accounting, purchasing, and budget control procedures, 2) personnel management, 3) property, contracts, and grants management, and 4) data processing and statistical analysis. In fiscal year 1992, the responsibility for paying court witness fees was transferred from the Judicial Branch to the Administrative Office of the Department of Justice.

FUNDING

The Department of Justice is funded primarily by appropriations from the General and Special Funds. The estimated revenue/spending authority (budget) and actual financial activity of the General and Special Funds for the year ended June 30, 1995 and for the six months ended December 31, 1995 is summarized in the following tables.

GENERAL FUND	YEAR ENDED JUNE 30, 1995 (FY 95)		SIX MONTHS ENDED DECEMBER 31, 1995	
	BUDGET	ACTUAL	BUDGET (FY 96)	ACTUAL
(in thousands)				
Unrestricted Revenues	\$ 342	\$ 820	\$ 352	\$ 77
Restricted Revenues	\$2,971	\$2,629	\$2,625	\$1,057
Total Revenues	\$3,313	\$3,449	\$2,977	\$1,134
Expenditures	\$9,729	\$8,231	\$8,965	\$3,790

SPECIAL FUND	YEAR ENDED JUNE 30, 1995 (FY 95)		SIX MONTHS ENDED DECEMBER 31, 1995	
	BUDGET	ACTUAL	BUDGET (FY 96)	ACTUAL
(in thousands)				
Restricted Revenues	\$7,465	\$2,501	\$5,194	\$ 967
Expenditures	\$7,468	\$2,503	\$5,195	\$1,007

General Fund expenditures of the Department of Justice for the year ended June 30, 1995 are presented graphically by category and class on page seven. Analysis of the expenditures incurred for the six months ended December 31, 1995 revealed similar spending patterns.

INTRODUCTION (Continued)

SPECIAL FUND BUDGET AND ACTUAL VARIANCES

The significant variances between budgeted and actual restricted revenues and expenditures that exist for the year ended June 30, 1995 and for the six months ended December 31, 1995 represent federal funds awarded and not expended during the audit periods. It is not uncommon for federal awards to encompass multiple fiscal year grant periods. The DOJ is authorized to carry unexpended federal awards forward to future fiscal periods as intended by the federal grant agreement.

PRIOR AUDITS

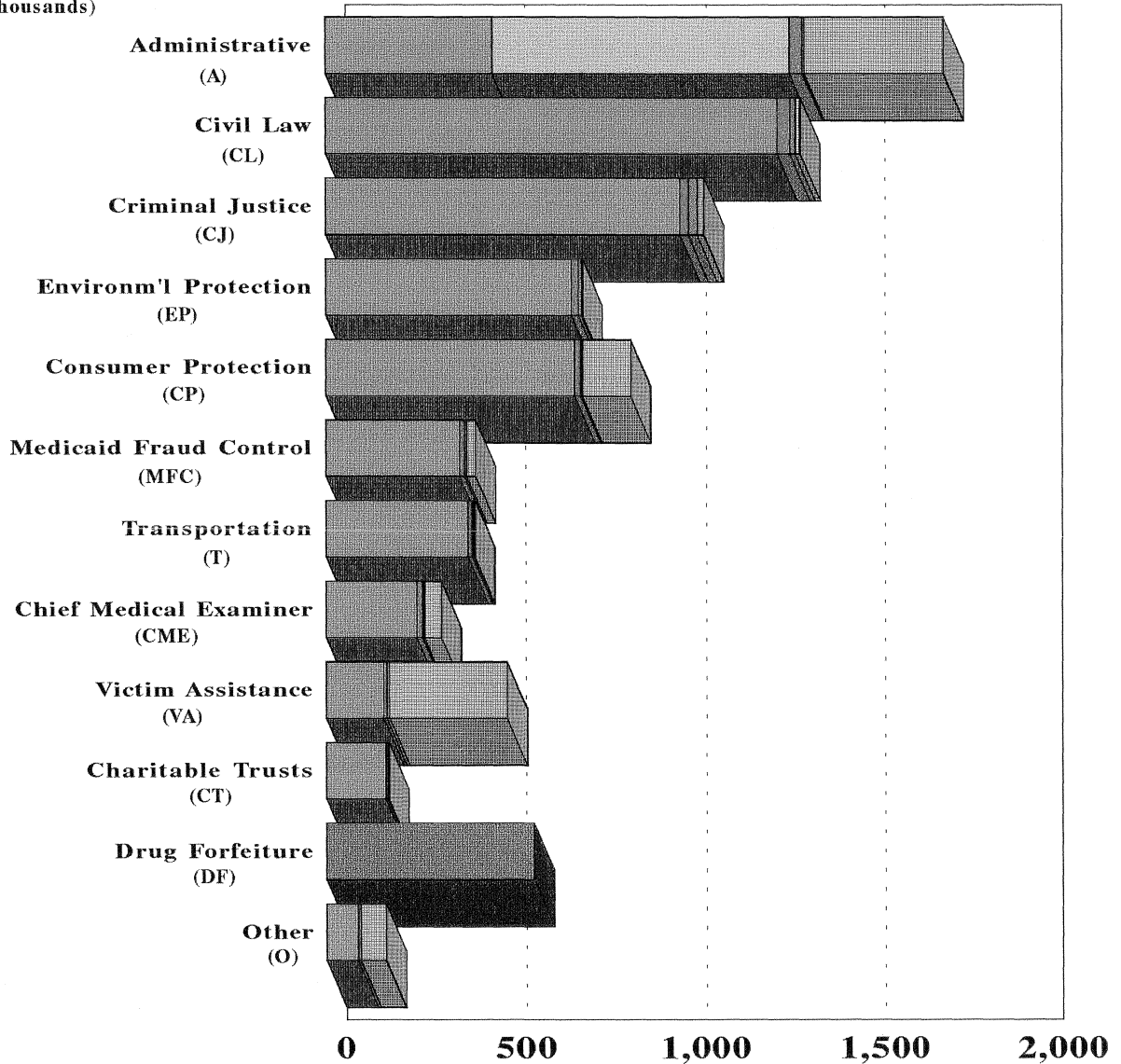
The most recent prior financial and compliance audit of the Department of Justice was for the eighteen months ended December 31, 1988. The appendix on page fifty-seven of this report contains a summary of the current status of the observations contained in that prior audit report.

Copies of the prior audit report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, New Hampshire 03301-4906.

INTRODUCTION (Continued)

**FY 1995 GENERAL FUND EXPENDITURES
BY CATEGORY AND CLASS**

(in thousands)



	A	CL	CJ	EP	CP	MFC	T	CME	VA	CT	DF	O
Salaries & Benefits	\$ 465	\$1,258	\$ 983	\$681	\$690	\$374	\$397	\$254	\$161	\$167	\$-0-	\$ 89
Witness Fees	826	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Current Expenses	36	36	25	20	17	14	12	16	9	6	-0-	7
Travel	5	14	25	8	5	5	3	5	8	1	-0-	1
Drug Task Force	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	576	-0-
Other	390	14	18	3	134	24	4	48	326	1	-0-	70
TOTALS	\$1,722	\$1,322	\$1,051	\$712	\$846	\$417	\$416	\$323	\$504	\$175	\$576	\$167

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF JUSTICE**

AUDIT OBJECTIVES AND SCOPE

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

- Internal control structure
- Revenues and appropriations
- Expenditures and encumbrances
- Property and equipment
- State and federal compliance
- Cash
- Accounts receivable and payable.

Our reports on the internal control structure, state and federal compliance, and management issues, the related observations and recommendations, our independent auditor's report, and the financial statements 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 accompanying financial statements of the New Hampshire Department of Justice for the year ended June 30, 1995 and for the six months ended December 31, 1995, and have issued our qualified report thereon dated August 9, 1996, which was qualified with respect to the lack of presentation of the financial position of the Department, the accounting for general fixed assets, and the understatement of General Fund revenue for the six months ended December 31, 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 statements are free of material misstatement.

The management of the New Hampshire Department of Justice is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments 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 statements of the New Hampshire Department of Justice, for the year ended June 30, 1995 and for the six months ended December 31, 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 statements 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 judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Those matters that we consider to be reportable conditions are described on the following pages.

REPORTABLE CONDITIONS

OBSERVATION NO. 1: REVENUE PROCESSING AND RECORDING

The Department of Justice (DOJ) business office processes over three million dollars annually in unrestricted and restricted general fund revenue. The majority of this revenue is received in the form of checks received through the mail.

OBSERVATION:

The procedure used by the DOJ to process and record revenue received in the mail is as follows.

An individual (Employee A) in the business office opens the mail and forwards the checks to a second individual (Employee B) in the business office who records the checks on a Form A-15, Record of Daily Receipts. Employee B also posts the related receipts to the internal accounts receivable records. The A-15 and checks are returned to Employee A who prepares the deposit slip. The checks, deposit slip and A-15 are forwarded to a third business office employee (Employee C) who restrictively endorses the checks, prepares a Form A-17, Cash Receipt, and posts the revenue to the State accounting records. Employee C delivers the checks, deposit slip and A-17 to the State Treasury.

The following components of this procedure weaken internal controls over the processing and recording of revenue.

- Checks are not recorded on the A-15 upon initial receipt.
- The duties of recording receipts on the A-15 and maintaining accounts receivable records are not segregated.
- Checks are not restrictively endorsed upon initial receipt.
- Check movement/handling prior to the deposit at the State Treasury is excessive.
- The duties of recording revenue on the A-17 and check handling/delivering the deposit are not segregated.
- There is no independent review of the A-17 and supporting documentation to determine whether the revenue was posted to the proper account.

RECOMMENDATIONS:

To strengthen internal controls over revenue processing and recording, the following recommendations are given.

OBSERVATION NO. 1: REVENUE PROCESSING AND RECORDING (Continued)

RECOMMENDATIONS (Continued):

- To protect against the loss or unauthorized use of checks, it is recommended that checks be recorded and restrictively endorsed upon initial receipt and check movement/handling be kept at a minimum.
- To promote the timely detection of errors or irregularities, it is recommended that revenue recording, maintenance of accounts receivable records, and check handling/deposit duties be segregated.
- To promote the accuracy of the accounting records, it is recommended that a review of the A-17, related supporting documentation, and account posting be performed.

AUDITEE RESPONSE:

In a previous LBA report, the Department's then-existing revenue processing procedure was found to be deficient. At that time, all departmental mail was opened by a receptionist; distributed to the various bureaus; and the bureaus forwarded the cash or checks to the business office where it was recorded and deposited. As a result of that finding, we changed the process to have all the department mail opened, sorted, and distributed by the business office. Thus, the handling, recording, and deposit of all revenue is done in one continuous motion with the staff resources available.

This entire operation was reviewed with the aid of the Internal Controls Tool Kit, and was in compliance with the standards contained therein.

In order to meet the first recommendation, we will have the checks restrictively endorsed prior to being entered on the A-17. As to the second recommendation, it is our observation that, given the nature and size of our office and its staff there appeared to us to be both adequate segregation of duties and adequate supervision to eliminate the possibility of theft. As to the third recommendation, it is our observation that review of deposits is done by the respective bureaus or units, who are required to monitor deposits in the course of their duties, and that this practice appeared to us to sufficiently promote the accuracy of records. However, in order to comply with the second and third recommendations set forth in this Observation, we will work with the auditors to develop the most efficient and secure procedures within limits of available staff to implement these recommendations, and will then put those in place so as to test their efficacy.

OBSERVATION NO. 2: CHECKS ISSUED TO DRUG TASK FORCE PERSONNEL

The Department of Justice (DOJ) maintains a \$10,000 revolving fund checking account at an area bank. A primary use of this account is to make funds readily available to the Drug Task Force (DTF) for the purchase of evidence during its covert drug operations. A check is issued by the DOJ business office to a DTF agent upon the presentation of a check request authorized by the DTF Commander.

OBSERVATION:

During the testing of this checking account, twenty-seven checks issued to DTF agents were examined to determine whether the expenditures were properly authorized and also to determine whether the controls over the account were appropriate. The following issues were noted during that examination.

- Five of the twenty-seven checks examined (19%) appeared to be held by the respective DTF agents for periods ranging from ten to eighty-three days before the checks were presented to a bank for processing.
- Two of the five checks referred to above appeared to have been deposited into personal accounts. While it appears that the money was ultimately used for its intended purpose, State funds should not be commingled with personal funds under any circumstances.

RECOMMENDATION:

It is recommended that the DOJ develop, document, and implement policies and procedures for the handling and disposition of checks made payable to DTF agents. It is further recommended that the DOJ develop a mechanism to monitor compliance with those policies and procedures.

AUDITEE RESPONSE:

This observation raises two issues: first, the timely cashing of checks advancing funds for undercover drug operations to Drug Task Force (DTF) officers; and second, the processing of such checks through personal bank accounts rather than directly converting such checks to cash. The DOJ adheres to Appendix 8 of the Office of Justice Programs Manual M7100.D which concerns the utilization, recording, and monitoring of expenditures for covert purposes. A copy of that Appendix has been provided to the Legislative Budget Assistant Office. It is our understanding that we are in full compliance with standards set forth in that Appendix and, further, that the audit team found no errors or irregularities in accounting for all expenditures.

As part of our procedures officers are instructed to photocopy the check they received and turn in the copy to the control agent who matches it up with the authorization copy. At that point the officer's expenditure account is credited with the advance amount.

OBSERVATION NO. 2: CHECKS ISSUED TO DRUG TASK FORCE PERSONNEL (Continued)

AUDITEE RESPONSE (Continued):

The great majority of advance checks are deposited within a day. Occasionally, the situation for which the advance was authorized does not occur at the time anticipated, and the check is not immediately cashed. In order to be in full compliance with this observation, we have instituted written procedures on the handling of advance checks falling into this category. Further, in order to avoid even the possibility of any appearance of impropriety, under no circumstances will checks be processed to cash through personal bank accounts.

OBSERVATION NO. 3: REVOLVING FUND BANK ACCOUNT

OBSERVATION:

The Department of Justice (DOJ) maintains a checking account with an area bank. The primary purpose of this account is to make funds readily available to the Drug Task Force (DTF) for use in its covert operations. The account is also used to purchase transcripts for use in legal work and to pay various registration fees and postage. While the functions of check requesting, check signing, and reconciling the monthly bank statement are adequately segregated, serving to strengthen internal controls, the following weakness in the DOJ checking account practices was noted.

- Checks are returned to the original requestor. Check requesting and the subsequent handling of the check are incompatible duties when performed by the same individual. In the case of non-DTF checks, the signed checks are released for disbursement to the original requestors of the checks which violates the proper segregation of duties over disbursements. It does not appear that it is necessary, from an operations perspective, to return these signed checks to the requestors. Non-DTF check requesting and subsequent handling by the same person serves to weaken internal controls over disbursements and does not promote the timely detection of errors or irregularities.

RECOMMENDATION:

To ensure that checks are not misdirected, it is recommended that the DOJ segregate the check requesting and check handling responsibilities for the non-DTF checks.

AUDITEE RESPONSE:

Our review of the revolving fund process with the Internal Control Tool Kit did not reveal the issues which are the subject of this observation. In compliance with the Tool Kit, all checks must be approved in advance by the Director of Administration and must be accompanied with written

OBSERVATION NO. 3: REVOLVING FUND BANK ACCOUNT (Continued)

AUDITEE RESPONSE (Continued):

documentation. In order to meet the recommendation that check requesting and check handling functions for non-DTF checks be segregated, we now require that documentation of requests for checks be accompanied with an envelope so that the person who actually writes the check can retain it and seal it in the envelope rather than return it to the requester.

OBSERVATION NO. 4: REVENUE RECOGNITION

OBSERVATION:

The Department of Justice (DOJ) charges certain State entities for its legal services. In determining whether revenue generated from the provision of legal services was recognized in the proper fiscal year, the following errors in revenue recognition were noted.

- Revenue received from the Pease Development Authority for a portion of the legal services it was provided during fiscal year 1994 was incorrectly recorded as fiscal year 1995 revenue. This error caused an \$18,345 overstatement of fiscal year 1995 revenue.
- Revenue received from the Department of Employment Security for a portion of the legal services it was provided during fiscal year 1995 was incorrectly recorded as fiscal year 1996 revenue. This error caused a \$2,090 overstatement of fiscal year 1996 revenue and an understatement of fiscal year 1995 revenue in the same amount.

RECOMMENDATION:

It is recommended that the DOJ implement procedures which will facilitate the recognition of revenue in the proper accounting period on a consistent basis.

AUDITEE RESPONSE:

Procedures have been instituted to assign revenue to correct fiscal years for all continuing and future such projects.

OBSERVATION NO. 5: NEGATIVE EXPENDITURES - UNDERSTATEMENT OF REVENUE AND EXPENDITURES

OBSERVATION:

Amounts posted as a reduction of expenditures are commonly referred to as negative expenditures. Generally, such transactions are not routine in nature and are made, for example, to reverse duplicate postings or to correct other errors.

During the testing of negative expenditures the following issues were noted.

- Receipts to the drug forfeiture fund were typically posted to the accounting records as revenue. However, some receipts were posted as negative expenditures. Recording these receipts as negative expenditures effected an understatement of both revenue and expenditures of approximately \$64,400 for fiscal year 1995 and \$19,000 for the six months ended December 31, 1995.
- The Chief Medical Examiner (CME) performs autopsies. The statute based fee of \$500 for each autopsy is charged to the respective county. A need for a toxicology is indicated for many autopsies. The Department of Justice (DOJ) currently pays a private vendor for toxicology services as the Office of the CME is not equipped to perform toxicology functions. When the \$500 autopsy fee is received from the county it is posted as revenue if there was no toxicology performed. Whenever toxicology fees are involved in autopsies, part or all of the autopsy fees are recorded as negative expenditures to effect a reimbursement of the DOJ's prior toxicology expenditure. The recording of the negative expenditures resulted in an understatement of both revenue and expenditures. We estimate the understatement to approximate \$45,000 for fiscal year 1995 and \$12,000 for the six months ended December 31, 1995.

RECOMMENDATION:

It is recommended that the DOJ properly classify revenue and expenditures in its accounting records. Proper classification of transactions on a consistent basis will promote the accuracy and reliability of the accounting records.

AUDITEE RESPONSE:

Utilizing the Internal Controls Tool Kit to perform a self audit, we had discovered and corrected the practice which is the subject of this observation, the posting of revenue as negative expenditures, in late 1995. Effective January, 1996, all revenue is deposited with an existing revenue class and subsequently transferred into the correct expenditure class.

OBSERVATION NO. 5: NEGATIVE EXPENDITURES - UNDERSTATEMENT OF REVENUE AND EXPENDITURES (Continued)

AUDITEE RESPONSE (Continued):

As to treatment of the statutory \$500 autopsy fee, henceforth all such fees will be deposited into an escrow account from which payments for toxicologies will be made, with the balance transferred to a revenue account.

OBSERVATION NO. 6: LACK OF SUPPORTING DOCUMENTATION FOR CASH RECEIPTS

OBSERVATION:

During revenue testing a sample of fifty cash receipts was examined to determine whether the revenue was recorded in the proper amount and proper account in the Department of Justice's (DOJ) accounting records. All fifty cash receipts were posted to the accounting records in the amount reported on the Record of Daily Receipts.

In most cases, the documentation supporting the accounts used to record the revenue was affixed to the cash receipts posting forms. However, the propriety of four (8%) of the fifty account postings tested could not be determined due to the lack of an audit trail to the supporting documentation. The amounts of these four account postings ranged from \$5 to \$170 with the average amount equal to \$58. The supporting documentation for these four receipts could not be located.

RECOMMENDATION:

It is recommended that the DOJ maintain supporting documentation for cash receipts in a manner which allows the cash receipt and related documentation to be readily matched. The actual supporting documentation or a reference to its location should be attached to the posting form.

AUDITEE RESPONSE:

We agree that either the actual supporting documentation or reference to where such documentation may be located must be attached to the cash receipt posting form. Procedures have been implemented to ensure that this occurs.

OBSERVATION NO. 7: EQUIPMENT ACQUISITIONS - RECEIVING REPORTS

OBSERVATION:

The Department of Administrative Services' Manual of Procedures section 307.04 (expired) requires the completion of a receiving report upon the receipt of equipment. The use of receiving reports strengthens internal controls over equipment acquisitions as it documents the actual receipt of the equipment.

During the testing of equipment, the use of receiving reports during the audit periods was examined. The examination of a sample of seventeen equipment acquisitions yielded the following results.

- Four of the seventeen acquisitions (24%) lacked a receiving report.
- The receiving reports for four of the seventeen acquisitions (24%) did not include the receiver's signature or initials documenting who accepted the items.
- One of the receiving reports was completed by an individual who was involved with the annual physical equipment inventory observation and count. The duties of preparing receiving reports and performing the physical equipment inventory serve to weaken internal controls over equipment when performed by the same individual.

RECOMMENDATION:

To strengthen internal controls over equipment acquisitions, it is recommended that receiving reports be completed for all acquisitions and signed by the receiver. It is further recommended that the duties of preparing receiving reports and performing the physical inventory be segregated.

AUDITEE RESPONSE:

When we discovered in April, 1996 that not all equipment receipts had been accompanied by a receiving report, procedures were immediately put in place which will ensure that we have the correct documentation required under Adm 307.04. We note that, despite the apparent lack of receiving reports, all equipment was correctly recorded on the department's inventory, but agree that the better practice is to have receiving reports, signed by the receiver, for all acquisitions.

We agree that it would be ideal if those who perform the equipment inventory never received incoming equipment. Unfortunately, on rare occasions, there is simply no one else available authorized to receive equipment. In order to ensure that this does not weaken internal controls, it has long been our policy to have the physical inventory performed by a team of two, always including one member who is not authorized to receive equipment.

OBSERVATION NO. 8: EQUIPMENT DISPOSALS

OBSERVATION:

Equipment disposals are reported to the Department of Administrative Services (DAS) on a monthly basis via the Form P-21. Disposals are sent to the DAS, Surplus Property, accompanied by a Form P-11, Declaration of Surplus Property, in accordance with the DAS Manual of Procedures PART Adm-Pla 508.01 (expired). Ten equipment disposals, reported on the Form P-21(s), were examined and the following issues were noted.

- Surplus Property was unable to confirm the receipt of one of the ten equipment items.
- The ten disposals were reported on seven Form P-11(s). Four of these seven forms were prepared and approved by the same individual as evidenced by signatures and one of the other three forms lacked a signed approval. Preparation and approval of the Form P-11 by the same individual or lack of documented approval weakens internal controls over equipment disposal procedures.

RECOMMENDATION:

It is recommended that the Department of Justice (DOJ) develop and implement a procedure which documents Surplus Property's receipt of equipment. Consideration should be given to requesting Surplus Property personnel sign and date the Declaration of Surplus Property, Form P-11, to evidence the receipt of the equipment.

To strengthen internal controls over equipment disposal procedures, it is recommended that the DOJ document the approval of all Form P-11(s) and the duties of Form P-11 preparation and approval be segregated.

AUDITEE RESPONSE:

We agree that the P-11 Forms should have been prepared by one staff member and approved by another. As a result of this observation, we have instituted a procedure which requires that the duties of Form P-11 preparation and approval be performed by two different staff members.

We note that our paperwork documents that all surplus equipment had been turned over to Surplus Property, but agree that Surplus Property could not document receipt of one piece of equipment. Accordingly, we are now requiring our staff to obtain the signature on the Form P-11 of the person at Surplus Property receiving our surplus equipment at the time the equipment is turned over.

OBSERVATION NO. 9: MONTHLY EQUIPMENT ADJUSTMENT REPORTS - UNTIMELY PREPARATION

OBSERVATION:

The Department of Administrative Services' Manual of Procedures (MOP) PART Adm-Pla 506.06 (expired) and Technical Assistance Manual, section PMT 605.05, require a monthly reporting of equipment acquisitions and disposals. The reporting document is the Form P-21. The MOP directs agencies to prepare the Form P-21 on the first of each month to report adjustments to the equipment balance which occurred in the previous month. The Department of Justice (DOJ) prepared the required report, Form P-21, for each of the eighteen months comprising the audit periods. During the examination of these reports, a report was considered timely if it was prepared during the month subsequent to the respective reporting period. Five of the eighteen reports (28%) were considered to be untimely as they were prepared more than a month after the related reporting period. The number of days following the month subsequent to the reporting period ranged from eleven to sixty-one days and averaged thirty-two days.

RECOMMENDATION:

It is recommended that the DOJ implement procedures which promote the timely preparation of the monthly equipment adjustment report, Form P-21.

AUDITEE RESPONSE:

We agree that some of our Form P-21 reports were not prepared in a timely manner as required by Adm. 506.06. We note that, nevertheless, they were completed as required and were accurate in accountability.

As a result of this observation, we have stressed with our staff the importance of the timely submission of these reports. We will endeavor to ensure that they are henceforth submitted in a timely 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 statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control 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 on the preceding pages is a material weakness.

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

Office of Legislative Budget Assistant

OFFICE OF LEGISLATIVE BUDGET ASSISTANT

August 9, 1996

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AUDITOR'S REPORT ON STATE AND FEDERAL COMPLIANCE

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the accompanying financial statements of the New Hampshire Department of Justice for the year ended June 30, 1995 and for the six months ended December 31, 1995, and have issued our qualified report thereon dated August 9, 1996, which was qualified with respect to the lack of presentation of the financial position of the Department, the accounting for general fixed assets, and the understatement of General Fund revenue for the six months ended December 31, 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 statements are free of material misstatement.

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

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we have noted on pages twenty-five through thirty-one instances of noncompliance with state statutes and federal regulations, while not material to the financial statements, we believe to be worthy of report mention.

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

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

August 9, 1996

STATE COMPLIANCE

OBSERVATION NO. 10: REVIEW OF DRUG ASSET FORFEITURE GUIDELINES

OBSERVATION:

New Hampshire Revised Statutes Annotated (RSA) 318-B:17-e, effective August 7, 1994, requires the Department of Justice (DOJ) to submit its Drug Asset Forfeiture Guidelines at least annually to the House Judiciary and Family Law Committee and the Senate Judiciary Committee for review and comment. Using the effective date as the starting point, the DOJ should have submitted the guidelines to these legislative committees by August 7, 1995. During testing, it was noted that the guidelines were not submitted until July 1996.

RECOMMENDATION:

It is recommended that the DOJ implement procedures that will ensure the Drug Asset Forfeiture Guidelines are submitted as directed by RSA 318-B:17-e.

AUDITEE RESPONSE:

We can find no record evidencing transmittal of the Drug Asset Forfeiture Guidelines to the House Judiciary and Family Law Committee and the Senate Judiciary Committee on or before August 7, 1995, nor do the records of those committees evidence receiving such a transmittal. Accordingly, we concur in this observation. We note that the Guidelines were properly adopted and provided to what was then the House Judiciary Committee and to the Senate Judiciary Committee in 1993, and that they remained in effect without amendment throughout the period in question.

In July, 1996, we transmitted copies of the Guidelines to the House Judiciary and Family Law and Senate Judiciary Committees and requested legislative review and comment on two proposed amendments.

OBSERVATION NO. 11: UNADOPTED ADMINISTRATIVE RULES

OBSERVATION:

New Hampshire Revised Statutes Annotated (RSA) 21-M:8-d requires the Department of Justice (DOJ) to adopt administrative rules, pursuant to RSA 541-A, establishing a standardized rape protocol and kit and a domestic violence protocol to be used by physicians and hospitals when providing physical examinations of victims. The portions of RSA 21-M:8-d requiring

OBSERVATION NO. 11: UNADOPTED ADMINISTRATIVE RULES (Continued)

OBSERVATION (Continued):

administrative rules establishing a standardized rape protocol and kit, and a domestic violence protocol were effective April 26, 1988 and January 1, 1994, respectively.

Based on discussions with the DOJ management, it appears that the protocols and kit have been established and are operating. However, the related administrative rules have yet to be adopted.

RECOMMENDATION:

It is recommended that the DOJ adopt the administrative rules required by RSA 21-M:8-d or seek to amend the RSA accordingly.

AUDITEE RESPONSE:

RSA 21-M:8-d provides that "[t]he department of justice shall adopt ... and implement rules establishing a standardized rape protocol and kit and a domestic violence protocol to be used by all physicians or hospitals in this State when providing physical examinations of victims of alleged sexual offenses and alleged domestic abuse ...". Accordingly, we are not only authorized to adopt rules in this area but required to do so.

Although we had in progress our rape protocol and kit at the time of the 1988 effective date of that portion of the statute concerning the rape protocol and kit and our domestic violence protocol at the time of the 1994 effective date of that portion of the statute concerning the domestic violence protocol, and although, as the observation notes, we have adopted and implemented a comprehensive standardized rape protocol and kit and a comprehensive domestic violence protocol, neither of them has been adopted by rule. Therefore, in order to comply with both the requirements of RSA 21-M:8-d and this observation, we have now commenced the rulemaking process for both our standardized rape protocol and kit and our domestic violence protocol. As recommended in this Observation, the rulemaking process will continue to completion or revisions to RSA 21-M:8-d will be sought.

OBSERVATION NO. 12: CALCULATION OF AUDIT SET ASIDE PAYMENT

OBSERVATION:

New Hampshire Revised Statutes Annotated (RSA) 124:16 requires State departments which receive federal funds to set aside an amount equal to a percentage of those funds to pay for financial and compliance audits of federal grants. The percentage rate for the audit set aside in effect for fiscal year 1995 was .1%. Audit set aside payments are made to the

OBSERVATION NO. 12: CALCULATION OF AUDIT SET ASIDE PAYMENT (Continued)

OBSERVATION (Continued):

Department of Administrative Services.

In accordance with RSA 124:16, the audit set aside should be calculated by applying the percentage rate to the amount of federal funds received. During testing it was noted that the Department of Justice (DOJ) incorrectly applied the .1% rate to federally funded expenditures, net of audit set aside and indirect cost expenditures. Using this net expenditure base rather than a federal funds received base resulted in a \$105 underpayment to the Department of Administrative Services during fiscal year 1995. While it is recognized that the underpayment is of little dollar significance, it appears the DOJ misinterpreted the statute.

RECOMMENDATION:

It is recommended that the DOJ calculate the audit set aside in accordance with RSA 124:16. Using the amount of federal funds received as the base to apply the percentage rate to, rather than a net expenditure base, will allow for compliance with the RSA and should also simplify the DOJ's current calculation method.

AUDITEE RESPONSE:

We agree that our method of calculation has resulted in the imbalance noted during Fiscal Year 1995. While we disagree that we have been out of compliance with RSA 124:16, we have nevertheless implemented the change recommended.

As the Observation notes, RSA 124:16 requires that the set aside be based upon the amount of federal funds received. We believe that our former method of calculation complied with that requirement. The Fiscal Year 1995 underpayment was due to the cyclical nature of expenses made one month and revenue received in another. Revenue and expenses will equal themselves at the end of a grant period, which usually covers at least two fiscal years, resulting in payment of the audit set aside on the full amount of the federal grant received over the life of the grant. However, it is, as the observation notes, both easier and in the short term more accurate, to calculate the set aside based on gross revenue; we began that process with revenue received in July, 1996.

FEDERAL COMPLIANCE

OBSERVATION NO. 13: MEDICAID FRAUD CONTROL UNIT - QUESTIONED COSTS CHARGED TO FEDERAL GRANT

OBSERVATION:

The Medicaid Fraud Control Unit is 75% funded by a federal grant. During testing it was noted that the following questioned costs were charged to the federal grant.

- Based on a review of documentation on file at the Department of Justice (DOJ) Medicaid Fraud Control Unit (the Unit), it appears that a federally funded employee of the Unit may have worked on areas outside of the federal grant between July and September of 1994. The Director of the Unit noted that the employee's salary and benefits could not be paid by the federal grant during the time the employee worked outside of the grant. However, it appears the salary and benefits of this employee during that time period (\$4,239) were charged to the grant and 75% (\$3,179) was reimbursed to the DOJ.

Questioned Costs: \$3,179

CFDA Number: 93.775

Federal Grantor: U.S. Department of Health and Human Services

RECOMMENDATION:

It is recommended that the DOJ, 1) monitor all charges to its federal grants to ensure only those costs that are allowable under grant provisions are reimbursed by the federal grantor, and 2) resolve the questioned costs noted with the U.S. Department of Health and Human Services.

AUDITEE RESPONSE:

We believe that the Recommendation set forth in this Observation is not necessary because, as to the first recommendation, all charges to federal grants are and at all relevant times have been monitored to ensure that only those costs that are allowable are reimbursed by the federal grantor and, as to the second recommendation, there are no questioned costs to be resolved with the federal grantor.

The factual statements set forth in this Observation are no doubt based upon the documented recommendation of the Director of the Medicaid Fraud Control Unit that the work which is the subject of this part of this Observation was outside of the area of the federal grant. While it is true that such a recommendation was made, that recommendation was based upon a misconstruction of the grant terms and a misunderstanding of the work itself, and was accordingly not accepted. This issue received the personal

OBSERVATION NO. 13: MEDICAID FRAUD CONTROL UNIT - QUESTIONED COSTS CHARGED TO FEDERAL GRANT (Continued)

AUDITEE RESPONSE (Continued):

attention of the Deputy Attorney General, who determined that the work of the employee was within the area of the federal grant and that the employee's salary and benefits should be paid by the federal grant during this period. It was accordingly appropriate to charge the grant and receive reimbursement from the federal grantor.

OBSERVATION NO. 14: FEDERAL FINANCIAL REPORTS NOT FILED TIMELY

OBSERVATION:

Most federal programs require the periodic submission of financial reports. During the audit periods, the Department of Justice (DOJ) received funds from seven federal programs. The DOJ's compliance with the financial reporting requirements for four of these seven programs was examined. Reporting by the State Medicaid Fraud Control Unit was found to be timely and accurate. The reporting requirements, submission requirements, and testing results of the three other programs examined are described below.

Federal Program: Americorps

CFDA Number: 94.006

Federal Grantor: Corporation for National and Community Service

Reporting Requirements: Financial Status Report (Form SF-269)
Federal Cash Transactions (Form SF-272)

Submission Requirements: SF-269 due the third day following each quarter end
SF-272 due 45 days after quarter end

Testing Results: No SF-269(s) were submitted.

Four SF-272(s) were required to be submitted during the audit periods. One of these four reports was not submitted and another was submitted 30 business days after the due date.

Receipt and disbursement amounts reported on the SF-272(s) were not supported by the DOJ's accounting records.

OBSERVATION NO. 14: FEDERAL FINANCIAL REPORTS NOT FILED TIMELY
(Continued)

OBSERVATION (Continued):

Federal Program: Drug Control and System Improvement
CFDA Number: 16.579
Federal Grantor: U.S. Department of Justice

Reporting Requirements: Financial Status Report (Form SF-269)

Submission Requirements: SF-269 due 45 days after quarter end

Testing Results: The DOJ administered four grants under the Drug Control and System Improvement program. An SF-269 was submitted quarterly for each of the four grants. During the audit periods, twenty-two reports were required to be submitted and were submitted in a timely manner.

The purpose of the SF-269 is to report grant expenditures. The DOJ erroneously reported grant revenues rather than expenditures on this form.

Federal Program: Crime Victim Assistance
CFDA Number: 16.575
Federal Grantor: U.S. Department of Justice

Reporting Requirements: Financial Status Report (Form SF-269)

Submission Requirements: SF-269 due 45 days after quarter end

Testing Results: The DOJ administered five grants under the Crime Victim Assistance program. An SF-269 was submitted quarterly for each of the five grants. During the audit periods twenty-one reports were required to be submitted. Twenty of these reports were submitted timely and one was submitted three business days after the due date.

The purpose of the SF-269 is to report grant expenditures. The DOJ erroneously reported grant revenues rather than expenditures on this form.

RECOMMENDATION:

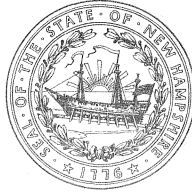
To better comply with federal financial reporting requirements, it is recommended that the DOJ implement procedures which support timely and accurate reporting on a consistent basis.

OBSERVATION NO. 14: FEDERAL FINANCIAL REPORTS NOT FILED TIMELY
(Continued)

AUDITEE RESPONSE:

This observation is accurate in that only 50 of the 53 reports required during this period were timely filed. It also needs to be noted, however, that no federal payments were withheld during the audit period due to the noted financial reporting problems, and that documentation verifying all reported amounts is available. In addition, we have changed to an electronic reporting format which will help ensure the timely submission of all reports. Finally, with respect to the reporting of revenues rather than expenditures, as a result of confusion among a number of states on this issue, in 1996 the U.S. Department of Justice advised all states that the reporting of expenditures was required and we have since complied.

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State of New Hampshire

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AUDITOR'S REPORT ON MANAGEMENT ISSUES

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the accompanying financial statements of the New Hampshire Department of Justice for the year ended June 30, 1995 and for the six months ended December 31, 1995, and have issued our qualified report thereon dated August 9, 1996, which was qualified with respect to the lack of presentation of the financial position of the Department, the accounting for general fixed assets, and the understatement of General Fund revenue for the six months ended December 31, 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 statements are free of material misstatement.

In planning and performing our audit of the financial statements of the New Hampshire Department of Justice for the year ended June 30, 1995 and for the six months ended December 31, 1995 we noted an issue related to the operation of the Department that merits management consideration but does not meet the definition of a reportable condition as defined by the American Institute of Certified Public Accountants, and was not an issue of noncompliance with laws, rules or regulations.

The issue that we believe is worthy of management consideration but does not meet the criteria of reportable conditions or noncompliance is included on pages thirty-four and thirty-five.

This report is intended for the information of the management of the New Hampshire Department of Justice 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

August 9, 1996

MANAGEMENT ISSUE

OBSERVATION NO. 15: BILLING FOR LEGAL SERVICES PROVIDED TO STATE ORGANIZATIONS

The Department of Justice (DOJ) uses two methods to directly recover a portion of its costs for providing legal services to certain State government organizations. The cost recovery methods used by the DOJ are described below.

- The DOJ bills five State organizations based on the actual cost of services provided. The DOJ recovered \$636,396 from these five organizations in fiscal year 1995. These five organizations and the amount each paid are:

#	State Organizations	Amount
1	Department of Transportation	\$413,988
2	Department of Environmental Services Oil Pollution Fund	84,452
3	Highway Safety	84,180
4	Pease Development Authority	50,145
5	Department of Employment Security	3,631
	TOTAL AMOUNT RECOVERED	\$636,396

- The DOJ bills eight State organizations based on the amount budgeted in the State operating budget. The DOJ recovered \$417,189 from these eight organizations in fiscal year 1995. These eight organizations and the amount each paid are:

#	State Organizations	Amount
1	Department of Environmental Services Hazardous Waste	\$155,080
2	Board of Medicine	66,044
3	Public Utilities Commission	62,836
4	Board of Psychologists	60,000
5	Police Standards & Training Council	45,716
6	Joint Board	13,381
7	Dental Board	10,827
8	Board of Chiropractors	3,305
	TOTAL AMOUNT RECOVERED	\$417,189

OBSERVATION NO. 15: BILLING FOR LEGAL SERVICES PROVIDED TO STATE ORGANIZATIONS (Continued)

The Department of Administrative Services also recovered approximately \$1.8 million of DOJ costs from federally-funded and other self-sustaining State government organizations through transfers to the Statewide Indirect Cost Pool in fiscal year 1995.

OBSERVATION:

While each of the methods used for the recovery of costs is appropriate, the DOJ was unable to explain the rationale for using its two methods. The DOJ was also unable to provide documentation showing that it had periodically reviewed and made revisions to the budgeted amounts to ensure they continued to reflect the appropriate cost of providing service to these organizations. The DOJ has a detailed timekeeping system that could provide information needed to perform such an analysis. Based on discussions with agency personnel, budgeted amounts are based on historical budget figures.

RECOMMENDATION:

It is recommended that the DOJ review its methods of recovering costs for providing legal services to State government organizations to determine whether its cost recovery methods are the most efficient, effective and accurate way to recover its costs. If it determines that the recovery of costs through the billing of budgeted amounts continues to be appropriate, the DOJ should periodically review and document the allocation of those costs to ensure that they remain appropriate for the services provided.

AUDITEE RESPONSE:

Agencies are billed according to their classification as directed in the operating budget. Those whose revenue appears in the 001 class as interagency transfers are billed for the entire budgeted amount either quarterly or annually, in accordance with that agency's request. This practice is followed in order to comply with the operating budget and optimize revenue for components with mixed funding sources. Transfers from the Department of Transportation (Highway Fund) are in the 002 revenue class and are accordingly billed at actual cost. All other revenue found in the 009 revenue class (agency income) is billed at actual cost for services rendered.

As to those agencies supporting the work of this agency through interagency transfers of budgeted revenue, the amount of the transfer is reexamined and adjusted during every budget cycle to ensure that it continues to bear an appropriate relationship to the work performed.

INDEPENDENT AUDITOR'S REPORT

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the accompanying financial statements of the New Hampshire Department of Justice for the year ended June 30, 1995 and for the six months ended December 31, 1995. These financial statements are the responsibility of the management of the Department of Justice. Our responsibility is to express an opinion on the financial statements based on our audit.

Except as discussed in the fourth 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully discussed in NOTE 1, the financial statements referred to in paragraph one are not intended to present the financial position of the New Hampshire Department of Justice.

As more fully described in NOTE 3, the New Hampshire Department of Justice 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 described in NOTE 8, the New Hampshire Department of Justice did not record accounts receivable in accordance with generally accepted accounting principles, and thus understated General Fund revenue by \$126,026 for the six months ended December 31, 1995.

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 fourth paragraph and the matters discussed in the third and fifth paragraphs, the financial statements referred to above present fairly, in all material respects, certain financial activity of the New Hampshire Department of Justice for the year ended June 30, 1995 and for the six months ended December 31, 1995 in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph. The accompanying Schedules of Budgetary Components and Federal Financial Assistance (Cash Basis) are presented on pages fifty-one through fifty-six for the purpose of additional analysis and are not required parts of the financial statements of the New Hampshire Department of Justice. Such information has been subjected to the auditing procedures applied in our audit of the financial statements referred to in the first paragraph and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 9, 1996 on our consideration of the New Hampshire Department of Justice's internal control structure and a report dated August 9, 1996 on its compliance with laws and regulations.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

August 9, 1996

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF JUSTICE**

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

	<u>GENERAL FUND</u>		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>FAVORABLE/ (UNFAVORABLE) VARIANCE</u>
<u>REVENUES</u>			
UNRESTRICTED REVENUES			
JUDGMENTS & RECOVERIES	\$ 240,000	\$ 754,472	\$ 514,472
CONDOMINIUM & LAND SUBDIVISION FEES	100,000	65,100	(34,900)
CHARITABLE TRUSTS DIRECTORY SALES	<u>2,000</u>	<u>795</u>	<u>(1,205)</u>
TOTAL UNRESTRICTED REVENUES	<u>\$ 342,000</u>	<u>\$ 820,367</u>	<u>\$ 478,367</u>
RESTRICTED REVENUES			
LEGAL SERVICES	\$1,245,154	\$1,185,175	\$ (59,979)
FEDERAL FUNDS	670,342	441,585	(228,757)
PENALTY ASSESSMENTS	340,002	262,930	(77,072)
CHARITABLE TRUSTS REGISTRATIONS	180,086	210,470	30,384
ANTITRUST ENFORCEMENT FUND	83,621	27,438	(56,183)
DRUG FORFEITURE FUND	<u>451,585</u>	<u>501,290</u>	<u>49,705</u>
TOTAL RESTRICTED REVENUES	<u>\$2,970,790</u>	<u>\$2,628,888</u>	<u>\$ (341,902)</u>
TOTAL REVENUES	<u>\$3,312,790</u>	<u>\$3,449,255</u>	<u>\$ 136,465</u>
<u>EXPENDITURES</u>			
ADMINISTRATIVE	\$1,854,910	\$1,722,350	\$ 132,560
BUREAU OF CIVIL LAW	1,430,952	1,321,600	109,352
BUREAU OF CRIMINAL JUSTICE	1,103,375	1,050,611	52,764
BUREAU OF ENVIRONMENTAL PROTECTION	781,697	712,249	69,448
BUREAU OF CONSUMER PROTECTION & ANTITRUST	1,048,168	846,519	201,649
MEDICAID FRAUD CONTROL UNIT	491,759	417,026	74,733
BUREAU OF TRANSPORTATION & CONSTRUCTION	458,142	416,184	41,958
OFFICE OF CHIEF MEDICAL EXAMINER	345,278	322,735	22,543
OFFICE OF VICTIM/WITNESS ASSISTANCE	751,061	503,776	247,285
CHARITABLE TRUSTS UNIT	180,392	175,145	5,247
OTHER	483,119	166,971	316,148
DRUG FORFEITURE FUND	800,588	576,242	224,346
GRANT PAYMENTS	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
TOTAL EXPENDITURES	<u>\$9,729,441</u>	<u>\$8,231,408</u>	<u>\$1,498,033</u>

The accompanying notes are an integral

SPECIAL FUND			COMBINED TOTAL (MEMO ONLY)		
BUDGET	ACTUAL	FAVORABLE/ (UNFAVORABLE) VARIANCE	BUDGET	ACTUAL	FAVORABLE/ (UNFAVORABLE) VARIANCE
\$ -0-	\$ -0-	\$ -0-	\$ 240,000	\$ 754,472	\$ 514,472
-0-	-0-	-0-	100,000	65,100	(34,900)
-0-	-0-	-0-	2,000	795	(1,205)
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 342,000</u>	<u>\$ 820,367</u>	<u>\$ 478,367</u>
\$ -0-	\$ -0-	\$ -0-	\$ 1,245,154	\$ 1,185,175	\$ (59,979)
7,465,494	2,501,291	(4,964,203)	8,135,836	2,942,876	(5,192,960)
-0-	-0-	-0-	340,002	262,930	(77,072)
-0-	-0-	-0-	180,086	210,470	30,384
-0-	-0-	-0-	83,621	27,438	(56,183)
-0-	-0-	-0-	451,585	501,290	49,705
<u>\$7,465,494</u>	<u>\$2,501,291</u>	<u>\$ (4,964,203)</u>	<u>\$10,436,284</u>	<u>\$ 5,130,179</u>	<u>\$ (5,306,105)</u>
<u>\$7,465,494</u>	<u>\$2,501,291</u>	<u>\$ (4,964,203)</u>	<u>\$10,778,284</u>	<u>\$ 5,950,546</u>	<u>\$ (4,827,738)</u>
\$1,474,586	\$ 890,104	\$ 584,482	\$ 3,329,496	\$ 2,612,454	\$ 717,042
-0-	-0-	-0-	1,430,952	1,321,600	109,352
-0-	-0-	-0-	1,103,375	1,050,611	52,764
-0-	-0-	-0-	781,697	712,249	69,448
-0-	-0-	-0-	1,048,168	846,519	201,649
-0-	-0-	-0-	491,759	417,026	74,733
-0-	-0-	-0-	458,142	416,184	41,958
-0-	-0-	-0-	345,278	322,735	22,543
-0-	-0-	-0-	751,061	503,776	247,285
-0-	-0-	-0-	180,392	175,145	5,247
-0-	-0-	-0-	483,119	166,971	316,148
-0-	-0-	-0-	800,588	576,242	224,346
<u>5,993,408</u>	<u>1,612,663</u>	<u>4,380,745</u>	<u>5,993,408</u>	<u>1,612,663</u>	<u>4,380,745</u>
<u>\$7,467,994</u>	<u>\$2,502,767</u>	<u>\$ 4,965,227</u>	<u>\$17,197,435</u>	<u>\$10,734,175</u>	<u>\$ 6,463,260</u>

part of these financial statements.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF JUSTICE**

**COMBINED STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL AND SPECIAL FUNDS
FOR THE SIX MONTHS ENDED DECEMBER 31, 1995**

	GENERAL FUND		
	BUDGET	ACTUAL	FAVORABLE/ (UNFAVORABLE) VARIANCE
<u>REVENUES</u>			
UNRESTRICTED REVENUES			
JUDGMENTS & RECOVERIES	\$ 250,000	\$ 41,645	\$ (208,355)
CONDOMINIUM & LAND SUBDIVISION FEES	100,000	34,330	(65,670)
CHARITABLE TRUSTS DIRECTORY SALES	2,000	906	(1,094)
TOTAL UNRESTRICTED REVENUES	\$ 352,000	\$ 76,881	\$ (275,119)
RESTRICTED REVENUES			
LEGAL SERVICES	\$1,312,638	\$ 534,095	\$ (778,543)
FEDERAL FUNDS	480,222	130,723	(349,499)
PENALTY ASSESSMENTS	400,517	156,129	(244,388)
CHARITABLE TRUSTS REGISTRATIONS	194,142	87,480	(106,662)
ANTITRUST ENFORCEMENT FUND	121,089	13,884	(107,205)
DRUG FORFEITURE FUND	116,298	134,493	18,195
TOTAL RESTRICTED REVENUES	\$2,624,906	\$1,056,804	\$ (1,568,102)
TOTAL REVENUES	\$2,976,906	\$1,133,685	\$ (1,843,221)
<u>EXPENDITURES</u>			
ADMINISTRATIVE	\$1,772,472	\$ 850,667	\$ 921,805
BUREAU OF CIVIL LAW	1,336,024	603,948	732,076
BUREAU OF CRIMINAL JUSTICE	1,176,313	567,368	608,945
BUREAU OF ENVIRONMENTAL PROTECTION	761,173	345,673	415,500
BUREAU OF CONSUMER PROTECTION & ANTITRUST	1,077,906	393,403	684,503
MEDICAID FRAUD CONTROL UNIT	516,055	186,449	329,606
BUREAU OF TRANSPORTATION & CONSTRUCTION	468,646	211,390	257,256
OFFICE OF CHIEF MEDICAL EXAMINER	304,534	135,810	168,724
OFFICE OF VICTIM/WITNESS ASSISTANCE	631,415	221,101	410,314
CHARITABLE TRUSTS UNIT	200,639	95,882	104,757
OTHER	329,561	76,041	253,520
DRUG FORFEITURE FUND	390,348	101,835	288,513
GRANT PAYMENTS	-0-	-0-	-0-
TOTAL EXPENDITURES	\$8,965,086	\$3,789,567	\$ 5,175,519

The accompanying notes are an integral

SPECIAL FUND			COMBINED TOTAL (MEMO ONLY)		
BUDGET	ACTUAL	FAVORABLE/ (UNFAVORABLE) VARIANCE	BUDGET	ACTUAL	FAVORABLE/ (UNFAVORABLE) VARIANCE
\$ -0-	\$ -0-	\$ -0-	\$ 250,000	\$ 41,645	\$ (208,355)
-0-	-0-	-0-	100,000	34,330	(65,670)
-0-	-0-	-0-	2,000	906	(1,094)
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 352,000</u>	<u>\$ 76,881</u>	<u>\$ (275,119)</u>
\$ -0-	\$ -0-	\$ -0-	\$ 1,312,638	\$ 534,095	\$ (778,543)
5,194,234	967,354	(4,226,880)	5,674,456	1,098,077	(4,576,379)
-0-	-0-	-0-	400,517	156,129	(244,388)
-0-	-0-	-0-	194,142	87,480	(106,662)
-0-	-0-	-0-	121,089	13,884	(107,205)
-0-	-0-	-0-	116,298	134,493	18,195
<u>\$5,194,234</u>	<u>\$ 967,354</u>	<u>\$ (4,226,880)</u>	<u>\$ 7,819,140</u>	<u>\$ 2,024,158</u>	<u>\$ (5,794,982)</u>
<u>\$5,194,234</u>	<u>\$ 967,354</u>	<u>\$ (4,226,880)</u>	<u>\$ 8,171,140</u>	<u>\$ 2,101,039</u>	<u>\$ (6,070,101)</u>
\$ 955,408	\$ 323,058	\$ 632,350	\$ 2,727,880	\$ 1,173,725	\$ 1,554,155
-0-	-0-	-0-	1,336,024	603,948	732,076
-0-	-0-	-0-	1,176,313	567,368	608,945
-0-	-0-	-0-	761,173	345,673	415,500
-0-	-0-	-0-	1,077,906	393,403	684,503
-0-	-0-	-0-	516,055	186,449	329,606
-0-	-0-	-0-	468,646	211,390	257,256
-0-	-0-	-0-	304,534	135,810	168,724
-0-	-0-	-0-	631,415	221,101	410,314
-0-	-0-	-0-	200,639	95,882	104,757
-0-	-0-	-0-	329,561	76,041	253,520
-0-	-0-	-0-	390,348	101,835	288,513
<u>4,239,849</u>	<u>683,914</u>	<u>3,555,935</u>	<u>4,239,849</u>	<u>683,914</u>	<u>3,555,935</u>
<u>\$5,195,257</u>	<u>\$1,006,972</u>	<u>\$ 4,188,285</u>	<u>\$14,160,343</u>	<u>\$ 4,796,539</u>	<u>\$ 9,363,804</u>

part of these financial statements.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF JUSTICE**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FINANCIAL REPORTING ENTITY

The Department of Justice established under RSA 21-M is an organization of the primary government of the State of New Hampshire. The financial activity of the Department of Justice is accounted for in the General and Special Funds 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. The Department of Justice, as an organization of the primary government, accounts for only a small portion of the General and Special Funds and those assets, liabilities and fund balances as reported in the CAFR that are attributable to the Department of Justice cannot be determined. Accordingly, the accompanying financial statements are not intended to show the financial position of the Department of Justice in the General and Special Funds and the changes in these fund balances are not reported on the accompanying financial statements.

B. BASIS OF PRESENTATION - FUND ACCOUNTING

Financial Statements

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

Fund Accounting

The Department of Justice uses funds and account groups to report on its financial position and the results of its 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 STATEMENTS (Continued)

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

B. BASIS OF PRESENTATION - FUND ACCOUNTING (Continued)

GOVERNMENTAL FUND TYPES

General Fund

The General Fund accounts for all financial transactions not specifically accounted for in any other fund. By law, all revenues of governmental funds are paid at least weekly into the State Treasury. All such revenues, other than certain designated revenues, are credited to the General Fund. Annual expenditures that are not allocated by law to other funds are charged to the General Fund.

Special 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 the Department of Justice for the performance of its operations are reflected in the General Fixed Assets Account Group at the time of acquisition. As of June 30, 1995 and December 31, 1995, the Department of Justice 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.

General Long-Term Debt

Amounts related to the Department of Justice's cumulative liability for compensated absences are reflected in the General Long-Term Debt Account Group.

C. BASIS OF ACCOUNTING

The State of New Hampshire accounts for its financial transactions related to the General and Special Funds on the modified accrual basis of accounting, under which revenues are recognized when measurable and available to finance operations during the year. "Measurable" means the

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

C. BASIS OF ACCOUNTING (Continued)

amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized in the period in which obligations are incurred. Expenditures made by the Department of Justice through governmental funds are limited by statute to appropriations made by the Legislature.

D. BUDGETARY DATA

General Budget Policies

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature. This budget consists of three parts: part I is the Governor's program for meeting all expenditure needs as well as estimating revenues to be received; 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 operations of the Department of Justice are budgeted in the General and Special Funds.

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 generated by Governor and Council action, annual session laws, and existing statutes which require appropriations under certain circumstances. As shown on the Schedules of Budgetary Components on pages fifty-one through fifty-four, the final budgeted amount includes the initial operating budget plus supplemental appropriation warrants, balances brought forward, and transfers.

The Combined Statement of Revenues and Expenditures-Budget and Actual-General and Special Funds is presented as the Department of Justice's financial statement for the year ended June 30, 1995 and for the six months ended December 31, 1995.

The variance is the difference between budgeted and actual amounts. For revenue, a favorable variance results from actual revenue for the reporting period exceeding the amounts budgeted for the fiscal year. Unfavorable revenue variances represent actual revenue collected being less than amounts budgeted. For expenditures, a favorable variance results from actual expenditures of the reporting period being less than the amount budgeted for the fiscal year. The favorable expenditure variances represent a combination of ending available balances and unliquidated encumbrances. The

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

D. BUDGETARY DATA (Continued)

General Budget Policies (Continued)

unliquidated encumbrances at June 30, 1995 in the General and Special Funds were \$17,412 and \$2,823,804, respectively. The unliquidated encumbrances at December 31, 1995 in the General and Special Funds were \$50,491 and \$2,804,626, respectively. Unfavorable expenditure variances represent actual expenditures for the reporting period exceeding the amounts budgeted for the fiscal year.

When statements are presented at an interim date, a date other than a June 30 fiscal year end, the variance reflects the difference between the twelve month budgeted amount and a partial year's actual revenue and expenditures. Thus, on the six months ended December 31, 1995 financial statements, unfavorable variances in revenues are expected, because six months of actual receipts are compared to the amount of revenue expected to be collected in the twelve month budget period. Similarly, favorable expenditure variances are expected, as six months of actual expenditures are compared to the amounts expected to be expended in the twelve month budget period.

RSA 9:3-a requires the Governor to submit a capital budget to the Legislature in each odd numbered year. The enacted capital budget authorizes appropriations that are usually intended to be expended over several years. The Capital Projects Fund is disclosed in NOTE 6.

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.

E. FIXED ASSETS - GENERAL (UNAUDITED)

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

F. 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. In addition, the Department of Administrative Services charges rent to those departments that are housed in State-owned buildings. These fees are not considered material and are recorded as revenue by the servicing department and as expenditures by the user department.

G. INTERPRETATION OF TOTAL (MEMO ONLY) COLUMN

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

NOTE 2 -- CASH AND DEPOSITS

The Department of Justice maintains a checking account for the main purpose of making disbursements to Drug Task Force personnel for the purchase of evidence. The checking account was authorized by Governor and Council as a \$10,000 revolving fund. The checking account is non-interest-bearing and is FDIC insured up to \$100,000. The total bank balance represents amounts on deposit as reported by the banking institution at June 30, 1995 and December 31, 1995. The carrying amount represents the balance per the Department of Justice's records at June 30, 1995 and December 31, 1995. The difference in demand deposits between the bank balance and the carrying amount is checks which have not cleared the bank as of June 30, 1995 and December 31, 1995.

	<u>FDIC Insured</u>	<u>Uninsured</u>	<u>Total Bank Balance</u>	<u>Total Carrying Amount</u>
Demand Deposits				
6/30/95	\$8,486	\$ -0-	\$8,486	\$8,331
12/31/95	\$6,852	\$ -0-	\$6,852	\$6,392

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 7 -- EMPLOYEE BENEFIT PLANS (Continued)

New Hampshire Retirement System (Continued)

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 year ended June 30, 1995 and the six months ended December 31, 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 the Department of Justice'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.

The Department of Justice's payments for normal contribution costs were 2.65% of covered payroll for the year ended June 30, 1995 and 3.14% of covered payroll for the six months ended December 31, 1995. 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 7 -- EMPLOYEE BENEFIT PLANS (Continued)

Deferred Compensation Plan

The Department of Justice as an organization of state government offers its 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 Department of Justice as an organization of State government provides postemployment health care benefits, in accordance with RSA 21-I:30, to all retired employees and their spouses on a non-contributory basis, as authorized by state statute.

During the year ended June 30, 1995 and the six months ended December 31, 1995, the State paid for the full cost of health insurance premiums for the Department of Justice's retired employees and spouses on a pay-as-you-go basis. The cost of the health insurance for the Department of Justice's employees and spouses is paid from an appropriation to the New Hampshire Retirement System and is not a part of the Department of Justice's financial statements.

NOTE 8 -- ACCOUNTS RECEIVABLE

The Department of Justice is required by State accounting policy to record accounts receivable at year end, June 30. The Department is not required by State accounting policy to record accounts receivable at December 31. As a result, the Department did not record \$126,026 in accounts receivable in the General Fund at December 31, 1995 in accordance with generally accepted accounting principles.

The effect of not recording accounts receivable was an understatement of revenue in the General Fund of \$126,026 for the six months ended December 31, 1995.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF JUSTICE**

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

	<u>OPERATING BUDGET</u>	<u>SUPPLEMENTAL WARRANTS</u>	<u>BALANCES FORWARD</u>	<u>NET TRANSFERS</u>	<u>BUDGET</u>
<u>REVENUES</u>					
UNRESTRICTED REVENUES					
JUDGMENTS & RECOVERIES	\$ 240,000	\$ -0-	\$ -0-	\$ -0-	\$ 240,000
CONDOMINIUM & LAND SUBDIVISION FEES	100,000	-0-	-0-	-0-	100,000
CHARITABLE TRUSTS DIRECTORY SALES	<u>2,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>2,000</u>
TOTAL UNRESTRICTED REVENUES	<u>\$ 342,000</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 342,000</u>
RESTRICTED REVENUES					
LEGAL SERVICES	\$1,142,129	\$ 103,915	\$ (890)	\$ -0-	\$1,245,154
FEDERAL FUNDS	406,998	84,000	179,344	-0-	670,342
PENALTY ASSESSMENTS	340,533	-0-	-0-	(531)	340,002
CHARITABLE TRUSTS REGISTRATIONS	180,086	-0-	-0-	-0-	180,086
ANTITRUST ENFORCEMENT FUND	101,868	-0-	(18,247)	-0-	83,621
DRUG FORFEITURE FUND	<u>-0-</u>	<u>451,311</u>	<u>274</u>	<u>-0-</u>	<u>451,585</u>
TOTAL RESTRICTED REVENUES	<u>\$2,171,614</u>	<u>\$ 639,226</u>	<u>\$ 160,481</u>	<u>\$ (531)</u>	<u>\$2,970,790</u>
TOTAL REVENUES	<u>\$2,513,614</u>	<u>\$ 639,226</u>	<u>\$ 160,481</u>	<u>\$ (531)</u>	<u>\$3,312,790</u>
<u>EXPENDITURES</u>					
ADMINISTRATIVE	\$2,031,014	\$ (181,029)	\$ 4,925	\$ -0-	\$1,854,910
BUREAU OF CIVIL LAW	1,443,727	5,246	-0-	(18,021)	1,430,952
BUREAU OF CRIMINAL JUSTICE	1,165,403	(28,054)	-0-	(33,974)	1,103,375
BUREAU OF ENVIRONMENTAL PROTECTION	781,697	-0-	-0-	-0-	781,697
BUREAU OF CONSUMER PROTECTION & ANTITRUST	669,578	91,513	251,881	35,196	1,048,168
MEDICAID FRAUD CONTROL UNIT	466,055	-0-	25,704	-0-	491,759
BUREAU OF TRANSPORTATION & CONSTRUCTION	456,516	-0-	-0-	1,626	458,142
OFFICE OF CHIEF MEDICAL EXAMINER	399,528	8,379	203	(62,832)	345,278
OFFICE OF VICTIM/WITNESS ASSISTANCE	368,833	84,000	161,779	136,449	751,061
CHARITABLE TRUSTS UNIT	180,086	-0-	-0-	306	180,392
OTHER	89,967	86,217	306,842	93	483,119
DRUG FORFEITURE FUND	-0-	451,311	349,277	-0-	800,588
GRANT PAYMENTS	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
TOTAL EXPENDITURES	<u>\$8,052,404</u>	<u>\$ 517,583</u>	<u>\$1,100,611</u>	<u>\$ 58,843</u>	<u>\$9,729,441</u>

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF JUSTICE**

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

	<u>OPERATING BUDGET</u>	<u>SUPPLEMENTAL WARRANTS</u>	<u>BALANCES FORWARD</u>	<u>NET TRANSFERS</u>	<u>BUDGET</u>
<u>REVENUES</u>					
UNRESTRICTED REVENUES					
JUDGMENTS & RECOVERIES	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
CONDOMINIUM & LAND SUBDIVISION FEES	-0-	-0-	-0-	-0-	-0-
CHARITABLE TRUSTS DIRECTORY SALES	-0-	-0-	-0-	-0-	-0-
TOTAL UNRESTRICTED REVENUES	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
RESTRICTED REVENUES					
LEGAL SERVICES	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
FEDERAL FUNDS	645,361	4,379,708	2,440,425	-0-	7,465,494
PENALTY ASSESSMENTS	-0-	-0-	-0-	-0-	-0-
CHARITABLE TRUSTS REGISTRATIONS	-0-	-0-	-0-	-0-	-0-
ANTITRUST ENFORCEMENT FUND	-0-	-0-	-0-	-0-	-0-
DRUG FORFEITURE FUND	-0-	-0-	-0-	-0-	-0-
TOTAL RESTRICTED REVENUES	<u>\$645,361</u>	<u>\$4,379,708</u>	<u>\$2,440,425</u>	<u>\$ -0-</u>	<u>\$7,465,494</u>
TOTAL REVENUES	<u>\$645,361</u>	<u>\$4,379,708</u>	<u>\$2,440,425</u>	<u>\$ -0-</u>	<u>\$7,465,494</u>
<u>EXPENDITURES</u>					
ADMINISTRATIVE	\$645,361	\$ 803,095	\$ 26,130	\$ -0-	\$1,474,586
BUREAU OF CIVIL LAW	-0-	-0-	-0-	-0-	-0-
BUREAU OF CRIMINAL JUSTICE	-0-	-0-	-0-	-0-	-0-
BUREAU OF ENVIRONMENTAL PROTECTION	-0-	-0-	-0-	-0-	-0-
BUREAU OF CONSUMER PROTECTION & ANTITRUST	-0-	-0-	-0-	-0-	-0-
MEDICAID FRAUD CONTROL UNIT	-0-	-0-	-0-	-0-	-0-
BUREAU OF TRANSPORTATION & CONSTRUCTION	-0-	-0-	-0-	-0-	-0-
OFFICE OF CHIEF MEDICAL EXAMINER	-0-	-0-	-0-	-0-	-0-
OFFICE OF VICTIM/WITNESS ASSISTANCE	-0-	-0-	-0-	-0-	-0-
CHARITABLE TRUSTS UNIT	-0-	-0-	-0-	-0-	-0-
OTHER	-0-	-0-	-0-	-0-	-0-
DRUG FORFEITURE FUND	-0-	-0-	-0-	-0-	-0-
GRANT PAYMENTS	-0-	3,576,613	2,416,795	-0-	5,993,408
TOTAL EXPENDITURES	<u>\$645,361</u>	<u>\$4,379,708</u>	<u>\$2,442,925</u>	<u>\$ -0-</u>	<u>\$7,467,994</u>

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF JUSTICE**

**SCHEDULE OF BUDGETARY COMPONENTS
GENERAL FUND
FOR THE SIX MONTHS ENDED DECEMBER 31, 1995**

	<u>OPERATING BUDGET</u>	<u>SUPPLEMENTAL WARRANTS</u>	<u>BALANCES FORWARD</u>	<u>NET TRANSFERS</u>	<u>BUDGET</u>
<u>REVENUES</u>					
UNRESTRICTED REVENUES					
JUDGMENTS & RECOVERIES	\$ 250,000	\$ -0-	\$ -0-	\$ -0-	\$ 250,000
CONDOMINIUM & LAND SUBDIVISION FEES	100,000	-0-	-0-	-0-	100,000
CHARITABLE TRUSTS DIRECTORY SALES	<u>2,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>2,000</u>
TOTAL UNRESTRICTED REVENUES	<u>\$ 352,000</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 352,000</u>
RESTRICTED REVENUES					
LEGAL SERVICES	\$1,293,962	\$ 18,676	\$ -0-	\$ -0-	\$1,312,638
FEDERAL FUNDS	401,222	79,000	-0-	-0-	480,222
PENALTY ASSESSMENTS	400,517	-0-	-0-	-0-	400,517
CHARITABLE TRUSTS REGISTRATIONS	194,142	-0-	-0-	-0-	194,142
ANTITRUST ENFORCEMENT FUND	96,703	-0-	24,386	-0-	121,089
DRUG FORFEITURE FUND	<u>-0-</u>	<u>116,024</u>	<u>274</u>	<u>-0-</u>	<u>116,298</u>
TOTAL RESTRICTED REVENUES	<u>\$2,386,546</u>	<u>\$213,700</u>	<u>\$ 24,660</u>	<u>\$ -0-</u>	<u>\$2,624,906</u>
TOTAL REVENUES	<u>\$2,738,546</u>	<u>\$213,700</u>	<u>\$ 24,660</u>	<u>\$ -0-</u>	<u>\$2,976,906</u>
<u>EXPENDITURES</u>					
ADMINISTRATIVE	\$1,762,393	\$ -0-	\$ 10,079	\$ -0-	\$1,772,472
BUREAU OF CIVIL LAW	1,333,077	2,947	-0-	-0-	1,336,024
BUREAU OF CRIMINAL JUSTICE	1,147,724	28,412	177	-0-	1,176,313
BUREAU OF ENVIRONMENTAL PROTECTION	760,963	-0-	210	-0-	761,173
BUREAU OF CONSUMER PROTECTION & ANTITRUST	792,573	3,553	281,780	-0-	1,077,906
MEDICAID FRAUD CONTROL UNIT	462,486	35,000	18,569	-0-	516,055
BUREAU OF TRANSPORTATION & CONSTRUCTION	468,326	-0-	320	-0-	468,646
OFFICE OF CHIEF MEDICAL EXAMINER	304,153	-0-	381	-0-	304,534
OFFICE OF VICTIM/WITNESS ASSISTANCE	425,517	44,000	161,898	-0-	631,415
CHARITABLE TRUSTS UNIT	194,142	6,497	-0-	-0-	200,639
OTHER	98,707	115,000	115,854	-0-	329,561
DRUG FORFEITURE FUND	-0-	116,024	274,324	-0-	390,348
GRANT PAYMENTS	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
TOTAL EXPENDITURES	<u>\$7,750,061</u>	<u>\$351,433</u>	<u>\$863,592</u>	<u>\$ -0-</u>	<u>\$8,965,086</u>

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF JUSTICE**

**SCHEDULE OF BUDGETARY COMPONENTS
SPECIAL FUND
FOR THE SIX MONTHS ENDED DECEMBER 31, 1995**

	<u>OPERATING BUDGET</u>	<u>SUPPLEMENTAL WARRANTS</u>	<u>BALANCES FORWARD</u>	<u>NET TRANSFERS</u>	<u>BUDGET</u>
<u>REVENUES</u>					
UNRESTRICTED REVENUES					
JUDGMENTS & RECOVERIES	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
CONDOMINIUM & LAND SUBDIVISION FEES	-0-	-0-	-0-	-0-	-0-
CHARITABLE TRUSTS DIRECTORY SALES	-0-	-0-	-0-	-0-	-0-
TOTAL UNRESTRICTED REVENUES	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
RESTRICTED REVENUES					
LEGAL SERVICES	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
FEDERAL FUNDS	338,240	1,218,238	4,181,996	(544,240)	5,194,234
PENALTY ASSESSMENTS	-0-	-0-	-0-	-0-	-0-
CHARITABLE TRUSTS REGISTRATIONS	-0-	-0-	-0-	-0-	-0-
ANTITRUST ENFORCEMENT FUND	-0-	-0-	-0-	-0-	-0-
DRUG FORFEITURE FUND	-0-	-0-	-0-	-0-	-0-
TOTAL RESTRICTED REVENUES	<u>\$338,240</u>	<u>\$1,218,238</u>	<u>\$4,181,996</u>	<u>\$(544,240)</u>	<u>\$5,194,234</u>
TOTAL REVENUES	<u>\$338,240</u>	<u>\$1,218,238</u>	<u>\$4,181,996</u>	<u>\$(544,240)</u>	<u>\$5,194,234</u>
<u>EXPENDITURES</u>					
ADMINISTRATIVE	\$338,240	\$ 326,874	\$ 290,294	\$ -0-	\$ 955,408
BUREAU OF CIVIL LAW	-0-	-0-	-0-	-0-	-0-
BUREAU OF CRIMINAL JUSTICE	-0-	-0-	-0-	-0-	-0-
BUREAU OF ENVIRONMENTAL PROTECTION	-0-	-0-	-0-	-0-	-0-
BUREAU OF CONSUMER PROTECTION & ANTITRUST	-0-	-0-	-0-	-0-	-0-
MEDICAID FRAUD CONTROL UNIT	-0-	-0-	-0-	-0-	-0-
BUREAU OF TRANSPORTATION & CONSTRUCTION	-0-	-0-	-0-	-0-	-0-
OFFICE OF CHIEF MEDICAL EXAMINER	-0-	-0-	-0-	-0-	-0-
OFFICE OF VICTIM/WITNESS ASSISTANCE	-0-	-0-	-0-	-0-	-0-
CHARITABLE TRUSTS UNIT	-0-	-0-	-0-	-0-	-0-
OTHER	-0-	-0-	-0-	-0-	-0-
DRUG FORFEITURE FUND	-0-	-0-	-0-	-0-	-0-
GRANT PAYMENTS	-0-	891,364	3,892,725	(544,240)	4,239,849
TOTAL EXPENDITURES	<u>\$338,240</u>	<u>\$1,218,238</u>	<u>\$4,183,019</u>	<u>\$(544,240)</u>	<u>\$5,195,257</u>

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF JUSTICE**

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

<u>FEDERAL CATALOG NUMBER</u>	<u>FEDERAL GRANTOR / PROGRAM TITLE</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>
U.S. DEPARTMENT OF JUSTICE			
16.550	Criminal Justice Statistics Development	\$ 51,619	\$ 50,000
16.575	Crime Victim Assistance	525,225	525,227
16.579	Drug Control and System Improvement - Formula Grant	1,695,320	1,637,489
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
93.643	Children's Justice Grants to States	7,640	10,135
93.775	State Medicaid Fraud Control Units	275,000	307,585
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
94.006	Americorps	<u>262,627</u>	<u>265,927</u>
	TOTAL	<u>\$2,817,431</u>	<u>\$2,796,363</u>

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF JUSTICE**

**SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE (CASH BASIS)
FOR THE SIX MONTHS ENDED DECEMBER 31, 1995**

<u>FEDERAL CATALOG NUMBER</u>	<u>FEDERAL GRANTOR / PROGRAM TITLE</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>
U.S. DEPARTMENT OF JUSTICE			
16.550	Criminal Justice Statistics Development	\$ 5,723	\$ 29,494
16.575	Crime Victim Assistance	218,845	219,115
16.579	Drug Control and System Improvement - Formula Grant	721,558	668,440
16.588	Violence Against Women Act	5,515	5,515
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
93.643	Children's Justice Grants to States	21,052	24,215
93.775	State Medicaid Fraud Control Units	160,187	136,376
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
94.006	Americorps	<u>82,539</u>	<u>79,239</u>
	TOTAL	<u>\$1,215,419</u>	<u>\$1,162,394</u>

APPENDIX A - STATUS OF PRIOR AUDIT FINDINGS

The following is a summary of the August 9, 1996 status of the observations contained in the audit report of the Department of Justice for the eighteen months ended December 31, 1988. A copy of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

<u>INTERNAL CONTROL STRUCTURE</u>	<u>STATUS</u>
MATERIAL WEAKNESSES	
1. Inadequate Documentation for Hazardous Waste Receipts	● ● ●
2. Control Over Drug Forfeitures	● ● ●
3. Overstatement of Revenue and Expenditures	● ● ●
OTHER REPORTABLE CONDITIONS	
4. Overstatement of Accounts Receivable	● ● ●
5. Transfers Misstating Revenue and Expenditures	● ● ●
6. Segregation of Duties	● ● ●
7. Unrestricted Revenue Recorded as Restricted	● ● ●
8. Registration of Charitable Trusts	● ● ●
9. Interest Income	● ● ●
10. Reconciliation of Federal Ledgers	● ● ●
<u>STATE AND FEDERAL COMPLIANCE</u>	
STATE COMPLIANCE	
11. Charitable Trust Filing Fees	● ● ●
12. No Records of Private Car Mileage	● ● ●
13. Equipment Purchases Not Recorded on P-21	● ● ●
14. Capital Improvements Not Reported	● ● ●
15. Annual Reports of Subdividers & Condominium Declarants	● ● ●
FEDERAL COMPLIANCE	
16. Federal Financial Reporting	● ● ●

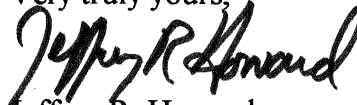
STATUS KEY

Fully resolved	● ● ●
Substantially resolved	● ● ○
Partially resolved	● ○ ○
Unresolved	○ ○ ○

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If I were to make one recommendation, it would be that the Legislature consider augmenting your resources when the budget allows for it, or taking other steps to permit more frequent interim audits. I believe that, ultimately, the primary result of that approach would be that far fewer deficiencies should be noted in any one audit. In turn, the most important consequence of that chain of events would be that members of the Legislature, as representatives of the people we serve, will have confidence that each and every executive branch agency is operating efficiently and with appropriate internal controls.

Very truly yours,



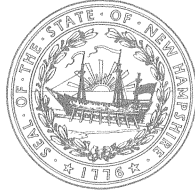
Jeffrey R. Howard
Attorney General

JRH/p

**ATTORNEY GENERAL
STATE OF NEW HAMPSHIRE**

33 CAPITOL STREET
CONCORD, NEW HAMPSHIRE 03301-6397

JEFFREY R. HOWARD
ATTORNEY GENERAL



STEVEN M. HOURAN
DEPUTY ATTORNEY GENERAL

November 26, 1996

Charles L. Connor, Legislative Budget Assistant
Michael Buckley, Director of Audits
Legislative Budget Assistant Office
State House, Room 102
Concord, New Hampshire 03301

Dear Messrs. Connor and Buckley:

Although the audit report, in its written format, does not contemplate a general or summary response by the audited agency, I ask that this letter be included as an appendix or other attachment to the current audit report on the Office of the Attorney General. You will note that, with very limited exceptions for reasons stated in our responses to two of the observations set forth in the report, this agency has implemented each of your recommendations.

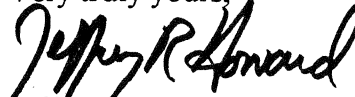
The LBA audit process is not a pleasant experience for the agency being audited, the agency head or its administrative and financial staff. Nevertheless, having stated the obvious, I want to make two observations as Attorney General that I believe are important to preserve in the record.

First, the members of your audit staff were professional, patient, polite and persevering throughout the entire course of their assignment.

Second, as a result of this process, and as a result of our experience with criminal and civil investigative matters you have forwarded to this office in the past, I have become unshakable in my conviction that the LBA agency audit function is an essential one that must be preserved and, if possible, expanded. Not only does the process assist the General Court in exercising its oversight duties, but it should also be properly viewed as an invaluable aid to department heads in discovering system weaknesses, in improving operational and management controls and in uncovering misfeasance or malfeasance.

If I were to make one recommendation, it would be that the Legislature consider augmenting your resources when the budget allows for it, or taking other steps to permit more frequent interim audits. I believe that, ultimately, the primary result of that approach would be that far fewer deficiencies should be noted in any one audit. In turn, the most important consequence of that chain of events would be that members of the Legislature, as representatives of the people we serve, will have confidence that each and every executive branch agency is operating efficiently and with appropriate internal controls.

Very truly yours,



Jeffrey R. Howard
Attorney General

JRH/p

