

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF RESOURCES AND
ECONOMIC DEVELOPMENT
HAMPTON BEACH PARKING METER FUND**

**FINANCIAL AUDIT REPORT
FOR THE TEN MONTHS ENDED
APRIL 30, 2012**

**STATE OF NEW HAMPSHIRE
HAMPTON BEACH PARKING METER FUND**

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This report can be accessed in its entirety on-line at:
www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx

* Audit comment suggests legislative action may be required.

STATE OF NEW HAMPSHIRE HAMPTON BEACH PARKING METER FUND

Reporting Entity And Scope

The reporting entity of this audit and audit report is the Hampton Beach Parking Meter Fund (Fund) of the New Hampshire Department of Resources and Economic Development. The Fund, established by RSA 216:3, II, reports certain financial activity of the Department related to the Department's operation, maintenance, and management of the parking facilities at Hampton Beach, including the collection of parking fees and fines at Department parking lots known as Central Parking Area, North Front, C Bay (the Memorial) to Church Street, Church Street to Great Boars Head, and North Beach. Effective July 1, 2011, the Department reported parking meter revenue from the Department's North Hampton and Jenness Beach parking lots in the State Park Fund. Prior to fiscal year 2012, the Department reported the meter revenue from these two parking areas in the Hampton Beach Parking Meter Fund.

The scope of this audit and audit report includes the financial activity reported in the Hampton Beach Parking Meter Fund for the ten months ended April 30, 2012. Unless otherwise indicated, reference to the Department refers to the Department of Resources and Economic Development, reference to the Patrol refers to the Department's Hampton Beach Park Patrol, and reference to the Fund refers to the Hampton Beach Parking Meter Fund.

Organization

The Department of Resources and Economic Development is responsible, pursuant to RSA 216:3 for the operation, maintenance, and management of the parking facilities at Hampton Beach. The Hampton Beach Park Patrol, within the Department's Division of Parks and Recreation, South/Seacoast Region, is charged by the Department with carrying out that responsibility. Parking revenues collected by the Patrol and the expenditures related to the Patrol's operation are the primary financial activities reported in the Fund. According to the Department's organization chart, the Patrol has a manager, 13 patrol staff, three clerk, and one laborer positions. During the ten months ended April 30, 2012, all of those positions were seasonal, with no active employees during the months of December 2011 through February 2012.

The Patrol operates from the Hampton Beach State Park facilities in Hampton, New Hampshire. The Patrol's financial operations are supported by the Department's business office in Concord, New Hampshire.

Responsibilities

Pursuant to RSA 216:3, I, "The department of resources and economic development shall operate, maintain, and manage the parking facilities at Hampton Beach, and shall be authorized to charge for the use of the parking facilities by meters or fees, including parking violation fines, whichever is determined most practical."

Pursuant to RSA 216:3, II, revenues from the parking facilities at Hampton Beach are deposited into the Hampton Beach Parking Meter Fund (Fund). The statute also describes the uses of the Fund including covering certain costs related to seawall replacement. Pursuant to the statute in effect during the ten months ended April 30, 2012, fiscal year revenues in excess of \$1.025 million were to be transferred from the Fund to the Hampton Beach Capital Improvement Fund with the remainder lapsed to the State Park Fund at the close of the fiscal year. Effective June 11, 2012, Chapter 187 of the Laws of 2012 amended RSA 216:3, II and set the amount of the transfer to the Hampton Beach Capital Improvement Fund at \$200,000 per year.

The following table provides information on the number of parking spaces in, and parking meter revenues from, the lots managed by the Patrol during the ten months ended April 30, 2012. All parking revenues collected by the Patrol, with the exception of meter revenues from the North Hampton State Beach lot and the Jenness Beach lot, were recorded in the Hampton Beach Parking Meter Fund.

The following table lists the parking lots managed by the Patrol in their south-to-north coastline order and the revenue generated during the ten-month audit period.

Parking Lot	Number Of Spaces				Meter Revenue**	Revenue Per Metered Space
	Metered	Leased	Non-Paid	Total		
Central Parking Area *	317	39	9	365	\$ 422,755	\$ 1,334
North Front *	62	-	11	73	102,762	1,657
C Bay (Memorial) to Church St. *	108	33	2	143	152,913	1,416
Church St. to Great Boars Head *	245	29	-	274	129,603	529
North Beach *	344	6	10	360	137,445	400
North Beach (Traditional Meters)	246	-	-	246	21,331	87
Hampton Beach Parking Meter						
Fund Subtotals	1,322	107	32	1,461	966,809	
North Hampton Beach *	89	20	4	113	60,801	683
Jenness Beach *	69	-	5	74	76,741	1,112
Grand Totals	1,480	127	41	1,648	\$ 1,104,351	

* Kiosk-based pay station meters.

** Does not include revenue from leased parking spaces.

Funding

The financial activity of the Hampton Beach Parking Meter Fund is accounted for in the General Fund of the State of New Hampshire.

The cost of operating the Patrol is budgeted in the State's operating budget to be funded from the parking meter and other parking fees. A summary of the Patrol's revenues and expenditures recorded in the Fund for the ten months ended April 30, 2012 is shown in the following schedule.

**Hampton Beach Parking Meter Fund
Summary Of Revenues And Expenditures
For The Ten Months Ended April 30, 2012**

Total Revenues	\$ 1,156,883
Total Expenditures	<u>184,913</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>\$ 971,970</u>

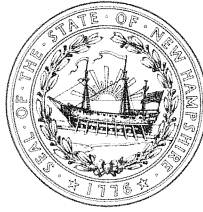
Prior Audits

There are no prior audits of the Hampton Beach Parking Meter Fund. There were two audit comments directly related to the Fund in a prior audit, *Revenues of the State Park Fund*, dated September 2008. The appendix to this report on page 43 provides a current status of the two Fund-related comments contained in that report.

Audit Objectives And Scope

The primary objective of our audit was to express an opinion on the fairness of the presentation of the financial statement of the Hampton Beach Parking Meter Fund for the ten months ended April 30, 2012. As part of obtaining reasonable assurance about whether the financial statement is free of material misstatement, we considered the effectiveness of the internal controls in place at the Department and tested its compliance with certain provisions of applicable State laws, rules, regulations, and contracts. Major accounts or areas subject to our examination included, but were not limited to, revenues and expenditures.

Our report on internal control over financial reporting and on compliance and other matters, the related observations and recommendations, our independent auditor's report, the financial statement, and supplementary information are contained in the report that follows.



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

To The Fiscal Committee Of The General Court:

We have audited the Statement of Revenues and Expenditures - Hampton Beach Parking Meter Fund (Fund), of the New Hampshire Department of Resources and Economic Development (Department) for the ten months ended April 30, 2012, and have issued our report thereon dated July 6, 2012 which was qualified as the financial statement does not constitute a complete financial presentation of the Fund. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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

possibility that a material misstatement of the Fund's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in Observations No. 1 through No. 6 to be material weaknesses.

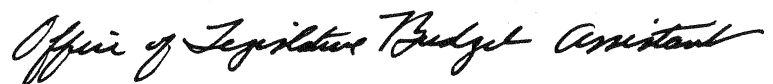
A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Observations No. 7 through No. 18 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statement is free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws, rules, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted immaterial instances of noncompliance which are described in Observations No. 19 and No. 20.

The Department's response is included with each observation in this report. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management of the Department and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.



Office Of Legislative Budget Assistant

July 6, 2012

Internal Control Comments
Material Weaknesses

Observation No. 1: Controls Over The Collection, Accumulation, And Bagging Of Cash And Coins Should Be Improved

Observation:

The Department's processes for the collection, accumulation, and bagging of cash and coins for deposit from the kiosk-based and coin parking meters during the ten months ended April 30, 2012 did not sufficiently address accuracy, completeness, and accountability for those critical activities.

- There were no current written policies and procedures describing the cash and coin collection activities. There were no standards for when to collect, what to collect, or for reporting the results of the collection activity, including reporting general observations made during that activity.
- Employees responsible for the collection and bagging of cash and coins did not sign off on the collection log to evidence their participation in, and accountability for, the collection and bagging process.
- The Department did not account for all sequentially-numbered, tamper-proof cash and coin transport bags. While the bags were generally used sequentially, there was no control to review for missing bags, which could signify tampering with accumulated receipts.
- The Department did not perform a regular reconciliation between parking remittances pursuant to the kiosk-based parking meter system and the amount deposited and recorded in the State's accounting system (NHFirst). The failure to perform a reconciliation of these information systems was a critical breakdown in the Department's control system over the collection and deposit of parking revenues.

The Department's Hampton parking meter cash and coin collection activity has a high inherent risk of loss. The lack of effective controls over that activity puts the Department at a significant risk for material error or fraud to have occurred and not been detected and corrected.

Recommendation:

The Department should improve controls over the collection, accumulation, and bagging of cash and coins from the kiosk-based and coin parking meters.

- The Department should update its policies and procedures to control cash and coin collection activities. The policies and procedures should include processes for determining when and what to collect and controls over that collection activity.
- Clear accountability should be established for cash and coins from the point of collection to point of transfer to the armored car service for delivery to the bank.
- Available controls, including numeric controls, over cash and coin bags should be utilized.

- Regular reconciliations of parking remittances between the kiosk-based parking meter system, the amount deposited, and NHFirst should be prepared and reviewed by management. Differences and other unusual data noted in the reconciliations should be resolved timely.

Auditee Response:

Concur in part.

Since 2008, the Department has been transitioning from the old-style parking meter system to the electronic kiosk pay station system. This ongoing transition has reduced the risk by having transactions automatically recorded at each pay station and also tracked on the parking system used by management. We have done overall reconciliations to prove revenue collections are fairly stated.

Accountability has been established for cash and coin collections; however we agree that our procedures could have been clearer. Our operating procedures are a carryover from the old parking meter system and have not been formally updated while operating in the electronic pay station environment. We will update the procedures by the end of August 2012.

Collection efforts have historically been scheduled in the early morning as this is the most efficient time to maneuver without interruption and with reduced risk due to the extraordinary amount of traffic at the beach later in the day. Collections are made based on reported levels of funds in the pay stations.

Employees did not sign the bagging log although their unit number (identification number) was logged. The staff is now instructed to sign the log. Subsequent sampling by internal audit demonstrates compliance.

Patrol Office staff now perform reconciliations of the reported kiosk pay station deposits to physical bank deposits and to cash reports, which are further verified by the Department's central business office.

Finally, as an additional control, the Department will be installing security cameras around the complex to include cameras in the counting room. This additional control is anticipated to be completed by the end of the season.

Observation No. 2: Monitoring Controls Should Be Established To Ensure Parking System Is Operating As Intended

Observation:

The Department uses a kiosk-based, automated parking meter system (system) in its busier parking lots. The system includes 38 parking kiosk pay-stations which accept payment by cash and credit cards and meter space usage for 1,234 parking spaces in the Hampton Beach area,

including North Hampton and Jenness Beaches. The system provides the Department with on-line, real-time reporting of all parking transactions. The Department contracts with the system's vendor for system support.

The Department has not implemented sufficient controls to ensure transactions processed through the system are accurate and complete. The Department has relied on the system's reporting without taking available steps to establish a reasonable basis for that reliance.

Auditor review of data identified the following concerns:

- For the six pay-station terminals selected for review, inconsistencies were noted between the total amount customers paid during the July through September 2011 parking season and the amount of parking time granted during that period. Total excess parking time granted during the parking season by the tested pay-station terminals ranged from a 7% to 25% excess, with an 11% average excess in the six terminals reviewed. If the system was on average granting customers 11% excess time, the Department's parking revenues were shorted by approximately \$115,000 during the three month, July through September 2011, summer parking season, assuming the customers used that excess time.
- System-reported activity totals did not consistently agree to the sum of the detail transactions recorded by the system.
- Unexplained breaks in the numerical sequence of transactions were identified on system transaction reports.
- Purchases of additional time were not consistently processed accurately, granting customers excess parking time.

While the Department reported it was notified by customers of parking receipts with incorrect expiration times "a few times a week", the cause of the erroneous transactions had not been resolved by the vendor, despite the Department's contacts on June 25, 2011, September 14, 2011, and again on March 8, 2012. As of April 11, 2012, no further response was provided and no further inquiry to the vendor was made by the Department.

Recommendation:

The Department should increase its controls over the kiosk-based, automated parking meter system.

- The Department should request the vendor arrange to provide control review reports, such as a report on controls at a service organization (SOC report) issued by a certified public accountant, of the system utilized by the Department.
- The Department should regularly review and analyze the data available in on-line reports. The cause for erroneous and inconsistent information should be resolved.
- The Department should determine the cause of the vendor's lack of timely response to the reported erroneous transactions. The Department should determine whether a more formal communications process should be in place to ensure that system corrections and other change requests are responded to timely.

Auditee Response:

Concur.

Inconsistencies in calculated time should no longer be an issue, as the Department prior to the start of the audit started the transition from the pay-by-space to the pay-and-display method of billing. There were many reasons for this change ranging from customer service challenges to simplifying the complicated processes of calculating incremental time. The pay-and-display environment has greatly simplified computations and improved reliability.

Provisions were included in the new vendor service contract requiring a review of controls at the pay-station vendor service bureau. The contract was negotiated prior to the beginning of the audit and the State was the first customer of the vendor to insist on this additional reporting requirement. The delivery due date of this audit report is April 2013.

Staff responsible for overseeing the meter program will be trained in the use of the vendor's various reporting tools. The Department has become more diligent to log issues with the vendor and pursue timely resolution.

Observation No. 3: Revenues From Coin-Metered Lots Should Be Periodically Analyzed

Observation:

The Department does not perform formal reviews of revenues collected at its traditional, coin-metered parking lots. The traditional coin-based meters do not have any counter or other ability to track and report parking activity, other than counting the coins collected in the individual "meter heads."

During the ten months ended April 30, 2012, the Department managed 246 parking spaces monitored by traditional meter heads. The Department did not actively monitor and analyze the revenues collected from these traditional coin-metered parking lots to establish reasonable assurance that it was collecting and depositing intact all revenues paid into the meters. The Department reported that other than directing the collection of coins from the meters be performed by two employees to lessen the likelihood of employee theft, there are no policies and procedures for analyzing or testing collected amounts for completeness. If coins were stolen from the meter heads by employees or others, it is likely the loss would not be detected by the Department in the normal course of business. While the coin boxes on the meters are locked, all boxes are opened by the same key which has been in use for a number of years, and there is no record made of coins collected from individual meters.

The Department reports it has meter-monitoring devices which are intended to allow a user to determine the relative load of coins in a meter to determine efficient coin collection frequency without opening the meter. The Department reports it does not use the devices as it considers the information from the devices to be unreliable.

Our analysis of available information shows the daily average revenue from a coin-metered parking space during the period July 1, 2011 through September 30, 2011 was \$0.81 per-space, per-day, while the hourly rate for those spaces was \$1.50 per-hour. During the same period, the average kiosk metered space returned \$8.33 per-space, per-day, while the hourly rate during that period was \$1.75 per-hour. The Department reports the comparison of the two per-space, per-day amounts is problematic as most of the premiere parking spaces are in the kiosk-metered lots and many of the coin-metered spaces are not in the most desired locations.

Recommendation:

The Department should monitor and analyze the revenues from its traditional coin-metered parking lots to establish reasonable assurance it is collecting and depositing all revenues paid into the meter heads.

The Department should periodically observe and test the security and controls over the revenue collection process.

As noted in Observation No. 4, the Department should review the level of enforcement (ticketing) activity occurring in the coin-metered lots to ensure that the level is appropriately encouraging customer compliance.

The Department should continue to research the resolution of the problems with the monitoring devices for the traditional coin meter heads. If reliable, in addition to determining efficient collection points, the device could be used to monitor the security of coins between collection points.

Auditee Response:

Concur in part.

The Department has studied the collection rate in this particular area and historically this area has generated revenue far below the average of other pay stations. Obviously, this collection rate was understood as we have focused our roll out of the most costly pay station program in the high parking areas. Internal audit has performed extensive testing of collections with the older meters including witnessing the collection after a period of nice weather and found revenue generated from these locations was relatively low. We will continue to monitor the operation in the future including the installation of cameras in the counting room.

Observation No. 4: Patrol Ticketing Activity Should Be Reviewed

Observation:

The Hampton Beach Park Patrol's parking meter enforcement activity has been predictable, allowing regular users of the parking lots to anticipate when parking enforcement will occur and to avoid paying the parking fee until enforcement was imminent.

A review of the timing of the 3,325 parking tickets issued during the period July 1 through September 30, 2011 indicated less than 10 tickets were issued before 11 a.m. and a total of 110 tickets, or approximately 3% of all the tickets issued, were written before 12 noon. Approximately 1,600 tickets, or 48% of the total, were issued between 12 noon and 5 p.m. and approximately the same number were issued between 5 p.m. and 10 p.m. When an auditor asked a local surfer whether putting coins in a meter at 9 in the morning was required, the auditor was told not to worry as “they don’t start patrolling before 10.” In fact, parking meter compliance is required from 8 a.m. to 12 midnight.

The Department reported it was not surprised by the relatively low number of tickets issued prior to noon. The Department reported the Patrol regularly collects money from the meters in the morning and performs enforcement efforts after the collections are made.

During April 2012, while audit fieldwork was in progress, the Patrol issued 309 tickets during the period 8 a.m. to 12 noon and 586 tickets during the period 12 noon to 4 p.m. No tickets were issued after 4 p.m. during April 2012.

The fine for a parking ticket is \$25.

Recommendation:

The Department should review whether its enforcement schedule has had an unintended effect on customer compliance with parking fee requirements.

The Department should consider varying the timing of its collection and enforcement efforts to better distribute coverage over the entire day when payment for parking is required to encourage customer parking fee compliance.

Auditee Response:

Concur.

The Department has an ongoing effort to become more strategic with staffing schedules to maximize service and revenue opportunities while being cognizant of cost controls and scheduling staff at highest times of need. This effort will continue through the season and by the end of August 2012 we will have a documented, comprehensive plan in place.

Observation No. 5: Controls Over Payroll Should Be Improved

Observation:

During the ten months ended April 30, 2012, the Department did not have effective controls over the reporting of hours worked by employees at the Hampton Beach Park Patrol.

During that period, the Patrol retained summary records to support hours worked by employees which did not include identification of start and end times or certification by employees of hours worked. The summary records also did not identify work performed. Without information to support the summary payroll records, it is not possible to determine the accuracy of the payroll.

The Patrol supervisor prepared employee work schedules and the employees, or others on their behalf, documented their hours worked on a daily log, a sort of timesheet for all employees. At the end of each pay period, the supervisor recorded the hours worked by each employee on a Bi-Weekly Time Report and signed the Report as accurate. The Bi-Weekly Time Report was submitted to the Supervisor of Parks Operations for review and approval. There was no review of the total hours worked by employee for clerical accuracy, the work schedules and daily logs were discarded upon the submission of the Bi-Weekly Time Report, and employees were not required to attest that the hours reported as worked were complete and accurate.

- We tested the clerical accuracy of the Bi-Weekly Time Reports for payrolls paid during the ten months ended April 2012. We noted two errors: 1) the detail did not agree to the total for one employee's hours with the total overstating the detail by eight hours, resulting in a potential \$132 overpayment, 2) the detail did not agree to the total for another employee with the total understating the detail by four hours resulting in a potential \$52 underpayment. Since the work schedules and daily logs were not available, it was not possible to determine whether the totals or the detail hours posted were accurate.
- We noted instances where employees' work hours were posted days late. In two instances, we noted hours had been posted for a workday, days after the employee had posted hours for ensuing days worked.
- The Bi-Weekly Time Report form contains employee social security numbers. It is not clear the inclusion of the confidential information on the Reports is necessary for their processing.

Recommendation:

The Department should improve controls over the Patrol's payroll.

The Department should provide employees with timesheets that require documentation and certification of daily hours worked. The Department should also consider requiring employees to document tasks performed.

The Department should retain employee timesheets for the three-year period required by the State's record retention policy. The Department should retain work schedules and daily logs for an appropriate period of time to allow for management's review of employee hours scheduled and worked.

Auditee Response:

Concur.

In response to the auditor's observation, the Department conducted an internal review of payroll processing for the Patrol which included direct interviews with various staff members. The analysis indicated a need to institute more controls. This report was shared with the auditors.

In an effort to provide increased accountability, four time clocks on the seacoast were installed and became operational on June 29, 2012.

Observation No. 6: Overall Staffing Strategy Should Be Reviewed

Observation:

Department management did not adequately monitor Hampton Beach Park Patrol work schedules or hours worked during the ten months ended April 30, 2012. This lack of adequate monitoring may have exposed the Department to unintended payroll expense and liability.

1. The Department does not have policies and procedures addressing employee work schedules and the effects of inclement weather on those work schedules. According to Department management, during inclement weather, scheduled employees should be dismissed when they are not needed. In practice, supervisors have been given the discretion of determining if and when to alter work schedules for inclement weather.

Employee work schedules at the Hampton Beach Park Patrol during the audit period were not revised for inclement weather. The employees scheduled for work on an inclement weather day were allowed to work their scheduled hours, regardless of the expected level of parking activity. According to the Patrol supervisor, employees working on days of weather-related low parking activity "catch up on paper work" or have refresher training.

It is unclear whether the level of paperwork or training necessary at the Patrol supports the need to have employees report to work on inclement weather days. As noted in Observation No. 5, as the Patrol does not maintain documentation of employee work activity, it is not possible to determine the actual work activities of Patrol employees on inclement weather days during the audit period.

2. Five of the 16 Patrol employees worked in excess of the part-time 1,040 hour limit during the calendar year 2011 parking meter season, from mid-March to the first week of November 2011. Two of the employees worked 40 hours per week consistently during this period. Based on the hours these five employees worked during this period, it appears these employees were entitled to certain benefits, which they did not receive.
 - In general, seasonal employees are not entitled to benefits, such as paid leave and health and dental insurance. However, pursuant to RSA 98-A:3, "Any person appointed under a

temporary appointment or any person appointed under a seasonal appointment who works the equivalent of 6 months or more, not necessarily consecutively, in any 12-month period shall be deemed to be respectively a permanent temporary employee or a permanent seasonal employee and entitled to all the rights and benefits of a permanent employee in the classified service of the state.” According to N.H. Admin. Rule, Per 1210.01, Leave for Part-Time Employees, “...(c) For purposes of this section, 6 months of full-time employment shall be the equivalent to the following: ... (2) 1040 hours of work within an anniversary year for employees in positions which are compensated on a 40 hour per week work schedule.” Per review of the Patrol employees’ paid work hours for the 2011 season, it appears five of the 16 seasonal employees were entitled to some benefits. However, no benefits were offered or provided to these employees.

- In a March 2012 inter-department memo, the Department stated seasonal employees would not receive holiday pay at time and one half when working a holiday, as the Collective Bargaining Agreement and the State’s personnel rules do not provide seasonal employees the same rights and benefits of classified or exempt status employees. This memo is in conflict with RSA 98-A:3 noted above. Prior to the memo and during the audit period, the Department did pay holiday pay to Patrol employees who are part-time seasonal employees.

Recommendation:

The Department should review its overall staffing strategy for seasonal employees at the Patrol and establish relevant controls including policies and procedures for:

1. Establishing employee work schedules and the effects of inclement weather on work schedules. Park supervisors should document circumstances requiring employees’ attendance on days when inclement weather makes their normal work activities unnecessary.
2. Monitoring hours worked by seasonal employees to limit the risk of unintended benefit accruals. Policies and procedures should address (a) conditions under which seasonal employees can earn benefits based on the State’s laws and rules and contracts and (b) any restrictions on seasonal employee hours worked.

In addition, the Department should review with appropriate authorities whether the Department has accrued any liability for previously unidentified benefits earned by seasonal employees.

Auditee Response:

Concur in part.

Central management has given direction to the various Parks Managers regarding appropriate staffing levels with further direction to adjust scheduling based on weather conditions. However, controlling costs must be balanced with the number of hours needed to retain employees given employment rules. Replacing and retraining staff is time consuming.

Improved reporting tools available to park management have been developed to include biweekly payroll reports, by park, by employee. These management reports are used to monitor costs and to compare across region / parks to measure performance.

Human Resources has been working with Parks Management to ensure compliance with benefit eligibility rules for seasonal workers. Seasonal workers' schedules are being better monitored for purposes of tracking eligibility. Further, when Lawson Payroll becomes fully functional January 1, 2013, we will be able to capture on the State's payroll system hours worked by day for our part time employees, which will facilitate tracking and compliance.

Department of Administrative Services Response:

We concur.

We agree that it would be beneficial for the Department of Resources and Economic Development (Department) to have documented processes for the scheduling of its parks staffing resources. Administration and management are given the authority to manage and run their department to include efficient and productive staffing schedules. In order to maintain consistency with interpretation and implementation of scheduling expectations, we are in agreement that documenting and disseminating those procedures to both administration and line supervision would be an advisable practice.

We agree that the Department should have established processes and tracking mechanisms in place to ensure that seasonal staff hired on a full or part time capacity work their expected hours – full or part-time. We agree that a seasonal employee, hired to work part-time hours, should work less than 37.5 hours per week. We also agree that if circumstances warrant Department administration having a management need for part-time employees to consistently work more than the expected hours in excess of a six-month period, the employees should be provided the provisions allowed by statute to include benefits, leave accrual, etc. We reiterate from the above observation, documented procedures would benefit the Department in the areas of maintaining consistency with interpretation and implementation of expectations.

Significant Deficiencies

Observation No. 7: Regular Reconciliation Of The Parking Ticket Accounting System Should Be Performed

Observation:

The Department does not perform a reconciliation of collected revenue reported in its parking ticket accounting system to parking fine revenue reported in the State's accounting system (NHFirst).

Parking fine revenue is initially recorded in the parking ticket accounting system, deposited into a State of New Hampshire bank account, and subsequently posted in NHFirst. The Department does not perform a regular reconciliation between the revenue collections in the parking ticket accounting system and the amount reported in NHFirst. The periodic reconciliation of similar information posted to separate systems is a critical control over erroneous or incomplete posting of information.

In discussing the need for a reconciliation process, a Department employee who regularly uses the parking ticket accounting system reported that additional training and support for the system would be helpful to the Department users.

Recommendation:

The Department should establish policies and procedures directing a regular reconciliation of the parking ticket accounting system. The results of the reconciliation should be reviewed and approved by Department management.

The Department should consider providing additional training to employees utilizing the parking ticket accounting system to ensure that employees have all of the resources necessary to obtain efficient utility from the system.

Auditee Response:

Concur.

The Department will review this process and develop procedures by the end of August 2012.

Observation No. 8: Regular And Complete Reconciliation Of Credit Card Clearing Account Should Be Performed

Observation:

The Department did not fully reconcile its credit card clearing account during the ten months ended April 30, 2012 and allowed the “float” in the account to mask certain credit card processing fees.

Department revenues received from credit card transactions, including parking revenues, are initially recorded when received in a single Department clearing account in the State accounting system (NHFirst). The revenues are subsequently transferred out of the clearing account and into respective NHFirst revenue accounts when the source of the revenues and the appropriate revenue accounts are identified.

Revenues from transactions processed by one credit card vendor are initially recorded in the clearing account net of credit card fees but are transferred out of the clearing account at a higher, gross amount. As a result, excess parking revenue has been transferred from the clearing account to the parking revenue account resulting in a deficiency in the clearing account balance and an understatement of credit card fees. The deficiency in the account has been covered by the unprocessed balance present in the clearing account. The lack of a full reconciliation of the clearing account has allowed this imbalance in the accounts to remain undetected and unresolved.

During the ten months ended April 30, 2012, the Department had not recognized approximately \$670 of credit card processing fees related to transactions processed by one credit card vendor.

Recommendation:

The Department should perform regular and complete reconciliations of its clearing account. All differences identified in the reconciliations should be resolved in a timely manner. The results of the reconciliations should be reviewed and approved by Department financial management to ensure the accuracy and completeness of the credit card revenues included in the reconciliations.

The Department should establish policies and procedures relative to the proper accounting and reporting of credit card revenues and fees. The policies and procedures should address all of the Department’s credit card vendors.

Auditee Response:

Concur.

We agree the reconciliations should be performed. Given limited resources, at this time we are unable to commit to performing timely reconciliations. We will research this matter.

Observation No. 9: Policies And Procedures For The Operation Of The Kiosk-Based Parking Meter System Should Be Established

Observation:

The Department has not established policies and procedures for monitoring the operation of the automated kiosk-based metering system. The Department has not involved itself in the change control and management of the system and is largely reliant on the vendor for the continued secure and accurate operation of the system.

The Department began using the current kiosk-based parking meter system in 2009. Since that time, the Department has not established policies and procedures for formally communicating system issues with the vendor that promote timely and accurate documentation of identified and suspected problems with the system, and timely and controlled response to, and correction of, those problems. While the system does have a work-order process, during the audit period, the communication with the vendor was largely by phone and informal email with no associated documented work plans or expected timeframes for investigation and correction of actual and suspected system problems. In addition, the Department had not established policies and procedures for employees to notify Department management of perceived problems with the system. For example:

- An issue related to occasional inaccurate time posting to parking receipts was identified in fiscal year 2011 by the Department and was communicated to the vendor via the work-order process. While there were some further communications reported between the Department and the vendor, no documentation was available to demonstrate that a resolution to the problem was achieved. The last correspondence with the vendor reported by the Department prior to the auditor's inquiry was on September 14, 2011.
- An issue observed by employees, related to the system not returning cash or receipts to customers who immediately cancel a parking meter transaction, was not reported to Department management or the vendor by the employees, reportedly because the employees believed the issue could not be resolved. This type of transaction was also identified during an audit test.

In addition, the Department does not have a disaster recovery or contingency plan for the kiosk-based meter system. While the Department does have an additional kiosk terminal that could be used to replace an inoperable terminal, it is not clear the Department has a reasonable plan of action that could respond to a disaster such as an act of vandalism that impacted more than one of the 38 terminals in its system.

Recommendation:

The Department should become more involved in monitoring the operation of the kiosk-based parking meter system.

The Department should establish policies and procedures that address the maintenance and operation of the kiosk-based system including controls for changes to the system. The policies

and procedures should describe a change control process that incorporates the components of the identification of a need for a change, the approved request for a change, the notification of a solution for approval and acceptance, and the implementation of the approved and tested change.

The change control policies and procedures should encourage employees to bring forward for consideration appropriate changes to the system.

The Department should develop a disaster recovery and continuity of business plan for its parking meter operations.

Auditee Response:

Concur.

The Department has developed relationships with other cities using the same kiosk-based parking system and will check with them regarding their change control procedures and contingency plans. In addition, as previously explained in our response to Observation No. 2, the Department has contractually required the vendor to provide a report on controls at the pay-station vendor service bureau.

Observation No. 10: Policies And Procedures For Executing, Managing, And Monitoring Parking Leases Should Be Expanded

Observation:

The Department had not established sufficient policies and procedures to control processes related to executing and monitoring leased parking spaces during the ten months ended April 30, 2012.

The Department leased 127 parking spaces to companies and individuals during the audit period. The lack of established policies and procedures supporting the leasing of the spaces contributed to weaknesses in executing the leases and managing and monitoring the lease activity. For example:

1. All lessees did not sign lease agreement documents. During the 2011 season, if a lessee returned the agreement unsigned, the Department did not pursue a signed copy of the lease document.
2. Parking-related lease agreements not submitted to Governor and Council for approval. RSA 227-H:9 provides the Commissioner may lease privileges on State reservations with contracts valued at more than \$2,500 requiring approval by the Governor and Council. Eleven of the 17 lease agreements for the 2012 parking season met the \$2,500 approval requirement, yet were not submitted to the Governor and Council for approval.
3. Occupancy permits not always obtained. Department policy provides lessees must show evidence of an occupancy permit, unless otherwise “grandfathered.” During the 2011 season, the Department did not require commercial lessees to provide evidence of an occupancy

permit prior to leasing. According to the Department, it started requiring evidence of an occupancy permit beginning May 1, 2012.

4. Revenue not always recorded timely. During our review of lease transactions, we noted it took the Department as many as seven days to record lease revenue in its Cash and Lease Report and took an additional nine to 48 days to record the revenue in the State's accounting system (NHFirst). The Department reported that recording is often delayed when large volumes of park transactions needed to be processed.
5. Lease revenues not monitored. During the 2011 parking season, there was a lack of Department monitoring of lease revenues. Six of 17 lessees did not make payments timely during the season. In December 2011, late notices were mailed to delinquent lessees after the Department's post-season review discovered uncollected accounts. As a result of that review, one delinquent lessee was paying through a payment schedule negotiated by the Department of Justice. Another lessee was sent a late notice even though the lessee had previously paid the amount owed in full.
6. Lease rates not fully supported. The lease rates for parking spaces vary by location. A Department analysis supporting its across-the-board 14% increase in 2012 lease rates indicates the leases will return from 52% to 95% of what would have been the expected metered revenue from the spaces. The Department reported it intends to increase the lease rates over the next two years to provide for a targeted return of 90% from each leased space.
7. Lease rates not submitted to Fiscal Committee for approval. The Department did not include its parking lease rates for the 2011 or 2012 park season when it submitted its other fees for Fiscal Committee approval pursuant to RSA 216-A:3-g. According to the Department, it did not believe the lease rates required Fiscal Committee's approval.

Recommendation:

The Department should expand its policies and procedures for executing, managing, and monitoring parking leases. Responsibility for all aspects of the lease operations should be established to improve accountability for activities, including control processes. The process for setting lease rates should be fully described in policies and procedures to ensure the rates are set in the State's best interest.

The Department should address the issues noted in items one through seven above. Lease documents should be signed and submitted for all required approvals. Lease activity should be monitored timely to ensure that lease agreements are complied with, including ensuring all lease revenues are received and deposited as appropriate. Lease rates should be calculated as intended and submitted for required approvals.

The Department should recognize that any discount allowed in a lease represents lost revenue to the parking program.

Auditee Response:

Concur.

The Department is current in collections from all lease holders as of June 30, 2012.

The Department will continue to study equity in rate setting and will do a better job documenting price variability based on location.

Observation No. 11: Policies And Procedures For Maintaining And Monitoring Parking Fine Accounts Receivable Should Be Established

Observation:

The Department has not established policies and procedures for maintaining and monitoring accounts receivable from parking fines and for coordination of its processes with its contracted collection agency.

The Department uses a system of hand-held ticket writers and commercial off-the-shelf software to write parking tickets and account for related fines. The Department has not consistently and timely performed routine processes related to its issuance of parking fines, which have resulted in untimely recording of activity and other information affecting the accounts receivable balances for unpaid parking fines. For example:

1. Data recorded upon the issuance of parking violations is not consistently complete and accurate. A review of a judgmental sample of five Department requests for vehicle owner information representing hundreds of individual parking violations noted the owners of, on average, 25% of the vehicles with New Hampshire license plates could not be identified by the Department of Safety, due to motor vehicle information recorded by the ticket writer not matching Department of Safety motor vehicle records.
2. The upload of parking violation citations issued from hand held devices to the Department's parking ticket accounting system is not always performed in a timely manner.
3. Exports of unpaid fine information from the system to the collection agency have occurred prior to all Department collection efforts being completed.
4. Collections by the collection agency are not consistently uploaded to the parking ticket accounting system in a timely manner. We noted an upload of collection activity posted in January 2012 consisted of amounts collected in August 2011.
5. The Department does not reconcile the amounts received from the collection agency and the bank lock box service used for fine remittances to the total of the collections uploaded into the parking ticket accounting system.
6. The Department does not consistently coordinate account information on accounts previously transferred to the collection agency. An instance was noted where the collection agency's efforts continued even though the customer had paid the Department in full. In this instance, a customer appeared to have paid their owed balance twice; once to the Department through the lock box system and once to the collection agency.
7. The Department has not monitored payments placed in the parking ticket accounting system suspense account. As a result, late fees have improperly accrued to customer accounts.
8. We noted certain credit balances refunded to customers were not reflected in the parking ticket accounting system, resulting in the credit balances remaining as apparent customer overpayments in the system, complicating the credit balance issue discussed in Observation No. 13.

9. The Department has not consistently issued late notices timely, resulting in customers not receiving timely notice when late fees will accrue.

The lack of consistency in processing and monitoring parking fine accounts receivable has resulted in the situation where the process of collection has become inefficient and, as noted in Observation No. 13, the Department is not confident of the accuracy of balances reported in the system.

At December 31, 2011, the Department reported the accounts receivable balance for parking fines was approximately \$700,000.

Recommendation:

The Department should develop comprehensive policies and procedures and provide appropriate employee training for maintaining and monitoring accounts receivable from parking fines. The policies and procedures should give clear direction and criteria for: the initial recording of complete and accurate vehicle identification information; timely uploading of citations from hand held devices; forwarding accounts to collection agents; reconciliation and daily upload of payment activities from the lock box bank and collection agent; regular coordination of information of accounts assigned to the collection agency; the regular review of suspense accounts for proper and timely disposition; posting of customer refunds; and sending of late notices.

Auditee Response:

Concur.

The Department will study both internal and external processes to maximize collections within appropriate expenditure levels. This will include consultation with cities with similar parking functions. Policies and procedures will be completed by the end of August 2012 and staff training will be provided, as appropriate.

Observation No. 12: Effective Controls Over The Voiding Of Issued Parking Tickets Should Be Established

Observation:

The Department has not established effective controls over the voiding of issued parking tickets.

Effective segregation of duties over voided tickets were not in place as certain employees issued parking tickets, received payment on parking tickets, and also had system access and authority to void issued tickets. The ability for employees to access proceeds from paid tickets and to void issued tickets increases the risk that employees could steal cash and conceal the theft by voiding previously issued tickets.

During the period July 1, 2011 to April 30, 2012, the Department voided approximately 240 issued parking tickets. The employee voiding the ticket writes the justification for that action on the ticket document. Reasons supporting voided tickets noted during the audit period included ticket enforcement officer error, meter or printer error, courtesy to customers, courtesy to police officers, courtesy to Parks Division employees, and courtesy to Hampton Beach construction workers.

While controls in the system include requiring the supervisor to post the voiding of a ticket to the parking ticket accounting system and signing a log identifying a voided ticket, that control was compromised during the audit period as the supervisor's username and password was regularly used by at least one other employee. Because the improper voiding of an issued ticket can be used to conceal a theft, controls over that process need to be robust.

We found no authority for voiding validly issued parking tickets as a courtesy.

Recommendation:

The Department should establish policies and procedures to control risks associated with voiding issued parking tickets.

- The responsibilities for receiving payment on tickets should be segregated from the ability to void an issued ticket. No employee should be able to accept revenue and also delete the record supporting that revenue.
- Authorized reasons for voiding an issued ticket should be set by policy with a requirement to document all voided tickets with customer names and contact information. A sample of individuals identified on voided tickets should be subject to follow-up contact to ensure the tickets were in fact voided.

Auditee Response:

Concur.

The Department has properly segregated these duties of waiving the fees, keying into the system, and acceptance of funds. Further, the policy around voiding tickets will be completed by the end of August 2012.

Observation No. 13: Customer Overpayments Should Be Refunded Proactively And Timely

Observation:

The Department has not established policies and procedures to address overpayments of parking fines. At the time of the audit, the Department did not have a clear policy regarding whether overpayments should be refunded to customers.

At March 27, 2012, the time of audit inquiry, the Department reported it held approximately \$6,000 of customer overpayments related to parking fines. Overpayment amounts ranged from \$1 to \$200. The Department expressed concern with the accuracy of its reported information due to questions about the accuracy and completeness of the underlying data.

The Department had no policy or procedures for notifying customers of overpayments, even though it had contact information for some customers with an overpayment balance.

Recommendation:

The Department should refund customer overpayments proactively and in a timely manner.

If the Department has concerns regarding the accuracy of its data, the Department should resolve those concerns expeditiously to allow for a timely return of customer money.

Auditee Response:

Concur.

At this time, we have not had the opportunity to properly research all accounts with credit balances but will undertake this review after the close of the season. We believe some of this activity might be attributable to application of payment to the wrong ticket when violators have multiple outstanding tickets. If we determine the customer is due a refund, we will take the appropriate steps to contact the customer and offer to refund their money.

Observation No. 14: Additional Actions To Collect Outstanding Fines Should Be Considered

Observation:

The Department reports it has limited ability to encourage recalcitrant parking violators to pay parking fines. While the Department has authority to tow vehicles that are parked illegally, the Department reports it has no authority to tow or immobilize vehicles of violators with delinquent parking fine accounts. The Department reports it is aware there are frequent violators who do not pay amounts owed.

N.H. Admin. Rule, Res 7303.09(g) authorizes the Department to tow vehicles that are illegally parked in a leased parking space, a reserved parking space, a no parking zone, a pedestrian crosswalk, or a handicapped parking space. The Department reports citations for these violations are few, and the Department generally does not tow illegally parked vehicles.

During the audit period, the Department reported its efforts to collect outstanding fines included mailing late-fee notices and using a collection agency when vehicle owner information was available. While the Department is able to obtain owner information for N.H. registered vehicles

from the Division of Motor Vehicles, information from out-of-state motor vehicle agencies is generally not accessible to the Department.

Subsequent to discussions with the auditors, the Department reported it was conferring with the Department of Justice about the possibility of establishing a process for actions against owners with unpaid balances.

At December 31, 2011, the Department reported the balance of outstanding parking fines totaled approximately \$700,000. This amount represented unpaid amounts accruing over the past five years.

Recommendation:

The Department should consider additional actions to collect outstanding fines.

- The Department should request authority in statute or administrative rules, as appropriate, to employ reasonable enforcement actions to encourage payment of outstanding fines. Common enforcement actions include towing and immobilizing (booting) vehicles of repeat and delinquent parking violators.
- The Department should consider using the State's courts to collect outstanding parking fines.
- The Department should continue in its efforts to obtain out-of-state vehicle owner information. The Department should work with the Departments of Justice and Safety to obtain cooperation from neighboring states in obtaining motor vehicle owner information. If the Department finds that cooperation is not available, the Department should consider whether the use of commercially available information is a reasonable alternative.

Auditee Response:

Concur.

Based on our review of the receivables, 84% are over two years old and many of the balances represent penalties upon penalties and not the initial fines. The likelihood of collection is remote and therefore we have started the process of purging and inactivating these balances in the parking ticket accounting system.

Due to our success with other collection efforts through the Attorney General's Office, we initiated a new program to assign our worst parking offenders to them to pursue collection through legal means.

The Department plans to study whether to restructure internal staff or to issue a request for proposal for mailing services to insure initial ticketing notices are mailed timely. Further to minimize disputes of penalties for late payments, the fine application parameters have been expanded to accrue late payments within reasonable window timeframes.

The Department will still need to pursue rule changes to allow us to deploy additional enforcement tools. These rules will be updated prior to the start of the 2013 season.

Observation No. 15: Cost Allocation Improvement Efforts Should Continue

Observation:

The Department does not have a cost allocation plan to promote the accurate recording and reporting of all costs related to the Hampton Beach Patrol in the Hampton Beach Parking Meter Fund expenditure accounts.

While most direct payroll and other Patrol operating costs are funded from the Hampton Beach Parking Meter Fund (Fund) in the State's operating budget, a number of costs related to the Patrol's operation are recorded in other than Fund expenditure accounts. For example, approximately 50-60% of one Department business office employee's time is reported as spent on responsibilities related to accounting for parking meter fines, yet the related personnel costs for the employee are charged entirely to the Parks Fund. Likewise, the personnel costs for other Department employees providing services to the Fund are not charged to the Fund.

Because the Patrol's expenditure accounts do not report all Patrol costs, decisions made based on those reported costs may not be based on complete and accurate information.

According to the Department, some changes in account coding have been made to improve cost management and reporting. After improvements to the coding of direct costs are satisfactorily completed, the Department plans to review allocating indirect costs of payroll and non-payroll expenditures. In addition, the implementation of the NHFirst employee time recording system is expected to help correct allocation of payroll expenditures.

Recommendation:

The Department should continue in its efforts to improve its cost accounting and reporting processes to provide reliable financial information that accurately reports its financial operations.

Auditee Response:

Concur.

Allocating labor costs has always been a challenge as the State's payroll system does not allow for easy labor distribution across accounting units. Further, the State's budgeting practice does not allow for positions to be split-funded across accounting units. Our understanding is this limitation will continue for the fiscal year 2014-2015 biennium.

However, at the close of the Parks summer season, the Department will study labor distribution and time tracking to determine if cost centers are being disproportionately assessed and whether a more equitable allocation method can be implemented. We will then analyze and determine if making budgetary adjustments would be appropriate.

Observation No. 16: Expenditures Should Be Charged To Correct Accounts

Observation:

During the ten months ended April 30, 2012, the Department regularly charged expenditures unrelated to the Hampton Beach Park Patrol to the Patrol's expenditure accounts in the State's accounting system (NHFirst).

- Two expenditures in a random test sample of 12 expenditures charged to the Patrol's accounts related to expenditures for Department operations unrelated to the Patrol. The two expenditures were for the \$480 annual renewal fee for the Seacoast Science Center alarm monitoring service and \$2,372 for repair parts for a beach groomer.
- Upon discussion with the Department's business office, auditor's estimated that approximately 40% of the Patrol's \$65,000 of non-payroll expenditures recorded in NHFirst during the audit period were unrelated to the Patrol's operations.

According to the Department, there is "inherent flexibility" in the park accounts and, therefore, expenditures relative to the Department's Seacoast park activities can be charged, interchangeably, to the Patrol's account (7300), the Capital Improvement account (7301) or Parks Operation account (3720), avoiding the need for the Department to request an approval to transfer appropriations between the accounts. The Department could not provide the authoritative basis for its belief of inherent flexibility.

The inaccurate recording of expenditure accounts violates the State's budgetary appropriation control process and decreases the value of reported financial information, as activities and balances may include inaccurate information.

Recommendation:

The Department should charge expenditures to the correct, budgeted accounts.

When necessary, the Department should seek approval to transfer appropriations as provided for in statute.

Auditee Response:

Concur.

It appears the issue of charging incorrect accounts is more of a reflection of training and the need to place greater emphasis on the purpose of each of the Department's accounting units. During the 2012 Legislative session, SB 324 [Chapter 187, Laws of 2012] was approved which better aligns revenue to operational needs.

Observation No. 17: Controls Over Petty Cash Should Be Improved

Observation:

The Hampton Beach Park Patrol maintained petty cash on hand greater than its need during the audit period. During most of the ten months ended April 30, 2012, the Hampton Beach Park Patrol maintained a \$1,000 petty cash account. The balance in the petty-cash account was originally set when the Patrol required a cash balance on hand to stock change machines at the parking lots. The change machines were removed prior to the start of the 2011 parking season. However, the petty cash balance was not reduced at that time.

During the audit period, the Patrol reported it used its petty cash account to make change for parking customers who requested change at the Patrol facility and to make emergency purchases under \$10. During the 2011 parking season, the Patrol expended a total of \$65 from the fund for those purchases. The Patrol returned the balance of petty cash to the Department headquarters approximately 65 days after the close of the 2011 parking season.

Recommendation:

The Department should increase its controls over the petty cash account.

- The balance in the account should reflect the expected use of the account. If the 2011 expenditures from the account of \$65 are considered representative of the anticipated use of the account for the season, the current \$1,000 balance is excessive.
- The Department should collect the petty cash account balance timely at the close of the season.

Auditee Response:

Concur.

Petty cash balances will be reduced to \$250, the amount determined to be the appropriate level based on current needs.

Observation No. 18: Information Technology Controls Should Be Strengthened

Observation:

Noted instances of employee noncompliance with Department and State information technology (IT) policies and procedures indicate Department employees are not aware of, or fully trained in, those policies and procedures.

- The Department reported employees at Hampton Beach Park Patrol were never advised of, or required to sign, the Department's Computer Use Agreement. Also, the employees were not trained in the State's IT policies.

- Patrol employees shared user names and passwords for the parking ticket accounting system. Access to this system allows posting of fine revenues and also canceling or voiding of issued parking tickets. At the time of audit inquiry, the Department reported it was unaware of the extent of the sharing of user names and passwords.
- Upon notice of one of the shared passwords, a new user account was established in the parking ticket accounting system. However, the new account was established pursuant to a verbal request and the password on the initial account was not changed. Both conditions increase IT system risks.
- The Patrol purchased two flash drives (computer data storage devices), one in August 2011 and the other in September 2011. According to the Patrol, one of the drives was used to routinely transfer files from a stand-alone computer to a computer with an attached printer, to allow printing of documents. The other flash drive was reportedly used to transfer files from an employee's personal laptop to an office computer. The employee reportedly used a personal laptop to create work schedules and other documents. Using unapproved and personal IT devices is contrary to State IT policy.

Noncompliance with State IT policies and procedures places the security of State IT assets and information at risk.

Recommendation:

The Department should ensure that employees comply with Department and State IT policies and procedures.

The Department should provide training to ensure employees are aware of relevant IT policies and procedures and the expectation that employee compliance is required. Specifically:

- All employees should be knowledgeable of, and sign, the Computer Use Agreement.
- All users should have distinct user names and passwords. The security over passwords should be strong and passwords should not be shared.
- All user access changes should be controlled through a formal, authorized, and documented process.
- Only approved IT equipment should be used for Department operations. The use of unsecured flash drives to routinely transfer files for printing is not an efficient or secure process. If another printer cannot be made available, the computers should be connected by a secure switch and cabling. Personal computers should not routinely be used for Department business.

Auditee Response:

Concur.

The Department, with assistance from Department of Information Technology, will work to emphasize proper IT controls.

State Compliance

Observation No. 19: Scope Of Hampton Beach Parking Meter Fund Operations Should Be Clarified

Observation:

Effective July 1, 2011, the Department changed its reporting practices for parking meter revenues collected at North Hampton and Jenness Beach parking facilities. Prior to that date, parking meter revenues collected at those facilities were deposited into the Hampton Beach Parking Meter Fund (Fund). Subsequent to the change, the revenues were deposited into the State Park Fund. The Department reported it changed its reporting practices for the meter revenues from these two parking facilities based on the recognition that the North Hampton and Jenness Beaches are geographically separate from Hampton Beach.

The Park Patrol, which operates, maintains, and manages the parking facilities at the North Hampton and Jenness Beaches, is funded from the Hampton Beach Parking Meter Fund. Parking lease and fine revenues from the North Hampton and Jenness Beach parking facilities continue to be deposited into the Hampton Beach Parking Meter Fund.

RSA 216:3, I, provides the Department “shall operate, maintain, and manage the parking facilities at Hampton Beach, and shall be authorized to charge for the use of the parking facilities by meters or fees, including parking violations fines, whichever is determined most practical.” There is no similar statutory authority for operating parking facilities at North Hampton and Jenness Beaches, other than the Department’s general statutory authority to operate the State Park System.

RSA 216:3, II, provides “the state treasurer shall establish a special nonlapsing fund...for the revenues from the parking facilities at Hampton Beach.” Revenues recorded in the Hampton Beach Parking Meter Fund are subject to being counted toward balances to cover bond payments and revenues transferred to the Hampton Beach Capital Improvement Fund. Revenues remaining in the Hampton Beach Parking Meter Fund are lapsed at fiscal year end to the State Park Fund.

Recommendation:

The Department should seek legislative clarification as to the operation of the Hampton Beach Parking Meter Fund and the revenues that are to be deposited into that Fund.

If it is determined the operations of the parking facilities at North Hampton and Jenness Beaches are to be reported separately from the Hampton Beach parking operations, the Department should ensure that it has adequate statutory authority to support those operations, including the issuance of fines. The Department should also establish appropriate policies and procedures to separately account for and report the North Hampton and Jenness Beach parking facilities’ lease and fine revenues and operating expenditures, which are currently reported in the Hampton Beach Parking Meter Fund.

Auditee Response:

We concur in part.

The Department does not believe clarification is necessary as allocating Jenness and North Hampton meter revenue to the Parks fund is appropriate as they are separate and distinct parks. The Meter Fund is specific to Hampton and the method of collecting parking fees does not dictate where the money is deposited. Further rate setting which included hourly parking rates and fines to be assessed was fully disclosed for these two locations in our fee package that was approved by the Legislative Fiscal Committee. Finally, during the audit, we provided a justification letter to the auditors which fully disclosed our reasons and logic for breaking out the financial activities for these two parks. It should be noted that at the end of the fiscal year, this allocation has no overall financial impact to the Park Fund as surplus balances in the Meter Fund close out to the Park Fund.

We do agree that we should allocate costs to these Parks for patrol and other parking related financial activities and will be assessed with our other cost allocation efforts as explained in our response to Observation No. 15.

Observation No. 20: Compliance With Nepotism Statute Should Be Monitored

Observation:

During a typical park season, approximately 16 seasonal employees work for the Hampton Beach Park Patrol. One employee, a supervisor, is responsible for supervising, scheduling, and reporting hours worked by the employees. Each season since 2008, one of the employees working at the Patrol under the direction of the supervisor has been a close relative of the supervisor.

This employee's supervision of a close relative appeared contrary to RSA 21-G:26-a, the State's nepotism statute.

When the auditors brought this situation to the attention of the Department, the Department took corrective action.

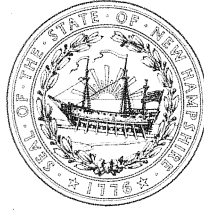
Recommendation:

The Department should monitor supervisor/employee relationships in light of RSA 21-G:26-a and take appropriate action to prevent noncompliance with this statute in the future.

Auditee Response:

Concur.

The Department has performed a review of our hiring practices and has put in place additional controls and there are no longer direct supervisory relationships at meter patrol. The specific situation described above has been resolved.



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Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying Statement of Revenues and Expenditures – Hampton Beach Parking Meter Fund (Fund) of the New Hampshire Department of Resources and Economic Development (Department) for the ten months ended April 30, 2012. This financial statement is the responsibility of the management of the Department. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statement of the Fund is intended to present certain financial activity of only that portion of the State of New Hampshire that is attributable to the transactions of the Fund. The Statement of Revenues and Expenditures, does not purport to and does not constitute a complete financial presentation of the Fund, Department, or the State of New Hampshire in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the matter discussed in the third paragraph, the financial statement referred to above presents fairly, in all material respects, certain financial activity of the Fund for the ten months ended April 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the Statement of Revenues and Expenditures of the Hampton Beach Parking Meter Fund. The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 6, 2012 on our consideration of the Department's internal control over financial reporting of the Fund and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

July 6, 2012

**STATE OF NEW HAMPSHIRE
HAMPTON BEACH PARKING METER FUND
STATEMENT OF REVENUES AND EXPENDITURES
FOR THE TEN MONTHS ENDED APRIL 30, 2012**

Revenues

Restricted Revenues	
Parking Meter Collections	\$ 966,809
Parking Fines	122,440
Permits And Leases	<u>67,634</u>
Total Restricted Revenues	<u>1,156,883</u>
Total Revenues	<u>1,156,883</u>

Expenditures

Salaries And Benefits	127,947
Current Expenses	51,182
Maintenance Of Buildings And Grounds	2,623
Equipment	1,679
Other	<u>1,482</u>
Total Expenditures	<u>184,913</u>

Excess (Deficiency) Of Revenues

Over (Under) Expenditures	<u>971,970</u>
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Other Financing Sources (Uses)

Transfer To Capital Improvement Fund (Note 2)	<u>-0-</u>
Total Other Financing Sources (Uses)	<u>-0-</u>

Excess (Deficiency) Of Revenues And

Other Financing Sources Over (Under)	
Expenditures And Other Financing Uses (Note 2)	<u>\$ 971,970</u>

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

**STATE OF NEW HAMPSHIRE
HAMPTON BEACH PARKING METER FUND**

**NOTES TO THE FINANCIAL STATEMENT
FOR THE TEN MONTHS ENDED APRIL 30, 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statement of the Hampton Beach Parking Meter Fund has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

A. Financial Reporting Entity

The reporting entity of this audit and audit report is the Hampton Beach Parking Meter Fund (Fund) of the New Hampshire Department of Resources and Economic Development (Department). The Fund, established by RSA 216:3, II, reports certain financial activity of the Department related to its operation, maintenance, and management of the parking facilities at Hampton Beach, including the collection of parking fees and fines at Department parking lots known as Central Parking Area, North Front, C Bay (the Memorial) to Church Street, Church Street to Great Boars Head, and North Beach. Effective July 1, 2011, the Department reported parking meter revenue from the Department's North Hampton and Jenness Beach parking lots in the State Park Fund. Prior to fiscal year 2012, the Department reported the meter revenue from these two parking areas in the Hampton Beach Parking Meter Fund.

The Fund is reported in the General Fund in the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the CAFR. The Fund accounts for only a small portion of the General Fund and those assets, liabilities, and fund balance as reported in the CAFR that are attributable to the Fund cannot be determined. Accordingly, the accompanying Statement of Revenues and Expenditures – Hampton Beach Parking Meter Fund is not intended to show the financial position or fund balance of the Fund in the General Fund.

B. Financial Statement Presentation

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

Governmental Fund Type:

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

C. Measurement Focus And Basis Of Accounting

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

D. Revenues And Expenditures

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either "unrestricted" (general purpose) or "restricted." Unrestricted revenues are credited directly to the General Fund or other fund balance upon recording in the State's accounting system. Pursuant to the State's operating budget, unrestricted or general purpose revenues collected by an agency are not used as a direct source of funding for agency operations but are available to fund any activity accounted for in the fund. The recording of unrestricted revenues has no effect on an agency's authorization to expend funds. No unrestricted revenues were recorded in the Hampton Beach Parking Meter Fund during the ten months ended April 30, 2012.

Restricted revenues are either by State law or by outside restriction (e.g. federal grants), available only for specified purposes and are credited to the agency's accounting unit to which the restricted revenue is budgeted upon recording in the State's accounting system. Restricted revenues recorded by an agency are direct sources of funding for budgeted agency operations (appropriations). Footnote I to the State Operating Budget generally requires agencies to reduce appropriations (authorizations to expend funds) in the event restricted revenues are anticipated to be less than the amount of budgeted restricted revenue.

Unused restricted revenues at year end are either lapsed or generally recorded as a committed or assigned fund balance. When both unrestricted (general purpose) and restricted funds are available, it is the State's policy to use restricted revenues first.

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

E. Budget Control And Reporting

General Budget Policies

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

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

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

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

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

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 unliquidated encumbrance balance in the Hampton Beach Parking Meter Fund at April 30, 2012 was approximately \$27,000.

A Budget To Actual Schedule - General Fund is included as supplementary information.

Budgetary Transfers

In accordance with RSA 216-A:3-m, II, the Commissioner of the Department may transfer funds between and among the Division of Parks appropriations through June 30, 2012, but must submit quarterly reports to certain legislative committees, including the Joint Legislative Fiscal Committee, and Governor and Council of all transfers made under the statute. RSA 9:17-a and RSA 9:17-c related to transfers of appropriations for equipment, out-of-state travel, permanent personal services, and the employee benefit adjustment account do not apply to transfers made by the Division of Parks under RSA 216-A:3-m, II.

NOTE 2 - TRANSFERS OF EXCESS REVENUES AND UNEXPENDED FUND BALANCE

In accordance with RSA 216:3, II, Hampton Beach Parking Meter Fund revenues in excess of \$1,025,000 are transferred to the Hampton Beach Capital Improvement Fund. As of April 30, 2012, no fiscal year 2012 revenue transfers had been made.

In accordance with RSA 216:3, III, unexpended funds at the end of the fiscal year shall lapse to the State Park Fund. Since this reporting period is for the ten months ended April 30, 2012, this year-end transfer has not yet been calculated.

NOTE 3 - EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

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

During the ten months ended April 30, 2012, the Department did not recognize Hampton Beach Park Patrol employees as full-time employees eligible for Plan participation.

NOTE 4 - SUBSEQUENT EVENT

Chapter 187 of the Laws of 2012, effective June 11, 2012, amended RSA 216:3, II and set the amount of the transfer to the Hampton Beach Capital Improvement Fund at \$200,000 per year.

**STATE OF NEW HAMPSHIRE
HAMPTON BEACH PARKING METER FUND
BUDGET TO ACTUAL SCHEDULE
FOR THE TEN MONTHS ENDED APRIL 30, 2012**

<u>Revenues</u>	<u>Original Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Restricted Revenues			
Parking Meter Fund Revenues	\$ 349,103	\$ 1,156,883	\$ 807,780
Total Restricted Revenues	<u>349,103</u>	<u>1,156,883</u>	<u>807,780</u>
Total Revenues	<u>349,103</u>	<u>1,156,883</u>	<u>807,780</u>
 Expenditures			
Salaries And Benefits	194,003	127,947	66,056
Current Expenses	83,600	51,182	32,418
Maintenance Of Buildings And Grounds	52,500	2,623	49,877
Equipment	5,000	1,679	3,321
Other	14,000	1,482	12,518
Total Expenditures	<u>349,103</u>	<u>184,913</u>	<u>164,190</u>
 Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>-0-</u>	<u>971,970</u>	<u>971,970</u>
 Other Financing Sources (Uses)			
Transfer To Capital Improvement Fund (Note 2)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Other Financing Sources (Uses)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
 Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses (Note 2)	<u>\$ -0-</u>	<u>\$ 971,970</u>	<u>\$ 971,970</u>

The accompanying notes are an integral part of this schedule.

Notes To The Budget To Actual Schedule For The Ten Months Ended April 30, 2012

Note 1 - General Budget Policies

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature for adoption. This budget, which includes annual budgets for each year of the biennium, 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.

The operating budget is prepared principally on a modified cash basis and adopted for the governmental fund types, with the exception of the Capital Projects Fund, and certain proprietary funds.

The New Hampshire biennial budget is composed of the initial operating budget, supplemented by additional appropriations. These additional appropriations and estimated revenues from various sources are authorized by Governor and Council action, annual session laws, and existing statutes which require appropriations under certain circumstances.

The budget, as reported in the Budget To Actual Schedule, reports the initial operating budget for fiscal year 2012 as passed by the Legislature in Chapter 223, Laws of 2011.

Budgetary control is at the department level. In accordance with RSA 9:16-a, notwithstanding any other provision of law, every department is authorized to transfer funds within and among all program appropriation units within said department, provided any transfer of \$2,500 or more shall require 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.

Unexpended balances of appropriations at year end will lapse to fund balance and be available for future appropriations unless they have been encumbered or are legally defined as non-lapsing accounts.

Budgetary Transfers

In accordance with RSA 216-A:3-m, II, the Commissioner of the Department may transfer funds between and among the Division of Parks appropriations through June 30, 2012, but must submit quarterly reports to certain legislative committees, including the Joint Legislative Fiscal

Committee, and Governor and Council of all transfers made under the statute. RSA 9:17-a and RSA 9:17-c related to transfers of appropriations for equipment, out-of-state travel, permanent personal services, and the employee benefit adjustment account do not apply to transfers made by the Division of Parks under RSA 216-A:3-m, II.

Variances - Favorable/(Unfavorable)

The variance column on the Budget To Actual Schedule highlights differences between the original 12-month operating budget and the actual revenues and expenditures for the ten months ended April 30, 2012. Actual revenues exceeding budget or actual expenditures being less than budget generate a favorable variance. Actual revenues being less than budget or actual expenditures exceeding budget cause an unfavorable variance.

Note 2 - Transfers Of Excess Revenues And Unexpended Fund Balance

In accordance with RSA 216:3, II, Hampton Beach Parking Meter Fund revenues in excess of \$1,025,000 are transferred to the Hampton Beach Capital Improvement Fund. As of April 30, 2012, no fiscal year 2012 revenue transfers had been made.

In accordance with RSA 216:3, III, unexpended funds at the end of the fiscal year shall lapse to the State Park Fund. Since this reporting period is for the ten months ending April 30, 2012, this year-end transfer has not yet been calculated.

APPENDIX – CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of July 6, 2012, of the current status of observations related to the financial operations reported in the Hampton Beach Parking Meter Fund contained in the prior audit, *Revenues of the State Park Fund*, dated September 2008. The number of each comment below references the same in the prior audit report. The prior audit report can be accessed on-line at <http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>.

Status

Internal Control Comments

Observation No. 4, Item 3 – Hampton meter operations personnel have not utilized available controls intended to provide accountability over cash collected from the meters. *(See Current Observations No. 1 and No. 2)* ● ○ ○

Observation No. 5, Item 7 – Continuing problems in obtaining information to identify motor vehicle owners. *(See Current Observations No. 11 and No. 14)* ● ○ ○

<u>Status Key</u>				<u>Count</u>
Fully Resolved	●	●	●	0
Substantially Resolved	●	●	○	0
Partially Resolved	●	○	○	2
Unresolved	○	○	○	0

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