

**STATE OF NEW HAMPSHIRE
POLICE STANDARDS AND TRAINING COUNCIL**

**FINANCIAL AND COMPLIANCE
AUDIT REPORT
FOR THE NINE MONTHS ENDED
MARCH 31, 2005**

**STATE OF NEW HAMPSHIRE
POLICE STANDARDS AND TRAINING COUNCIL**

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This report can be accessed in its entirety on-line at www.gencourt.state.nh.us/lba

**STATE OF NEW HAMPSHIRE
POLICE STANDARDS AND TRAINING COUNCIL**

Reporting Entity And Scope

The reporting entity of this audit and audit report is the New Hampshire Police Standards and Training Council, an administratively attached organization of the New Hampshire Community Technical College System. The period covered is the nine months ended March 31, 2005.

The Police Standards and Training Council is a twelve-member body responsible for training and certifying all persons with police powers in the State of New Hampshire as well as State correctional and probation and parole officers.

The following report describes the financial activity of the Police Standards and Training Council as it existed during the period under audit. Unless otherwise indicated, reference to the PSTC or Council refers to the Police Standards and Training Council.

Organization

The Police Standards and Training Council is established by RSA 188-F:2 as a component of the Department of Regional Community Technical Colleges. RSA 188-F:25 describes the PSTC as being administratively attached to the Department.

PSTC headquarters is located adjacent to the N.H. Technical Institute at 17 Institute Drive in Concord, N.H. The building was opened on October 25, 1983, and has had several additions since that time. The facility is a total of 77,000 square feet on 4.5 acres of land, and can accommodate over 100 people for overnight stays.

At March 31, 2005, the PSTC employed 24 full-time and two part-time employees.

Responsibilities

The Police Standards and Training Council was created by the New Hampshire Legislature in 1971 as the sole source of basic training, and the primary source of in-service training for all law enforcement officers in the State of New Hampshire. The Police Standards and Training Council also conducts a voluntary accreditation program for law enforcement agencies, publishes model policies, and publishes a monthly newsletter, which is mailed to all law enforcement departments in the State.

The PSTC currently certifies almost 4,500 police officers, both full and part-time, employed by the State, counties, and municipalities; and trains or certifies almost 1,200 sworn and civilian employees of the Department of Corrections.

Every State Trooper, Conservation Officer, Liquor Investigator, Gaming Investigator, State Corrections Officer, Probation and Parole Officer, University Police Officer, Marine Patrol Officer, Sheriff or Deputy, City or Municipal Police Officer, full or part-time, in the State of New Hampshire received their primary training and much of their in-service training through the

PSTC. At the present time, the academy is only open to those who have been hired to work as law enforcement or corrections personnel in the State of New Hampshire. There are no tuition students.

The Police Academy

The Police Academy is a twelve-week program intended to give recruits the core knowledge necessary to work as police officers. Recruits are required to reside five days a week at the Academy for ten of the twelve weeks of the program. The Academy is paramilitary in nature, and requires military discipline (marching, saluting, etc.).

Recruits receive classroom training in laws, ethics, report writing, human relations, first aid, and other topics. Recruits also receive practical firearms training in the Academy's indoor firing range and scenario-based training on everything from traffic stops and defensive tactics to building searches. Motor vehicle stops can be simulated inside the Tactical Center facility, which contains a realistic street scene accommodating several vehicles. The grounds also include a self-contained track for practical driving training exercises.

The Corrections Academy

The Corrections Academy is an eight-week non-residential training program, conducted at the same facility, tailored to the needs of the State correctional facilities.

Part-Time Officers Schools

PSTC, in conjunction with other agencies, also conducts academies for part-time law enforcement officers. These are nearly all non-residential programs, and contain none of the paramilitary elements or the exercise regimen of the full-time schools. These schools are held at various locations throughout the State.

Funding

Funding for the Police Standards and Training Council is primarily derived from assessments on court-imposed fines and penalties. RSA 188-F:31 directs “[e]very court shall levy a penalty assessment of \$2 or 20 percent, whichever is greater, on each fine or penalty imposed by the court for a criminal offense.... Such penalty assessment shall be divided into the following components, to be designated as follows: 15 percent for the police standards and training council training fund and 5 percent for the victims’ assistance fund.” Other funding for the Police Standards and Training Council includes, per RSA 504-A:13,II(a) \$5 from each supervision fee collected by the Department of Corrections from probationers and parolees, which is used to defray the expenses of providing training to the employees of the Department of Corrections.

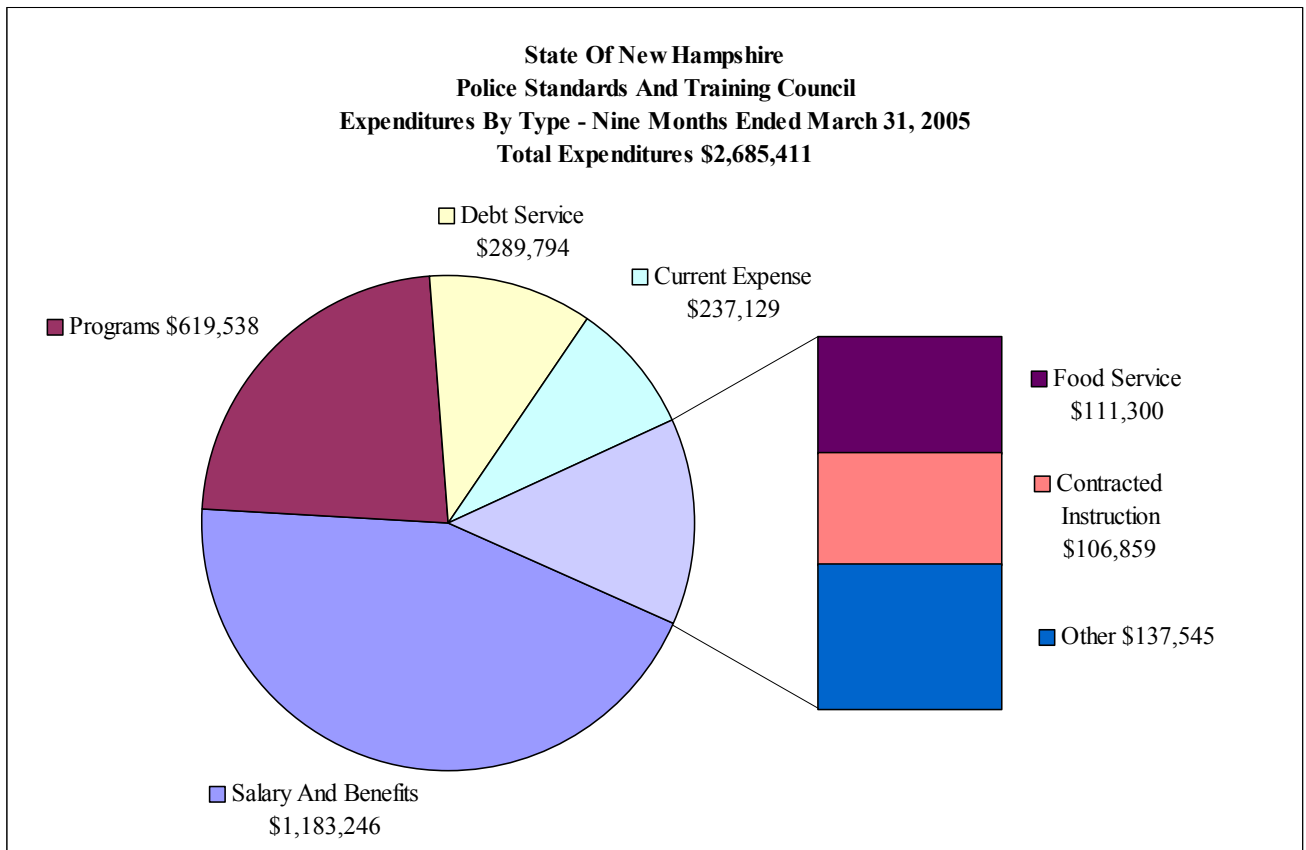
The financial activity of the Police Standards and Training Council is accounted for in the General Fund of the State of New Hampshire. A summary of the PSTC’s revenues and expenditures for the nine months ended March 31, 2005 is shown in the following schedule. Expenditures by type are shown graphically on page 3.

**Police Standards And Training Council
 Summary Of Revenues And Expenditures-General Fund
 Nine Months Ended March 31, 2005**

Total Revenues	\$ 2,752,626
Total Expenditures	\$ <u>2,685,411</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ <u>67,215</u>

Prior Audit

The most recent prior financial and compliance audit of the Police Standards and Training Council was for the nine months ended March 31, 1997. The appendix to this report on page 49 contains a summary of the current status of the observations contained in that report. Copies of the prior audit report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.



Audit Objectives And Scope

The primary objective of our audit is to express an opinion on the fairness of the presentation of the financial statements of the Police Standards and Training Council as of and for the nine months ended March 31, 2005. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we considered the effectiveness of the internal controls in place at the Police Standards and Training Council and tested the PSTC's compliance with certain provisions of applicable State laws, rules, and contracts. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Revenues,
- Expenditures,
- Federal Funds Compliance, and
- Capital Assets.

Our report on internal control over financial reporting and on compliance and other matters, the related observations and recommendations, our independent auditor's report, and the financial statements of the Police Standards and Training Council are contained in the report that follows.

Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the governmental activities and each major fund of the New Hampshire Police Standards and Training Council as of and for the nine months ended March 31, 2005, as listed in the table of contents, and have issued our reports thereon dated June 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Police Standards and Training Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Police Standards and Training Council's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Observations No. 1 through No. 16 of this report.

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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Police Standards and Training Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which are described in Observations No. 17 and 18 of this report.

This auditor's report on internal control over financial reporting and on compliance and other matters is intended solely for the information and use of the management of the Police Standards and Training Council and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.

Office Of Legislative Budget Assistant
Office Of Legislative Budget Assistant

June 9, 2005

Internal Control Comments
Reportable Conditions

Observation No. 1: Formal Risk Assessment Policies And Procedures Should Be Established

Observation:

The PSTC does not have formal risk assessment policies and procedures in place for recognizing and responding to risks potentially affecting the PSTC's operations.

The PSTC does not have formal policies and procedures in place for periodically reviewing its operations for risks that could jeopardize the PSTC's ability to continue to function as management intends. Currently, when risks are identified, the PSTC may take action; however, there are no formal policies and procedures to continuously review operations for risks. A lack of understanding of risks generally pushes an entity toward a reactive mode when significant risks are realized/occur. A reactive mode may compromise the efficiency and effectiveness of a response due to the lack of prior identification and understanding of the risks and ramifications.

Management's assessment of risks facing the organization is an integral component of internal control. The purpose of an entity's risk assessment is to identify, analyze, and, where appropriate, respond to risks and thereby manage risks that could affect the entity's ability to reach its objectives. Effective risk assessment practices should be a core element of management's planning activities. Risk assessment should be an ongoing activity.

An entity faces many risks. Risk can be defined as the threat that an event or action will adversely affect an entity's ability to achieve its objectives. Risk can be classified in many ways. For example:

External risks - threats from broad factors external to the entity including changes in the political arena, statutes and rules, and funding availability.

Operational risks - threats from ineffective or inefficient processes for acquiring and providing goods and services, as well as loss of physical, financial, or information assets.

Information risks - threats from the use of poor quality information for operational, financial, or strategic decision-making within the entity and providing misleading information to others.

A continuous review of PSTC processes and activities using a risk-based mindset would promote effective planning and assist in resource allocation decision-making. Risks identified should be analyzed to determine whether current internal controls mitigate risk to a level desired by management or whether other actions are required in response to the risk.

Recommendation:

The PSTC should formalize its risk assessment process and conduct a risk assessment of its operations. A formal risk assessment process is a necessary tool the PSTC needs to assist in the effective management of risks. Identifying risks significant to the PSTC and other State

operations that it is involved with and strategies to mitigate those risks should enhance the effectiveness of the PSTC's planning and resource allocation processes and the PSTC's and State government's control processes.

Auditee Response:

We concur. As an agency that trains others in high-risk professions such as policing and corrections, and trains officers in the use of firearms, driving under adverse conditions, defensive tactics, and OC [pepper spray], PSTC is ever-mindful of minimizing risks from the training perspective. We do not, however, have a *formalized* process to judge such conditions. We will endeavor to formalize and institutionalize such a program before the end of the fiscal year.

Observation No. 2: Controls Should Be Established Over Revenues Collected For The PSTC By Other State Organizations

Observation:

The PSTC does not have control procedures in place to ensure the accuracy and completeness of the revenues collected on its behalf by the Administrative Office of the Courts (AOC) and the Departments of Safety (DOS) and Corrections (DOC). Instead, the PSTC relies upon the internal controls in place at these other organizations.

Most of the revenue reported on the PSTC financial statements is collected on the PSTC's behalf by other State organizations. Approximately 75% of the penalty assessments on motor vehicle and other fines collected by the AOC and the DOS is posted to the PSTC revenue account with the remainder posted to the State's Victims' Assistance Fund. In addition, the DOC posts \$5 of each probationer and parolee supervision fee into the PSTC's revenue account. Approximately \$2.2 million of revenue was posted to the PSTC's account during the nine months ended March 31, 2005.

The PSTC does not have policies and procedures in place to monitor the accuracy and completeness of the amounts posted to its revenue accounts by these organizations. The PSTC does not receive any documentation supporting the amounts posted, does not perform any review or analytical procedures to gain any assurance on the reasonableness of the revenue amounts, and has not reviewed the controls in place at these other organizations to more fully understand its revenue process and the risks it faces.

The extent of PSTC's reliance on the performance of these other organizations is illustrated by the following situation.

- During December 2004, the DOC notified the PSTC that a DOC reconciliation indicated that the DOC had overpaid, by \$234,000, the PSTC account during the prior fiscal year. As a result, the DOC suspended posting current period revenues until the overpayment had been recovered. The PSTC had no information with which to assess the accuracy of the adjustment or challenge the DOC determination and allowed the DOC to withhold payment of the funds.

A similar observation recommending PSTC take a more active role in monitoring revenue collected on its behalf was made during our prior audit of the PSTC for the nine months ended March 31, 1997. In response to that observation, the PSTC reported, “it would determine if there is a method we can use to periodically analyze our revenues from this [Department of Safety] source and from the Department of Corrections.”

Recommendation:

The PSTC should establish and implement controls over revenue collected on its behalf by other State organizations. At a minimum, the PSTC should establish adequate review procedures so that it has reasonable assurance that revenues collected by these organizations are accurate and complete.

The PSTC should work with the AOC, DOS and DOC to institute reasonable procedures that will allow the PSTC to become more knowledgeable about its revenue processes and participate in the controls over that revenue collection.

Auditee Response:

We concur. We believe that we have now instituted procedures that will give us better feedback on the fees obtained from the New Hampshire Department of Corrections. We are working currently with the Department of Safety to develop a system to ensure that revenue due to PSTC from DOS is received by us. We admit that we do not yet have a mechanism to do so with the Administrative Office of the Courts. We will continue to work to create such accountability, which clearly is in the best interest of the PSTC.

Observation No. 3: Receipts Resulting From Normal Operations Should Be Recorded As Revenue

Observation:

The PSTC records receipts from facility rentals, the administration of psychological exams, and the sale of training manuals as reductions of expenditures and not as revenues. The effect of posting what would otherwise be recorded as revenues as negative expenditures is to increase the amount available to expend by the amount of the negative expenditure as well as to understate the cost of operations and the revenues from the operations of the organization.

Negative expenditures are generally used to post reimbursement or refunds on prior expenditures. These are generally non-routine transactions unforeseen at the time of the budget and are intended to make the original appropriations whole so the organization’s budgeted plans can be achieved.

The PSTC records receipts from its normal operations as negative expenditures even though these transactions are routine and foreseeable. During the eight months ended February 28, 2005, the PSTC recorded \$2,800 of receipts as reductions of expenditures. This issue was also the subject of an audit comment in the prior audit of the PSTC for the nine months ended March 31, 1997. In its response to that comment, the PSTC noted the Department of Administrative

Services agreed that PSTC's current practice was the most practical way to record rental fees, which are minimal and do not result in a significant understatement of either revenue or expenditures.

Recommendation:

The PSTC should record the receipts derived from its normal operations as revenues and not negative expenditures. If appropriate accounts are not included in the PSTC's current account structure, additional revenue accounts should be requested.

Auditee Response:

We concur in part. We can certainly record receipts for such things as psychological exams, training manuals, and other miscellaneous items as revenues. We do not concur that facility rental charges should be recorded as revenue. Facility rental charges were established to reimburse our overtime accounts which are reduced by the need for maintenance personnel to be on site for facility usage by agencies other than PSTC, thus depleting the budgeted overtime amount which would otherwise be used to accommodate the budgeted needs of PSTC.

Observation No. 4: Indirect Cost Rate Should Be Developed

Observation:

The PSTC has not computed an agency indirect cost rate for its federal grants.

RSA 124:11 requires each State agency receiving a federal grant, whether directly or as a subgrantee of another State agency, to compute an agency indirect cost rate for each grant as provided by federal regulation and to apply the rates to each grant it receives. Indirect cost rates are intended to allow the recovery of costs incurred by the agency in administering the grants that are not treated as direct program-type costs of the grant.

During the nine months ended March 31, 2005, the PSTC received funds from two direct federal grants and several sub-grants through other State agencies. While some of these grants allowed for the reimbursement of indirect costs through the application of an indirect cost rate, the PSTC has not computed its own indirect cost rate but has instead used the indirect cost rate calculated for the N.H. Community Technical College System (NHCTC) as negotiated with the U.S. Department of Education. While the PSTC is a component of the NHCTC, the indirect cost rate calculated for the NHCTC is not necessarily reflective of the indirect costs of the PSTC or an appropriate rate for the PSTC.

Total indirect costs recovered by the PSTC for the nine months ended March 31, 2005 were approximately \$800.

Recommendation:

The PSTC should develop its own indirect cost rate that properly reflects the indirect costs incurred by the agency. Management should ensure that personnel working with federal grants are familiar with federal rules and regulations related to the recovery of indirect costs.

Auditee Response:

We concur and will negotiate our own indirect cost rate with the United States Department of Justice, the agency through which we receive most of our grants.

Observation No. 5: Cost Allocation Plan Should Be Established To Support Costs Charged To PSTC Functional Areas

Observation:

A number of the costs reported by the PSTC are charged to accounts based more on historical practice than on a proper allocation of costs. The lack of supporting documentation leads to questions as to whether some of the costs recorded and paid are reflective of services provided and are recorded and reported in the proper accounts.

- The N.H. Community Technical College System (NHCTC) charges the PSTC \$6,600 per year as a maintenance fee. Per the PSTC, it is understood the fee was originally intended to pay the NHCTC for plowing the PSTC parking lot in years past when the PSTC did not have its own plow vehicle. The PSTC continues to pay this annual fee even though it currently plows its own parking lot. When asked, the NHCTC replied the fee was related to the NHCTC plowing of the campus roads, however neither the NHCTC nor the PSTC could describe how the amount was originally calculated or whether it remains a proper allocation of costs.
- The NHCTC charges the PSTC \$3,000 per year for the use of Wellness Center during academy training sessions. There is no written agreement or other documentation supporting the amount of the charge.
- During each 12-week academy session, a State Police officer assists the PSTC with the academy. The PSTC pays the Division of State Police \$4,995 per session for this service. There is no written agreement or other documentation supporting the amount of the charge. The PSTC does complete contracts with municipal police departments when local officers assist during academy sessions.
- Postage and copying charges are allocated to PSTC functional areas (Administration, Corrections Training, and Officer Training) based on percentages that, according to the PSTC, are unsupported.

The lack of a proper allocation of costs, including maintaining documentation supporting the allocation of costs, obfuscates the actual costs of operations of an organization and the relative

costs of functions within the organization. Without this management information it is difficult to monitor the efficiency and effectiveness of operations.

Recommendation:

The PSTC should establish an effective cost allocation plan for costs allocated to its functional areas. The PSTC should also require evidence of proper cost allocation from its business partners, the NHCTC and the Department of Safety. Payments for services should be based upon services received and not on appropriated amounts or amounts paid in prior years unless current services support those payments. While appropriations provide an upper limit for expenditures, agencies are generally obligated only to pay for products and services actually received.

Auditee Response:

We concur in part. We will work with NHCTC to develop a memorandum of agreement to ensure that amounts transferred reflect the actual work completed. We do not concur concerning the contract for Troopers working as cadre for the Academy, unless we can somehow pro-rate the contract as a percentage of the actual salary, to discount the benefit derived to them. Part of the benefit to the N.H. State Police to provide cadre to PSTC is that they get to see their own recruits during the training process on a day-to-day basis, which is invaluable in determining the recruit's fitness to become troopers for the State Police. Further, the individual troopers assigned get critical management and supervisory experience as a result of their work at PSTC. We feel that it would only behoove us to undertake such an agreement if we could pro-rate it at a portion of the salary only. Attempting to track postage costs across Program Appropriation Units (PAUs) will be time and labor intensive, but we will endeavor to put a system in place to do so. Additionally, our current photocopier does not have the capability to track the number of copies by account, and further, is integrated into our computer network so that meaningful tracking by account would be virtually impossible. Given the small size of our staff and workload, even tracking by employee would not be accurate, since each of the employees have duties that span more than one PAU. We do, however, understand the utility of such accountability and will continue to explore ways of making a better estimate of the actual costs associated with each PAU.

Observation No. 6: PSTC And State Payroll Controls Should Be Adhered To

Observation:

The PSTC has not required its employees to adhere to its and the State's payroll control policies and procedures.

1. PSTC policy 30-98 requires all classified employees of the PSTC to keep an accurate record (timesheet) of all time worked per week and attest to the hours worked with their signature and turn in their timesheets to their supervisor.
 - One of the senior classified employees of the PSTC is not required to complete and sign a timesheet, contrary to PSTC policy 30-98.

2. Per N.H. Admin Rule Per 1202.01(f), any employee who requests to use sick leave on an *Application For Leave* (form PD-8) shall state the reason for leave and sign and date the certification.
 - PSTC employees who complete form PD-8 leave slip requesting sick leave are not required to state a reason for the leave or sign and date the certificate for sick leave section of the form required by the above cited administrative rule.

By not requiring compliance with PSTC and State payroll policies and procedures, the PSTC increases its risk that payroll errors, frauds, and abuse could occur and not be detected and corrected in a timely manner.

Recommendation:

The PSTC should increase its monitoring of applicable payroll controls to ensure that employees are knowledgeable about and properly complying with the controls intended to limit the PSTC's risk of payroll errors, frauds, and abuse.

Auditee Response:

We concur and have required that ALL classified employees complete and sign a time sheet. We also concur and have required that all classified employees state a reason for sick leave and sign and date the same.

Observation No. 7: Review And Approval Function Should Be Instituted For Posting Payroll Data

Observation:

There is no independent review and approval function for posting leave time taken and compensatory time earned to the State's payroll system (GHRIS). The individual who enters employee leave time taken and compensatory time earned in GHRIS also performs the reconciliation of the entered time. No other PSTC employee reviews the postings to ensure the postings are accurate and supported by appropriate time records.

Recommendation:

Segregation of duties controls should be instituted over the PSTC's posting of payroll data to GHRIS. The review and approval function should provide reasonable assurance that leave taken and compensatory time worked as reported in GHRIS is accurate and supported by appropriate time records.

Auditee Response:

We concur and have segregated duties of input and reconciliation of leave time taken and compensatory time earned.

Observation No. 8: Redundant And Other Inefficient And Unnecessary Accounting Procedures Should Be Eliminated

Observation:

The PSTC generates accounting records and reports that are either redundant to available reporting or otherwise unnecessary for controlled agency operations.

The PSTC business office employs several automated and manual ledgers and schedules in addition to the State's accounting system (NHIFS) to track PSTC financial activity. These ledgers and schedules are used by the PSTC as source information for internal reporting and also for reconciling and proving NHIFS and State payroll system (GHRIS) reported information.

For example:

- The PSTC maintains a separate agency ledger that is duplicative of the information reported in the State's NHIFS and GHRIS systems. The PSTC uses this ledger to reconcile and prove the accuracy of PSTC accounts in NHIFS and GHRIS. Grant-related financial transactions are also recorded on a separate manual grant ledger that is reconciled monthly to NHIFS. While agencies are responsible for reviewing the accuracy of their NHIFS and GHRIS reports, most agencies are able to do this without incurring the extra administrative burden required by maintaining a duplicative set of books.
- The PSTC maintains a manual schedule of open purchase orders to track the available balance of encumbrances. This manual schedule reports unexpended amounts and adjustments for each open purchase order. The NHIFS online *Encumbrance Activity Detail Listing By PO/CE/AR* report provides similar information to State agencies seemingly making the PSTC's schedule redundant.
- Monthly, an expense report is generated from the PSTC's ledgers and provided to PSTC management. The data for the expense report is keyed from the ledgers to a spreadsheet presenting total appropriations, transfers, encumbrances, and expenses by organization and class codes. This information is redundant to information available on the monthly NHIFS reports.
- Bi-weekly, the PSTC business office recalculates each employees' gross pay and notes the recalculation on the GHRIS Time And Leave Input Worksheet. The total for all employees is agreed to the total payroll per GHRIS. This review of the GHRIS calculation of payroll appears unnecessary at an agency level.

Much of the information contained in these ledgers and schedules is redundant to information contained in NHIFS and GHRIS. By preparing these ledgers and schedules the PSTC has assumed additional and mostly unnecessary workloads and also has increased the risk that errors in the generation of these records could go undetected and negatively impact decisions made.

The PSTC's maintenance of ledgers, spreadsheets, and reports that are duplicative of NHIFS and GHRIS reports appears to be based more on the continuation of past practices and not on the current needs of the PSTC.

Recommendation:

The PSTC should review the efficiency of its financial operations and especially challenge its current preparation and use of apparently redundant ledgers and spreadsheets. As part of this review, the PSTC must become familiar with the reporting currently available from NHIFS and GHRS to determine whether standard State financial accounting reports will provide required information. If currently available reporting does not satisfy the PSTC's needs, the availability of customized NHIFS and GHRS reporting should be reviewed with the Department of Administrative Services. Only if it is determined that needed reporting is not available should PSTC take on the additional burden of preparing and maintaining additional ledgers and spreadsheets. The PSTC's responsibility for the review of information reported in NHIFS and GHRS should not include the need for the PSTC to generate duplicate records.

Auditee Response:

We concur in part. We concur insofar as we are in the process of reviewing other internal work processes to ensure that they are necessary and efficient.

We also concur and have calculated a "bi-weekly base table-driven payroll total" and simply note it at the top of the bi-weekly worksheet, and for the purpose of certification of the payroll amount, any increment increases, overtime, payment of comp time, travel expenses, or the earnings of non table-driven personnel, is added to this amount and compared to the QEPD screen in GHRS. We do not feel comfortable with simply viewing and accepting the bi-weekly payroll total from the QEPD [Employee Payroll Detail] screen without knowing what that total should be for the particular pay period.

We do not concur that the monthly spreadsheets provided to the Director are unnecessary. The spreadsheets are condensed, showing expenditures and revenue to date and also provide a comparison of activity between the current year and the previous one. The Director does not access NHIFS, and would find the NHIFS reports more cumbersome and time consuming to review. The internal reports are kept for his reference, and thus serve as a vehicle to compare both expenditures and revenue and to easily be able to identify changes in either. The ability to track revenue and expenditure trends on a timely basis is particularly important in light of the fact that we are a 100 percent special funded agency and must keep a close watch on our funding to ensure that we live within our means.

Observation No. 9: Contributions Towards Post-Retirement Medical Costs Should Be Based On Actual Costs Incurred

Observation:

The PSTC does not pay the actual cost for health benefits provided by the State to retired PSTC employees. While the PSTC does pay a contribution towards this cost similar to contributions made on behalf of federally funded positions, the PSTC does not pay the actual contribution rate for retirees, which is paid by other self-funded State agencies.

The Department of Administrative Services (DAS) bills General Fund agencies that have federally funded employees a percentage of salary costs as a contribution toward future costs of providing retiree health benefits to those federally funded employees. This billing allows the State to recoup post-retirement medical benefits costs from the federal grants. Most self-funded agencies are billed at an actuarially determined rate to cover retiree health benefit costs, which are recoverable in full from the agencies' funding source. Because the PSTC, a self-funded agency, is billed by DAS on the percentage of payroll basis and not the actual cost, it is not clear that the PSTC is paying its appropriate share of retiree benefit costs.

Recommendation:

The PSTC should work with the DAS and the New Hampshire Retirement System to establish a billing based on actual contribution rate for the health benefits provided to retirees of the PSTC.

Auditee Response:

We concur. We will work with DAS to establish a billing based on the actual cost of health benefits to PSTC retirees.

Observation No. 10: Commuting Use Of State Motor Vehicles Should Be Reported

Observation:

The Director of the PSTC is assigned a State motor vehicle for official and commuting use. The Director's commuting use of the vehicle is not reported to the Department of Administrative Services (DAS) for inclusion in the Director's annual reported salary.

The State vehicle provided to the Director of the PSTC is an unmarked "undercover" police vehicle. There are no State registration plates or seals indicating the vehicle is State-owned.

As part of every year-end tax reporting processing, all agencies are required to report to the DAS the agency employees who had the personal use of a State vehicle for commuting. All employees who use a State vehicle for commuting have the value for the use of the State vehicle included in their reported gross wages for tax purposes at \$3 per day, a rate set by federal law. Any employee's use of a State vehicle for commuting purposes not covered by certain exceptions must be reported as income. Exceptions are limited and include among others, nonpersonal use vehicles such as fire trucks, school buses, heavy trucks, and clearly marked police or fire vehicles whose operators are on call at all times.

According to federal guidelines:

There are limited circumstances under which an unmarked police car qualifies as a nonpersonal use vehicle. First, the driver must be a "law enforcement officer." A law enforcement officer must satisfy all of the following requirements. He or she must be a full-time employee of a *governmental unit that is responsible for preventing or investigating crimes* [emphasis added] involving injury to persons or property (including catching or detaining persons for these crimes). The officer must be authorized by law to

carry firearms, execute search warrants, and to make arrests. The officer must regularly carry firearms, except when it is not possible to do so because of the requirements of undercover work. A “public safety director,” or any employee, regardless of title, must meet these tests to qualify under this exclusion.

Second, any personal use of the vehicle must be authorized by the government agency or department that owns or leases the vehicle and employs the officer, and, third, the use must be incident to law-enforcement functions, such as being able to report directly from home to a stakeout or surveillance site, or to an emergency situation. Use of an unmarked vehicle for vacation or recreation trips cannot qualify as an authorized use.

Whether the individual's use of the vehicle is authorized by the governmental agency which employs him or whether the use is incident to law-enforcement functions depends on the facts and circumstances. If the individual is allowed to use the vehicle as a courtesy and for commuting purposes, it does not qualify as a nonpersonal use vehicle, and the commuting value is income subject to FICA and income tax withholding.

The PSTC reports that on occasion the Director has been called from home to go directly to incident sites to assist in investigations being performed by other police organizations and has also responded to calls for assistance while commuting to and from work. While this activity could be regarded as supporting a claim for a nonpersonal use vehicle exemption, we were not provided any support to indicate the level of this activity was any more than incidental to the Director's commuting use. In addition, it is not clear that the Director is an employee of a governmental unit that is responsible for preventing or investigating crimes, criteria set by the Internal Revenue Service for a nonpersonal use vehicle exemption. While it could be argued that as a licensed police officer the Director has this authority, as Director of the PSTC the Director's job responsibilities primarily lie in a different arena.

Recommendation:

The PSTC in conjunction with the DAS should review the proper tax reporting implications of the Director's use of an undercover police car for commuting use. The PSTC may also want to consider the need for the use of an undercover police car for this purpose. In general, State vehicles are identified with seals and State-designated registration plates to identify ownership of the vehicle and allow for public recognition and accountability. The PSTC's use of an undercover designation for a vehicle used primarily for administrative purposes hampers that accountability.

Auditee Response:

We concur in part. PSTC, in conjunction with DAS will review whether the Director should claim commuting mileage per Internal Revenue Service regulations. Given our current knowledge of these regulations, (which we were made aware of through the audit process), it would appear as though the Director would not qualify under those criteria to be exempt from reporting.

Since being made aware of the requirement, we have sought and received approval through Governor and Council for assignment of this vehicle to the Director pursuant to Adm 305.02 (c)

(4), and have also been reporting it's assignment to the Department of Administrative Services on an annual basis, as required in the regulations throughout the Director's term.

We do not concur, however, concerning changing the visibility of the Director's vehicle from it's current unmarked status. Because of the Director's need to undertake compliance investigations against police and correctional officers (he personally prosecutes each of the 25-30 cases annually) he has a need to interview citizens and police officers, and sometimes needs to do so without the knowledge of the person(s) under investigation. In some cases this can be done at the office in Concord, but at other times this is either impracticable or impossible. The ability to undertake these investigations undetected is crucial to the success of the cases. For that reason the Council believes that it is important for the Director to maintain his anonymity while traveling throughout the State.

Observation No. 11: Accounting For Federal Programs Should Be Improved

Observation:

Accounting policies and procedures have not been sufficiently developed for PSTC's federal programs.

Lack of PSTC experience with federal grants and accounting for federal programs along with lack of established policies and procedures contributed to PSTC's difficulties in properly categorizing and posting federal grant related transactions in the State's accounting system (NHIFS).

- The PSTC did not sign a grant award and special conditions documents in a timely manner. The failure to sign the documents was not noted by the PSTC until the PSTC attempted to draw down federal funds. The PSTC was notified in January 2004 it had been awarded a \$497,000 technology grant. The award notice required the PSTC to sign a grant document and special conditions attachment and return it to the federal grantor agency within 90 days of the award letter date. The failure of the PSTC to complete the grant award documentation was not detected until January 2005 when the PSTC attempted to draw down federal funds and was denied access to the funding pending completion of the required award documents.
- The PSTC business office recorded the federal funds drawn under the technology grant as negative expenditures in NHIFS instead of as federal revenue. This misposting was apparently due to confusion with the accounting for reimbursement-based grants. The PSTC subsequently prepared correcting accounting documents to properly state the federal revenue and expenditure.
- The federal draw down for the PSTC's grant to purchase a van was initially recorded in a wrong account in NHIFS. A correcting accounting document was subsequently prepared to move the posting into the correct account.

Recommendation:

The PSTC should improve its accounting for federal programs. Accounting policies and procedures should be developed to assist business office personnel to understand and account for federal program activity.

Auditee Response:

We concur. PSTC has been very fortunate to be as successful as it has in securing federal funding to undertake programs that it would otherwise not be able to explore. However, each of these programs has different requirements and reporting procedures, and we admit that learning to negotiate each of these programs and the myriad of regulations associated with them has been difficult. We have endeavored to resolve problems when they have come to light, and certainly take responsibility for our errors. We believe, however, that we are at this point much better versed in meeting these requirements, and in fact have an extremely good relationship with the grantors in Washington who are overseeing our programs. We endeavor to ensure that we continue to improve our knowledge and oversight of these programs.

Observation No. 12: Policies And Procedures Should Be Established For Training Grants To Local Police Departments

Observation:

The PSTC has not established policies and procedures for providing specialized training grants to local police departments.

The PSTC awards grants to local police departments to attend specialized training programs not offered in the state. The grant application documents describe the scope of the intended training, when and where it will be provided, the cost, and the participants that will receive the training through the receipt of the grant. The grant application indicates that if awarded, the PSTC would fund two-thirds the total cost with the sending department funding the remaining third. The PSTC has no formal policies and procedures to aid it with the grant approval and denial process or in establishing the funding ratio. According to the PSTC, the two-thirds one-third ratio has been the standard funding ratio; however, the mix is simply based on past practice and not explicitly addressed by rule or formal policy.

In addition, the PSTC has no monitoring policies and procedures to ensure that recipient departments use the funds for their intended purpose. For example, the PSTC does not require the local departments to subsequently report on the use of the funds. The PSTC would not necessarily know whether the intended training occurred and whether the intended participants attended the training.

During fiscal year 2005, the PSTC had \$53,600 budgeted in its Specialized Training Grants account and had expended \$34,000 through the end of February 2005.

Recommendation:

The PSTC should establish policies and procedures for providing specialized training grants to local police departments. The policies and procedures should include guidelines for evaluating and awarding grants and for determining levels of assistance. The policies and procedures should also establish monitoring controls to ensure that feedback is received to allow for the evaluation of the efficacy of the training and also to ensure that funds granted to local departments are used as intended by the grant applications.

Auditee Response:

We concur in part. We concur that we should require further documentation from grantees to ensure that the monies paid out were spent in accordance with the purpose for which it was originally granted. We do not concur that rules and regulations beyond those already promulgated in the Technical Assistance Manual should be put into place concerning the awarding of specialized training grants. These grants are discretionary, and are decided on a case-by-case basis by the 12 member Council itself. The Council considers several factors when determining whether, and to what extent grants should be awarded to individual agencies. The deliberations and votes on these grants are held in public session and recorded in the minutes of the meetings, and are thus transparent to anyone who would question the decisions made.

Observation No. 13: Understanding Of Terms And Conditions Of Grant Agreements Should Be Improved

Observation:

In part because of confusion over grant terms and conditions, the PSTC did not inventory equipment coming into its ownership through grant participation in a timely manner. Some equipment was not subject to inventory controls until three years after the equipment was received and in the PSTC's possession.

The PSTC has participated in federal grants establishing PSTC distance learning centers in Littleton, Keene, and at the Pease International Trade Port. The grants establishing these centers provided for the procurement of videoconferencing and other equipment that was to become PSTC property.

Reportedly due to PSTC's confusion as to when the ownership of the equipment transferred to the PSTC, the PSTC did not inventory and establish controls over \$160,000 of equipment related to the Littleton center until March 2005, more than three years after the initial delivery of equipment in November 2001. Additional equipment for this center was received through December 2003.

Again, reportedly due to PSTC's confusion as to when the ownership of equipment transferred to the PSTC, the PSTC did not inventory and establish controls over \$108,000 of equipment related to the Keene and Pease centers until April 2005, approximately four months after it was obtained in December 2004.

Recommendation:

The PSTC must become more knowledgeable of the grants and programs it participates in. The PSTC must assume its agreed to responsibilities in a timely manner including providing appropriate controls to safeguard the program's assets and reasonably ensure the achievement of the program's goals.

Auditee Response:

We concur. Our understanding of the Littleton agreement was that the video conference equipment was to be gifted to PSTC at the conclusion of the grant period (August, 2005). Up to that point, the equipment was the property of the Littleton Learning Center. Because of the questions raised during the audit, we immediately undertook the process to take control of the equipment (including the formal transfer of ownership to the Council), with the concurrence of the Littleton Area Learning Center.

On the second instance cited, the equipment at Pease and Keene was purchased in December, 2004 and installed in January, 2005. The existing memorandum of agreement between NHCTC and PSTC stated that the equipment was to be gifted to PSTC. This actually took place in April, 2005, and the equipment was added to our inventory once the equipment was gifted to us by NHCTC.

We will work harder in the future to ensure that equipment pursuant to an agreement like this is gifted and added to the inventory in a more timely fashion.

Observation No. 14: Communications Related To Equipment Control Procedures Should Be Improved

Observation:

Audit testing of PSTC equipment revealed instances where the PSTC had not adhered to State and PSTC equipment control policies and procedures in part due to poor communications between the PSTC business office and employees responsible for custody of the equipment.

- A firearms training system purchased in 1988 for \$35,000 has not been used by the PSTC for approximately six years. While the PSTC considers the system outdated and has no plans for its future use, the PSTC has not surplused or otherwise disposed of the system.
- The inability to locate an intoxilyzer selected for an audit test lead to a May 2004 email from the Department of Safety laboratory noting that it destroyed seven unusable intoxilyzers purchased by the PSTC in 1990 for \$40,000. Even though the PSTC received notice of this action in May 2004, the PSTC business office was not made aware of the destruction of the equipment and the equipment was not removed from the PSTC's equipment listing until March 2005.
- Freight and other costs of \$2,500 related to the delivery of a skid car platform purchased in 1994 were not added to the cost of the platform.

- Twenty preliminary breath testers purchased in 2002 with a total cost of \$5,900 were not added to the equipment inventory.
- As noted in Observation No. 13, equipment purchased for the Keene and Pease distance learning centers in December 2004 was not added to the equipment inventory until April 2005.

It is unclear why the PSTC's annual equipment inventory procedures did not detect and correct some of these equipment errors prior to the errors being detected during audit testing.

Recommendation:

The PSTC must improve communications between the business office and the functional areas of the PSTC to ensure employees responsible for the custody of equipment assets are knowledgeable of PSTC and State equipment rules and related policies and procedures.

The PSTC should review its equipment inventory procedures to ensure that the procedures provide reasonable assurance that errors in the PSTC's inventory records will be detected and corrected in a timely manner.

Auditee Response:

We concur. As has been mentioned elsewhere, we have undertaken an independent effort to automate our inventory process to include bar codes on inventory items and a computer database. In the process of transitioning from one system to the other, we have been struggling to reconcile the two. The business office should have been notified about the destruction of the intoxilyzers but was not. We will work to improve communication regarding equipment like this that was purchased by PSTC, but is used by another agency. The video conference equipment at Pease and Keene was procured between audits, and was actually purchased by the New Hampshire Community Technical College System. Once the items were gifted to PSTC, they were added to the inventory, albeit that this gifting occurred 4 months after the equipment was originally purchased by NHCTC. We have undertaken a procedure to review our entire inventory and surplus equipment that is not being utilized, which should assist in making future reconciliations easier. The preliminary breath testers (PBTs) should have been added to the inventory, but were not. This was clearly an error on our part.

Observation No. 15: Annual Equipment Inventory Observation Procedures Should Be Reviewed And Understood

Observation:

The PSTC was apparently unaware it was required by Statewide equipment management policy to perform investigatory and discrepancy reporting procedures related to equipment determined to be missing by its fiscal year 2004 equipment inventory observation. The PSTC did not begin the discrepancy reporting until the auditors brought the requirement to the PSTC's attention.

RSA 21-I:11,VII requires each State agency to report annually, in such form as prescribed by the Department of Administrative Services' (DAS) Director of Plant and Property Management, an inventory of real property and equipment under the agency's jurisdiction. The most recent guidance provided by the Director was dated April 1993. This DAS technical assistance manual includes detail equipment inventory procedures and requirements and directs agencies to complete additional procedures and reporting when the inventory detects missing or destroyed State-owned equipment. According to the DAS, the technical assistance manual is no longer a regularly issued manual, however copies are made available when requested by agency personnel and agencies are expected to comply with the manual's procedures.

The PSTC's fiscal year 2004 physical inventory of equipment was unable to locate 19 equipment items with a total recorded cost value of \$8,200. No independent investigatory and discrepancy reporting procedures were completed to ascertain and report the missing equipment's likely circumstances and the missing items were not removed from the PSTC's reported equipment listing. Reportedly, the PSTC was unaware of the State's requirements for following up on missing and destroyed equipment.

Recommendation:

The PSTC should obtain a copy of the DAS technical assistance manual and employ its inventory procedures and requirements in accounting for equipment assets.

The circumstances surrounding equipment items missing from the PSTC's inventory should be investigated and appropriate action taken. If the equipment remains missing, a *Report Of Lost Or Damaged Property* (form P-18) discrepancy report certification from the agency head should be filed.

Auditee Response:

We concur and have prepared a P-18 discrepancy report for equipment unaccounted for and have submitted it to Division of Plant and Property Management as per FY 05 closing requirements.

Observation No. 16: Unneeded Encumbrances Should Be Liquidated

Observation:

At March 31, 2005, the PSTC retained four encumbrances totaling approximately \$2,000 that were initially established by fiscal year 2002 contracts. Since their establishment, there has been no activity recorded on the encumbrances.

Recommendation:

The PSTC should close the four inactive contracts and liquidate the related encumbrances. The PSTC should at least annually review all encumbrances for continued need and liquidate all unnecessary amounts.

Auditee Response:

We concur and have liquidated the open encumbrances, which were held open for completion of P-37 contracts for which the work was never completed.

State Compliance Comments

Observation No. 17: Annual Report Should Be Filed

Observation:

The PSTC did not file an annual report for fiscal year 2004.

RSA 188-F:24,VII directs the PSTC to file an annual report with the Governor and Executive Council. A copy of the report is to be provided to the Board of Trustees of the Department of Regional Community-Technical Colleges.

According to the PSTC the report was not completed as the employee who had completed the report in prior years retired and no other staff was made available to complete the fiscal year 2004 annual report.

Recommendation:

The PSTC should submit its annual report as required by statute.

Auditee Response:

We concur. The 2003-2004 annual report has been completed and is being distributed. The 2004-2005 report should be completed before the end of November for the year ending June 30, 2005.

Federal Compliance Comments

Observation No. 18: Federal Participation In Expenditures Should Be Based On Grant Guidelines

Observation:

The PSTC advance funded a contract with the N.H. Community Technical College System (NHCTC), using federal funds received from the N.H. Department of Justice (DOJ), even though the PSTC understood the grant directed reimbursement-based federal participation and not advanced funding.

In February 2004, the DOJ awarded the PSTC \$222,000, under a federal discretionary grant, to fund the creation and operation of two interactive distance learning centers. The period of the grant was from February through August 31, 2004. In May 2004, the PSTC signed a memorandum of agreement with the NHCTC, the parent organization of the PSTC, for the NHCTC to establish and operate the centers. On July 28, 2004, the PSTC paid the NHCTC the full grant award of \$222,000 and on August 23, 2004 the PSTC reported the payment to the DOJ and requested federal reimbursement. The first actual expenditure made under the grant did not occur until December 15, 2004 and as of March 31, 2005, \$81,000 of the federal funds drawn at the end of August 2004 remained unspent in the NHCTC account.

According to the federal Office of Justice Programs *Financial Guide 2005*, Part III, Chapter 2 Period of Availability Of Funds, "...discretionary funds which have been properly obligated by the end of the award period will have 90 days in which to be liquidated (expended). Any funds not liquidated at the end of the 90-day period will lapse and revert to the awarding agency, unless a grant adjustment notice extending the liquidation period has been approved."

Based on discussions with PSTC personnel, both the PSTC and the DOJ were aware that the PSTC would not incur grant program expenditures within the period of availability of the federal grant. The advanced payment to the NHCTC was intended to allow the PSTC to report an expenditure within the period of availability yet still maintain control of the funds. The PSTC stated that it considered the DOJ to be fully aware of the structure of the arrangement between the PSTC and the NHCTC, the parent organization of the PSTC, and stated the DOJ indicated the advance contract payment would be reimbursable under the grant. There was no documentation of a formal approval of the transaction being given by the DOJ.

Because it is not clear the \$222,000 was constructively expended during the grant's period of availability, we question whether the reported expenditure is a proper charge to the federal grant.

Recommendation:

The PSTC should formally review the funding of the grant with the DOJ and the federal grantor agency to establish whether the PSTC complied with the grant award conditions.

Auditee Response:

We do not concur. As we explained to the Audit staff, The New Hampshire Community Technical College was a contractor in this transaction and not a subgrantee, and the funds were transferred to them prior to the expiration of the grant period, pursuant to a Memorandum of Agreement that was approved by the Attorney General's Office for substance, and Governor and Council for the transfer. Furthermore, the New Hampshire Department of Justice was the State granting authority in this case, and permission was secured through them to structure the transaction in this fashion. We feel as though we acted within both the letter and spirit of the regulation. Our desire, of course is always to act within the confines of the laws and regulations, and to that end, we will monitor future grants to ensure that we are operating within the confines of law and regulation.

LBA Rejoinder:

The auditors do not take a position as to whether the NHCTC was a contractor or subgrantee. Regardless of the relationship, the PSTC made advanced payment to the NHCTC, prior to any services being rendered. There was no documentation provided indicating that the federal program allowed payments in advance. In fact, it is our understanding that grants made available through the DOJ generally do not provide for advanced payments to subgrantees or contractors.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the governmental activities and each major fund of the New Hampshire Police Standards and Training Council as of and for the nine months ended March 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Police Standards and Training Council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial 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 discussed in Note 1, the financial statements of the Police Standards and Training Council are intended to present certain financial activity of only that portion of the governmental activities of the State that is attributable to the transactions of the Police Standards and Training Council. They do not purport to, and do not, present fairly the financial position of the State of New Hampshire as of March 31, 2005 and the changes in its financial position for the nine months ended March 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Police Standards and Training Council as of March 31, 2005, and the respective changes in financial position thereof for the nine months then ended in conformity with accounting principles generally accepted in the United States of America.

The PSTC has not presented the management discussion and analysis that the Government Accounting Standards Board has deemed necessary to supplement, although not required to be part of, the basic financial statements.

The Budget to Actual (Non-GAAP Budgetary Basis) Schedule on page 45 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements referred to in the first paragraph. The Schedule Of Expenditures Of Federal Awards on page 48 is presented for the purpose of additional analysis and is not a required part of the financial statements of the Police Standards and Training Council. The Schedule Of Expenditures Of Federal Awards 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 June 9, 2005 on our consideration of the Police Standards and Training Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, grant agreements, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Office Of Legislative Budget Assistant
Office Of Legislative Budget Assistant

June 9, 2005

**STATE OF NEW HAMPSHIRE
POLICE STANDARDS AND TRAINING COUNCIL**

**STATEMENT OF NET ASSETS
MARCH 31, 2005**

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Current Assets:	
Cash And Cash Equivalents	\$ 3,039,439
Receivables (Net Of Allowances For Uncollectibles)	186,577
Other Current Assets	<u>81,361</u>
Total Current Assets	<u>3,307,377</u>
Noncurrent Assets:	
Capital Assets:	
Buildings And Building Improvements	6,551,696
Equipment And Computer Software	436,928
Less: Allowance For Depreciation	<u>(4,264,519)</u>
Net Capital Assets	<u>2,724,105</u>
Total Noncurrent Assets	<u>2,724,105</u>
Total Assets	<u>6,031,482</u>
<u>LIABILITIES</u>	
Current Liabilities:	
Accounts Payable	26,761
Accrued Payroll	117,668
Deferred Revenue	81,361
General Obligation Bonds Payable	210,093
Claims And Compensated Absences Payable	<u>27,041</u>
Total Current Liabilities	<u>462,924</u>
Noncurrent Liabilities:	
Net General Obligation Bonds Payable	1,379,496
Claims And Compensated Absences Payable	<u>80,145</u>
Total Noncurrent Liabilities	<u>1,459,641</u>
Total Liabilities	<u>1,922,565</u>
<u>NET ASSETS</u>	
Invested In Capital Assets, Net Of Related Debt	1,134,516
Unrestricted Net Assets	<u>2,974,401</u>
Total Net Assets	<u><u>\$ 4,108,917</u></u>

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

**STATE OF NEW HAMPSHIRE
POLICE STANDARDS AND TRAINING COUNCIL**

**STATEMENT OF ACTIVITIES
FOR THE NINE MONTHS ENDED MARCH 31, 2005**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues And Changes In Net Assets</u>
		<u>Charges For Services</u>	<u>Operating Grants And Contributions</u>	
Governmental Activities:				
Education	\$ 2,559,061	\$ -0-	\$ 2,748,789	\$ 189,728
Total Governmental Activities	<u>\$ 2,559,061</u>	<u>\$ -0-</u>	<u>\$ 2,748,789</u>	<u>189,728</u>
			Change In Net Assets	189,728
			Net Assets - Beginning	<u>3,919,189</u>
			Net Assets - Ending	<u>\$ 4,108,917</u>

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

**STATE OF NEW HAMPSHIRE
POLICE STANDARDS AND TRAINING COUNCIL
BALANCE SHEET-GOVERNMENTAL FUNDS
MARCH 31, 2005**

	<u>General Fund</u>
<u>Assets</u>	
Cash And Cash Equivalents	\$ 3,039,439
Accounts Receivable	68,047
Federal Grants Receivable	18,467
Other Assets	<u>81,361</u>
Total Assets	<u><u>\$ 3,207,314</u></u>
 <u>Liabilities</u>	
Accounts Payable	\$ 26,761
Accrued Payroll	117,668
Deferred Revenue	<u>81,361</u>
Total Liabilities	<u><u>225,790</u></u>
 <u>Fund Balance</u>	
Reserved For Encumbrances	170,478
Reserved For Unexpended Appropriations	31,853
Unreserved, Undesignated	<u>2,779,193</u>
Total Fund Balance	<u><u>2,981,524</u></u>
Total Liabilities And Fund Balance	<u><u>\$ 3,207,314</u></u>

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

**STATE OF NEW HAMPSHIRE
POLICE STANDARDS AND TRAINING COUNCIL**

**RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS
MARCH 31, 2005**

Total Fund Balance For Governmental Funds	\$ 2,981,524
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used In Governmental Activities Are Not Financial Resources And Therefore Are Not Reported In The Fund	2,724,105
Certain Receivables Are Earned But Not Available And Therefore Are Not Reported In The Fund	100,063
Certain Long Term Liabilities Are Not Payable By Current Available Resources And Therefore Are Not Reported In The Fund:	
Compensated Absences And Workers Compensation	(107,186)
Bond Payables	<u>(1,589,589)</u>
Total Long-Term Liabilities	<u>(1,696,775)</u>
Net Assets Of Governmental Activities	<u>\$ 4,108,917</u>

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

**STATE OF NEW HAMPSHIRE
POLICE STANDARDS AND TRAINING COUNCIL**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE-GOVERNMENTAL FUNDS
FOR THE NINE MONTHS ENDED MARCH 31, 2005**

	General Fund
<u>Revenues</u>	
Penalty Assessment	\$ 2,256,774
Grants	<u>495,852</u>
Total Revenues	<u>2,752,626</u>
<u>Expenditures</u>	
Administration And Standards	1,120,584
Training	1,457,572
Corrections	<u>107,255</u>
Total Expenditures	<u>2,685,411</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>67,215</u>
Fund Balance - July 1	<u>2,914,309</u>
Fund Balance - March 31	<u>\$ 2,981,524</u>

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

**STATE OF NEW HAMPSHIRE
POLICE STANDARDS AND TRAINING COUNCIL**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE NINE MONTHS ENDED MARCH 31, 2005**

Net Change In Fund Balance - Total Governmental Fund \$ 67,215

Amounts Reported For Governmental Activities In The Statement Of
Activities Are Different Because (See Note 1-C):

Bond Proceeds Provide Current Financial Resources To Governmental
Funds, But Issuing Debt Increases Long-Term Liabilities In The Statement
Of Net Assets. Repayment Of Bond Principal Is An Expenditure In The
Governmental Funds, But The Repayment Reduces Long-Term Liabilities
In The Statement Of Net Assets And Therefore Is Not Recognized As
An Expense In The Statement Of Activities:

Bond Principal Repayments 217,127

Governmental Funds Report Capital Outlays As Expenditures.
However, In The Statement Of Activities, The Cost Of Those Assets
Is Allocated Over Their Estimated Useful Lives As Depreciation
Expense. This Is The Amount By Which Depreciation Exceeded
Capital Outlays In The Current Period: (See Note 3)

(94,614)

Change In Net Assets Of Governmental Activities \$ 189,728

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

**STATE OF NEW HAMPSHIRE
POLICE STANDARDS AND TRAINING COUNCIL**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Police Standards and Training Council (PSTC) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

A. Financial Reporting Entity

The Police Standards and Training Council is an organization of the primary government of the State of New Hampshire. The accompanying financial statements report the financial activity of the PSTC.

The financial activity of the Police Standards and Training Council is accounted for and reported in the State's General Fund in the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the CAFR.

B. Government-Wide And Fund Financial Statements

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities report information on the financial activities of the Police Standards and Training Council. As none of the PSTC's activities are business-type, the activities reported in the Statement are all governmental. Business-type activities rely significantly on fees and charges for support. Governmental activities are normally supported through taxes and intergovernmental revenues.

The Statement of Net Assets presents the Police Standards and Training Council's assets and liabilities, with the difference reported as net assets. Net assets are restricted when constraints are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not meeting the definition of program revenues, including resources that are

dedicated internally, are reported as general revenues. Certain indirect costs are included in program expenses reported for individual functions.

Fund Financial Statements

Separate financial statements are provided for governmental funds. The General Fund is reported in the fund financial statement.

C. Measurement Focus And Basis Of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay the liabilities of the current period. For this purpose, the State generally considers non-grant revenues to be available if they are collected within 60 days of the end of the current fiscal period. Grant revenues that the State earns by incurring obligations are recognized in the same period the obligations are recognized. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due.

D. Financial Statement Presentation

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

Governmental Fund Types:

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

E. Receivables

Receivables in the government-wide financial statements represent amounts due to the Police Standards and Training Council at March 31, recorded as revenue, which will be collected sometime in the future and consist primarily of accrued assessments and federal grants

receivable. In the governmental fund financial statements, receivables are primarily accrued assessments, which are received by the Police Standards and Training Council within 60 days after year-end, except for federal grants, which reimburse the PSTC for expenditures incurred pursuant to federally funded programs.

F. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported by the State in its CAFR in its government-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The Police Standards and Training Council's capital assets are reported in Note 3 on page 41.

Equipment is capitalized when the cost of the individual items exceeds \$10,000 and all other capital assets are capitalized when the cost of individual items or projects exceeds \$100,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation expense is recognized in the government-wide financial statements. Capital assets are depreciated using the straight-line method over the following useful lives:

Equipment	5 years
Computer Software	5 years
Building Improvements	20 years
Buildings	40 years
Infrastructure	50 years

G. Compensated Absences

All full-time state employees in classified service earn annual and sick leave. At the end of each fiscal year, additional leave (bonus days) may be awarded based on the amount of sick leave taken during the year. Accrued compensatory time, earned for overtime worked, must be taken within one year.

The Police Standards and Training Council's compensated absences liability represents the total liability for the cumulative balance of employees' annual, bonus, compensatory, and sick leave based on the years of service rendered along with the PSTC's share of social security and retirement contributions. The current portion of the leave liability is calculated based on the characteristics of the type of leave and on a LIFO (last in first out) basis, which assumes employees use their most recent earned leave first. The accrued liability for annual leave does not exceed the maximum cumulative balance allowed which ranges from 32 to 50 days based on years of service. The accrual for sick leave is made to the extent it's probable that the benefits will result in termination payments rather than be taken as absences due to illness. The liability for compensated absences is recorded in the government-wide financial statements.

In the governmental fund financial statements, liabilities for compensated absences are accrued when they are “due and payable” and recorded in the fund only for employee resignations and retirements that occur before year-end and were paid out after year-end.

H. Fund Balances

Fund balances for all governmental funds are either reserved or unreserved. Reserved fund balances reflect either 1) assets, which, by their nature, are not available for appropriations (Reserve for Inventories); 2) funds legally segregated for a specific future use (Reserve for Encumbrances); 3) segregated by legal restrictions (Reserve for Permanent Funds). Certain reserve accounts are further described below:

Reserved For 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 recorded. Unliquidated encumbrances are reported in the Reserved for Encumbrances account as a component of fund equity for the governmental fund types.

Reserved For Unexpended Appropriations: This account represents amounts of unexpended appropriations legally carried forward and available for expenditures in the succeeding year.

I. Revenues And Expenditures/Expenses

In the government-wide Statement of Activities, revenues and expenses are reported by activity type (governmental or business-type) and function. Additionally, revenues are classified between program and general revenues. The Police Standards and Training Council’s program revenues include operating grants and contributions. In general, resources not dedicated to a program, as well as resources that are internally dedicated, are reported as general revenues rather than program revenues.

In the governmental fund financial statements, revenues are reported by source and expenditures are reported by function. For budgetary control purposes, revenues are further classified as either “general purpose” or “restricted”. General-purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction, available for only specified purposes. When both general purpose and restricted funds are available for use, it is the State’s policy to use restricted resources first.

J. Budget Control And Reporting

General Budget Policies

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

expenditure needs of the government. Part III consists of draft appropriation bills for the appropriations made in the proposed budget.

The operating budget for State agencies, including the PSTC, is prepared principally on a modified cash basis and adopted for the governmental and proprietary fund types with the exception of the Capital Projects Fund. The Capital Projects Fund budget represents individual projects that extend over several fiscal years. Since the Capital Projects Fund comprises appropriations for multi-year projects, it is not included in the budget and actual comparison schedule in the State of New Hampshire CAFR.

In addition to the enacted biennial operating budget, the Governor may submit to the Legislature supplemental budget requests to meet expenditures during the current biennium. Appropriation transfers can be made within a department without the approval of the Legislature; therefore, the legal level of budgetary control is at the department level.

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

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

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services, the encumbrance is liquidated and the expenditure and liability are recorded. The Police Standards and Training Council's General Fund unliquidated encumbrance balance at March 31, 2005 was \$170,478.

A Budget To Actual (Non-GAAP Budgetary Basis) Schedule - General Fund is included as required supplementary information.

NOTE 2 - CASH AND CASH EQUIVALENTS

Deposits

The following statutory requirements and New Hampshire Treasury Department policies have been adopted to minimize risk associated with deposits.

RSA 6:7 establishes the policy the State Treasurer must adhere to when depositing public monies. The statute restricts deposits to national banks, trust companies, and savings banks within the United States that have a branch in the State of New Hampshire. In addition, all

depositories used by the State must be approved at least annually by the Governor and Executive Council.

RSA 6:11 establishes depositing procedures and procedures for making payments to State Treasury accounts. All accounts opened by departments require the State Treasurer's concurrence. RSA 6-B:2 requires the State Treasurer to submit quarterly financial reports to the Governor and Executive Council, the Commissioner of Administrative Services, and the Legislative Fiscal Committee.

The Treasury Department examines the financial condition of its depositories quarterly. The State Treasurer is not required to collateralize bank deposits. The Police Standards and Training Council's bank deposits are FDIC insured for up to \$100,000.

The total cash and cash equivalents reported on the Statement of Net Assets and the Balance Sheet is the amount held by the State Treasury and is commingled with all other State cash. Accordingly, bank balances and risk categories specific to the Police Standards and Training Council cannot be determined.

NOTE 3 - CAPITAL ASSETS AND OTHER EQUIPMENT

In addition to capital assets, the Police Standards and Training Council also accounts for equipment and other assets with an original cost between \$100 and \$10,000. While only capital assets are reported on the PSTC's financial statements, State policies require departments to inventory all assets with an original cost of \$100 or more and a useful life of greater than one year for accountability purposes.

Capital asset and other equipment activity for the nine months ended March 31, 2005 was as follows.

	Balance			Balance
	<u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>March 31, 2005</u>
Capital Assets Being Depreciated:				
Buildings And Building Improvements	\$ 6,423,520	\$ 128,176	\$ -0-	\$ 6,551,696
Land Improvements	-0-	-0-	-0-	-0-
Capital Equipment	<u>387,853</u>	<u>49,075</u>	<u>-0-</u>	<u>436,928</u>
Total Capital Assets	<u>6,811,373</u>	<u>177,251</u>	<u>-0-</u>	<u>6,988,624</u>
Less Accumulated Depreciation For:				
Buildings And Building Improvements	3,668,032	208,189	-0-	3,876,221
Land Improvements	-0-	-0-	-0-	-0-
Capital Equipment	<u>356,167</u>	<u>32,131</u>	<u>-0-</u>	<u>388,298</u>
Total Accumulated Depreciation	<u>4,024,199</u>	<u>240,320</u>	<u>-0-</u>	<u>4,264,519</u>
Capital Assets, Net	<u>2,787,174</u>	<u>(63,069)</u>	<u>-0-</u>	<u>2,724,105</u>
Equipment With Original Cost				
Between \$100 And \$10,000	<u>844,097</u>	<u>431,167</u>	<u>113,078</u>	<u>1,162,186</u>
Net Capital Assets And Other Equipment	<u>\$ 3,631,271</u>	<u>\$ 368,098</u>	<u>\$ 113,078</u>	<u>\$ 3,886,291</u>

NOTE 4 - EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The PSTC, as an organization of the State government, participates in the New Hampshire Retirement System (Plan). The Plan is a contributory defined-benefit plan and covers substantially all full-time employees of the PSTC. The Plan qualifies as a tax-exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. RSA 100-A established the Plan and the contribution requirements. The Plan, which is a cost-sharing, multiple-employer Public Employees Retirement System (PERS), is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. All assets are in a single trust and are available to pay retirement benefits to all members.

Group I members at age 60 qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is 1/60 (1.67%) of AFC multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. At age 65, the yearly pension amount is recalculated at 1/66 (1.5%) of AFC multiplied by years of creditable service. Members in service with ten or more years of creditable service who are between ages 50 and 60 or members in service with at least 20 or more years of service, whose combination of age and service is 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years.

All covered Police Standards and Training Council employees are members of either Group I or Group II.

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

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the nine months ended March 31, 2005, 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 PSTC's employees enrolled in the Plan. The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years based on the Plan's actuary.

The Police Standards and Training Council's payments for normal contribution costs for the nine months ended March 31, 2005 amounted to 5.90% of the covered payroll for its Group I employees and 12.11% of the covered payroll for its Group II employees. The PSTC's normal contributions for the nine months ended March 31, 2005 were \$60,332.

A special account was established by RSA 100-A:16, II (h) for additional benefits. The account is credited with all the earnings of the account assets in the account plus the earnings of the remaining assets of the plan in excess of the assumed rate of return plus $\frac{1}{2}$ of 1%.

The New Hampshire Retirement System issues a publicly available financial report that may be obtained by writing to them at 4 Chenell Drive, Concord, NH 03301-8509 or from their web site at <http://www.nh.gov/retirement>.

Post-Employment Health Care Benefits

In addition to providing pension benefits, RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses within the limits of the funds appropriated at each legislative session. These benefits include group hospitalization, hospital medical care, and surgical care. Substantially all of the State's employees who were hired on or before June 30, 2003 may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires State Group I employees hired after July 1, 2003 to have 20 years of State service in order to qualify for health benefits. These and similar benefits for active employees are authorized by RSA 21-I:30 and are provided through the Employee Benefit Risk Management Fund, which is the State's internal service fund implemented in October 2003 to account for healthcare benefits for active State employees and retirees. The State recognizes the cost of providing these benefits on a pay-as-you-go basis by paying actuarially determined contributions into the fund. The New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees also contributes to the fund.

The cost of the health benefits for the PSTC's retired employees and spouses is a budgeted amount paid from an appropriation made to the administrative organization of the New Hampshire Retirement System. The PSTC does contribute 5.6 percent of actual payroll to the Department of Administrative Services (DAS) as a contribution toward the cost of health benefits for retired Police Standards and Training Council employees. During the nine months ended March 31, 2005, the PSTC contributed \$41,600 to the DAS toward these costs. This amount is included in the PSTC's financial statements.

NOTE 5 - FEDERAL FUNDS

The Schedule of Expenditures of Federal Awards (the Schedule), on page 48, is presented for the purpose of additional analysis. The expenditures presented in the Schedule are presented on the cash basis of accounting; expenditures are recorded when paid rather than when the obligation is incurred.

NOTE 6 - LONG-TERM DEBT

The following is a summary of changes in the long-term liabilities during the nine months ended March 31, 2005 for bond amounts related to the Police Standards and Training Council's projects.

<u>Governmental Activities</u>	<u>Beginning</u>			<u>Ending</u>		
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>	<u>Current</u>	<u>Long-Term</u>
General Obligation Bonds Payable	\$ 1,806,716	\$ -0-	\$ (217,127)	\$ 1,589,589	\$ 210,093	\$ 1,379,496
Total Governmental	\$ 1,806,716	\$ -0-	\$ (217,127)	\$ 1,589,589	\$ 210,093	\$ 1,379,496

All bonds issued by the State, except for Turnpike revenue bonds, are general obligation bonds, which are backed by the full faith and credit of the State. The anticipated source of repayment is the General Fund. In addition to an April 2005 interest payment of \$27,509, annual maturities are as follows:

<u>Year Ended</u>	<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$	210,093	\$ 82,122	\$ 292,215
2007		209,757	77,471	287,228
2008		205,124	62,225	267,349
2009		201,102	55,210	256,312
2010		199,420	42,234	241,654
2011-2015		564,093	95,468	659,561
Total		\$1,589,589	\$ 414,730	\$ 2,004,319

**STATE OF NEW HAMPSHIRE
POLICE STANDARDS AND TRAINING COUNCIL
REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Favorable/ (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Variance- Final</u>
<u>Revenues</u>				
Penalty Assessment	\$ 3,575,923	\$ 3,705,923	\$ 2,224,395	\$ (1,481,528)
Grants	502,040	1,490,475	247,674	(1,242,801)
Other Revenue	-0-	-0-	8,500	8,500
Total Revenues	<u>4,077,963</u>	<u>5,196,398</u>	<u>2,480,569</u>	<u>(2,715,829)</u>
<u>Expenditures</u>				
Administration And Standards	1,264,228	1,398,658	773,550	625,108
Training	2,070,609	3,059,044	1,268,592	1,790,452
Corrections	218,505	214,075	148,411	65,664
Unexpended Penalty Assessment	3,027,503	3,027,503	-0-	3,027,503
Total Program Expenditures	<u>6,580,845</u>	<u>7,699,280</u>	<u>2,190,553</u>	<u>5,508,727</u>
Debt Service	289,794	289,794	289,794	-0-
Capital Outlays	24,527	24,527	24,527	-0-
Total Expenditures	<u>6,895,166</u>	<u>8,013,601</u>	<u>2,504,874</u>	<u>5,508,727</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>\$ (2,817,203)</u>	<u>\$ (2,817,203)</u>	<u>\$ (24,305)</u>	<u>\$ 2,792,898</u>

The accompanying note is an integral part of this schedule.

Note To The Required Supplementary Information - Budgetary Reporting For The Nine Months Ended March 31, 2005

The State's biennial budget is prepared principally on a modified cash basis and adopted for governmental and proprietary funds. The Police Standards and Training Council's biennial budget is included in the State's governmental funds budget. The "actual" results column of the Budget To Actual Schedule is presented on a "budgetary basis" to provide a meaningful comparison to budget.

The budget is composed of the initial operating budget, supplemented by additional appropriations. These additional appropriations and estimated revenues from various sources are authorized by Governor and Council action, annual session laws, and existing statutes which require appropriations under certain circumstances. For reporting purposes, the original budget is equal to the initial operating budget plus any balances brought forward, additional appropriations, and other legally authorized legislative and executive changes made before the beginning of the fiscal year. The final budgeted amount includes the original budget plus supplemental appropriation warrants and transfers made throughout the fiscal year.

The variance column on the Budget To Actual Schedule highlights differences between the final budget and actual revenue and expenditures. For revenue, a favorable variance is caused by actual revenue exceeding budget. For expenditures, a favorable variance results from actual expenditures being less than the amount budgeted for the fiscal year. For interim period financial statements, the variance is largely due to comparison of an annual budget amount with actual financial activity of a partial year.

Budgetary vs GAAP basis

Because the budget is prepared on a budgetary basis and not in accordance with generally accepted accounting principles (GAAP) there are differences in the revenue and expenditures amounts reported in the Statement of Revenues and Expenditures and the Budget To Actual Schedule. The major differences between the budgetary basis and the GAAP basis are:

- Expenditures are recorded when cash is paid or committed (budgetary), rather than when the obligation is incurred (GAAP). In addition, revenue based on these accruals is adjusted on a GAAP basis only.

The following schedule reconciles the differences between budgetary accounting methods and the GAAP basis accounting principles for the nine months ended March 31, 2005.

RECONCILIATION OF BUDGETARY TO GAAP

Excess (Deficiency) Of Revenues	
Over (Under) Expenditures (Budgetary Basis)	\$ (24,305)
Adjustments And Reclassifications:	
To Record The Effects Of Encumbrances	189,239
To Record Net Accrued Salaries And Benefits	
And Other Payables	(369,777)
To Record Accounts Receivable And Deferred Revenue	<u>272,058</u>
Net Adjustments	<u>91,520</u>
Excess (Deficiency) Of Revenues	
Over (Under) Expenditures (GAAP)	<u>\$ 67,215</u>

**STATE OF NEW HAMPSHIRE
POLICE STANDARDS AND TRAINING COUNCIL**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE NINE MONTHS ENDED MARCH 31, 2005**

<u>Federal Catalog Number</u>	<u>Federal Grantor <i>Federal Program Title</i></u>	<u>Expenditures</u>	<u>Pass Thru Percent</u>
16.710	U.S. Department of Justice <i>Public Safety Partnership and Community Policing Grants</i>	\$ 329,539	0%
16.999	U.S. Department of Justice <i>Operation Streetsweeper</i>	<u>21,367</u>	0%
	Total Expenditures Of Federal Awards	<u>\$ 350,906</u>	

APPENDIX

CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of June 9, 2005, of the current status of the observations contained in the audit report of the Police Standards and Training Council for the nine months ended March 31, 1997. A copy of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

	<u>Status</u>		
<i>Internal Control Comments</i>			
<i>Reportable Conditions</i>			
1. Penalty Assessment Understatement (<i>See Current Observation No. 2</i>)	○	○	○
2. Overstatement Of Building Costs	●	●	●
3. Accounting For Equipment (<i>See Current Observation Nos. 14, 15</i>)	●	●	○
4. Inadequate Segregation Of Duties (<i>See Current Observation No. 7</i>)	●	●	○
5. Equipment Received On Loan	●	●	●
<i>State Compliance Comments</i>			
6. Statements Of Financial Interests	●	●	●
Status Key			
Fully Resolved	●	●	●
Partially Resolved	●	●	○
Unresolved	○	○	○

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