

**STATE OF NEW HAMPSHIRE  
NEW HAMPSHIRE VETERANS' HOME**

**AUDIT REPORT  
FOR THE NINE MONTHS ENDED  
MARCH 31, 1998**

**STATE OF NEW HAMPSHIRE  
NEW HAMPSHIRE VETERANS' HOME**

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**Legend For Constructive Service Comments**

- \* Trust And Agency Fund Related Comment
- ♦ General State Operations Related Comment
- \*♦ Comment Has Components Of Both Trust And Agency Fund And General State Operations

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**STATE OF NEW HAMPSHIRE  
NEW HAMPSHIRE VETERANS' HOME**

**Background And Organization**

Near the end of the Civil War, the United States government began establishing national soldiers' homes to care for its veterans. Gradually, the government moved toward assisting the states in establishing their own homes, rather than opening new national homes. In 1863 the first state veterans' home was established in Chelsea, Massachusetts. The New Hampshire Veterans' Home (Home) was dedicated in 1890.

The Home is situated on approximately 30 acres of land on Winter Street in Tilton. The Home is governed by a Board of Managers, consisting of officials from various veterans' organizations and private citizens. The Board is charged with the custody and care of the property of the Home and with carrying into effect the purposes for which the Home was established. The day-to-day administration of the Home is overseen by the Home's commandant, who is appointed by the Board of Managers. At March 31, 1998 there were 148 full-time employees and 34 part-time employees at the Home.

**Responsibilities**

The Home, established by RSA 119:1, provides for the support, care, and treatment of veterans who have served on active duty, for a period of at least 90 days, in the armed forces of the United States in time of war. Services provided by the Home include nursing care, assisted living, domiciliary, day care, dementia, chemical dependency and psychiatric services, and other related services and programs for any veteran otherwise eligible for admittance. At March 31, 1998 there were 146 veterans resident at the Home.

**Funding**

The Home is funded by appropriations in the General and Capital Projects Funds. The residents of the Home contribute to their support by transferring a major portion of their monthly income to the General Fund. Appropriations are also recovered through payments made to the Home by the United States Department of Veterans Affairs. The Home is budgeted to recover approximately 74% of its General Fund appropriations from these two sources.

Fiscal year 1998 appropriations combined with supplemental warrants, balances forward, and transfers resulted in spending authority of \$6.6 million in the General Fund and \$164,000 in the Capital Projects Fund. Estimated restricted revenue combined with supplemental warrants and balances forward resulted in anticipated fiscal year 1998 restricted revenue of \$4.9 million in the General Fund.

## Funding (Continued)

The actual financial activity of the Home, as reported in the General and Capital Projects Funds for the nine months ended March 31, 1998 is summarized in the following table.

(in thousands)	Year Ended June 30, 1997		
	General Fund	Capital Fund	Total
Unrestricted Revenues	\$ 2,025	\$ -0-	\$ 2,025
Restricted Revenues	639	-0-	639
Other Financing Sources	-0-	285	285
<b>Total Revenues and Other Financing Sources</b>	<b>\$ 2,664</b>	<b>\$ 285</b>	<b>\$ 2,949</b>

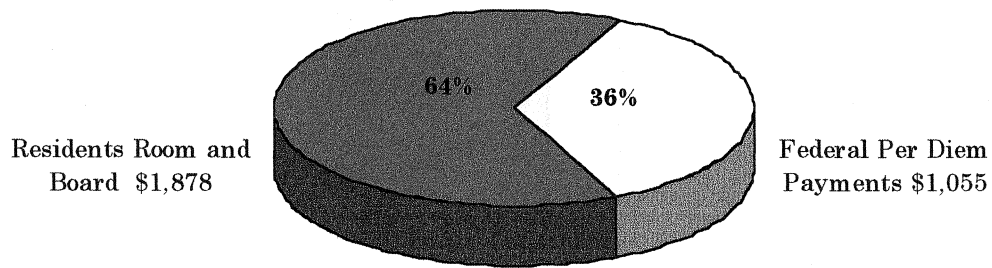
The Home is custodian of a trust fund and an agency fund. The agency fund, the Members Administrative Account, is maintained for the Home's residents. Each resident has an account within the Members Administrative Account where monthly income, such as Social Security payments and veteran's benefits, is deposited and room and board (members' excess income) and other member-determined expenditures are made. During the nine months ended March 31, 1998, approximately \$2.5 million was deposited into and paid out of this account. The balance in the account at March 31, 1998 was approximately \$468,000.

The Members Benefit Fund is an expendable trust fund maintained by the Home. The purpose of the fund, established in 1963, is to provide needed items for the care, comfort and safety of the residents. The fund consists of donations from individuals and organizations and accrued earnings and interest on its cash and invested balances and the accrued earnings and interest on the Members Administrative Account cash and invested balances. Also, deceased residents' balances in the Members Administrative Account are temporarily deposited into the Benefit Fund pending distribution to the deceased residents' estates at the direction of the Probate Court. During the nine months ended March 31, 1998, there was approximately \$130,000 of revenue credited to the Members Benefit Fund, approximately \$70,000 of expenditures and a net of approximately \$20,000 of other transfers into the account. The balance in the Members Benefit Fund at March 31, 1998 was approximately \$580,000.

## Prior Audit

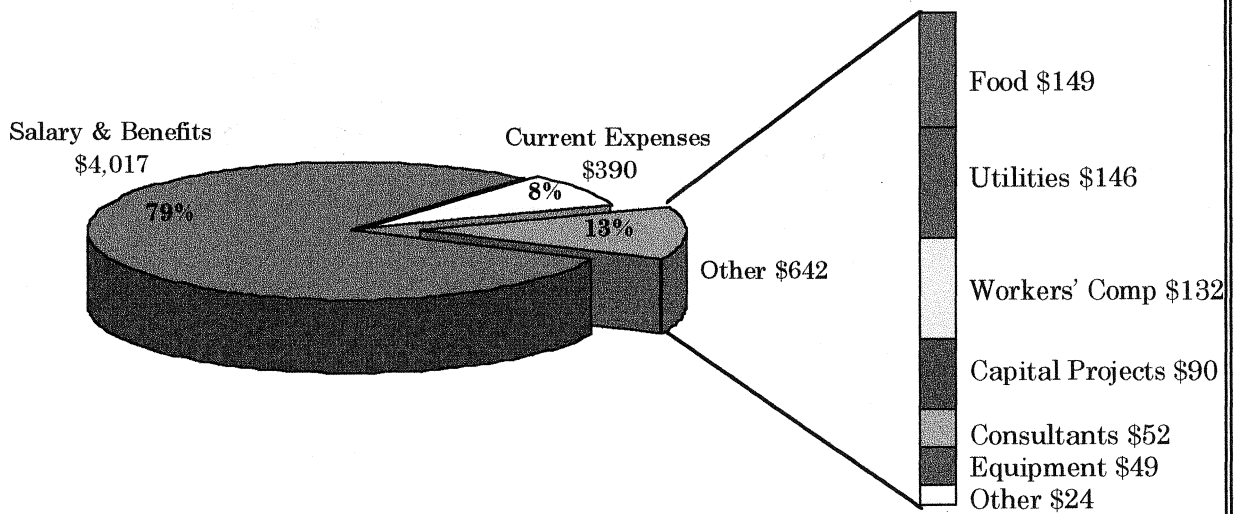
The most recent prior financial and compliance audit of the Home was for the year ended June 30, 1992 and the six months ended December 31, 1992. The appendix to this report on page 55, contains a summary of the current status of the observations contained in that prior report. Copies of the prior audit 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.

**General Fund Restricted Revenues**  
**For the Nine Months Ended March 31, 1998**  
 (Amounts shown in Thousands)



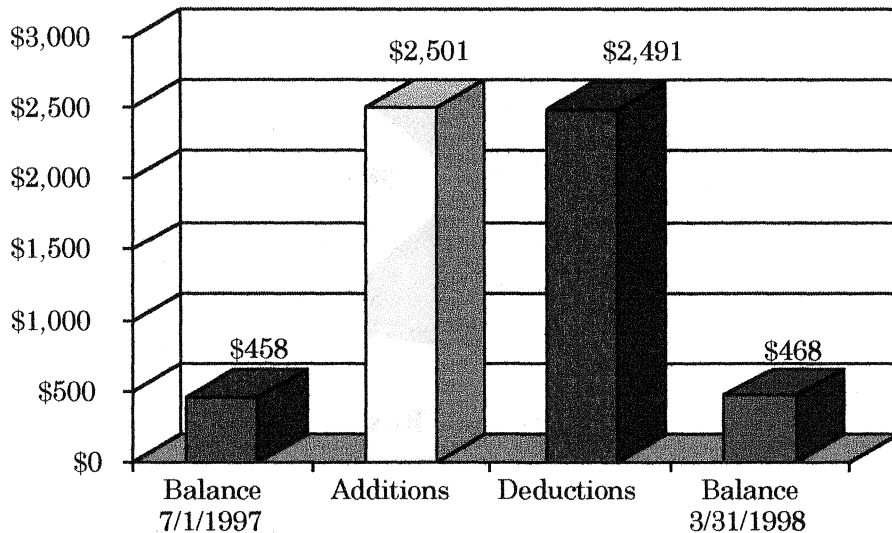
**Total Restricted Revenue \$2,933**

**General and Capital Projects Fund Expenditures**  
**For the Nine Months Ended March 31, 1998**  
 (Amounts shown in Thousands)

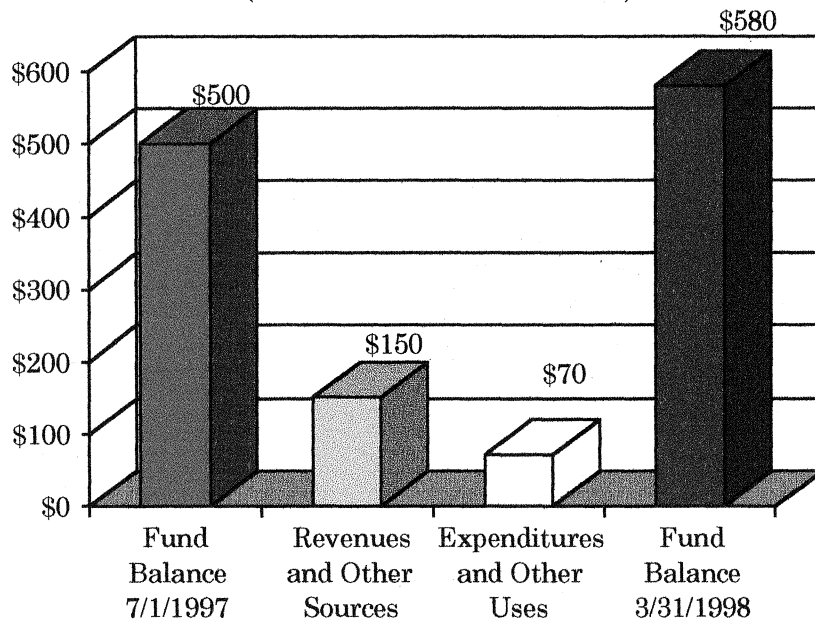


**Total Expenditures \$5,049**

**Members Administrative Account - Agency Fund  
Financial Activity  
For the Nine Months Ended March 31, 1998**  
(Amounts shown in Thousands)



**Members Benefit Fund - Expendable Trust Fund  
Financial Activity  
For the Nine Months Ended March 31, 1998**  
(Amounts shown in Thousands)



## **Audit Objectives And Scope**

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

- Internal controls,
- Revenues and appropriations,
- Expenditures and encumbrances,
- Trust and agency funds,
- Cash, cash equivalents, and investments,
- Real property and equipment, and
- State and federal compliance.

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



## **Auditor's Report On Compliance And On Internal Control Over Financial Reporting**

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying financial statements of the New Hampshire Veterans' Home as of and for the nine months ended March 31, 1998, and have issued our report thereon dated July 9, 1998, which was qualified with respect to the lack of presentation of the financial position of the Home in the General and Capital Projects Funds and the understatement of revenue in the General Fund. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the New Hampshire Veterans' Home's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance which are described in observations No. 17 through No. 19 of this report.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the New Hampshire Veterans' Home's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 New Hampshire Veterans' Home'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 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 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 referred to above is a material weakness.

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

*Office of Legislative Budget Assistant*  
Office Of Legislative Budget Assistant

July 9, 1998

**Internal Control Comments**  
**Reportable Conditions**

**Observation No. 1 - Deposit Of Revenue With The State Treasury**

*Observation:*

The Home did not deposit General Fund revenue with the State Treasury in an efficient and controlled manner during the nine months ended March 31, 1998.

An employee of the Home regularly hand delivered deposits to the State Treasury. On occasion, this employee would take the deposits home overnight and deliver the deposits to the Treasury on the next day. Room and board deposits, averaging approximately \$250,000 each, were hand delivered to the Treasury each month.

The hand delivery of deposits to the State Treasury in Concord from the Home in Tilton was inefficient and a violation of proper internal control. Hand delivered deposits are more prone to being lost, mishandled, and delayed than deposits made directly to a bank for electronic transfer or mailed.

*Recommendation:*

The Home should work with the State Treasury to determine the most efficient and controlled manner to deposit revenue into the State's accounts. Deposits should be made directly to appropriate accounts and not held overnight at unsecured locations awaiting deposit.

*Auditee Response:*

The Home concurs with this observation. The Business Administrator has met with the State Treasurer's Office, and the deposits are now made directly into Treasury's Account through a local bank in Tilton, New Hampshire.

**Observation No. 2 - Timeliness Of Deposits**

*Observation:*

Approximately 44% (19 of 43) of the Homes' deposits selected for testing were not made in a timely manner. RSA 6:11 requires all state agencies to deposit funds in their possession at least daily or when the total of all receipts (cash and checks) is more than \$100. While RSA 6:11 requires daily deposits, timeliness for this test was judgmentally determined to be deposits made within three business days of receipt, to allow the Home time to process the receipts. The deposits categorized as late were made from four to nine business

## **Reportable Conditions (Continued)**

### **Observation No. 2 - Timeliness Of Deposits (Continued)**

#### *Observation (Continued):*

days after receipt, with the average being five and one-half business days after receipt. Delays in depositing receipts increase the risk of lost or misused deposits and also negatively impacts the State Treasury's ability to efficiently and effectively manage and invest the State's cash.

#### *Recommendation:*

The Home should establish procedures to ensure that deposits are made in a timely manner. Accumulated receipts should not remain at the Home undeposited.

#### *Auditee Response:*

The Home concurs with this observation. While every effort will be made to ensure that deposits are made on a daily basis, some days this will be impossible due to limited staffing resources.

### **Observation No. 3 - Full-Pay Rate Charged For Residents' Room And Board**

#### *Observation:*

The Home does not have documentation to support the appropriateness of the \$3,000 per month room and board rate charged to full-pay residents. According to the Home, the rate was established in 1994. An analysis of the Home's costs for the quarters ended June, 1997 through March, 1998 indicates that the full-pay rate should be approximately \$2,535 per month, a difference of \$465 per month.

There is no statute or administrative rule that specifically describes how to calculate the full-pay room and board rate. Based on discussions with the Home, the full-pay rate is intended to recover the full cost of a resident living at the Home. The Home generates the average daily cost per resident and reports that number quarterly to the Veterans Administration. The quarterly reporting is required as a condition of the federal program that provides the Home federal assistance in the form of a per-diem payment of \$40 per resident from the Veterans Administration.

## **Reportable Conditions (Continued)**

### **Observation No. 3 - Full-Pay Rate Charged For Resident's Room And Board (Continued)**

#### *Observation (Continued):*

N. H. Admin Rule, Ve-H 601.05 (a) indicates full room and board charges should be net of any per-diem reimbursement. Based on the average daily cost per resident reported by the Home over the quarters ended June, 1997 through March, 1998, the average monthly cost to the Home per resident was \$3,735. Reducing that cost by the \$1,200 monthly federal per-diem, in accordance with N. H. Admin Rule, Ve-H 601.05 (a), provides a full-pay rate of \$2,535 per month: \$465 per month less than the rate currently charged by the Home. At March 31, 1998, there were five residents at the Home who were charged the \$3,000 per month full-pay rate.

If the Home determines that the full-pay rate is less than \$3,000, the Home may need to provide a cap on the partial-pay rate to ensure that partial-pay residents (who are charged 90% of their monthly income less \$100) do not pay more than full-pay residents. At March 31, 1998, four partial-pay residents paid more than \$2,535 per month for room and board.

#### *Recommendation:*

The Home should establish documented policies and procedures that address the method of determining the full-pay room and board rate. The Home should consider codifying these policies and procedures in its administrative rules. The Home should document the calculation of the rate and periodically review the rate to ensure that it remains appropriate.

#### *Auditee Response:*

The Home concurs with this observation. The Home will seek the opinion of the Attorney General's Office regarding Administrative Rule Ve-H 601.05(a) concerning full-pay residents. It will then update the rule to allow the Board of Managers to set the amount of the daily rate in conjunction with the development of the Home's operating budget. This rate will be periodically reviewed for appropriateness.

### **Observation No. 4 - Accounting For The Funds Of Deceased Residents**

#### *Observation:*

The Home retains unclaimed funds of deceased residents in the Members Benefit Fund and does not take steps to ensure that the funds are forwarded to the estates of the deceased residents or to other appropriate entities.

## **Reportable Conditions (Continued)**

### **Observation No. 4 - Accounting For The Funds Of Deceased Residents (Continued)**

#### *Observation (Continued):*

When a resident of the Home dies, any remaining balance to his or her credit in the Members Administrative Account is transferred to the Members Benefit Fund, in anticipation of disbursing the funds to the deceased resident's estate. If there is no claim on the money by the estate of the deceased member, the money remains in the Members Benefit Fund. While the resident's individual records at the Home contain information on the amount of money transferred, there is no record that tracks the total unclaimed balance in the Members Benefit Fund. To determine the names of the deceased residents and their balance of unclaimed money in the Members Benefit Fund would require a review of the resident records for each resident who has died at the Home since at least 1993, when the practice of transferring deceased residents' money from the Members Administrative Account appears to have begun.

The balance of deceased residents' unclaimed money in the Members Benefit Fund was approximately \$174,000 at March 31, 1998. Deceased residents' funds are not available to expend for the purpose of the Trust yet they are not reported to the Board of Managers as a liability of the Members Benefit Fund on the Home's quarterly financial statements. Because this liability is not reported, the fund balance, the amount of funds available to expend for the purpose of the Members Benefit Fund, was overstated on the March 31, 1998 quarterly report in the amount of the \$174,000 unreported liability. This balance is properly reported on the accompanying financial statements in this report.

#### *Recommendations:*

- The Home should establish and maintain appropriate records to account for deceased residents' funds. The records should account for the deceased residents' names, balances and age of balances maintained in the Members Benefit Fund. The Home should report the balance of deceased residents' funds as a liability on the Members Benefit Fund quarterly financial statements. This will help ensure the Board is aware of the amount of funds available to spend for the purposes of the Trust.
- The Home should also work with the State Treasury, and if necessary obtain an opinion from the Attorney General, to determine whether this unclaimed money should be reported to, and ultimately transferred to, the State Treasury as abandoned property under RSA 471-C.

## **Reportable Conditions (Continued)**

### **Observation No. 4 - Accounting For The Funds Of Deceased Residents (Continued)**

#### *Auditee Response:*

The Home concurs that we should maintain a list of deceased members' unclaimed assets. The list will be submitted to the Board of Managers on a quarterly basis.

During the admissions process, the Home's Social Services Department and Business Office work with the residents and their families to make them aware of the Home's policies regarding this issue. A record keeping system is being set up in Microsoft Excel for this purpose.

The Home will work with the State Treasury and the Attorney General's Office to eliminate any confusion regarding this subject.

### **Observation No. 5 - Strengthening Internal Controls Over The Members Administrative Account**

#### *Observation:*

While gaining an understanding of the Home's controls over the Members Administrative Account we noted the following areas where controls could be improved:

- Incompatible responsibilities related to the Members Administrative Account are performed by the Accountant I, including:
  - a) preparing the initial receipt record,
  - b) posting the receipts to the computerized system,
  - c) preparing checks for signature,
  - d) posting disbursements to the computerized system,
  - e) disbursing signed checks, and
  - f) reconciling the activity posted to the computerized system to the check register.
- The Business Administrator reconciles the Members Administrative Account checkbook to the bank statement, but does not reconcile this activity to the Members Administrative Account computerized accounting system or the financial statements presented quarterly to the Board of Managers. A number of errors were noted in the financial reporting to the Board that could have been detected if the Business Administrator reviewed the quarterly Members Administrative Account financial statements more closely.

## **Reportable Conditions (Continued)**

### **Observation No. 5 - Strengthening Internal Controls Over The Members Administrative Account (Continued)**

#### *Observation (Continued):*

- Accountability over the Members Administrative Account cash balance is not appropriately controlled. Specifically:
  - a) the calculator tape used to support the amount of cash issued to residents is not signed or initialed by the individual responsible for the return of the cash balance at the end of bank day. The calculator tape should be used as part of the documentation to support a reconciliation of the beginning cash balance, cash issued, and the cash balance returned to the safe at the end of bank day. Also,
  - b) the person responsible for authorizing the replenishment of the cash balance does not reconcile the amount of cash issued per the calculator tape to the amount of cash withdrawn per the posting in the computerized system.

#### *Recommendations:*

- The Home should improve its controls over the Members Administrative Account. Where possible, responsibilities should be adequately segregated to promote the timely detection of errors or irregularities.
- The monthly reconciliation of the checkbook performed by the Business Administrator should be expanded to include a reconciliation of the members' account balances in the Members Administrative Account and to the financial statements presented to the Board. Complete and independent reconciliations will ensure that the accounting records contain consistent and accurate information and that the Board receives accurate information on which to base its decisions.
- The Home should improve accountability over the Members Administrative Account cash balance. Documentation for the custody of and transactions affecting the cash balance should be improved to ensure accountability over the cash balance is established at all times.

#### *Auditee Response:*

The Home agrees with this observation.

- The incompatible duties of the Accountant I will be reassigned to other staff.
- The Business Administrator will audit the financial statements before presenting them to the Board of Managers.



## **Reportable Conditions (Continued)**

### **Observation No. 5 - Strengthening Internal Controls Over The Members Administrative Account (Continued)**

#### *Auditee Response (Continued):*

- When totaling the cash after Bank Day, the person performing the reconciliation will sign the cash register tape.

As noted in our responses to other observations, it is apparent that an additional Business Office position is needed to further segregate responsibilities and duties.

### **Observation No. 6 - Strengthening Internal Controls Over The Members Benefit Fund**

#### *Observation:*

While gaining an understanding of the Home's controls over the Members Benefit Fund we noted the following areas where controls could be improved.

- The Home's normal procedure is to have the Director of Community Affairs initially receive all donations. This individual prepares and signs a record of initial receipt, and forwards the money and receipt to the business office. The director also sends thank-you letters to the donors to recognize the donation. On occasion, donations are not initially received by the Director of Community Affairs but are received by employees on the floors or by business office personnel. There is no procedure in place to ensure that the Office of Community Affairs is notified of these donations so that appropriate thank-you letters are sent to donors. Failure to properly recognize the donations may harm community relations and result in more difficult fund-raising efforts.
- Donation checks are not restrictively endorsed immediately upon receipt. Checks are endorsed at the business office when the deposit is prepared.
- The Business Administrator reconciles the Members Benefit Fund checkbook to the bank statement but does not reconcile this activity to the financial statements presented to the Board of Managers.
- Signed checks are returned for disbursement to the employee who initially prepared the check. Signed checks should not be returned to the preparer since it allows for subsequent alteration to the checks and/or allows for the checks to be redirected to someone other than the original payees.

#### *Recommendation:*

The Home should strengthen its controls over the Members Benefit Fund.

- Procedures should be implemented to ensure the Director of Community Affairs is made aware of all donations received by the Home.

**Reportable Conditions (Continued)**

**Observation No. 6 - Strengthening Internal Controls Over The Members Benefit Fund (Continued)**

*Recommendation (Continued):*

- Checks should be restrictively endorsed for deposit immediately upon receipt.
- The Business Administrator should reconcile the check register activity to the quarterly financial statements presented to the Board to ensure the Board is acting upon accurate information.
- Signed checks should not be returned to the preparer. Checks should be disbursed by an individual otherwise independent of the check process.

*Auditee Response:*

The Home concurs with this observation.

- Checks are now endorsed by the Director of Community Affairs and the Administrative Secretary immediately upon receipt with a restricted endorsement stamp which reads, FOR DEPOSIT ONLY NH VETERANS HOME BENEFIT FUND.
- All employees are instructed to refer to the New Hampshire Veterans' Home Donation Policy & Procedure and complete Donation Forms to be forwarded to the Director of Community Affairs.
- The Business Administrator will reconcile the check register activity to the Board's quarterly financial reports for accuracy.
- We agree that signed checks should not be returned to the preparer; however, because of limited staffing, segregation of duties is not always possible.

**Observation No. 7 - Reconciliation Of Investment Records**

*Observation:*

The Home does not regularly reconcile its investment records with the investments reported by its custodian, the State Treasury. At March 31, 1998, there was a \$25,581 unreconciled difference between the Home's recorded value of its investments and the State Treasury's reported value of the investments. In addition, there was a difference between the Home's and the State Treasury's allocation of the investments between the Members Administrative Account and the Members Benefit Fund.

**Reportable Conditions (Continued)**

**Observation No. 7 - Reconciliation Of Investment Records (Continued)**

*Observation (Continued):*

The State Treasury is custodian of the Home's fiduciary fund investments. Quarterly, the State Treasury reports to the Home the investment balances and earnings for both the Members Administrative Account and the Members Benefit Fund. Periodically, the Home requests the State Treasury to transfer money to and from the investment accounts based on levels of fund activity. As part of its monthly account reconciliations, the Home partially reconciles its recorded investment information with the information reported by the State Treasury. The Home, however, does not complete the reconciliation process by ensuring noted differences in the records are resolved and corrected as appropriate. The Home has allowed differences between the Home's and the State Treasury's records to remain uncorrected for several years. The failure to completely reconcile the accounts is a significant breach of the Home's controls over these funds.

*Recommendation:*

The Home should prepare complete and timely quarterly investment reconciliations. Unresolved differences should not be carried on the accounting records for excessive periods of time. Management at the Home should be made aware of and ensure that differences with the State Treasury's records are appropriately resolved.

*Auditee Response:*

The Home concurs that complete and timely quarterly investment reconciliations should be prepared. Any past discrepancies have now been resolved, and the Home is in agreement with the State Treasurer on the balance in each fund.

**Observation No. 8 - Balance In Members Benefit Fund Operating Account**

*Observation:*

The balance in the Members Benefit Fund checking account has not been consistently maintained at the Home's \$25,000 target amount.

In order to minimize risk and to maximize investment income, while maintaining sufficient funds available for immediate use, the Home has determined it appropriate to maintain a \$25,000 balance in its Members Benefit Fund checking account with the remainder of the Fund being invested by the State Treasury. The following table provides the reported book balance in the checking account at the dates indicated.

July 1, 1997	\$46,818
September 30, 1997	\$16,306

December 31, 1997	\$70,432
March 31, 1998	\$87,105

**Reportable Conditions (Continued)**

**Observation No. 8 - Balance In Members Benefit Fund Operating Account  
(Continued)**

*Observation (Continued):*

The Home has not maintained the balance in the Members Benefit Fund checking account in line with its targeted amount. By not adhering to its targeted balances, the Home may be accepting more risk and fewer investment opportunities than intended by the Board of Managers.

*Recommendation:*

The Home should monitor the balance in the Members Benefit Fund checking account more closely. In order to properly balance the limitation of risk, maximization of income and availability of funds and also to demonstrate that it meets its fiduciary responsibility over the Members Benefit Fund, the Home should ensure that the balance in the checking account does not exceed the target amount without due cause.

*Auditee Response:*

The Home concurs with this observation. The balances for the quarters which were above the \$25,000 threshold were maintained to cover anticipated expenses to be made in the very near future – e.g. to settle estates of deceased residents, to fund costs of major projects.

Henceforth, the balance in the Members Benefit Fund checking account will be maintained at the \$25,000 target amount.

**Observation No. 9 - Restrictions On The Use Of Donations**

*Observation:*

There are no established policies and procedures at the Home to ensure that donations are used for the purposes intended by the donors.

While gaining an understanding of the controls over the receipt of donations, we became aware of a \$1,000 donation received by the Home in May, 1997. According to a note received with the donation, the money was to be used for a celebration or other purchase to benefit the staff of a particular wing of the Home who had tended to the uncle of the donor. The Home sent a letter thanking the donor and indicating that the money would be used for the purchase of a refrigerator, microwave, and ceiling fan. As of March 31, 1998, the Home had not yet made the purchases. Apparently, subsequent to mailing the letter to the

## **Reportable Conditions (Continued)**

### **Observation No. 9 - Restrictions On The Use Of Donations (Continued)**

#### *Observation (Continued):*

donor, it was determined that the purchases referred to in the letter were already planned to be purchased as part of the Home's Capital Projects Fund activity. However, as of July 9, 1998, the money had not been returned to the donor nor had the donor been informed of the Home's decision not to use the money as described in the Home's letter to the donor.

#### *Recommendation:*

The Home should establish policies and procedures covering the acceptance and use of donations. Donations accepted by the Home should be used for the purpose intended by the donor. If the Home determines that the intended use is not appropriate, it should request the donor to change the conditions of the donation or return the donation.

#### *Auditee Response:*

The Home concurs with this observation. All donations and thank-you letters will be monitored to assure that the funds are expended for the purpose intended by the donor. If the Home determines that the intended use is not appropriate, the donor will be contacted to request to change the conditions or the donation will be returned.

Items have been purchased and are now in place on the unit for a \$1,000 donation received by the Home in May, 1997. A thank-you letter has since been sent informing the donor of items purchased.

### **Observation No. 10 - Controls Over Members Benefit Fund Expenditures**

#### *Observation:*

The Home does not document that it subjects its Members Benefit Fund expenditures to the State's usual internal controls as required by RSA 11:7.

RSA 11:7 states "[a]ll disbursements made by state agencies and departments for trust fund purposes shall follow the laws, rules and regulations applicable to said agencies and departments for normal operating and capital purposes." These laws, rules and regulations include requiring purchases greater than \$500 be processed through the Bureau of Purchase and Property; personnel contracts greater than \$2,500 and other services contracts greater than \$5,000 be approved by governor and council and subject to bidding requirements; and construction and repair contracts greater than \$10,000 be approved by governor and council, with the Bureau of Public Works involved in the planning and construction phases. While trust fund purchases are not processed through the Bureau of

Purchase and Property, agencies should document that they obtain competitive prices from quality vendors.

### **Reportable Conditions (Continued)**

#### **Observation No. 10 - Controls Over Members Benefit Fund Expenditures (Continued)**

##### *Observation (Continued):*

The Home does not document that it follows normal state operating procedures and controls when making disbursements from the Members Benefit Fund. The Home does its own ordering and purchasing, regardless of dollar amount, but does not document that it obtained competitive prices. Also, Members Benefit Fund expenditures are not submitted to governor and council for approval or subject to documented bidding requirements when required by the State's laws, rules, and regulations.

##### *Recommendation:*

The Home should establish procedures to comply with RSA 11:7 and ensure its Members Benefit Fund expenditures are subject to at least the internal controls required of state-funded expenditures. Doing so will help establish and document that the Home is meeting its fiduciary responsibility and exercising appropriate due diligence over its trust fund expenditures.

##### *Auditee Response:*

While the Home concurs that RSA 11:7 must be followed, there are conflicting opinions on matters of procedure. The Home sought the opinion of the Attorney General in September of 1995 and in May of 1996 was advised that under RSA 119:8, the Board of Managers has the authority to approve expenditures from the Benefit Fund.

The Home will work with the Department of Administrative Services and the Attorney General's Office to eliminate any confusion regarding this subject.

#### **Observation No. 11 - Documentation Of Members Benefit Fund Transactions**

##### *Observation:*

Accountability over the preparation and revision of Members Benefit Fund transaction documents is not consistently established by the preparer signing or initialing the documents.

The following are examples where the accountability for Members Benefit Fund transactions is not adequately established by the Home.

- The initial cash receipt record used to record receipts has a space for the signature of the preparer. The initial cash receipt record prepared for trust funds is signed only if the preparer is someone other than the Accountant I.

### **Reportable Conditions (Continued)**

#### **Observation No. 11 - Documentation Of Members Benefit Fund Transactions (Continued)**

##### *Observation (Continued):*

- The initial cash receipt record prepared and signed by the Director of Community Affairs may be subsequently revised by the Accountant I. Revisions on the initial receipt record are not signed or initialed to indicate accountability for the revisions.
- The fund authorization form used to document trust fund disbursements has a space for the initials of the individual who prepares the check; however, the space for the initials is not utilized. Three individuals at the Home are authorized to prepare Members Benefit Fund checks.

##### *Recommendation:*

The Home should require employees to complete Members Benefit Fund transaction documentation, including signing or initialing the documents, to establish accountability for processing the transaction.

##### *Auditee Response:*

The Home concurs with this observation. All trust fund transactions will be documented including the initialing of changes to the original documents.

#### **Observation No. 12 - Completion Of Fund Authorization Forms**

##### *Observation:*

The Home does not consistently complete Fund Authorization Forms to support the expenditure of its trust and agency funds.

As part of its internal controls, the Home has established a policy whereby a Fund Authorization Form should be completed and signed by the Commandant or Business Administrator prior to the disbursement of trust and agency funds.

We noted that approved Fund Authorization Forms were not completed for eight out of a sample of 32 (25%) expenditures tested. We also noted that Fund Authorization Forms are not consistently prepared or approved prior to cash being disbursed from the balances of cash on hand.

## **Reportable Conditions (Continued)**

### **Observation No. 12 - Completion Of Fund Authorization Forms (Continued)**

#### *Recommendation:*

The Home should take steps to ensure compliance with its control policies and procedures over the expenditure of trust and agency funds, including the completion of Fund Authorization Forms. Allowing noncompliance with established controls could be viewed as a breach of its fiduciary responsibilities over the funds.

#### *Auditee Response:*

The Home concurs with this observation. A Fund Authorization Form is now being completed and approved by the Business Administrator or the Commandant for ALL transactions except for those that are preapproved in writing by the resident/POA [resident's power of attorney] and are routine in nature.

### **Observation No. 13 - Limitations In The Home's Automated Room And Board System**

#### *Observation:*

While gaining an understanding of the Members Administrative Account computer system, we noted the following areas where the system could be improved:

- The component of the Home's automated system used to calculate room and board charges does not adequately address room and board calculations for residents who do not receive monthly social security income.

⇒ The automated room and board system appropriately deducts \$100 from a resident's Social Security income prior to its calculating the 90% amount that is charged as a resident's room and board. If the resident does not receive Social Security income, the \$100 is not deducted from the resident's income prior to the calculation of the 90% room and board charge. To work around this limitation in the automated system, the accountant manually adjusts the resident's income profile by posting \$100 as Social Security income and reducing a different income source by a similar amount. The effect of this adjustment of the resident's income profile allows the automated room and board system to charge the proper amount of room and board. However, this manual adjustment of the resident's profile also raises the potential for errors to occur. Based upon a review of the February 1998 room and board report, three residents were each overcharged \$90 per month due to the Home not making correct manual



adjustments to the automated system to reflect the residents not receiving Social Security income.

### **Reportable Conditions (Continued)**

#### **Observation No. 13 - Limitations In The Home's Automated Room And Board System (Continued)**

##### *Observation (Continued):*

- The component of the automated system used by the Home to calculate room and board charges does not calculate charges for residents leaving the Home at a time other than month end.
  - ⇒ Room and board charges for the final month of residency are prepared manually. The room and board charged in the final month of residency was tested for three residents. Clerical errors were noted in the Home's calculation of room and board charges for two of the three residents tested. One resident was overcharged \$51 and the other resident was overcharged \$7.

##### *Recommendation:*

The Home should consider revising the component of the automated system used to calculate room and board so that it:

- accurately accounts for resident income without additional manipulation of residents' income profiles; and
- minimizes the necessity for manual calculations and the potential for clerical errors that result from these calculations.

##### *Auditee Response:*

The Home concurs with this observation. The Home will request that the present system be corrected with the vendor who developed it until such time as we are able to purchase or develop a new system. Every effort will be made to ensure minimal errors in residents' accounts. When funding is available, the Home will implement a new system, with involvement from the Department of Administrative Services and Division of Information and Technology Management.

#### **Observation No. 14 - Members Administrative Account Cash-On-Hand Balance**

##### *Observation:*

The \$2,000 Members Administrative Account cash balance maintained at the Home appears excessive. An excessive cash balance increases the risk of loss or misuse of the

cash and also reduces interest revenue opportunities. The Home maintains the Members Administrative Account, an agency fund, to account for residents' money.

### **Reportable Conditions (Continued)**

#### **Observation No. 14 - Members Administrative Account Cash-On-Hand Balance (Continued)**

##### *Observation (Continued):*

Receipts to this account are from residents' income, primarily Social Security, veterans and retirement benefits. Disbursements from this account are generally for room and board charges and for residents' personal spending. Personal spending includes special medical care, clothing, special food items, cigarettes, spending in the community, and other personal items.

The Home maintains \$2,000 of cash on hand to provide residents with ready access to their money. The Home runs a "bank day" on Mondays, Wednesdays and Fridays to allow residents to make cash withdrawals from their account balances.

A review of resident cash withdrawals for the bank days during the five-month period July through November 1997, indicated that the average total withdrawal per bank day was \$327, with the maximum being \$753. As the Home generally makes daily trips to its bank, in part to replenish the cash balance, it appears that a \$2,000 cash-on-hand balance is excessive and unnecessarily increases the Home's risk of loss or misuse of the cash and reduces the interest revenue opportunities for the account.

##### *Recommendation:*

The Home should reevaluate the need to maintain \$2,000 of Members Administrative Account cash on hand. The amount of cash on hand should be reduced to the accounts expected near-term needs.

##### *Auditee Response:*

The Home concurs with this observation. Two separate cash boxes will be maintained -- \$1,000 will be used for resident needs, and another \$1,000 will be kept as a reserve in a locked box, accessible only to the Business Administrator or Commandant. We will monitor the total expenditures and reduce the amount of cash on hand if we are able to meet the residents' needs with less available funds.

#### **Observation No. 15 - Segregation Of Payroll Duties**

##### *Observation:*

The Home could improve its internal control over payroll by effectively segregating incompatible duties.

- Currently, the payroll officer has the following incompatible duties:

### **Reportable Conditions (Continued)**

#### **Observation No. 15 - Segregation Of Payroll Duties (Continued)**

##### *Observation (Continued):*

- a) entering and removing Home employees into the State's automated payroll system (GHRIS),
  - b) maintaining payroll records and personnel files,
  - c) entering payroll biweekly into GHRIS,
  - d) reconciling employee timesheets,
  - e) distributing paychecks to employees, and
  - f) having responsibility for unclaimed pay checks.
- There is no effective independent review or reconciliation of the payroll officer's work; including information input in GHRIS. Since the payroll officer is performing much of the Home's payroll responsibilities without effective oversight, errors that occur may not be detected in a timely manner. For example, we noted the following errors during our testing of payroll expenditures.
    - a) Six of twelve (50%) Payroll Correction Forms tested did not have the signature of an agency authorized signer.
    - b) The gross pay for five of 50 (10%) paychecks tested was incorrect. The errors ranged from an underpayment of \$35 to an overpayment \$16. The incorrect payments appeared to be the result of clerical errors that went undetected by the Home.

##### *Recommendation:*

The Home should segregate incompatible payroll functions and establish an effective review and approval function over its payroll process. For example:

- The Home should implement an effective review and approval process over the payroll officer's duties. Payroll calculations and reconciliations performed by the payroll officer should be reviewed and approved by someone otherwise independent of the payroll process, at least on a test basis.
- The payroll officer should not be responsible for the distribution of paychecks, including the disposition of unclaimed paychecks.

##### *Auditee Response:*

The Home concurs with this observation that the payroll officer should not be responsible for the distribution of paychecks, including the disposition of unclaimed paychecks. Department Supervisors will take responsibility for the distribution of paychecks to their employees. The Business Office will mail the unclaimed paychecks to the employees. A review and approval process over the payroll officer's functions will be instituted as soon as adjustments can be made to staffing to accomplish this.

### **Reportable Conditions (Continued)**

#### **Observation No. 16 - Reporting Equipment Purchased By The Members Benefit Fund**

##### *Observation:*

The Home does not report equipment purchased by the Members Benefit Fund as assets of the Fund. The Home reports all equipment, whether purchased with State appropriated funds or with funds from the Members Benefit Fund, as State assets.

According to generally accepted accounting principles, fixed assets associated with Members Benefit Fund should be accounted for through that fund. This assists in assuring compliance with terms of the trust agreement, and provides a deterrent to mismanagement of trust assets. While the Home separately identifies the equipment purchased with Members Benefit Funds on its internal equipment records, the Home does not separately account for or report those assets as belonging to the trust. When assets purchased with trust funds are disposed of, the proceeds of the sale of the assets are deposited in the State's General Fund and are not deposited with the trust. At March 31, 1998, the Home reported approximately \$642,000 of equipment. Approximately \$196,000 of this total represents assets purchased using the Members Benefit Fund. This balance is properly reported on the accompanying financial statements in this report.

##### *Recommendation:*

The Home should report equipment purchased by the Members Benefit Fund as assets belonging to the Fund. Proceeds from the liquidation of those assets should be deposited into the Members Benefit Fund in order to ensure trust fund assets continue to benefit the purposes of the trust.

##### *Auditee Response:*

The Home concurs that equipment purchased by the Members Benefit Fund should be listed as assets belonging to the Fund and should be reported to the Board. This information will be submitted to the Board of Managers on a quarterly basis. By doing such, when this equipment is surplus, the proceeds will go into the Members Benefit Fund.

**Compliance Comments**  
**State Compliance**

**Observation No. 17 - Statements Of Financial Interests**

*Observation:*

Three members of the Home's eight-member Board of Managers did not file Statements of Financial Interests, which were due July 1, 1997, as required by RSA 21-G:5-a. One member filed 26 business days late.

RSA 21-G:5-a states, "Every member of every executive branch board, commission, advisory committee, ...shall file by July 1 of each year a verified written statement of financial interests...."

*Recommendation:*

The Home should establish procedures to ensure that all members of its Board of Managers file the required Statements of Financial Interests in a timely manner.

*Auditee Response:*

The Home concurs with this observation.

On July 1, 1997, three members of the Home's eight-member Board of Managers did not file a Statement of Financial Interest as it was the Home's interpretation that due to their ex officiiis status, and not being appointed by the Governor, this was not necessary.

Since then, the issue has been clarified that ALL members of the Board of Managers must file a Statement of Financial Interest. All current members of the Board of Managers are in compliance with RSA 21-G:5-a.

**Observation No. 18 - Capital Projects Status Reports**

*Observation:*

The Home does not submit the capital budget project status reports that are required by RSA 17-J:4.

RSA 17-J:4 requires each state agency with capital budget projects to submit a status report every 60 days to the Capital Budget Overview Committee. During the audit period, the Home did not submit any capital budget status reports to the Capital Budget Overview Committee.

**State Compliance (Continued)**

**Observation No. 18 - Capital Projects Status Reports (Continued)**

*Recommendation:*

The Home should implement the procedures necessary to ensure timely submission of capital budget project status reports in accordance with RSA 17-J:4.

*Auditee Response:*

The Home concurs with this observation. The Business Administrator will submit the required capital budget project status reports as required by RSA 17-J:4.

**Observation No. 19 - Transfers To The Audit Set-Aside Account**

*Observation:*

The Home does not transfer .1% of federal funds received into the audit set-aside account as required by RSA 124:16 and the State's indirect cost plan. The Home's business office indicated that it was unaware of the requirement.

RSA 124:16 states "Every state department, board, institution, commission or agency which receives federal funds shall set aside an amount equal to .2 percent of the funds received..." (The statewide indirect cost plan approved by the federal government provides for a set-aside rate of .1 percent.)

This issue was also reported in the prior audit. The Department of Administrative Services' response to the audit, dated October 1994, stated the Home's federal per-diem payments from the Veterans' Administration were included in the Single Audit Act and that the Home would begin transferring funds in accordance with State statute.

*Recommendation:*

The Home should transfer funds to the audit set-aside account as provided for in RSA 124:16 and the State's indirect cost plan.

*Auditee Response:*

The Home concurs with this observation. The Business Administrator will confer with the Business Supervisor and transfer the appropriate amount of monies to the audit set-aside account as provided for in RSA 124:16 and the State's indirect cost plan so that we are in compliance.

## **Auditor's Report On Management Issues**

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying financial statements of the New Hampshire Veterans' Home as of and for the nine months ended March 31, 1998 and have issued our report thereon dated July 9, 1998, which was qualified with respect to the lack of presentation of the financial position of the Home in the General and Capital Projects Funds and the understatement of revenue in the General Fund.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the New Hampshire Veterans' Home as of and for the nine months ended March 31, 1998, we noted certain issues related to the operation of the Home that merit management consideration but do not meet the definition of a reportable condition as defined by the American Institute of Certified Public Accountants, and were not issues of noncompliance with laws, rules or regulations.

Those issues that we believe are worthy of management consideration but do not meet the criteria of reportable conditions or noncompliance are described in observations No. 20 through No. 23.

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

*Office of Legislative Budget Assistant*  
Office Of Legislative Budget Assistant

July 9, 1998

**Management Issues Comments**  
**Management Issues**

**Observation No. 20 - Use Of Members Benefit Fund To Purchase Administrative Equipment**

*Observation:*

The Home purchased office equipment using money from the Members Benefit Fund. This equipment is administrative in nature and, as such, should more appropriately have been charged to the General Fund appropriations for the operation of the Home.

Per N.H. Admin Rule, Ve-H 601.08(a), the Benefit Fund shall be managed and administered by the Board of Managers for the benefit of all of the Home's residents.

At its January 1998 meeting, the Home's Board of Managers approved a proposal by the Home's administration to purchase up to \$27,000 of computer equipment. Only one of the several computers to be purchased was to be available for the residents' use. Other computers for the nursing staff, public relations staff, and other administrative staff appear purely administrative in nature and not of primary benefit to the residents.

While it could be argued that the use of these machines will indirectly benefit the residents, that argument could equally apply to essentially any expenditure of the Home.

*Recommendation:*

The administrative costs of operating the Home should be paid from the State General Fund appropriations budgeted for that purpose. The Home should not use the Members Benefit Fund to supplant appropriations from the State General Fund. Money in the Members Benefit Fund should be used to support the purpose of the trust.

*Auditee Response:*

The Home concurs with this observation. In the future we will request equipment needs in the State Operating Budget. A large portion of the \$27,000 approved by the Board of Managers at its January 1998 meeting was used to produce and purchase a slide show presentation for public relations purposes to educate the public about the New Hampshire Veterans' Home and how it meets the needs of its residents. A computer and printer located in the Recreation Room for resident use was also purchased from these funds.



## Management Issues (Continued)

### **Observation No. 21 - Conflicting Administrative Rules Relative To Disposition Of Room And Board**

#### *Observation:*

The Home has conflicting rules relative to the disposition of resident contributions to room and board, referred to as members' excess income. According to the Home, the rules were intentionally established with this conflict to allow the Home discretion as to which account to deposit amounts contributed by residents.

Per N. H. Admin Rule, Ve-H 601.04, partial-pay applicants shall have 90% of any monthly income in excess of \$100 transferred to the State of New Hampshire for partial reimbursement of room and board. Income is defined by N. H. Admin Rule, Ve-H 601.02 (d) as funds or other property including, without limitation, governmental or other compensation, pensions, retroactive awards, retirements, legacies, inheritance devices, insurance dividends, winnings from games of chance or lotteries, or from other sources.

Per N. H. Admin Rule, Ve-H 601.07 (a), the membership of any resident who receives funds or other property including, without limitation, governmental or other compensation, pensions, retroactive awards, retirements, legacies, inheritance devices, insurance dividends, winnings from games of chance or lotteries, or from other sources, shall terminate unless the member transfers and assigns 90% to the Members Benefit Fund, the Home's expendable trust fund. The definition of funds or other property in N. H. Admin Rule, Ve-H 601.07 (a) is essentially the same as the definition of income in N. H. Admin Rule, Ve-H 601.02 (d).

This apparent conflict between N. H. Admin Rule, Ve-H 601.04 and N. H. Admin Rule, Ve-H 601.07 with regards to the proper disposition of members' excess income is cited by the Home as authority for its inconsistent depositing practices for room and board revenue collected from residents during their final month of residency at the Home. Per a review of the Home's records, the final room and board collected from seven residents, totaling approximately \$3,500, was deposited in the Members Benefit Fund. The final room and board from 23 other residents was deposited into the State General Fund. No differences in the accounting records were noted that would account for the disparate treatment of the room and board collected from these residents.

#### *Recommendations:*

- Room and board collected from the residents should be deposited into the State General Fund.
- The Home should clarify its administrative rule to eliminate the conflict between N. H. Admin Rule, Ve-H 601.04 and N. H. Admin Rule, Ve-H 601.07.

## **Management Issues (Continued)**

### **Observation No. 21 - Conflicting Administrative Rules Relative To Disposition Of Room And Board (Continued)**

#### *Auditee Response:*

The Home concurs with this observation. Upon the advice of the Attorney General, our Administrative Rules will be clarified to eliminate the conflict between New Hampshire Veterans Home Administrative Rules, Ve-H 601.04 and Ve-H 601.07.

### **Observation No. 22 - Application Of Administrative Rules Relative To Determination Of Member Income And Receipt Of Funds**

#### *Observation:*

The Home's interpretation of its administrative rules allows the Home to include the proceeds from the sale of a resident's home and the conversion of other assets in either its calculation of a resident's income for partial-pay room and board charges, subject to N. H. Admin Rule, Ve-H 601.04 (a), or as a receipt of funds or other property, subject to N. H. Admin Rule, Ve-H 601.07 (a). As a component of income, the Home takes 90% of the proceeds less \$100 and deposits it into the room and board account in the State General Fund. As a receipt of funds or other property, if the resident is a partial-pay resident, the Home takes 90% of the proceeds and deposits it into the Members Benefit Fund.

It is unclear whether the administrative rules envisioned including the conversion of resident's assets to cash as either income or as a receipt of funds or other property. All of the examples of income and receipt of funds or other property provided in the administrative rules are illustrations of new assets coming into the possession of the resident, not the conversion of currently held assets into cash. As discussed in Observation No. 21, it is also unclear which rule should apply in any certain situation and into which account amounts collected from residents should be deposited.

Full-pay residents are not subject to the same income determination rules and receipt of funds or other property rules as partial-pay residents.

#### *Recommendation:*

The Home should request an opinion from the Attorney General on the applicability of N. H. Administrative Rule, Ve-H 601.04 and Ve-H 601.07 on residents' receipts from the conversion of assets. As noted in Observation No. 21 these rules should also be clarified, to ensure residents fully understand the application of the rules. Rules should be appropriately and consistently applied by the Home.

## **Management Issues (Continued)**

### **Observation No. 22 - Application Of Administrative Rules Relative To Determination Of Member Income And Receipt Of Funds (Continued)**

#### *Auditee Response:*

The Home concurs with this observation, and will seek the opinion of the Attorney General on the applicability of Ve-H 601.04 and Ve-H 601.07 on residents' receipt from the conversion of assets. Rules will also be clarified so that they can be more fully understood and appropriately and consistently applied by the Home.

### **Observation No. 23 - Year 2000 Compliance**

#### *Observation:*

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that make operations beyond the year 1999 troublesome. For many years, programmers eliminated the first two digits from a year when writing programs. For example, programmers would designate January 1, 1965 as "01/01/65" instead of "01/01/1965." On January 1, 2000 at 12:00:01 a.m., the internal clock in computers and other equipment will roll over from "12/31/99" to "01/01/00." Unfortunately, many programs (if not corrected) will not be able to distinguish between the year 2000 and the year 1900. This confusion may cause the programs to process data inaccurately or stop processing data altogether.

It is incumbent upon management to determine the scope of the Year 2000 issue on the operations of the organization and to plan and take steps to make systems and other equipment Year 2000 compliant prior to its causing a disruption of government services.

In meeting this responsibility, the Home reports that it has:

- established a committee to problem solve the Home's Year 2000 issues, and
- surveyed its systems and determined that one old database and two personal computers will need to be upgraded to become Year 2000 compliant.

#### *Recommendation:*

The Home should continue to be aware of the Year 2000 issue and its implications on the Home's operations. The Home should continue to monitor the compliance of its systems and the systems of the Home's vendors, service providers and other organizations with which the Home interacts and relies upon. The Home should continue to validate and test its systems to ensure that the Home's operations will not be disrupted by either the Home's systems or outside systems that prove non-compliant.

**Management Issues (Continued)**

**Observation No. 23 - Year 2000 Compliance (Continued)**

*Auditee Response:*

The Home concurs with this observation.

The Home has tested its computers for Year 2000 compliance. As of this date, we do not anticipate any problems. The Home will continue to monitor the compliance of our systems.

The Home has been working with the Division of Information and Technology Management and continues to submit the required Year 2000 Work Plan and Compliance Reports to this office. We will continue to work with DITM to ensure that our services are not interrupted to residents and families.

## **Independent Auditor's Report**

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying financial statements of the New Hampshire Veterans' Home as of and for the nine months ended March 31, 1998. These financial statements are the responsibility of the Home's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully discussed in NOTE 1, the financial statements referred to above are not intended to present the financial position of the New Hampshire Veterans' Home in the General and Capital Projects Funds.

As discussed in NOTE 4, the Home did not record accounts receivable at March 31, 1998 in the amount of \$688,000 in accordance with generally accepted accounting principles and thus understated General Fund revenues for the nine months ended March 31, 1998 in the amount of \$688,000.

In our opinion, except for the matters discussed in the previous paragraphs, the financial statements referred to above present fairly, in all material respects, certain financial activity of the New Hampshire Veterans' Home as of and for the nine months ended March 31, 1998, in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph. The accompanying Schedules of Budgetary Components and Expenditures of Federal Awards (Cash Basis) are presented on pages 51 through 53 for the purpose of additional analysis and are not required parts of the financial statements of the New Hampshire Veterans' Home. Such information has been subjected to the auditing procedures applied in our audit of the financial statements referred to in the first paragraph and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 9, 1998 on our consideration of the New Hampshire Veterans' Home's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

*Office of Legislative Budget Assistant*  
Office Of Legislative Budget Assistant

July 9, 1998

STATE OF NEW HAMPSHIRE  
NEW HAMPSHIRE VETERANS' HOME

COMBINED STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL - GENERAL AND CAPITAL PROJECTS FUNDS  
FOR THE NINE MONTHS ENDED MARCH 31, 1998

	General Fund		
	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
<b><u>Revenues</u></b>			
<u>Restricted Revenues</u> (Note 4)			
Residents Room And Board	\$ 2,756,392	\$ 1,878,350	\$ (878,042)
Federal Per-Diem Payments	2,120,740	1,055,267	(1,065,473)
<b>Total Restricted Revenues</b>	<b>\$ 4,877,132</b>	<b>\$ 2,933,617</b>	<b>\$ (1,943,515)</b>
 <b><u>Expenditures</u></b>			
Salaries And Benefits	\$ 5,183,813	\$ 4,016,866	\$ 1,166,947
Current Expense	461,673	389,852	71,821
Heat, Electricity, And Water	200,700	145,724	54,976
Workers' And Unemployment Compensation	291,200	131,568	159,632
Food And Related Expenditures	174,967	148,714	26,253
Equipment And Maintenance	118,626	48,763	69,863
Consultants	103,963	51,821	52,142
Miscellaneous	38,080	25,830	12,250
Oil Bunker Repairs	-0-	-0-	-0-
Renovate Shower Room	-0-	-0-	-0-
Replace 25 Hospital Beds	-0-	-0-	-0-
Rebuild Kitchenette	-0-	-0-	-0-
Replace Laundry Equipment	-0-	-0-	-0-
Replace Kitchen Equipment	-0-	-0-	-0-
Replace Hot Water Tank	-0-	-0-	-0-
<b>Total Expenditures</b>	<b>\$ 6,573,022</b>	<b>\$ 4,959,138</b>	<b>\$ 1,613,884</b>

The accompanying notes are an integral part of these financial statements.

<u>Capital Projects Fund</u>			<u>Totals (Memo Only)</u>		
<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
\$ -0-	\$ -0-	\$ -0-	\$ 2,756,392	\$ 1,878,350	\$ (878,042)
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>2,120,740</u>	<u>1,055,267</u>	<u>(1,065,473)</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 4,877,132</u>	<u>\$ 2,933,617</u>	<u>\$ (1,943,515)</u>
\$ -0-	\$ -0-	\$ -0-	\$ 5,183,813	\$ 4,016,866	\$ 1,166,947
-0-	-0-	-0-	461,673	389,852	71,821
-0-	-0-	-0-	200,700	145,724	54,976
-0-	-0-	-0-	291,200	131,568	159,632
-0-	-0-	-0-	174,967	148,714	26,253
-0-	-0-	-0-	118,626	48,763	69,863
-0-	-0-	-0-	103,963	51,821	52,142
-0-	-0-	-0-	38,080	25,830	12,250
11,690	-0-	11,690	11,690	-0-	11,690
40,543	38,342	2,201	40,543	38,342	2,201
35,000	34,080	920	35,000	34,080	920
15,000	-0-	15,000	15,000	-0-	15,000
17,400	17,228	172	17,400	17,228	172
24,100	-0-	24,100	24,100	-0-	24,100
<u>20,000</u>	<u>-0-</u>	<u>20,000</u>	<u>20,000</u>	<u>-0-</u>	<u>20,000</u>
<u>\$ 163,733</u>	<u>\$ 89,650</u>	<u>\$ 74,083</u>	<u>\$ 6,736,755</u>	<u>\$ 5,048,788</u>	<u>\$ 1,687,967</u>



STATE OF NEW HAMPSHIRE  
NEW HAMPSHIRE VETERANS' HOME

COMBINED BALANCE SHEET  
FIDUCIARY FUNDS  
MARCH 31, 1998

	<u>Members Benefit Fund Expendable Trust Fund</u>	<u>Members Administrative Account Agency Fund</u>	<u>Combined Fiduciary Funds</u>
<u>Assets</u>			
Cash	\$ 87,530	\$ 73,718	\$ 161,248
Investments At Fair Value	491,246	364,399	855,645
Investment Income Due From			
Members Administrative Account	9,286	-0-	9,286
Due From Members Benefit Fund	-0-	30,185	30,185
Equipment	<u>195,544</u>	<u>-0-</u>	<u>195,544</u>
<b>Total Assets</b>	<b><u>\$ 783,606</u></b>	<b><u>\$468,302</u></b>	<b><u>\$ 1,251,908</u></b>
<u>Liabilities and Fund Balance</u>			
Liabilities:			
Due to Members Administrative Account	\$ 30,185	\$ -0-	\$ 30,185
Due to Members Benefit Fund	-0-	9,286	9,286
Room And Board Payable	-0-	176,740	176,740
Due to Deceased Members' Estates	173,722	-0-	173,722
Custodial Funds Payable	<u>-0-</u>	<u>282,276</u>	<u>282,276</u>
Total Liabilities	203,907	468,302	672,209
Fund Balance:			
Reserved For Members' Benefit	<u>579,699</u>	<u>-0-</u>	<u>579,699</u>
Total Fund Balance	<u>579,699</u>	<u>-0-</u>	<u>579,699</u>
<b>Total Liabilities And Fund Balance</b>	<b><u>\$ 783,606</u></b>	<b><u>\$468,302</u></b>	<b><u>\$ 1,251,908</u></b>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW HAMPSHIRE  
NEW HAMPSHIRE VETERANS' HOME

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - EXPENDABLE TRUST FUND  
MEMBERS BENEFIT FUND  
FOR THE NINE MONTHS ENDED MARCH 31, 1998

<u>Revenues</u>	
Donations	\$ 34,070
Investment Income	11,363
Net Increase In Fair Value Of Investments	65,319
Canteen And Vending Machine Sales	10,174
Miscellaneous	<u>8,914</u>
<b>Total Revenues</b>	<b><u>129,840</u></b>
<u>Expenditures</u>	
Supplies And Equipment	28,954
Resident Activities	12,927
Canteen And Vending Machine Inventory	9,307
Travel And Public Relations	8,171
Miscellaneous	9,546
Investment Trustee And Bank Fees	<u>1,379</u>
<b>Total Expenditures</b>	<b><u>70,284</u></b>
Excess (Deficiency) Of Revenues Over Expenditures	<u>59,556</u>
<u>Other Financing Sources (Uses)</u>	
Transfer of Income From The Members Administrative Account	<u>20,199</u>
<b>Total Other Financing Sources (Uses)</b>	<b><u>20,199</u></b>
Excess (Deficiency) Of Revenue And Other Sources Over Expenditures And Other Uses	79,755
Fund Balance, July 1, 1997	<u>499,944</u>
<b>Fund Balance, March 31, 1998</b>	<b><u>\$ 579,699</u></b>

The accompanying notes are an integral part of these financial statements.

STATE OF NEW HAMPSHIRE  
NEW HAMPSHIRE VETERANS' HOME

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUND  
MEMBERS ADMINISTRATIVE ACCOUNT  
FOR THE NINE MONTHS ENDED MARCH 31, 1998

	<u>Balance</u> <u>July 1, 1997</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>March 31, 1998</u>
<b><u>Assets</u></b>				
Cash	\$ 13,961	\$ 2,450,582	\$ 2,390,825	\$ 73,718
Investments At Fair Value	444,106	20,199	99,906	364,399
Due From Members Benefit Fund	<u>-0-</u>	<u>30,185</u>	<u>-0-</u>	<u>30,185</u>
<b>Total Assets</b>	<b><u>\$ 458,067</u></b>	<b><u>\$ 2,500,966</u></b>	<b><u>\$ 2,490,731</u></b>	<b><u>\$ 468,302</u></b>
 <b><u>Liabilities</u></b>				
Custodial Funds Payable	\$ 234,862	\$ 457,600	\$ 410,186	\$ 282,276
Room And Board Payable	219,212	2,023,167	2,065,639	176,740
Due To Members Benefit Fund	<u>3,993</u>	<u>20,199</u>	<u>14,906</u>	<u>9,286</u>
<b>Total Liabilities</b>	<b><u>\$ 458,067</u></b>	<b><u>\$ 2,500,966</u></b>	<b><u>\$ 2,490,731</u></b>	<b><u>\$ 468,302</u></b>

The accompanying notes are an integral part of these financial statements.

**STATE OF NEW HAMPSHIRE  
NEW HAMPSHIRE VETERANS' HOME**

**NOTES TO THE FINANCIAL STATEMENTS  
NINE MONTHS ENDED MARCH 31, 1998**

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

The financial statements of the New Hampshire Veterans' Home have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**A. Financial Reporting Entity**

The New Hampshire Veterans' Home (Home) is an organization of the primary government of the State of New Hampshire. The accompanying financial statements report certain financial activity of the Home. The financial activity of the Home is accounted for in the General, Capital Projects, and Fiduciary Funds 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. The Home, as an organization of the primary government, accounts for only a small portion of the General and Capital Projects Funds and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to the Home cannot be determined. Accordingly, the accompanying financial statements are not intended to show the financial position of the Home in the General and Capital Projects Funds and the changes in these fund balances are not reported on the accompanying financial statements.

**B. Basis Of Presentation - Fund Accounting**

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

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

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

### B. Basis Of Presentation - Fund Accounting (Continued)

#### Governmental Fund Types

##### *General Fund*

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

##### *Capital Projects Fund*

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

#### Fiduciary Fund Type

##### *Trust And Agency Funds*

Transactions related to assets held by the Home in a trustee or agency capacity are accounted for in the Fiduciary Fund Type. Because the Home is functioning in a fiduciary capacity, the authority to employ, dispose of, or otherwise use the assets is determined not by legislative appropriations but by the administrative rules and agreements that created the trustee or agency relationship. The fiduciary funds at the Home include the Members Benefit Fund, an expendable trust fund, and the Members Administrative Account, an agency fund.

Expendable trust funds are used to account for assets for which the Home functions in a fiduciary capacity as a trustee. Because the objectives of the Members Benefit Fund can be achieved by spending both the principal and the earnings of the fund, the fund is referred to as an expendable trust fund. Expendable trust funds are accounted for using the modified accrual basis of accounting. The financial statements of an expendable trust fund include a balance sheet and a statement of revenues, expenditures and changes in fund balance.

Agency funds are used to account for fiduciary relationships involving only custodial or modest management responsibilities. They report assets received for, and disbursed to, other governmental units or private sector organizations, groups or individuals. Agency funds are accounted for using the modified accrual basis of accounting and do not report a fund equity balance or measure results of operations. The financial statements of an agency fund include a balance sheet and a statement of changes in assets and liabilities.

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

### **B. Basis Of Presentation - Fund Accounting (Continued)**

#### Account Groups

##### *General Fixed Assets*

General fixed assets acquired for use by the Home for the performance of its operations are reflected in the General Fixed Assets Account Group at the time of acquisition. As of March 31, 1998, the Home had recorded in the General Fixed Assets Account Group the cost of general fixed assets based on available historical cost records. Donated fixed assets are recorded at fair market value at the time donated.

### **C. Measurement Focus And Basis Of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using the flow of current financial resources measurement focus and reported on a modified accrual basis of accounting. Accordingly, the State of New Hampshire accounts for its financial transactions relating to the General, Capital Projects and Expendable Trust Funds on the modified accrual basis of accounting, under which revenues are recognized when measurable and available to finance operations during the year. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay obligations of the current period. Expenditures are recognized in the period in which obligations are incurred as a result of the receipt of goods or services. Agency fund assets and liabilities are also accounted for on the modified accrual basis, but do not recognize revenues and expenditures. The net appreciation (depreciation) in fair value of investments is recorded as an increase (decrease) in investment income in the expendable trust fund and an addition (deduction) in the agency fund based on the valuation of investments as of the date of the financial statements.

### **D. Budgetary Data**

#### *General Budget Policies*

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

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

### D. Budgetary Data (Continued)

#### *General Budget Policies (Continued)*

The operating budget is prepared principally on a 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 appropriations for individual projects, which while intended to be expended over a biennium, may extend over several fiscal years when extended by legislation. The fiduciary fund type is not budgeted.

The New Hampshire biennial budget is composed of the initial operating budget and supplemented by additional appropriations. These additional appropriations and estimated revenues from various sources are authorized by Governor and Council action, annual session laws, and existing statutes which require appropriations under certain circumstances. As shown on the Schedule of Budgetary Components - General Fund (on page 51), and Capital Projects Fund (on page 52), the final budgeted amount includes the initial operating budget plus supplemental appropriation warrants, balances brought forward, and transfers.

Unexpended balances of appropriation at year end will lapse to undesignated fund balance and be available for future appropriations unless they have been encumbered or are legally defined as non-lapsing accounts. Capital Projects Fund appropriations are scheduled to lapse two years from the date appropriated unless extended or designated as non-lapsing by law.

The level of budgetary control is at the department level. All departments are authorized to transfer appropriations within their departments with the prior approval of the Joint Legislative Fiscal Committee and the Governor and Council. 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 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.

A Combined Statement Of Revenues And Expenditures - Budget And Actual - General And Capital Projects Funds is presented as part of the Home's financial statements.

#### *Variances - Favorable/(Unfavorable)*

The variance column on the Combined Statement Of Revenues And Expenditures-Budget And Actual-General And Capital Projects Funds highlights differences between budget and actual revenue and expenditures. For revenue, these variances are caused by actual revenue exceeding budget generating a favorable variance or actual being less than budget

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

### D. Budgetary Data (Continued)

#### *Variances - Favorable/(Unfavorable) (Continued)*

generating an unfavorable variance. For expenditures, a favorable variance results from actual expenditures being less than the amount budgeted for the fiscal year. The favorable expenditure variances represent a combination of ending available balances and unliquidated encumbrances. Unfavorable expenditure variances represent actual expenditures for the reporting period exceeding the amounts budgeted for the fiscal year. When statements are presented at an interim date, a date other than a June 30 fiscal year end, the variance reflects the difference between the budget period amount, twelve months in the case of the General Fund and twenty-four months for the Capital Project Fund, and a partial year's actual revenue and expenditures. Thus, on the nine month financial statements dated March 31, 1998, unfavorable variances in General Fund revenues are expected, because nine months of actual revenues are compared to the amount of revenue expected to be collected in the twelve month period. Similarly, favorable expenditure variances are expected as nine months of expenditures are compared to amounts expected to be expended in the twelve or twenty-four month budget period.

#### *Encumbrances*

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services the encumbrance is liquidated and the expenditure and liability are recorded. The Home's General and Capital Projects Funds unliquidated encumbrance balances at March 31, 1998 were \$55,761 and \$2,200, respectively.

### E. Fixed Assets

#### *Fixed Assets - Governmental Funds*

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

#### *Fixed Assets - Expendable Trust Fund*

Fixed assets related to the expendable trust fund are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Assets in the expendable trust fund are not depreciated.



**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Interfund And Intrafund Transactions**

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

Reimbursements - Various departments charge user fees for such services as centralized data processing, accounting and auditing, purchasing, personnel, and maintenance. In addition, the Department of Administrative Services charges rent to those departments that are housed in state-owned buildings. These fees and rent are not considered material and are recorded as revenue by the servicing department and as expenditures by the user department.

**G. Interpretation Of Totals (Memo Only) Column**

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

**NOTE 2 – DEPOSITS AND INVESTMENTS**

*Deposits*

The New Hampshire Veterans' Home is custodian of two demand deposits (checking accounts) for the deposit, retention, and disbursement of its fiduciary funds.

The demand deposits are FDIC insured for up to \$100,000. The total bank balance represents amounts on deposit as reported by the banking institution at March 31, 1998. The carrying amount represents the balance per the Home's records at March 31, 1998. The difference between the bank balance and the carrying amount consists of checks or deposits which have not cleared the bank as of March 31, 1998.

	<u>Bank Balance</u>		<u>Total Carrying Amount</u>
	<u>FDIC Insured</u>	<u>Uninsured</u>	
<u>Demand Deposits</u>			
Members Administrative Account	\$ 58,217	\$ -0-	\$ 58,217
Members Benefit Fund	<u>100,000</u>	<u>33,055</u>	<u>133,055</u>
<b>Total Demand Deposits</b>	<u>\$ 158,217</u>	<u>\$ 33,055</u>	<u>\$ 191,272</u>

## NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

### *Investments*

The State Treasurer, under the authority of RSA 11:1 acts as custodian of the Home's fiduciary fund investments. In accordance with RSA 11:5, all trust funds in the custody of the Treasurer are invested and reinvested in legal instruments allowable under RSA 6:8. The Home notifies the Treasurer, at least biennially, of the investment objectives of the Home's fiduciary funds.

At March 31, 1998 the Home's fiduciary funds were invested in SEC-registered mutual fund investments and in United States Treasury Notes. The Home's fiduciary fund investments are reported at fair value based on quoted market prices and are categorized as follows.

	Category			Non Classified	Fair Value
	1	2	3		
<b>Members Administrative</b>					
<b>Account</b>					
U. S. Treasury Notes	\$ 278,235	\$ -0-	\$ -0-	\$ -0-	\$ 278,235
Mutual Fund Cash					
Reserves	-0-	-0-	-0-	86,164	86,164
<b>Members Benefit Fund</b>					
Mutual Funds	-0-	-0-	-0-	491,246	491,246
<b>Total Investments</b>	<b>\$278,235</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ 577,410</b>	<b>\$855,645</b>

Categories of investment risk are defined as:

Category 1: insured or registered in the Home's name or securities held by the Home or its agent in the Home's name.

Category 2: uninsured and unregistered with securities held by the counterparty's trust department or agent in the Home's name.

Category 3: uninsured and unregistered with securities held by the counterparty or by its trust department or agent but not in the Home's name.

**NOTE 3 – GENERAL FIXED ASSETS ACCOUNT GROUP**

Fixed assets are recorded at historical cost if known, estimated cost if historical cost is unknown, or fair value at date of acquisition if the asset is donated.

The following is a schedule of changes in fixed assets for the nine months ended March 31, 1998. Equipment purchases are funded through budgeted appropriations. Land and buildings are generally funded through appropriations budgeted in the Capital Projects Fund.

	<u>Balance</u> <u>July 1, 1997</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>March 31, 1998</u>
Buildings	\$ 7,544,421	\$ -0-	\$ -0-	\$ 7,544,421
Land & Land Improvements	469,674	-0-	(374,674)	95,000
<b>Total Real Property</b>	<b>8,014,095</b>	<b>-0-</b>	<b>(374,674)</b>	<b>7,639,421</b>
Equipment	410,570	46,766	(10,443)	446,893
<b>Total Fixed Assets</b>	<b><u>\$ 8,424,665</u></b>	<b><u>\$ 46,766</u></b>	<b><u>\$ (385,117)</u></b>	<b><u>\$ 8,086,314</u></b>

**NOTE 4 – REVENUE RECOGNITION**

The New Hampshire Veterans' Home is required by state accounting policies to accrue revenue and record accounts receivable in the governmental funds at each June 30 fiscal year end. The Home is not required to, and therefore did not accrue revenue and record accounts receivable in the General Fund at March 31 in the amounts of \$177,000 for residents' March 1998 room and board and \$511,000 for January through March 1998 per-diem payments from the United States Department of Veterans Affairs. The effect of not accruing revenue and recording accounts receivable at March 31 was to understate General Fund revenue in the amount of \$688,000 on the Combined Statement of Revenues and Expenditures - Budget and Actual - General and Capital Projects Funds.

**NOTE 5 – FIDUCIARY FUNDS**

*Members Benefit Fund*

The Members Benefit Fund, an expendable trust fund, was established in 1963 by the Board of Managers of the Home for the purpose of providing needed items for the care, comfort, and safety of the residents. The fund, for the most part, consists of donations from organizations and individuals, the accrued interest on the invested fund balance, and the interest earned on the Members Administrative Account. The Home's Board of Managers directs the expenditures from the fund. Per RSA 11:7, all disbursements made by state agencies and departments for trust fund purposes are to follow the laws, rules and regulations applicable to said agencies and departments for normal operating and capital purposes.

## **NOTE 5 – FIDUCIARY FUNDS (Continued)**

### *Members Administrative Account*

The Members Administrative Account, an agency fund, is a custodial fund maintained by the Home. The fund is used to receive, hold and disburse residents' money according to the direction of the residents. An account is maintained in the fund in the name of each resident. The accounts are used to post the residents' income such as pensions, to make payment for residents' room and board, to make purchases at the direction of residents for such things as clothes, periodicals, special foods and beverages, and for residents' personal spending money.

## **NOTE 6 – EMPLOYEE BENEFIT PLANS**

### *New Hampshire Retirement System*

The Home, as an organization of the State government, participates in the New Hampshire Retirement System (Plan). The Plan is a defined benefit plan and covers substantially all full-time employees of the Home. 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 employees and teachers. Group II consists of firefighters and police officers.

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

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

Members of both groups are entitled to disability allowances and also death benefit allowances subject to various requirements and rates based on AFC or earnable compensation. All covered Home employees are members of Group I.

## NOTE 6 – EMPLOYEE BENEFIT PLANS (Continued)

### *New Hampshire Retirement System (Continued)*

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the nine months ended March 31, 1998, 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 Home'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 Home's payments for normal contribution costs for the nine months ended March 31, 1998 amounted to 3.86% of the covered payroll for its Group I employees. The Plan does not make separate measurements of assets and pension benefit obligation for individual employers. The New Hampshire Retirement System Comprehensive Annual Financial Report contains detailed information regarding the Plan as a whole, including information on payroll, contributions, actuarial assumptions and funding method, and historical trend data. The New Hampshire Retirement System operates on a fiscal year ending June 30.

### *Deferred Compensation Plan*

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

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

### *Postemployment Health Care Benefits*

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

During the nine months ended March 31, 1998, the State paid for the full cost of health insurance premiums for retired employees and spouses on a pay-as-you-go basis. The cost of the health insurance for the Home's employees and spouses is a budgeted amount and is paid from an appropriation made to the administrative organization of the New Hampshire Retirement System. Accordingly, the cost of health insurance benefits for the retired Home's employees and spouses is not included in the Home's financial statements.

**STATE OF NEW HAMPSHIRE  
NEW HAMPSHIRE VETERANS' HOME**

**SCHEDULE OF BUDGETARY COMPONENTS  
GENERAL FUND  
FOR THE NINE MONTHS ENDED MARCH 31, 1998**

	<u>Operating Budget</u>	<u>Supplemental Appropriation Warrants</u>	<u>Balances Brought Forward</u>	<u>Net Transfers In (Out)</u>	<u>Budget</u>
<b><u>Revenues</u></b>					
<b><u>Restricted Revenues</u></b>					
Residents Room And Board	\$ 2,668,515	\$ 87,877	\$ -0-	\$ -0-	\$ 2,756,392
Federal Per-Diem Payments	<u>2,053,125</u>	<u>67,615</u>	<u>-0-</u>	<u>-0-</u>	<u>2,120,740</u>
<b>Total Restricted Revenues</b>	<b><u>\$ 4,721,640</u></b>	<b><u>\$ 155,492</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$ 4,877,132</u></b>
<b><u>Expenditures</u></b>					
Salaries And Benefits	\$ 4,984,014	\$ 199,799	\$ -0-	\$ -0-	\$ 5,183,813
Current Expense	456,254	3,000	2,419	-0-	461,673
Heat, Electricity, And Water	200,700	-0-	-0-	-0-	200,700
Workers' And Unemployment Compensation	291,200	-0-	-0-	-0-	291,200
Food And Related Expenditures	174,967	-0-	-0-	-0-	174,967
Equipment And Maintenance	118,626	-0-	-0-	-0-	118,626
Consultants	94,216	-0-	9,747	-0-	103,963
Miscellaneous	<u>38,080</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>38,080</u>
<b>Total Expenditures</b>	<b><u>\$ 6,358,057</u></b>	<b><u>\$ 202,799</u></b>	<b><u>\$ 12,166</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$ 6,573,022</u></b>

**STATE OF NEW HAMPSHIRE  
NEW HAMPSHIRE VETERANS' HOME**

**SCHEDULE OF BUDGETARY COMPONENTS  
CAPITAL PROJECTS FUND  
FOR THE NINE MONTHS ENDED MARCH 31, 1998**

	<u>Capital Budget</u>	<u>Supplemental Appropriation Warrants</u>	<u>Balances Brought Forward</u>	<u>Net Transfers In (Out)</u>	<u>Budget</u>
<u>Expenditures</u>					
Oil Bunker Repairs	\$ -0-	\$ -0-	\$ 11,690	\$ -0-	\$ 11,690
Renovate Shower Room	-0-	-0-	40,543	-0-	40,543
Replace 25 Hospital Beds	35,000	-0-	-0-	-0-	35,000
Rebuild Kitchenette	15,000	-0-	-0-	-0-	15,000
Replace Laundry Equipment	17,400	-0-	-0-	-0-	17,400
Replace Kitchen Equipment	24,100	-0-	-0-	-0-	24,100
Replace Hot Water Tank	<u>20,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>20,000</u>
<b>Total Expenditures</b>	<u>\$ 111,500</u>	<u>\$ -0-</u>	<u>\$ 52,233</u>	<u>\$ -0-</u>	<u>\$ 163,733</u>

STATE OF NEW HAMPSHIRE  
NEW HAMPSHIRE VETERANS' HOME

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(CASH BASIS)  
FOR THE NINE MONTHS ENDED MARCH 31, 1998

<u>Federal Catalog Number</u>	<u>Federal Grantor/Federal Program</u>	<u>Expenditures</u>
	<u>Department of Veterans Affairs</u>	
64.015	Veterans State Nursing Home Care	\$ <u>1,055,267</u>
	<b>Total</b>	\$ <u>1,055,267</u>



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## APPENDIX

### CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of July 9, 1998, of the status of the observations contained in the audit report of the New Hampshire Veterans' Home for the fiscal year ended June 30, 1992 and the six months ended December 31, 1992. 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.

<i><b>Internal Control Comments</b></i>	<u>Status</u>		
<i>Material Weaknesses</i>			
1. *♦ Lack Of Management Oversight And Involvement In The Accounting Functions	●	●	●
2. * Lack Of Documentation Of Trust And Agency Fund Deposits	●	●	●
3. * Lack Of Documentation Supporting Trust And Agency Fund Transactions	●	●	●
4. * Lack Of Segregation Of Duties Over The Trust And Agency Funds (See Current Observations No.'s 5 & 6)	●	○	○
<i>Other Reportable Conditions</i>			
5. * Lack Of Internal Controls Over Disbursements From The Members' Administrative Account (MAA)	●	●	●
6. * Lack Of Member Authorization On MAA Disbursements	●	●	●
7. * Internal Control Over The Electronic Data Processing Of Trust And Agency Fund Transactions	●	●	●
8. * Electronic Data Processing System	●	●	●
9. * Trust Fund Receipt Recording	●	●	●
10.* Approvals For Trust Fund Expenditures (See Current Observation No. 10)	●	○	○
11.*♦ Members' Excess Income	●	●	●
12.* Submission Of Year-End Closing Reports	●	●	●
13.* Lack Of Internal Controls Over The Canteen Operation	●	●	●
14.* Untimely Travel Reimbursements To The Members' Benefit Fund	●	●	●
15.♦ Consumable Inventory	●	●	●
16.♦ Duplicate Payments Of Invoices	●	●	●
17.♦ Inadequate Receiving Reports	●	●	●
18.♦ Prescription Drug Invoices	●	●	●
19.♦ Reported Value For Land And Buildings	●	●	●
20.♦ Inventory And Reporting Of Equipment	●	●	●
21.♦ Untimely Liquidation Of Encumbrances	●	●	●

(Continued)

**APPENDIX**

**CURRENT STATUS OF PRIOR AUDIT FINDINGS (Continued)**

<i><b>Compliance Comments</b></i>	<u><b>Status</b></u>
<i>State Compliance</i>	
22.* Theft Of Trust And Agency Funds	● ● ●
23.*◆ Rules, Set Aside Account And Custody Of Trust Funds (See Current Observation No. 19)	● ● ○

<u><b>Status Key</b></u>	● ● ●	● ● ○	● ○ ○	○ ○ ○	<u><b># Observations By Status Type</b></u>
Fully resolved	●	●	●		20
Substantially resolved	●	●	○		1
Partially resolved	●	○	○		2
Unresolved	○	○	○		0

**Legend For Prior Audit Findings**

- \* Trust And Agency Fund Related Comment
- ◆ General State Operations Related Comment
- \*◆ Comment Has Components Of Both Trust And Agency Fund And General State Operations