

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF RESOURCES AND
ECONOMIC DEVELOPMENT
BUREAU OF TRAILS**

**FINANCIAL AUDIT REPORT
FOR THE NINE MONTHS ENDED
MARCH 31, 2011**

**STATE OF NEW HAMPSHIRE
BUREAU OF TRAILS**

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

**STATE OF NEW HAMPSHIRE
BUREAU OF TRAILS**

Reporting Entity And Scope

The reporting entity of this audit and audit report is the Bureau of Trails of the New Hampshire Department of Resources and Economic Development. The scope of this audit and audit report includes the financial activity of the Bureau of Trails for the nine months ended March 31, 2011. Unless otherwise indicated, reference to the Bureau refers to the Bureau of Trails and reference to the Department refers to the Department of Resources and Economic Development.

Organization

The Bureau is established by RSA 215-A:2 within the Division of Parks and Recreation of the Department of Resources and Economic Development. The Chief Supervisor of the Bureau reports to the Director of the Division who reports to the Commissioner of the Department.

The Bureau at March 31, 2011 was staffed with 15 full-time classified employees and one part-time employee.

The Bureau's primary location is at the Department headquarters located at 172 Pembroke Road, Concord, New Hampshire. Bureau employees also work from four other New Hampshire locations including Tamworth, Newbury, Lancaster, and Pittsburg.

Responsibilities

The responsibilities of the Bureau are detailed in RSA 215-A:3 and include:

- Coordinating between the Department's Division of Forest and Lands and the Departments of Fish and Game and Transportation with respect to matters pertaining to off-highway recreational vehicles (OHRVs) and snowmobiles.
- Administering funds provided to the Department for the OHRV and snowmobile programs; acting as a liaison between landowners and OHRV and snowmobile users; working with organized clubs in support of the OHRV and snowmobile sport; supervising the production of Department publications relating to the regulations and information on trails; maintaining up-to-date information and data relative to new OHRV machinery, equipment, national standards and safety; and assisting where required in any training programs that may be established.
- Coordinating efforts in obtaining easements and rights-of-way, in establishing trails and trail facilities.
- Making or participating in a continuing study on the effects of OHRV and snowmobile operations on erosion and other damage to the environment; providing the planning, development, and maintenance of the State trail system; promote the proper use of trails; encouraging the use of trails for educational purposes through the use of signs, published material and trail adoption programs; coordinating the development of the New Hampshire

Heritage Trail designated in RSA 216-A:11; administering the New Hampshire Conservation Corps established in RSA 216-A:7; obtaining and administering federal funds; assisting communities with their trail programs; supporting research and information gathering activities on the economic benefits of trails and improved environmental design of trails; coordinating the efforts of motorized and non-motorized trail interests in the State; and maintaining a list of recognized OHRV clubs.

- Recommending to the Commissioner of the Department rules for the use and control of OHRV trails, facilities, and lands under the Bureau’s control or lease.
- Making applications to the Department of Transportation for permits to allow OHRVs to operate on or across certain bridges when such access is necessary for gaining access to established trails or events.
- Making certain required reports.

Funding

The financial activity of the Bureau of Trails is accounted for in the General Fund of the State of New Hampshire.

The cost of administering the Bureau is recovered primarily through the receipt of a portion of the registration fees from OHRVs and snowmobiles registered to operate in the State, the receipt of unrefunded road tolls collected from the sale of fuel presumed used in OHRVs and snowmobiles, and federal program funds.

A summary of the Bureau’s revenues and expenditures for the nine months ended March 31, 2011 is shown in the following schedule.

**Summary Of Revenues And Expenditures
For The Nine Months Ended March 31, 2011**

	General Fund
Restricted Revenue	<u>\$ 5,175,964</u>
Total Revenue	<u>5,175,964</u>
Total Expenditures	<u>4,998,651</u>
Excess (Deficiency) Of Revenues	
Over (Under) Expenditures	<u>\$ 177,313</u>

Prior Audits

There are no prior audits of the Bureau of Trails. There also were no audit comments directly related to the Bureau in the prior audits of the Department.

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 Bureau of Trails for the nine months ended March 31, 2011. 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 Bureau and tested its compliance with certain provisions of applicable State and federal 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.

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 - General Fund, of the Bureau of Trails (Bureau) of the New Hampshire Department of Resources and Economic Development (Department) for the nine months ended March 31, 2011, and have issued our report thereon dated July 6, 2011 which was qualified as the financial statement does not constitute a complete financial presentation of the Bureau. 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 Bureau'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 Bureau's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bureau's internal control over financial reporting.

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 Bureau's financial statement will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, as described in Observations No.

1 through No. 19 that we consider to be significant deficiencies. 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.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Bureau's financial statement is free of material misstatement, we performed tests of the Bureau'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. 20 through No. 28.

The Bureau's response is included with each observation in this report. We did not audit the Bureau'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 Bureau of Trails, others within 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, 2011

Internal Control Comments
Significant Deficiencies

Revenues

Observation No. 1: Revenue Controls Should Be Improved

Observation:

Weaknesses in the Bureau's processing of revenues increase the risk that errors or frauds could occur and not be detected and corrected in a timely manner.

The following financial accounting and reporting weaknesses noted during the audit result in a significant deficiency in the Bureau's revenue receipt, deposit, recording, and reporting processes:

1. Checks received in the mail are regularly forwarded to the Department's bureaus and divisions for photocopying or other purposes, prior to being returned to the original receiver for restrictive endorsement and submission to the Business Office for deposit. The unnecessary transfer of checks among employees increases the risk that checks could be lost, misdirected, or otherwise not deposited timely and securely. As discussed in Observation No. 2, an \$86,625 check received by the Bureau in July 2010 was not deposited until more than eight months later in March 2011, reportedly because the check was misplaced in a Bureau file drawer.
2. The Department does not have procedures in place to ensure that checks recorded on an initial record of receipts are ultimately deposited and recorded in the State accounting system (NHFirst), increasing the risk of fraud or misappropriation.
3. The Bureau reported checks are sometimes held, undeposited, as security. During the audit period, we noted a \$1,000 check received as a site restoration bond was held in a file drawer pending return to the payor upon the completion of site restoration work.
4. During the audit period, the Bureau did not maintain a log of issued special-use permits that could be reconciled to permit fee revenues recorded in NHFirst. The lack of a log or other mechanism to track the issuance of special-use permits increases the risk that permit revenues could go uncollected or not be properly deposited and recorded.

Recommendation:

The Bureau, with the assistance of the Department, should improve controls over the Bureau's revenue receipt, deposit, recording, and reporting processes.

Checks should be restrictively endorsed upon receipt and deposited in a timely and secure manner. Checks should not be unnecessarily transferred among employees. If additional

information is required prior to the deposit of a check, a copy or extract of check information should be provided to employees for any necessary research.

The initial recording of checks should be reconciled to deposits to ensure checks are not held, lost, or misdirected.

As noted in the recommendation to Observation No. 28, reconciliations to source documents should be performed to reasonably ensure that all financial activity is accurately accounted for and reported.

Auditee Response:

We concur. The Department has changed our check handling procedures and no longer circulates checks to divisions for account identification purposes. Further controls are being implemented to include implementing the Lawson billing system to capture the revenue event in advance of collection.

Observation No. 2: Revenue Provisions Of The Road Management Agreement Should Be Monitored

Observation:

The Bureau has not sufficiently monitored and reacted to revenue provisions of its road management agreement.

The Department, pursuant to a conservation easement between the State and a landowner, entered into a five-year road management agreement with the landowner on December 31, 2007. Section 13 of the agreement requires the landowner to contribute on or before the first of May of each year a base amount of \$25,000 and pay an additional amount (a “usage fee”) in the amount of \$1.40 per cord of timber removed from the subject property, to be paid on or before the first of July of each year.

The Bureau received both the base amount and usage fee for fiscal year 2010 in one check totaling \$86,625 on July 19, 2010, after the due dates in the road management agreement.

As discussed in Observation No. 1, the landowner’s fiscal year 2010 payment received on July 19, 2010 was not deposited and recorded as Bureau revenue until more than eight months later, in March 2011, reportedly because the check was misplaced in a Bureau file drawer. No one at the Department or Bureau noticed that the amounts due from the landowner had not been recorded in the Bureau’s revenue accounts.

When details supporting the amount of the payment were requested by the auditors, the Bureau requested and obtained a breakdown of the components from the landowner representative but there was no indication that the Bureau was knowledgeable of the accuracy of the amount of

wood harvested that was used in the calculation or had considered whether the amounts reported were reasonable.

During the prior two years of the agreement, the total contribution (base plus usage fee) was received by the Bureau in June of each year.

Recommendation:

The Bureau should establish policies and procedures to actively monitor and react to the revenue provisions of its road management agreement. The Bureau should monitor for timely receipt and recording of revenue and require the landowner to provide reasonably detailed support to establish the accuracy of the payments made to the Bureau.

Auditee Response:

We concur. The late payment in 2010 occurred because the property was sold to a new entity which resulted in confusion and a delay in the payment. The landowner has developed a cover letter to accurately reflect the volumes which are used to calculate the annual payment. The 2011 payment was received in June 2011, with appropriate documentation, and was immediately deposited.

Observation No. 3: Federal Funds Should Be Drawn Timely

Observation:

The Bureau does not have procedures in place to ensure it draws federal Recreational Trails Program (RTP) funds as soon as is practical after incurring RTP expenditures. In addition, the lack of a timely agreement between the Bureau and the N.H. Department of Transportation (NHDOT), which processes the Bureau's RTP federal draws through its financial systems, further prevented the Bureau from drawing federal RTP funds timely during the period the agreement remained incomplete, November 1, 2010 through March 31, 2011.

While the Bureau reports its general practice is to request federal RTP reimbursement at least quarterly, the Bureau does not have policies and procedures that document the Bureau's process for drawing federal RTP funds timely.

In each of eight RTP expenditures tested during the audit, the Bureau's request for federal RTP reimbursement of the expenditures occurred more than three months after the Bureau incurred the expenditures.

During the nine months ended March 31, 2011, the federal RTP share of the Bureau's trail program expenditures on a cash basis was approximately \$705,000. As of March 31, 2011, the Bureau had drawn \$181,488 of that amount. The Bureau drew federal program funds in November 2010 and January and February 2011 covering bills for RTP program costs incurred during the period January 2010 through October 2010.

Recommendation:

The Bureau, in conjunction with the Department's Business Office, should establish policies and procedures for the Bureau to use in drawing federal RTP funds in the most efficient manner.

The Bureau should ensure that it is drawing federal RTP funds as soon as allowed to minimize the cash flow costs to the Bureau and State.

Auditee Response:

We concur. The billings in fiscal year 2011 were partially delayed as a result of Federal Highway Administration (FHWA) requesting a memorandum of agreement (MOA) be developed between the Department and NHDOT. The signing of the agreement was delayed in determining ownership of specific financial management responsibilities in connection with transferring of funds to DRED via the NHDOT Current Bill System vs. the traditional direct payment from FHWA. The MOA was signed between both agencies in April, 2011. We further seemed to be delayed with communication issues with FHWA regarding proper paperwork.

The Bureau has been working diligently with FHWA and has submitted all of the required paperwork for eligible expenditures incurred through May 31, 2011 and expects to be fully reimbursed by June 30th or shortly thereafter.

The Bureau and the Business Office have established procedures to draw down funds monthly with the reimbursement requests to be submitted to FHWA/NHDOT by the 10th of the following month. As part of the monthly review, the status of prior reimbursement requests will be assessed to make sure the Department does not fall behind again. The Bureau has been working with FHWA to make sure the parties are in agreement to avoid any future discrepancies in billing affecting timely reimbursements.

Observation No. 4: Fees Should Not Be Waived Without Appropriate Authority

Observation:

The Bureau reports it has been the Bureau's practice to occasionally waive special-use permit fees or accept work in-lieu-of fee payment on a case-by-case basis without statutory or other authority to do so. No fee waivers or work-in-lieu-of payments were noted during the audit period.

As noted in Observation No. 6, special-use permit fees are not established in statute, administrative rule, or included in a fee package that is sent to the Fiscal Committee for approval. However, it has been Bureau practice to charge a \$100, \$200, or \$250 fee per special-use permit issued. The fee varies depending upon the special event and proposed trail usage.

The Bureau reported it was not aware of express authority in statute or administrative rule to waive fees.

Recommendation:

The Bureau should not waive fees or accept work in-lieu-of fee payment without authority to do so.

The Bureau should formalize its fee process to define in statute or rule when fees are to be applied, and when and if fees may be waived.

Auditee Response:

We concur. The Bureau will submit a Fee Schedule for consideration to the Legislative Fiscal Committee as part of the State Parks Fee Package. It is anticipated that this request will be presented in October 2011. In addition, the proposed Fee Schedule will include request for authorization to waive fees if appropriate or to arrange for work in-lieu-of payment arrangements.

Observation No. 5: Revenue Should Be Recorded In The Statutorily Appropriate Accounts

Observation:

The Bureau did not record certain minor revenues in statutorily appropriate accounts during the nine months ended March 31, 2011 as described below:

1. The Bureau did not record revenues from off highway recreational vehicle (OHRV) dealer, rental agency, antique registration, transfer of registration, or racing/event permit fees in the OHRV-related revenue source accounts directed by RSA 215-A:23.
2. The Bureau recorded \$3.50 of each fee for transfer of snowmobile registrations under RSA 215-C:39, VI, to the Bureau's Administration account. According to RSA 215-C:39, VIII (e), the Bureau should have recorded the revenue into an account intended for the purchase of trail maintenance equipment or paying trail maintenance expenses.
3. The Bureau's recording of racing/event permit fees under RSA 215-C:50, I (snowmobiles) is not in accordance with statutory amounts. Statutes direct \$6.70 be recorded in accounts intended for the purchase of trail grooming equipment and the remainder, \$28.30, recorded in accounts intended for trail maintenance, construction, and purchase of grant-in-aid equipment. The Bureau instead recorded \$5.00 for the purchase of trail grooming equipment and the remaining \$30.00 for trail maintenance, construction, and purchase of grant-in-aid equipment.
4. The Bureau's recording of \$4.50 of the amount received from racing/event permit fees under RSA 215-C:50, I,(b) is not in accordance with the statute's maximum of \$3.50.

Inaccurate information on the Bureau's spreadsheet provided to the Department of Fish and Game for the allocation of revenues to Bureau accounts contributed to the inaccurate recording of revenues.

Recommendation:

The Bureau should record its revenue in statutorily appropriate accounts.

The Bureau should ensure that it is receiving adequate and accurate information from the Department of Fish and Game to be able to properly record its revenues. The Bureau should revise and update the spreadsheet it provides the Department of Fish and Game in order to assist that Department in reporting accurate information.

Auditee Response:

We concur. The Bureau will review the spreadsheets and statutory rates to verify the allocation of fees is appropriate.

Observation No. 6: Special-Use Permit Fees Should Be Included In The Fee Schedule

Observation:

The Bureau charges certain fees that have not been established in statute or rule and have not been included in the fee schedule submitted annually to the Fiscal Committee for its approval.

In addition to any fees that may be established in statute or rule, RSA 216-A:3-g directs the Commissioner of the Department, in consultation with the Director of Parks and Recreation, to establish fees, subject to prior approval of the Fiscal Committee, for access to and use of the State park system.

The Bureau charges a special-use permit fee for use of Bureau controlled trails for a special event or function. The amount of the fee charged varies depending upon the special event. The fee charged is generally \$100 if the event is to raise funds for a non-profit sponsored charity. The fee charged is generally \$200 for a commercial event such as a manufacturer-sponsored event. The Bureau cites additional administrative time spent on sponsored events and the likelihood of property repairs after a manufacturer-sponsored event to justify the additional fee. The Bureau charges a \$250 special-use permit fee to organizations planning to use Bureau controlled property for purely commercial interests, such as selling food for a profit. The special-use fees are not established in statute, administrative rule, or included as part of a fee package that is sent to the Fiscal Committee for approval. The \$100 special-use permit fee amount is included in the special-use permit policies attached to the permit application. The Bureau reported it collected \$2,250 in special-use permit fees during the audit period.

A similar comment was included in our September 2008 audit report of the Revenues of the State Park Fund.

Recommendation:

The Bureau should request the Commissioner to include its special-use permit fees in the fee schedule submitted to the Fiscal Committee pursuant to RSA 216-A:3-g.

The Bureau should ensure that fees are consistent with the intent and purposes of the State park system statutes and are designed to recover a reasonable portion of the budgeted expenses.

Auditee Response:

We concur. The Bureau will submit a Fee Schedule for consideration to the Legislative Fiscal Committee as part of the State Parks Fee Package. It is anticipated that this request will be presented in October 2011. In addition, the proposed Fee Schedule will include a request for authorization to waive fees if appropriate or to arrange for work-in-lieu of payment arrangements.

Observation No. 7: Accounting For And Reporting Of Site-Restoration Bonds Should Be Reviewed

Observation:

The Bureau periodically collects site-restoration bonds from municipalities and other entities that use Bureau controlled trails for environmental or other purposes, including site testing. The Bureau reports the amount of the bond varies and is set by the Forester or Area Supervisor in charge of the property, based upon the perceived risks and damages that could be incurred if the Bureau controlled property was disturbed and not returned to its original condition. The Bureau reported it collected \$2,500 in site restoration bonds during the audit period.

According to the Bureau, site restoration bonds are deposited as revenue in the General Fund when received and refunded, using a negative revenue transaction, to the paying organization once the work on the property has been completed and the site satisfactorily restored.

Technically, the receipt of a bond is not revenue to the Bureau. While the relatively low level of current bond activity transacted through the revenue and negative revenue accounting process is not sufficient to distort Bureau revenues, the Bureau should be aware that if more significant levels of bond activity become necessary, the Bureau's financial activity could become distorted if the Bureau continues to report this activity in its current manner.

Recommendation:

The Bureau should monitor the anticipated level of site restoration bond activity to ensure that recorded activity does not distort the Bureau's reported financial activity. If the level of bond activity becomes significant, the Bureau should confer with the Department of Administrative Services for assistance with accounting for the site restoration bonds.

Auditee Response:

We concur. The Department has recently implemented a new procedure for recording of bond escrow funds that has been extended to other Divisions of the Department including the Trails Bureau. The bond proceeds will now be recorded as Deferred Revenue (liability type account) and held until the conclusion of the event. At that time, the funds will be either returned to the owner or brought into revenue if the project does not reach satisfactory conclusion.

Observation No. 8: Allocation Of Fines Should Be Clarified

Observation:

Disposition of certain off-highway recreational vehicle (OHRV) and snowmobile operator fines does not appear to be in compliance with statute. During the nine months ended March 31, 2011, approximately \$1,100 of OHRV fine revenue was posted to a Bureau account, even though the statutes describing the distribution of this fine revenue do not appear to support the posting of the revenue to the Bureau's account.

Certain statutes related to the operation of OHRVs and snowmobiles describe the crediting of fine revenues, largely based on the law enforcement agency bringing the complaint. Generally, if a Fish and Game officer files a complaint, fine revenues are credited to the Fish and Game Department; if a Department forest and park patrol officer files a complaint, fine revenues are credited to the Bureau. If a local police officer files a complaint, fine revenues are credited to the local police department. The statutes and administrative rules do not address the allocation of fine revenue from complaints brought by the State Police. According to the Bureau, fines related to OHRV and snowmobile complaints brought by one State Police troop are generally credited to the Bureau's accounts, and fine revenue from OHRV and snowmobile complaints brought by all other State Police troops is not credited to the Bureau.

Recommendation:

The Bureau should confer with the Administrative Office of the Courts on the appropriate allocation of revenues from OHRV and snowmobile complaints brought by the State Police.

The Bureau should consider requesting legislative clarification of whether Bureau accounts should be credited with fine revenues from OHRV and snowmobile complaints brought by the State Police.

Auditee Response:

We concur. The Bureau will consult with the Administrative Office of the Courts and the Department of Safety to determine the appropriate disposition of fine revenues.

Grant Expenditures

Observation No. 9: Controls Over Grant Payments Should Be Improved

Observation:

The Bureau's process for reviewing Grant-In-Aid (GIA) and Recreational Trails Program (RTP) invoices prior to payment allows payment errors to occur that are not detected and corrected timely.

N.H. Admin. Rules, Res 8408.01, directs grantees to complete GIA Billing Forms to support requested reimbursements for approved GIA projects. Res 8408.01 (b)(1) requires copies of paid receipts for the purchase of materials, and 8408.01 (b)(4) and (5) require log sheets detailing each day of grading or grooming for each piece of grading or grooming equipment be provided with the Billing Forms.

Eight Billing Forms (invoices) submitted by GIA grantees out of a random sample of 30 (27%) GIA Billing Forms tested and one out of a random sample of eight (13%) RTP Billing Forms tested included requested amounts that either were not adequately supported or did not agree with support included with the tested Billing Forms.

- In two of the tested GIA Billing Forms, the Bureau did not recover its proportionate share of the value of traded equipment and as a result, overpaid the GIA grantees for equipment purchases.
 - Testing revealed the Bureau's GIA payment for the purchase of a piece of grooming equipment did not reflect an associated trade-in of a \$60,000 piece of equipment previously purchased with GIA funding. While the trade-in was reflected on the invoice supporting the purchase of the new equipment, the club grantee's request for GIA funding was based on the gross sales price, and the Bureau paid the grant based on the gross sales price, without netting out the Bureau's \$36,000 ownership share of the traded-in equipment.
 - In another item tested, a GIA equipment purchase application reflected a \$3,000 trade-in allowance, but the invoice requesting payment on the grant did not reflect the proceeds from the trade-in of equipment. It is not clear the Bureau recognized the discrepancy, as there was no apparent Bureau follow-up. Upon review of the equipment purchase transaction, we noted the equipment item was not traded in toward the purchase of the new equipment but was, instead, sold outright for \$4,000 to another grantee. The Bureau granted GIA funding based on the full invoice price of the new equipment (net of a \$25,000 RTP grant) for the initial grantee and also provided GIA funding to the grantee purchasing the used equipment.

In another transaction tested, it was unclear whether the Bureau had an interest in the trade in of a groomer with a significant residual value, as the Bureau had not maintained adequate records of the equipment it has supported through the GIA program.

- Four tested GIA Billing Forms were supported by grooming logs that contained errors in hours billed; three of those contained errors directly affecting amounts paid. The Bureau

reported it does not regularly recalculate the accuracy of hours reported on grooming logs due to time constraints.

- One tested GIA Billing Form did not evidence the club had incurred an eligible expense prior to requesting GIA payment. The support provided by the grantee for the amount billed reflected an estimated cost amount and not an actual paid cost of the grantee.
- One invoice supporting a GIA Billing Form included a vendor's shipping charge. The RTP grant file also contained a stamped-paid vendor invoice that did not include the vendor's shipping charge. The Bureau paid its proportionate share of the invoice with the shipping charge even though the shipping charge was not incurred as invoiced, as the club reportedly transported the purchased equipment item.
- One RTP Billing Form included costs that had already been recovered by the subgrantee from another source.

In each instance tested, the Bureau paid the requested amounts without recognizing the error in the request. The noted errors amounted to approximately \$40,000 in excess payments to grantees.

Recommendation:

The Bureau should perform a more effective review of the support for GIA and RTP Billing Forms prior to payment to ensure grantees of the GIA program and subgrantees of the RTP are properly paid what is due. Payments should not be made without evidence that the stated amount of expenses have been incurred.

The Bureau should request legal advice as to whether and how to recover the overpayments resulting from the Bureau not receiving credit from the sale or trade in of equipment originally purchased with GIA and RTP funds.

Auditee Response:

We concur. Previously both programs ran independent of each other, with some mutual project funding. The Bureau is undergoing reorganization of duties to better coordinate some of the financial functions. The Grant-in-Aid coordinator will be taking a leadership role for all grant payments starting in July 2011 which should provide more oversight and consistency regardless of funding source. The Bureau will consult with the Attorney General's Office as to appropriate action for possible overpayments, however at this time, the Bureau does not intend to seek reimbursement from any clubs as errors were not on the clubs' part.

Observation No. 10: Ownership Interests In Grant-In-Aid Equipment Should Be Protected

Observation:

The Bureau has not clearly defined and protected its ownership rights in equipment purchased with Grant-In-Aid (GIA) program funds.

While the Bureau's GIA Agreement states, "The State of New Hampshire shall retain an interest in the form of a lien on any and all equipment purchased through the Grant-In-Aid Program, for the life of the equipment", an internal Bureau policy provides that no lien on GIA funded equipment would be recorded and the grantee would be allowed full ownership of the GIA funded equipment after a certain amount of time and usage. The Bureau has apparently operated under the internal Bureau policy, contrary to the grant agreement signed by the Trail Administrator (club grantees), the Bureau of Trails, and approved by Governor and Council.

The Bureau does not maintain a database or listing of equipment purchased with GIA funds. While the Bureau reported it could look through the files and create a list of purchased equipment, the Bureau could provide no assurance as to the current location, condition, use, or ownership of the equipment. During the nine months ended March 31, 2011, the Bureau expended approximately \$440,000 of GIA program funds to support the purchase of GIA equipment.

Examples noted of issues resulting from the Bureau not protecting its ownership interest include the items in Observation No. 9. In addition to not protecting its ownership rights to the equipment for which the Bureau has majority ownership, the Bureau has effectively allowed grantees to intentionally, or unintentionally, take advantage of the GIA program to the potential detriment of the Bureau's other grantee requests.

Recommendation:

The Bureau should accept, record, and protect its ownership interests in each equipment item purchased with GIA funds.

- The Bureau should clearly define and protect its ownership rights in equipment purchased with GIA funds through explicit and consistent program rules, guidelines, grant agreements, policies and procedures, and other program guidance.
- The Bureau should create and maintain a comprehensive and descriptive GIA equipment inventory.
- The Bureau should require grantees to periodically report on the condition and current and prospective use of GIA funded equipment.
- The Bureau should perfect its interest in each significant piece of GIA equipment by filing appropriate liens on the equipment.
- The Bureau should periodically inspect GIA equipment to ensure it is safeguarded and used according to program policies and procedures.

Auditee Response:

We concur in part. The Bureau agrees that a comprehensive inventory of GIA funded equipment should be developed and maintained. However, due to inconsistencies between contracts with the clubs and policies, we do not feel that any clubs have inappropriately taken advantage of trade in credits. The current program was developed utilizing a draft internal policy, which was testified on during the most recent Administrative Rules hearings, with active participation from the snowmobile community which removed the State's interest after meeting duration and use thresholds. The snowmobile community testified in support of the provision which would have decreased the State's ownership of equipment over time and the perception was that the current Administrative Rules permitted this. The perception was found to be at odds with the grant contracts. We will now be proposing in future contracts to remove the lien requirements because this creates financing challenges for the clubs. Further, we will propose rule changes to clearly identify the State's interest in these assets, which includes permanent ownership interests in the percentage originally funded by the State. The Bureau currently monitors all equipment and inspects equipment for safeguards and appropriate use but needs to do a better job documenting this effort as part of our monitoring program.

Observation No. 11: Information Sharing And Coordination Between State And Federal Trails Programs Should Be Improved

Observation:

Apparent lack of information sharing between Bureau administrators of the Recreational Trails Program (RTP) and the Grant-In-Aid (GIA) program contributed to a situation where a grantee was granted 102% of the cost of a piece of equipment, when general program guidance would indicate the grantee in this situation would have been due a maximum of 97% of the equipment cost.

Both the RTP and the GIA programs provide funding to organizations for trail construction, maintenance, and equipment. The Bureau does not have policies and procedures to effectively coordinate funding from the programs to ensure costs are not paid from both programs for the same goods or services.

For example, in one transaction selected for testing, we noted the Bureau paid a grantee 102% of the cost of an equipment item. The Bureau paid the grantee \$25,000 from the RTP and \$2,449 from the GIA program for a combined grant of \$27,449. However, the purchased equipment item cost the grantee \$26,880, approximately \$500 less than the amount paid by the Bureau. In accordance with N.H. Admin. Rules, Res 8403.02 (c), the Bureau typically limits GIA grants to 60% of unmet costs, to ensure the grantee has some participation in the cost. Applying the 60% participation rate would have resulted in a \$1,321 reduction in the payment.

According to the Bureau, it intends to recover the amounts overpaid through adjustments to future projects.

Recommendation:

The Bureau should improve its information sharing and coordination between its RTP and GIA programs. Policies and procedures should be established to review grant applications including requiring and viewing all applicable grant information to reasonably ensure the Bureau's grant programs have sufficient information to make accurate grant payments.

Auditee Response:

We concur. See auditee response to Observation No. 9 on page 15.

Observation No. 12: Grantee Compliance With State Trails Program Requirements Should Be Improved

Observation:

The Bureau does not consistently hold Grant-In-Aid (GIA) program recipients to program criteria in determining grant awards, reporting program activity, and supporting requests for program payments.

The GIA program is supported by administrative rules including:

1. N.H. Admin. Rule, Res 8408.01 (b), which requires the recipient to provide documentation of activities requested for funding, including a copy of paid receipts and log sheets detailing each day of grading or grooming activity.
2. N.H. Admin. Rule, Res 8404.03 (b) and 8404.04 (e), which requires the application for any projects for the purchase or reconditioning of trail grooming equipment to include a signed quote from a proposed vendor including the proposed vendor's address and telephone number.
3. N.H. Admin. Rule, Res 8403.06, which requires clubs seeking GIA assistance for trail construction or maintenance to obtain written landowner permission.

Instances were noted during the audit where the Bureau did not require recipients to provide documentation to support compliance with the above mentioned rules.

1. The Bureau does not consistently require compliant documentation for activities requested for funding.
 - The Bureau reports it generally accepts vendor invoices in lieu of paid receipts to support GIA payment requests. In the documentation supporting one transaction, there were no paid receipts included with the Billing Form requesting a total reimbursement of approximately \$20,000.
 - Generally, snowmobile grantees provide log sheets to document grooming hours. It was noted that all off highway recreational vehicle grantees generally provide less structured

summaries of grooming and grading hours. In one instance noted, the hours were summarized by week rather than by day.

2. In the documentation supporting one equipment purchase transaction, the quote for the purchase of a tractor was not signed, but was accepted by the Bureau. The Bureau reported it does not require signed quotes.
3. During testing of expenditures, we noted three of nine applicable items tested where the grantees had not submitted written landowner permission with their GIA application.

While the above mentioned rules apply specifically to the GIA program, the controls provided by the rules would be reasonable to apply to the federal Recreational Trials Program (RTP).

The Bureau did not document any concerns with the noncompliant documentation submitted by the grantees in the instances noted above.

Recommendation:

The Bureau should establish policies and procedures to promote recipient compliance with program criteria in administrative rules. The policies and procedures should promote the timely detection and correction of noncompliant recipient program submissions, including grant applications, reports of program activity, and requests for program payments.

In order to provide greater efficiency to the operation of the GIA and RTP programs, the Bureau should, where practical, apply common and consistent policies and procedures to both programs, including directing GIA grantees and RTP subgrantees to adhere to the above noted requirements outlined in the GIA program administrative rules.

If the Bureau determines the requirements in administrative rules are no longer in the best interests of the State and the Bureau, the Bureau should request a revision to the rules deemed obsolete.

Auditee Response:

We concur in part. Administrative rules for the grant programs were set up to ensure as much compliance as possible within the program. However, there are situations which arise in which flexibility is desired to get projects completed within the winter or summer riding seasons. We recognize that our partners are volunteer trail clubs and we constantly work with these organizations to improve accountability to the Bureau. Other challenges are that some landowners grant permission to use properties, yet refuse to sign agreements.

New Hampshire statutes allow public trails to exist on private lands with verbal agreement but we always try to secure written permission. The Bureau will do a better job to make sure the files are complete to demonstrate status of all land agreements. The Bureau believes it is important to keep the strength of the existing language in the Rules but will amend to clarify and allow for alternatives. Revised administrative rules on reimbursement levels for equipment were made in

2009 and are proposed to be revised again after the audit findings. The Department anticipates new rules to be adopted in November 2011.

Observation No. 13: Monitoring Of State Trails Grant Program Should Be Improved

Observation:

The Bureau does not perform formal on-site monitoring of Grant-In-Aid (GIA) funded activities and assets. While Bureau employees may observe some GIA projects or equipment purchased with GIA funds, the Bureau has not instituted a process to reasonably determine and document that GIA funded projects are completed and GIA funded equipment is purchased, maintained, and utilized as intended and described in the GIA applications. The Bureau relies upon self-monitoring by the GIA recipient community to ensure GIA funds are used appropriately.

The Bureau has project follow-up procedures in its GIA process overview document; however, the procedures are not sufficiently described and are not performed. In addition, it is not clear that, if the procedures were performed, they would be sufficient to give the Bureau reasonable confidence the GIA funds were utilized as intended.

While the Bureau maintains documentation of the intended plan for GIA grant funds in its files, the Bureau does not generally document the outcome of the plan to evidence funds were used as intended, including evidence of the existence of the purchased equipment items and the satisfactory completion of the trail projects.

Recommendation:

The Bureau should establish an appropriately scaled and scoped GIA grantee monitoring process sufficient to gain reasonable assurance that work and assets funded by the GIA program are as described in the grant agreements; efficiently purchased or completed; compliant with program requirements; free from fraud, waste, and abuse; used only for their intended purposes; and meet all other State, Bureau, and program requirements.

The Bureau should require documentation of the outcomes of GIA funded activity that could include inspection reports, completion reports with photographs, map coordinates, and other information that could support and evidence the use of GIA funds.

Auditee Response:

We concur. See auditee response to Observation No. 25 on page 35.

Payroll

Observation No. 14: Overtime Should Be Paid At Correct Rate

Observation:

Data entry errors for employee payroll resulted in two Bureau employees being paid certain overtime hours at a time-and-one-half pay rate when, according to the collective bargaining agreement (CBA), the employees were only due overtime paid at a regular, straight-time rate. During the nine months ended March 31, 2011, these Bureau employees were overpaid a total of \$919 due to the Bureau's misapplication of the overtime pay rate. The Department's payroll office, upon review, concurred these employees were overpaid.

In discussing the overpayments with the Department of Administrative Services (DAS), it was determined controls in the State's payroll system (GHRIS) that should have prevented these overtime pay rate errors were either not available or not enforced. A report subsequently run by DAS using GHRIS data indicated that there was a potential Statewide overpayment error totaling approximately \$36,000 related to "exempt" employees being paid overtime hours at the "nonexempt" time-and-one-half rate when they were only due overtime at a straight-time rate.

DAS reported it would pursue recovery of overtime amounts paid in error.

Recommendation:

The Department and Bureau should establish appropriate policies and procedures to reasonably ensure its payroll officers are aware of and adhere to the employee payroll classifications, including exempt and nonexempt employees, in posting payroll transactions.

The Department of Administrative Services should:

- Ensure payroll officers statewide are aware of and adhere to the employee payroll classifications, including exempt and nonexempt employees in posting payroll transactions.
- Determine whether automated edit checks or other controls could be implemented in GHRIS to require the use of proper payroll codes for posting employee pay events. Pending the establishment of such automated controls, regular comparisons of employee exempt status to pay should be performed to detect any future pay errors.
- Work with the affected agencies and employees to recover overpayments in accordance with the State's policy.

Auditee Response:

We concur in part. The statewide payroll system should have had the controls in place to automatically pay employees overtime rates based on the employee type. The system captures the employee status and gives the appearance of this functionality, but unfortunately we have learned that was not the case. Further, we were not aware of guidance provided to State Agency personnel to make them aware of this limitation.

One employee was non-exempt; however in 2009 the job title was changed via a position reclassification through the Division of Personnel. Job duties remained largely the same and some duties were added. Neither the employee, nor the Bureau, was made aware of any change to the exempt status through the position reclassification process. There was no intent to change the payroll status for this position, or the other two identical positions through the reclassification process and it is the Bureau's position that the change was in text to the title and as such the classification in the Collective Bargaining Agreement should not have been changed. The other position paid time and half should have been paid at straight time. The Bureau will meet with the Division of Personnel and the Collective Bargaining Coordinator to ensure this position retains the proper overtime status for the future.

The Department has a list of position classifications from Administrative Services which details the non-exempt employees and the corresponding pay events.

Our position is that the employees should not be financially penalized by a payroll system that was not working as intended and further unclear employee classifications. Our effort will be to work with the employees to work additional hours which will then in turn be utilized to offset the differential in pay.

Department of Administrative Services Response:

The Department of Administrative Services (DAS) concurs. The payment of overtime premium is left to payroll officers to determine. They are supposed to follow the guidance of the CBA listing of exempt positions. The Bureau of Accounts Payroll section (BOA) provides an oversight role in this processing. A GHRIS report was created by DAS Financial Data Management which has been used by BOA on an ad hoc basis to identify exceptions to the rule: a position for which pay coded as "overtime" resulted in half time premium, was compared to positions listed in a system table of exempt positions, to identify those paid premium inappropriately. The effectiveness and accuracy of this report is limited however, by a number of factors:

1. Inaccuracy of the system table of exempt positions. This table is maintained by DAS Division of Personnel (DOP), and is subject to changes which are not always reflected,
2. A pay event including premium to an exempt position, is incorrectly coded by agency payroll staff as "Overtime" when the correct code was "Holiday," or another pay event not subject to overtime premium rule. This would result in an exception on the report, which was not an error.
3. Some agencies are covered by another CBA, and therefore positions, exempt in the table, are entitled to the premium under the applicable CBA.
4. Exempt employees in some instances fill in for a non-exempt position. Separate pay rate rules apply in this case, which the agency is responsible for applying. The payment of premium will represent an exception, but the circumstance entitles the employee to the premium.

The reported transactions result in significant time spent by agencies validating exceptions as a true error in payment or a justifiable payment. The amount of time spent in validating the

reported exceptions was not deemed worth the errors found. As a result, this ad hoc report has not been run on a regular basis.

Upon being advised of the finding, BOA had this report generated statewide for the current fiscal year. The report indicated 377 potential exceptions among 19 agencies, totaling \$37,654 in questionable premium pay. Respondents to date comprising 13 agencies, report that of 301 exceptions, 285 were instances of 1 through 4 above. The other 16 were true errors and appropriate recoupment of \$1,427 has been secured. The remaining six agencies have not yet responded, but a similar validity rate is expected.

BOA will further undertake the following:

1. Alert payroll officers to the risk of error associated with this pay rule, emphasizing the need to pay attention to pay codes, position descriptions, and exceptions.
2. Work with DOP Personnel to assure accuracy is maintained in the system tables.
3. Institute a regular schedule for preparing the exception report for dissemination and follow up by agencies.
4. Include in plans for the new enterprise resource planning (ERP) payroll application sufficient controls to maintain accurate and complete parameters for an effective edit for overtime premium payments on a real time basis.

Observation No. 15: Controls Over Accounting For Employee Leave Time Should Be Improved

Observation:

One Department employee inputs leave data to GHRS, based on leave slips that are forwarded from divisions/bureaus of the Department. The Department does not have any review process to monitor the accuracy of the input of employee usage of leave time. Controls over the Bureau's leave accounting practices are not robust.

During tests of payroll expenditures, we noted four out of a sample of 15 instances of leave usage tested (27%) included payroll leave errors or noncompliance with State leave policies and procedures. Errors noted included:

- A leave slip was either lost or not prepared to support eight hours of sick leave taken by a Bureau employee. The leave was posted to the Bureau employee's record on the bi-weekly time report but was not reflected in the State's payroll system (GHRS).
- One day of sick dependent leave recorded as taken was not supported by an appropriate leave slip. While an unsigned leave slip prepared by another employee intended to temporarily report the leave did accompany the payroll, the interim leave slip was not replaced by a completed, employee-signed slip upon the employee's return to work.
- One leave slip was missing the approval signature.
- One leave slip was clerically inaccurate. While the leave period was reported as starting at 8:00 am and ending at 9:00 am, the leave slip indicated 2 ¼ leave hours were taken. Another

leave slip for the same employee indicated one hour of sick leave was taken, yet the leave was recorded as annual leave in GHRIS.

In addition, we noted inconsistencies in the reporting of a workday on leave slips. For example, we noted instances where some employees requesting an entire day off, may write 6:00 am to 4:00 pm for a total of 10 hours while others indicate 6:00 am to 4:30 pm for a total of 10 hours reflecting a 30 minute unpaid lunch time period. Such inconsistencies in the completion of leave slips indicate the need for training on appropriate policies and procedures and also may indicate that some employees are either not taking a lunch break, contrary to requirements in the collective bargaining agreement, or are taking a paid lunch break.

Recommendation:

The Bureau and the Department should improve controls over leave accounting. Employees should be reminded of the importance of preparing accurate and complete requests for leave and supervisors should be reminded of the importance of their responsibilities for the review and approval of those documents.

The Bureau and the Department should establish an appropriate monitoring control to reasonably ensure that errors that may occur in the preparation, approval, or input of employee leave data are detected and corrected in a timely manner.

Auditee Response:

We concur. While there were specific errors in recording leave time and hours worked, it is sometimes difficult to secure all of the manual paperwork timely when workers are assigned remotely throughout the State. In addition, the spreadsheets used to summarize leave and hours worked were not properly maintained. While not a correct way to manage, the Bureau has relied on a Department veteran payroll officer to compensate for interpreting and correcting errors on payroll data entry sheets where necessary. Since the Department has had turnover in that position, it is even more important for the Bureau to make sure the individual source records and summaries are properly prepared. The payroll reports have been revised as of April 2011 and with further definition for full time vs. part time employees. Payroll is now approved by the Bureau's Program Specialist prior to review and approval by the Supervisor. It is our understanding that the auditors did not find where employees were incorrectly compensated for these mistakes.

It should be noted that the Bureau has required very specific employee activity reports as a means to verify work production as a critical step in managing payroll expenses with a decentralized workforce.

The Bureau has taken steps to instruct field and office staff on the importance of accuracy and management understands it is our responsibility to verify and closely review these documents. Finally, it is our understanding that the new ERP Payroll system will automate and integrate leave accounting with payroll with electronic workflow which will eliminate much of the manual processes and resultant errors.

Observation No. 16: Controls Promoting Accuracy Of The Bureau's Payroll Should Be Improved

Observation:

The Bureau's payroll accuracy controls appear less than effective. Uncorrected errors noted during the audit indicate the Bureau's payroll process does not promote the timely detection and correction of errors that occur.

The Bureau tracks employee hours worked and leave time taken on a bi-weekly time report that reports all Bureau employees' times worked and leave taken. The employee who compiles the bi-weekly time report uses leave slips as a source document. The Bureau Chief Supervisor approves the bi-weekly time reports prior to forwarding the reports to the Department's Payroll Office for further payroll processing. The Bureau Chief Supervisor also gives final approval to leave documents for employee leave time taken.

During payroll testing, we noted errors on four of six (67%) bi-weekly time reports reviewed. Noted errors included arithmetic errors and errors resulting from incomplete or inaccurate recording of time worked or leave taken.

- Four time reports included clerical errors due to incorrect arithmetic or incomplete recording of hours for the pay periods tested.
- One bi-weekly time report included hours reported worked by an inactive employee who had terminated employment with the Bureau over a year prior to the posting. It appears the Bureau used an old payroll template, inadvertently reflecting hours worked by the terminated employee. In the instance tested, this error did not result in a payment error as the employee who further processed the payroll did not process the posted hours for the terminated employee.
- As noted in Observation No. 15, employee leave time reported on one bi-weekly time report was not supported by the accompanying leave slip.

In each instance, the bi-weekly time reports had been certified as correct by the responsible reviewer and approver suggesting the review and approval process at the Bureau is not an effective control.

Recommendation:

The Bureau and the Department should review the current timekeeping procedures, identify where errors may occur, and consider strengthening controls to minimize the risk of errors.

The Bureau and the Department should include system controls, such as spreadsheet formulas and edit checks, to prompt accurate calculation of data posted to spreadsheets such as the bi-weekly time report.

Auditee Response:

We concur. See auditee response to Observation No. 15 on page 24.

General Expenditures

Observation No. 17: Statutory Authority For Approving Field Purchase Orders Should Not Be Informally Delegated

Observation:

The Director of the Division of Parks and Recreation's authority to approve field purchase orders for expenditures of up to \$2,000 for the State trails system and facilities was informally delegated to the Chief Supervisor of the Bureau. The Chief Supervisor exercised that authority without the documented participation of the Director.

RSA 215-A:3, II-a and RSA 215-C:2, VIII-a state, "Notwithstanding RSA 21-I:17-a, I, the director of the division of parks and recreation may make purchases using field purchase orders for expenditures of up to \$2,000 for the state trail system and facilities through June 30, 2012." During the nine months ended March 31, 2011, the Bureau's Chief Supervisor provided the authorizing signature on field purchase orders for expenditures of up to \$2,000 for the state trails system and facilities. There was no available evidence that the field purchase orders were reviewed and approved by the Director of the Division of Parks and Recreation or that the authority for the approvals had been formally delegated to the Chief Supervisor.

Recommendation:

The authority provided by RSA 215-A:3, II-a and RSA 215-C:2, VIII-a should be exercised by the Director of the Division of Parks and Recreation. That authority should not be informally delegated.

If the Bureau and Department determine that the Chief Supervisor should have the authority to make purchases using field purchase orders for expenditures of up to \$2,000 for the state trails system and facilities, an appropriate request should be made to have the statutes revised to provide that authority.

Auditee Response:

We concur in part. While the legislation provides the Director of Parks to give authority to issue the \$2,000 Field Purchase Orders, the Department's position is that authority can be delegated through a Power of Attorney. During the 2012 legislative session, the Department will request for the \$2,000 authority to continue and to further clarify the level of authority.

Observation No. 18: Training In Department Purchasing Policies And Procedures Should Be Provided To Employees

Observation:

The Bureau's reported inconsistent preparation of receiving and inspection reports indicates that responsible employees should be reminded of the Department and Bureau's related policies.

For example:

- According to the Chief Bureau Supervisor, there were some occasions during the audit period when district supervisors did not prepare a receiving and inspection report because they did not know it was required. Upon the Business Office's request for the missing receiving and inspection (R&I) reports, the Bureau's Program Assistant completed the R&I reports as the receiver of the goods after verifying with a District Supervisor that the goods had been received. The Chief Bureau Supervisor then certified the R&I reports prepared by the Program Assistant based upon his knowledge of the activities at the district location.
- We noted one instance where an R&I report was submitted when it was not required by Department policy because a field purchase order initiated the purchasing process.

Recommendation:

The Bureau should ensure that responsible employees understand the purpose of the various purchasing forms, including receiving and inspection reports, as internal control tools, and understand when the forms should be prepared. The Bureau should require that all expenditures are properly supported prior to processing payment.

Auditee Response:

We concur. Documenting the receipt of goods needs to be consistently applied throughout the Department especially as we transition to paperless processing. We have contacted the Department of Administrative Services to provide a refresher course to Department employees with proper procurement procedures for all acquisitions to insure documentation is secured in the most efficient manner in accordance with state statutes.

Observation No. 19: Communication Of Expenditure Information Should Be Improved

Observation:

The Department and Bureau did not properly record accounts payable in the State accounting system (NHFirst) at June 30, 2010. As a result, the Bureau's expenditures recorded in NHFirst for fiscal year 2010 were understated and the expenditures recorded for the nine months ended March 31, 2011 were overstated. The Bureau adjusted its financial statement for this error.

The Bureau's expenditure process has Bureau employees reviewing detail invoice support and providing summary invoice information to the Department's Business Office for further payment processing. While the Bureau has the opportunity to review sufficient invoice detail to determine the proper reporting period for its expenditures, due to miscommunication, that information has not been consistently provided to the Business Office. As a result, the Business Office did not recognize, code, and report approximately \$202,000 of Bureau expenditures as accounts payable at June 30, 2010.

Recommendation:

The Department should improve communication and information sharing between the Business Office and the user areas in the Department, including the Bureau, to promote efficient and effective financial reporting activities. The Department should provide training and other assistance to the Bureau to ensure the Bureau is able to determine and effectively convey to the Business Office information necessary for the accurate recording and reporting of expenditures.

The Bureau's review of invoices and preparation of summary expenditure information should include determining the expenditure incurred dates that, when reported to the Business Office, would permit the Business Office to code and report expenditures in the proper period.

Auditee Response:

We concur. The correct coding for identification of accounts payable for purposes of preparing the State's Comprehensive Annual Financial Report (CAFR) report is our responsibility. However, agencies don't keep their books on an accrual basis and there has not been reporting back to the agencies for verification of the coding. The Bureau has redesigned the billing invoice from the various organizations to include service period which will help with year-end cutoff. Further, we have been in contact with Department of Administrative Services and have learned that we can request detailed accounts payable records for our review and verification.

Federal Compliance Comments

Observation No. 20: Controls Over Federal Program Matching Requirements Should Be Improved

Observation:

The Bureau does not document that it meets the federal Recreational Trails Program (RTP) matching requirement for its RTP expenditures. The Bureau also does not have an effective process to ensure required subgrantee matches for RTP projects have occurred prior to the Bureau releasing RTP payments to subgrantees. According to the Bureau, subgrantees may submit match documentation any time prior to the expiration of the grant period.

Pursuant to federal RTP guidelines, the federal participation rate for the RTP is 80%. The guidelines allow states to make a programmatic-based match for the RTP. If some RTP projects include more match than required, other projects may provide less match. The Bureau asserts that because its Grant-In-Aid program expenditures (State grants) more than cover the total required match for the RTP, the Bureau does not need policies and procedures to ensure the RTP match is met for federal compliance purposes, either on an individual project or on a program basis.

The Bureau's RTP subgrantee agreements identify the amount of the subgrantees' pledged match to the RTP projects. Due to limited available RTP funding for projects, the subgrantee match is often significantly more than the 20% RTP matching requirement. This can result in more or less than the full pledged match being expended when costs for the RTP equipment or project come in over or under estimate. While the Bureau typically asks the subgrantee to document the adjusted match amount when this occurs, corrected match information is not always obtained.

The Bureau does not formally track and document that it meets the overall match for RTP funds. Documentation was not on file to demonstrate the required match had been met for two of eight RTP expenditures selected for testing. In one instance, match documentation was not received for a subgrantee's equipment purchase funded by RTP and Grant-In-Aid Program funds. In this instance, payment was made to the subgrantee in September 2010, and the Bureau had not received proof of the match as of April 2011. As further discussed in Observation No. 11, the subgrantee in this instance was apparently overpaid by the Bureau for this expenditure.

Another example where the RTP program's matching requirements were not clearly met includes the Bureau's payment of \$6,400 to a subgrantee to support its purchase of an \$8,000 groomer drag. The purchase documents included a handwritten invoice in the amount of \$8,000 from a construction-related company in the subgrantee's town. While the Bureau indicated it recognized the seller as a sometimes vendor of used equipment, there was no information in the file to evidence the fair value of the drag at \$8,000.

Recommendation:

The Bureau should establish policies and procedures to document the Bureau's compliance with the federal RTP match requirement for each apportionment year.

The policies and procedures should include processes to ensure subgrantees report accurate and timely program match information on which the Bureau can base and document its RTP match determination and reporting.

Auditee Response:

We concur in part. As part of the grant workshop and training sessions, the Program Coordinator will emphasize the need for subgrantees to provide the necessary documentation to demonstrate match compliance. The Bureau's requirement is for subgrantees to document the match by the end of the grant contract to allow for flexibility to the volunteer trail groups. Due to the heavy burden on the clubs for the initial outlay for equipment and materials, we have allowed the clubs to continue to provide the match through the remainder of the season. It is our position, that we have always met the match requirements for each program year, but we could do a better job summarizing compliance on an ongoing basis. For the nine month period ending March 31, 2011, most of the grantees have satisfied their match requirements well in advance of the June 30th deadline.

Observation No. 21: Controls Over Allocation Of Federal Program Funding Should Be Improved

Observation:

The Bureau does not fully and accurately document its compliance with funding allocation requirements and limits in the federal Recreational Trails Program (RTP) it administers. The Bureau does not have policies and procedures to support its RTP fund allocation and reporting process.

Federal RTP legislation directs 40% of a State's fiscal year apportionment be used to support diverse recreational trail use, 30% be used to support motorized recreational trail use, and 30% be used to support nonmotorized recreational trail use, exclusive of administrative costs. The RTP allows States to use up to 5% of the total apportionment for relevant educational programs and up to 7% of the total apportionment for RTP administration.

While the Bureau categorizes RTP funds granted to subgrantees as funding diverse use, motorized use, or nonmotorized trail use projects, RTP funds used by the Bureau in its RTP projects and activities are not categorized by trail use type. In addition, the Bureau does not determine and report the actual percentage of the RTP funds it uses for educational programs and administration. The Bureau reported it regularly uses planned costs instead of actual costs to document its RTP allocations. Because the Bureau does not account for and report the program

costs for these activities separately, the Bureau cannot demonstrate its compliance with the RTP allocation requirements.

Recommendation:

The Bureau should develop and implement policies and procedures to support the appropriate allocation of RTP funds in accordance with RTP requirements. Actual costs should be utilized to demonstrate compliance with the federal requirements.

Auditee Response:

We concur in part. The Bureau and Federal Highway Administration (FHWA) have been working on a process to account for and track expenditures in accordance with FHWA guidelines. The Bureau believes that compliance with allocations is best done at the initial authorization point because of the difficulty proving compliance based on expenditures when multiple grant years are open simultaneously. FHWA has not indicated concerns or discrepancies in the program allocation percentages.

Observation No. 22: Identification And Tracking Of Assets Purchased With Federal Program Funds Should Be Improved

Observation:

The Bureau does not maintain inventory listings of equipment and real property assets purchased using federal Recreational Trails Program (RTP) funding. Without sufficiently detailed equipment and property records, monitoring the proper continued use and ultimate disposition of the equipment and property is problematic. During the nine months ended March 31, 2011, the Bureau granted approximately \$204,000 of RTP funding to subgrantee organizations for the purchase of equipment. No real property assets were purchased during that period.

Bureau RTP subgrantee agreements state the subgrantee agrees to retain and use the RTP funded equipment for intended purposes only for not less than four years, and disposal has to be authorized in writing by the Department. The agreement also says the State may inspect subgrantee records and files, and will inspect projects upon completion and prepare a written report.

- The Bureau reported there is no identification, outside of individual project files, of the equipment and real property currently held by the Bureau that was purchased with RTP funds. While the Bureau's RTP funded equipment and real property is included in the Department-wide equipment and property listings, the listings do not identify the assets as having Federal RTP participation and do not document the conditions on the use and disposal of the assets.
- The Bureau requires RTP subgrantees to provide annual updates of their RTP funded equipment, including hours of use for the first four years of ownership. However, the Bureau does not track the subgrantee reporting of equipment to ensure all expected reports are

received, or periodically inspect the equipment for which reports are required. We noted there was no Annual Equipment Report Form submitted by a subgrantee for one of the two equipment purchases selected as part of an expenditure test. The Bureau does not require subgrantees to report on RTP funded assets after the initial four-year period, even if the current fair value of the equipment remains greater than the \$5,000 federal equipment threshold.

The lack of readily available RTP equipment information increases the likelihood that RTP funded equipment may be used or disposed of contrary to RTP guidelines.

Recommendation:

The Bureau should improve its tracking of equipment and real property obtained with RTP funding. Equipment and real property funded through the RTP should be inventoried, including identification of the federal participation rate, and tracked to ensure compliance with RTP requirements, including required equipment and real property reporting.

Bureau equipment and real property inventory records should identify equipment and real property currently held by the Bureau that was purchased with RTP funds.

The Bureau should require subgrantees to indefinitely report equipment and real property funded in part with RTP funds that continue to meet the federal equipment definitions.

Auditee Response:

We concur. The Bureau is compiling a listing of equipment and real property purchased by the various clubs with federal funds. Contracts have been modified to note indefinite reporting requirements for sub-grantees. Currently, since these assets technically are not assets of the state, the Bureau's plan is to keep the database locally. However, to ensure compliance and to recognize the state's interest in these assets, the Bureau will also submit the listing annually to the Department's Business Office. The initial compilation of this asset listing will be completed by October 1, 2011.

Observation No. 23: Obligation Of Federal Program Funds Should Be By Project

Observation:

The Bureau historically has not identified specific projects when it obligates its federal Recreational Trails Program (RTP) funds in the federal accounting system.

The Bureau historically has obligated its federal RTP apportionment of federal funding as a block amount, upon receipt of the federal award notice. With this approach, if a Bureau RTP project is completed under budget, the Bureau generally commits the remaining balance to other projects without having to first de-obligate the completed project's unused funds and re-obligate the funds in the new project. This approach also does not promote tracking of the obligation and

use of funds by program year, increasing the risk that funds may remain unobligated beyond the RTP program's three-year availability period.

Recommendation:

The Bureau should obligate federal RTP funds by project in the federal accounting system as requested by the federal RTP grantor representatives. Excess funds remaining after the completion of a project should be re-obligated as soon as practical to promote accuracy, better allow for effective project planning, and to comply with federal program policies and procedures.

Auditee Response:

We concur. The Bureau and the FHWA have discussed options for the best method to obligate FHWA grant year funds by project. The Bureau has worked with FWHA to develop its process for obligation and has been running the program as recommended above through fiscal year 2011. The Bureau is committed to demonstrating compliance and will provide the necessary tracking to FHWA.

Observation No. 24: Suspension And Debarment Procedures Should Be Established

Observation:

The Bureau does not have policies in place or perform procedures to prevent contractors, vendors, and subgrantees that are suspended or debarred from participating in the federal Recreational Trails Program (RTP) managed by the Bureau.

Section 18.35 of the federal Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule), states, "Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension.""

The Bureau does not require subgrantees to sign statements certifying that they are neither suspended nor debarred from receiving federal funds. The Bureau does not make use of the List of Parties Excluded from Federal Procurement or Nonprocurement programs to ensure it does not award assistance to listed parties in violation of the Executive Order. According to the Bureau, it was unaware of the federal requirement and these standard procedures to control for possible subgrantee suspended or debarred status.

Recommendation:

The Bureau should establish appropriate suspension and debarment policies and procedures for its federal program funds.

The Bureau's policies and procedures should include the standard controls of requiring certifications from contractors, vendors, and subgrantees, and also the Bureau's review of the List of Parties Excluded from Federal Procurement or Nonprocurement programs, to ensure it does not award assistance to listed parties in violation of the Executive Order.

Auditee Response:

We concur. The Bureau has met and discussed this requirement with the Federal Highway Administration (FHWA) and the program coordinator will check the debarment and suspension list on the federal website at time of sub-grantee awards. Grantee contract language has been edited to include provisions that sub-grantees are not suspended or debarred from receiving federal funds.

Observation No. 25: Subgrantee Monitoring Program Should Be Implemented

Observation:

During the nine months ended March 31, 2011, the Bureau performed only limited monitoring of the local snowmobile clubs, all-terrain vehicle clubs, and other entities that are subgrantees, also known as subrecipients, of the Bureau's Recreational Trails Program (RTP).

Federal Office of Management and Budget (OMB) Circular A-133, Subpart D, §___.400 (d), (3) requires a pass-through entity, such as the Bureau, to monitor the activities of its subrecipients of federal program funds as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Section *M. Subrecipient Monitoring* of the OMB Circular A-133 Compliance Supplement describes a pass-through entity as responsible for: award identification, during the award monitoring, subrecipient audit monitoring, and evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

Monitoring activities normally occur throughout the year and may take various forms, such as:

- a. *Reporting* - Reviewing financial and performance reports submitted by the subrecipient.
- b. *Site Visits* - Performing site visits at the subrecipient to review financial and programmatic records and observe operations.
- c. *Regular Contact* - Regular contacts with subrecipients and appropriate inquiries concerning program activities.

While the Bureau reports it has regular contact with its subgrantees, the Bureau's site-visit monitoring efforts are limited and are generally not documented. In addition, although requested, the Bureau does not require subgrantees of RTP funding to provide evidence of performance and completion of RTP funded projects, such as photos, prior to the Bureau making final payments on projects.

As noted in Observations No. 20, 22, and 24, the Bureau also does not monitor subgrantee compliance with other requirements such as equipment and real property management, matching, and suspension and debarment. In addition, the Bureau does not have policies and procedures to ensure subgrantees are informed about the Federal award, such as Catalog of Federal Domestic Assistance number, the name of the Federal awarding agency, and applicable compliance requirements.

The Bureau has not developed and implemented its own policies and procedures for controls over compliance with equipment and real property management, matching, and suspension and debarment requirements.

Recommendation:

The Bureau should establish a process to provide for an appropriate level of subgrantee monitoring, including site visits, that meet federal program requirements and also provide the Bureau with reasonable confidence that the program funds are being used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements, and that performance goals are achieved.

The Bureau should also establish appropriate policies and procedures to support its monitoring efforts and provide guidance on the frequency, scope, and required documentation of the site visits and other monitoring efforts. The Bureau should also formalize and enforce the requirement for subgrantees to provide sufficient documentation of program activities.

Auditee Response:

We concur. A policy and program of monitoring ALL grants within the Department is being established and planned for implementation in August 2011. Procedures will be tailored to meet each Grant's specific requirements.

State Compliance Comments

Observation No. 26: Required Administrative Rules Should Be Adopted

Observation:

The Department and the Bureau have not established administrative rules relative to administrative fines for violations of the Department's rules relative to off highway recreational vehicles (OHRV) and snowmobiles. Those statutes became effective June 28, 2010.

RSA 215-A:3-a, IV, in addition to the adoption of other rules addressing OHRVs, requires the adoption of rules relative to the imposition of administrative fines under RSA 215-A:3-b. That statute requires the adoption of rules for a schedule of administrative fines and procedures for notice and hearing prior to the imposition of an administrative fine.

RSA 215-C:3, III, in addition to the adoption of other rules addressing snowmobiles, requires the adoption of rules relative to the imposition of administrative fines under RSA 215-C:3-a, which requires the adoption of rules for a schedule of administrative fines and procedures for notice and hearing prior to the imposition of an administrative fine.

As of the end of May, 2011, the Bureau reported it was in the process of having the required rules adopted.

Recommendation:

The Department and Bureau should continue in their efforts to have required rules adopted.

Auditee Response:

We concur. The Bureau has been working with the Division of Parks and Recreation on adoption of the administrative fine rules. The rules are currently before the Joint Legislative Committee on Administrative Rules (JLCAR) for review. Anticipated adoption by JLCAR is August 2011.

Observation No. 27: Required Reports Should Be Prepared And Submitted

Observation:

The Commissioner of the Department has not prepared and submitted annual reports required by RSA 215-A:3, IX and RSA 215-C:2, X concerning the Department's activities related to off highway recreational vehicles (OHRVs) and snowmobiles, respectively.

According to the statutes, reports which detail the Department's activities related to OHRV and snowmobile programs during the previous year are to be submitted annually to the chairpersons of a number of legislative committees and the State Library. The reports are to include, but not

be limited to, information on registration revenues received by type of vehicle, an accounting of OHRV and snowmobile related funds, accounts, and subaccounts, disbursements made from each fund, account, or subaccount by type of vehicle, use of disbursed funds, conditions of trails by type of vehicle use, results of the continuing study on environmental damage by type of vehicle, and State and contracted or otherwise known local enforcement actions taken by type of vehicle. The reports are due to be submitted on or before January 15 of each year.

According to the Department, its most recent report prepared covered fiscal year 2008.

Recommendation:

The Department should prepare and submit the reports required by RSA 215-A:3, IX and RSA 215-C:2, X.

Auditee Response:

We concur. The Department will complete the delinquent reports and file them pursuant the statutory requirements by July 31st.

Observation No. 28: Required Monthly Reconciliations Of State Accounting System Reports Should Be Performed

Observation:

Neither the Department nor the Bureau performs a monthly reconciliation of Bureau revenues and expenditures reported in the State's accounting system (NHFirst) to source Bureau documentation. Such a monthly reconciliation is required by the Department of Administrative Services' (DAS) Manual of Procedures (MOP) 2700, Section IV, C. 2. NHFirst Reports-Monthly Reconciliations which directs, "agencies shall reconcile the reports [Detail Transaction Register and Detail Unrestricted Revenue] to their original documents in order to check for accuracy."

Recommendation:

The Department and the Bureau should establish policies and procedures for the performance of the monthly reconciliations required by MOP 2700. Policies and procedures should provide for a suitably controlled reconciliation process that would be effective in detecting and timely correcting any errors that might occur in the recording and reporting of Bureau revenues and expenditures.

Auditee Response:

We concur. The Department is developing guidelines to define the Business Office responsibilities and the Division/Bureau responsibilities for review and monitoring of financial reports and detailed transactions. Currently, the Business Office on the first day of the month provides a summary of the appropriation statement to all Divisions/Bureaus. The new guidelines

will include instructions on how to access the detail transaction registers. The procedures will include instructions for scanning of reports and if necessary to drill down to the source documents for verification of proper postings. While the Business Office has daily contact with all of the Divisions on various processing issues, the Business Office will implement quarterly meetings with Divisional/Bureau management to specifically review the status of the accounts.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying Statement of Revenues and Expenditures - General Fund of the Bureau of Trails (Bureau) of the New Hampshire Department of Resources and Economic Development (Department) for the nine months ended March 31, 2011. This financial statement is the responsibility of the management of the Bureau and 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 Bureau'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 Bureau 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 Bureau. The Statement of Revenues and Expenditures - General Fund, does not purport to and does not constitute a complete financial presentation of either the Bureau 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 Bureau for the nine months ended March 31, 2011, 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 - General Funds of the Bureau. 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, 2011 on our consideration of the Bureau's internal control over financial reporting 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

July 6, 2011

**STATE OF NEW HAMPSHIRE
BUREAU OF TRAILS
STATEMENT OF REVENUES AND EXPENDITURES-GENERAL FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2011**

Revenues

Restricted Revenues

Transfer From Fish And Game Department (Note 2)	\$ 3,726,347
Transfer From Dept. Of Safety, Road Toll Bureau (Note 3)	686,074
Federal Program	730,727
Connecticut Lakes Easement	25,000
Other	<u>7,816</u>

Total Restricted Revenues 5,175,964

Total Revenues 5,175,964

Expenditures

State Grant-In-Aid Program Grants	2,890,701
Salaries And Benefits	835,050
Federal Recreational Trails Program Subgrants	647,403
Current Expenses	328,596
Land Acquisitions And Easements	203,296
Maintenance Of Buildings And Grounds	71,067
Equipment	13,450
Other	<u>9,088</u>

Total Expenditures 4,998,651

Excess (Deficiency) Of Revenues

Over (Under) Expenditures 177,313

Other Financing Sources (Uses)

Net Appropriations (Note 4) -0-

Total Other Financing Sources (Uses) -0-

Excess (Deficiency) Of Revenues And

Other Financing Sources Over (Under)

Expenditures And Other Financing Uses (Note 5) \$ 177,313

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

**STATE OF NEW HAMPSHIRE
BUREAU OF TRAILS**

**NOTES TO THE FINANCIAL STATEMENT
FOR THE NINE MONTHS ENDED MARCH 31, 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statement of the Bureau of Trails 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 Bureau of Trails (Bureau) of the New Hampshire Department of Resources and Economic Development (Department). The Bureau is an organization of the primary government of the State of New Hampshire. The accompanying financial statement reports certain financial activity of the Bureau.

The financial activity of the Bureau is accounted for and 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 Bureau, as an organization of the primary government, 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 Bureau cannot be determined. Accordingly, the accompanying Statement of Revenues and Expenditures - General Fund is not intended to show the financial position or fund balance of the Bureau of Trails in the General Fund.

B. Financial Statement Presentation

The State of New Hampshire and the Bureau 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 Bureau reports its financial activity 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. The Bureau had no unrestricted revenue during the nine months ended March 31, 2011.

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

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services, the encumbrance is liquidated and the expenditure and liability are recorded. The Bureau's unliquidated encumbrance balance at March 31, 2011 in the General Fund was \$1,256,216.

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

NOTE 2 - TRANSFER FROM FISH AND GAME DEPARTMENT

Pursuant to RSA 215-A and RSA 215-C, the Bureau receives a portion of the registration and other fees collected by the Fish and Game Department from owners and dealers of off highway recreational vehicles and snowmobiles.

NOTE 3 - TRANSFER FROM DEPARTMENT OF SAFETY, ROAD TOLL BUREAU

Pursuant to RSA 260:61, I, the Bureau annually receives as a transfer, 50 percent of the unrefunded road tolls collected by the Department of Safety from the sale of fuel presumed to have been consumed in off highway recreational vehicles and snowmobiles. The August 13,

2010 transfer was based on 76,373 registrations multiplied by 100 gallons per registration, then multiplied by \$.018 per gallon road toll, less \$2,565 previously refunded, resulting in a total to be distributed of \$1,372,148. Allocation of the funds was \$686,074 to the Bureau and an equal amount to the Fish and Game Department.

NOTE 4 - NET APPROPRIATIONS

Net appropriations reflect appropriations for expenditures in excess of restricted revenue. Net appropriations are made from the fund balance of the General Fund.

NOTE 5 - OHRV AND SNOWMOBILE FUND

RSA 215-A:3, VII and RSA 215-C:2, VIII provide for the State Treasurer to keep all money appropriated to the Department for the Bureau from the registration of off highway recreational vehicles and from the registration of snowmobiles, respectively, in a special fund to be known as the OHRV and Snowmobile Fund. At the close of each fiscal year any unexpended balance in the Fund is carried forward and added to the appropriation for the subsequent year. The OHRV and Snowmobile Fund is accounted for in the State's General Fund.

NOTE 6 - TRANSFERS

In accordance with RSA 215-A:3, II-b, and RSA 215-C:2, VIII-b, the Commissioner of the Department may transfer funds between and among the appropriations for the Bureau through June 30, 2012 but must submit a quarterly report of all transfers made to the Joint Legislative Fiscal Committee. 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 Bureau in accordance with RSA 215-A:3, II-b, and RSA 215-C:2, VIII-b.

NOTE 7 - EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

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

Group I members at age 60 qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is 1/60 (1.67%) of AFC multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. At age 65, the yearly pension amount is recalculated at 1/66 (1.5%) of

AFC multiplied by years of creditable service. Members in service with ten or more years of creditable service who are between ages 50 and 60 or members in service with at least 20 or more years of service, whose combination of age and service is 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

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

All covered Bureau employees are members of Group I.

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

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the nine months ended March 31, 2011, Group I members were required to contribute 5%, except for state employees whose employment began on or after July 1, 2009, contribute 7% and Group II members were required to contribute 9.3% of gross earnings. The State funds 100% of the employer cost for all of the Bureau's employees enrolled in the Plan. The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years based on the Plan's actuary.

The Bureau's payments for normal contributions for the nine months ended March 31, 2011 amounted to 9.09% of the covered payroll for its Group I employees. The Bureau's normal contributions for the nine months ended March 31, 2011 were \$45,045.

A special account was established by RSA 100-A:16, II (h) for additional benefits. During fiscal year 2007, legislation was passed that permits the transfer of assets into the special account for earnings in excess of 10.5% as long as the actuary determines the funded ratio of the retirement system to be at least 85%. If the funded ratio of the system is less than 85%, no assets will be transferred to the special account.

The New Hampshire Retirement System issues a publicly available financial report that may be obtained by writing to them at 54 Regional Drive, Concord, NH 03301 or from their web site at <http://www.nhrs.org>.

Other Postemployment Benefits

In addition to providing pension benefits, RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses within the limits of the funds appropriated at each legislative session. These benefits include group hospitalization, hospital medical care, and surgical care. Substantially all of the State's employees who were hired on or before June 30, 2003 and have 10 years of service, may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires State

Group I employees hired after July 1, 2003 to have 20 years of State service in order to qualify for health insurance benefits. These and similar benefits for active employees are authorized by RSA 21-I:30 and provided through the Employee and Retiree Benefit Risk Management Fund, which is the State's self-insurance fund implemented in October 2003 for active State employees and retirees. The State recognizes the cost of providing these benefits on a pay-as-you-go basis by paying actuarially determined contributions into the fund. The New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees also contributes to the fund. The Bureau's Medical Subsidy normal contribution rate for the nine months ended March 31, 2011 was 1.96% of the covered payroll for its Group I employees. The Bureau's normal contributions for the Medical Subsidy for the nine months ended March 31, 2011 were \$9,714.

The cost of the health benefits for the Bureau's retired employees and spouses is a budgeted amount paid from an appropriation made to the administrative organization of the New Hampshire Retirement System.

The State Legislature currently plans to only partially fund (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of Governmental Accounting Standard Board (GASB) Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The ARC and contributions are reported for the State as a whole and are not separately reported for the Bureau.

**STATE OF NEW HAMPSHIRE
BUREAU OF TRAILS
BUDGET TO ACTUAL SCHEDULE - GENERAL FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2011**

<u>Revenues</u>	<u>Original Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Restricted Revenues			
Transfer From Fish And Game Department	\$ 3,427,042	\$ 3,726,347	\$ 299,305
Transfer From Dept. Of Safety, Road Toll Bureau	796,759	686,074	(110,685)
Federal Program	1,183,272	730,727	(452,545)
Connecticut Lakes Easement	47,530	25,000	(22,530)
Other	<u>100,000</u>	<u>7,816</u>	<u>(92,184)</u>
Total Restricted Revenues	<u>5,554,603</u>	<u>5,175,964</u>	<u>(378,639)</u>
Total Revenues	<u>5,554,603</u>	<u>5,175,964</u>	<u>(378,639)</u>
Expenditures			
State Grant-In-Aid Program Grants	2,892,207	2,890,701	1,506
Salaries And Benefits	1,121,344	835,050	286,294
Federal Recreational Trails Program Subgrants	998,000	647,403	350,597
Current Expenses	304,428	328,596	(24,168)
Land Acquisitions And Easements	107,280	203,296	(96,016)
Maintenance Of Buildings And Grounds	90,000	71,067	18,933
Equipment	30,000	13,450	16,550
Other	<u>11,344</u>	<u>9,088</u>	<u>2,256</u>
Total Expenditures	<u>5,554,603</u>	<u>4,998,651</u>	<u>555,952</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>-0-</u>	<u>177,313</u>	<u>177,313</u>
Other Financing Sources (Uses)			
Net Appropriations (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 3)	<u>\$ -0-</u>	<u>\$ 177,313</u>	<u>\$ 177,313</u>

The accompanying notes are an integral part of this schedule.

Notes To The Budget To Actual Schedule - General Fund For The Nine Months Ended March 31, 2011

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 and proprietary fund types with the exception of the Capital Projects Fund.

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 2011 as passed by the Legislature in Chapter 143, Laws of 2009.

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.

Variances - Favorable/(Unfavorable)

The variance column on the Budget To Actual Schedule highlights differences between the original operating budget and the actual revenues and expenditures for the nine months ended March 31, 2011. 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.

Unfavorable variances are expected for revenues and favorable variances are expected for expenditures when comparing nine months of actual revenues and expenditures to an annual budget.

Note 2 - Net Appropriations

Net appropriations reflects appropriations for expenditures in excess of restricted revenue. Net appropriations are made from the fund balance of the General Fund.

Note 3 - OHRV And Snowmobile Fund

RSA 215-A:3, VII and RSA 215-C:2, VIII provide for the State Treasurer to keep all money appropriated to the Department for the Bureau from the registration of off highway recreational vehicles and from the registration of snowmobiles, respectively, in a special fund to be known as the OHRV and Snowmobile Fund. At the close of each fiscal year any unexpended balance in the Fund is carried forward and added to the appropriation for the subsequent year. The OHRV and Snowmobile Fund is accounted for in the State's General Fund.

Note 4 - Transfers

In accordance with RSA 215-A:3, II-b, and RSA 215-C:2, VIII-b, the Commissioner of the Department may transfer funds between and among the appropriations for the Bureau through June 30, 2012 but must submit a quarterly report of all transfers made to the Joint Legislative Fiscal Committee. 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 Bureau in accordance with RSA 215-A:3, II-b, and RSA 215-C:2, VIII-b.

**STATE OF NEW HAMPSHIRE
BUREAU OF TRAILS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CASH BASIS)
FOR THE NINE MONTHS ENDED MARCH 31, 2011**

<u>Federal Catalog Number</u>	<u>Federal Grantor <i>Federal Program Title</i></u>	<u>Expenditures</u>	<u>Pass Thru Percent</u>
20.219	<u>U.S. Department Of Transportation</u> <i>Recreational Trails Program</i>	<u>\$ 705,016</u>	88%
	Total	<u><u>\$ 705,016</u></u>	

The accompanying notes are an integral part of this schedule.

Notes To The Schedule Of Expenditures Of Federal Awards For The Nine Months Ended March 31, 2011

Note 1 - Purpose Of Schedule And Summary Of Significant Accounting Policies

A. Purpose Of Schedule

The accompanying Schedule Of Expenditures Of Federal Awards (Schedule) is a supplementary schedule to the Bureau of Trail's (Bureau's) financial statement and is presented for purposes of additional analysis.

B. Reporting Entity

The reporting entity is defined in the Notes to the Bureau's financial statement presented in this report. The accompanying Schedule includes all federal awards of the Bureau for the nine months ended March 31, 2011.

C. Basis Of Presentation

The information in the Schedule presents the Bureau's federal award activity.

a. *Federal Awards* - Federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities.

b. *Pass Thru Percent* - The amount of federal funds, expressed as a percentage of expenditures, passed through by State agencies to various subrecipients.

D. Basis Of Accounting

Expenditures are presented in the Schedule on the cash basis of accounting. Expenditures are recorded when paid rather than when the obligation is incurred. The Schedule reflects expenditures for all programs that were active during the nine months ended March 31, 2011.

Note 2 - Categorization Of Expenditures

The categorization of expenditures by program is based upon the Catalog of Federal Domestic Assistance (CFDA). Changes in categorization of expenditures occur based upon revisions to the CFDA, which is issued in June and December of each year. The Schedule reflects CFDA changes issued through December 2010.