STATE OF NEW HAMPSHIRE
DEPARTMENT OF BUSINESS AND ECONOMIC AFFAIRS

FINANCIAL AUDIT REPORT
FOR THE NINE MONTHS ENDED MARCH 31, 2022

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To The Fiscal Committee Of The General Court:

We have audited the financial statement of the New Hampshire Department of Business and Economic Affairs (Department) for the nine months ended March 31, 2022 and have issued our report thereon dated September 28, 2022.

This financial audit report presents information related to our audit in two sections; a management letter section and a financial section. The management letter section, prepared by the auditors, is a byproduct of the audit of the Department's financial statement. This section contains an auditor's report on internal control over financial reporting and on compliance and other matters and related audit findings.

The financial section of this report, with the exception of the independent auditor's report on the Department's financial statement, was prepared by the financial management of the Department, with assistance from the Department of Administrative Services, Bureau of Financial Reporting. In addition to the auditor's report, the financial section of the report includes the financial statement and notes to the financial statement.

This report can be accessed in its entirety on-line at:

http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

September 28, 2022

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MANAGEMENT LETTER SECTION

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* Comment suggests legislative action may be required.

Abbreviations Used

BMGI	Broadband Matching Grant Initiative
BVS	Bureau of Visitor Services
Department	Department of Business and Economic Affairs
DOE	Department of Education
GOFERR	Governor's Office for Emergency Relief and Recovery
NH GRIP	New Hampshire College Graduate Retention Incentive Partnership
MOU	Memorandum of Understanding
NHFirst	New Hampshire State Government Accounting and Financial Reporting System
Relief Fund	COVID-19 Micro Enterprise Relief Fund
OWO	Office of Workforce Opportunity
WIC	Welcome and Information Centers

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Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

To The Fiscal Committee Of The General Court:

We have audited, in accordance with the 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, the financial statement of the New Hampshire Department of Business and Economic Affairs (Department) which comprise the Statement of Revenues and Expenditures – General Fund for the nine months ended March 31, 2022, and the related notes to the financial statement, and have issued our report thereon dated September 28, 2022. Our report on the financial statement was modified as the Statement of Revenues and Expenditures – General Fund does not purport to and does not constitute a complete financial presentation of the Department in the General Fund in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the following observations, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in Observations No. 1 and No. 2 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Observations No. 3 through No. 8 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matter that are required to be reported under *Government Auditing Standards* and which are described in Observations No. 9 through No. 16.

Department of Business and Economic Affairs' Responses To Findings

The Department's responses to the findings identified in our audit are included with each reported finding. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose Of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

September 28, 2022

INTERNAL CONTROL COMMENTS

MATERIAL WEAKNESSES

Observation No. 1

Establish A Formal Risk Assessment Process

The Department reported it did not have a formal risk assessment process in place for its financial accounting, reporting, and compliance functions. According to the Department, risks are identified and responded to through an informal process on an as needed basis. Discussions are held during weekly leadership meetings involving the Commissioner, Division Heads, and senior employees of each functional area of the Department.

Management's assessment of and response to risks facing an organization is an integral component of internal control. The purpose of an entity's risk assessment efforts is to identify, analyze, and respond to risks that could affect the entity's ability to achieve its objectives. An effective and documented risk assessment process should be a core element of management's planning activities, and should be an ongoing process.

The absence of formal policies and procedures promoting the active review and consideration of risk places the Department in a largely reactive mode where risks are not recognized in time to allow for efficient and effective avoidance or mitigation.

A formalized risk assessment process may have assisted the Department in detecting and responding to the following material weakness in internal control and significant instance of noncompliance addressed in the ensuing Observations in this report:

1. Expenditures Recorded in Incorrect Accounting Period
   As described in Observation No. 2, eight of 41 expenditures (20%) that should have been coded in the State accounting system, NHFirst, as accounts payable at the end of fiscal year 2021 were not coded as such, resulting in a $1.2 million overstatement of expenditures reported during the audit period. The error was subsequently corrected by the Department in its financial statement.

2. State Development Plan Should Be Established
   As described in Observation No. 9, the Department has not established a current, comprehensive State Development Plan (Plan) for the State of New Hampshire in accordance with RSA 9-A:2. The Plan provides the basis for identifying critical issues facing the State and must be renewed or revised every four years and transmitted to the General Court in accordance with RSA 9-A:1, V.

Recommendation:

We recommend the Department:

- **establish and document a formal risk assessment process for recognizing, evaluating, and responding to risks that could affect its ability to achieve its financial accounting, reporting, and compliance objectives.**

- **regularly review its financial and operational activities for indicators of risk exposure and establish and monitor controls to address those risks. Department employees with particular areas of expertise and knowledge of Department operations should participate in the review to ensure that details of operations that may not be obvious to management are appropriately considered. A periodic, documented review of the risk assessment by management should be incorporated into the process.**

Auditee Response:

The Department concurs. A formal risk assessment process will be written and reviewed annually.

Observation No. 2

Accounts Payable Processing Controls Should Be Strengthened

Invoices were not consistently paid in a timely manner during the audit period, resulting in noncompliance with State policies and a material $1.2 million expenditure posting error.

The Department processed approximately $9.7 million in payments on invoices during the nine months ended March 31, 2022.

The following weaknesses in the Department's invoice payment process were noted:

- Testing revealed nine of 41 (22%) payments were made after the invoice due date. The most untimely payment was made by the Department 174 days after the invoice due date. The untimely payment of invoices was the primary cause of the $1.2 million in expenditures described below that were not recorded in the correct accounting period.

- Testing revealed eight of 41 (20%) payments that should have been coded in NHFirst as accounts payable at the end of fiscal year 2021 were not properly coded, contrary to State accounting policies, resulting in a $1.2 million overstatement in reported expenditures during the audit period. The Department subsequently accepted an auditor-proposed journal entry to correct the errors.

Recommendation:

We recommend the Department strengthen controls over accounts payable processing and consider the following:

- **review the State's accounts payable policies with all Department divisions and bureaus responsible for approving invoices and reinforce the importance of timely processing and accuracy in charging expenditures to the proper accounting period.**

- **amend the Department's Purchasing and Accounts Payable Policy to ensure invoices are paid in accordance with contract terms and invoice provisions, or within 30 days if none are specified, which is standard payment practice.**

Auditee Response:

The Department concurs with the recommendation to review the State's accounts payable policies with Department divisions and bureaus to ensure charging to the proper accounting period and will amend the Purchasing and Accounts Payable Policy accordingly.

SIGNIFICANT DEFICIENCIES

Observation No. 3

Federal Grant Drawdowns Should Be Reviewed And Approved

The Department does not have sufficient controls in place to ensure certain requests for reimbursement from the federal government, also known as federal drawdowns, are complete, accurate, and in compliance with federal program requirements.

The Department did not consistently perform and document a review and approval control procedure for all federal drawdowns processed by the Department during the audit period. While the review and approval control for federal drawdowns processed by the Office of Workforce Opportunity (OWO) was observed, this control was not in place for approximately $420,000 in federal revenues related to other federal programs administered by the Department.

The inconsistent review and approval of federal drawdowns increases the risk that requests for federal reimbursement are not complete, accurate, or in compliance with federal program requirements.

Recommendation:

We recommend the Department amend their Cash Management Policy for Federal Funds to include a provision whereby all requests for federal reimbursement require a review and approval control procedure to be performed by a person knowledgeable of the program who is independent of the preparation process. This control procedure should be documented, similar to the procedure performed for requests processed by the OWO, and implemented without delay.

Auditee Response:

The Department concurs. We will work on standardizing the process, produce a written procedure and review on a regular basis.

Observation No. 4

Controls Over Processing Of Transfers Of Personnel Expenditures Should Be Strengthened

The Department does not have sufficient controls in place to ensure transfers of personnel expenditures posted to Department accounts in NHFirst are complete and accurate.

The following weaknesses in processing transfers of personnel expenditures were noted during the audit:

1. Transfers Processed by the Governor's Office for Emergency Relief and Recovery (GOFERR)

The Department did not request, receive, or review supporting documentation from another State agency that posted a $104,178 reduction in salary and benefit expenditure transactions to the Department's accounts in NHFirst for the first three quarters of FY2022, until the documentation was requested by the auditors. Specifically:

a. The Department relies on amounts posted to its accounts by GOFERR, another State agency responsible for processing transfers of expenditures for Department employees who allocate time worked to both State agencies, without performing a verification process to ensure the amounts posted are complete and accurate.

b. Unclassified Department employees who allocate time worked to GOFERR manually estimate the percentage of time to be charged to each State agency. The estimates are not supported by timesheets or other time records that accurately reflect the work performed.

2. Transfers Processed by the Department of Business and Economic Affairs (Department)
Transfers of personnel expenditures processed by the Department are not adequately documented or recorded correctly in NHFirst. Specifically:

a. The Department processes transfers of expenditures for the Department's Bureau of Visitor Services (BVS) administrative staff whose salaries and benefits are recorded in the General Fund and allocated quarterly to the Turnpikes Fund based on a 25% rate. The rate is an undocumented percentage based on budgeted personnel expenditures and the transferred amount is not adjusted to actual expenditures at year-end, increasing the risk of potential misstatements to General Fund revenues and Turnpike Fund expenditures when unplanned or non-recurring pay events, such as vacancies, unpaid leaves of absence, and promotions, occur.

Recommendation:

We recommend the Department strengthen controls over the processing of transfers of personnel expenditures to ensure the recording and reporting of accurate financial information.

1. **Documentation should be available to support the completeness and accuracy of all transactions posted to the Department's accounts in NHFirst, including documentation to support allocations of time worked and accounting estimates. The Department should ensure that transactions posted to its accounts by external agencies are subjected to the same review and approval controls as transactions originating from within the Department. The review and approval control should be documented to demonstrate performance of the procedure.**

2. **The methodology for recording transfers of personnel expenditures for the Department's BVS administrative staff should be reconsidered. The process should be based on actual expenditures, not budgeted amounts.**

Auditee Response:

The Department does not concur with item 1. BEA has complied with all applicable regulations during the audit period and has utilized sufficient controls. These controls were established after legal review of CARES Act regulatory guidance, in consultation with the Department of Administrative Services for shared employees doing work for GOFERR. GOFERR is a special purpose entity (not associated with BEA) established under Executive Order for deploying COVID-19 recovery funding provided under CARES Act.

The Department concurs with item 2. The Department has reconsidered the methodology underlying the formula for the FY24/25 budget and believes it accurately represents actual expenditures.

Observation No. 5

Compliance With MOUs Should Be Improved

The Department was not in full compliance with State policy or the provisions of the Memoranda of Understanding (MOU) it entered into with certain State agencies during the audit period, as described below:

- MOU with NH Employment Security – this MOU covering a nearly 4-year period (September 30, 2020 through June 30, 2024) was intended to set forth the respective roles of the parties in the oversight and delivery of services for certain state and federal workforce programs. The Department did not receive Governor and Executive Council (G&C) approval required by the Department of Administrative Services (DAS), Manual of Procedures (MOP), MOP 150 Governor and Executive Council Actions, section V.A.4., for approximately $2 million in expenditures paid under the MOU during the audit period. While the Department received G&C approval for the MOU through June 30, 2021, it did not seek to extend the G&C approval through the June 30, 2024 end date of the MOU.

- MOU with NH Department of Transportation – this MOU covering a 6-year period (July 1, 2019 through June 30, 2025) was established to set forth the parties' responsibilities with respect to the staffing, daily operation, and routine maintenance of the Safety Rest Areas and Welcome and Information Centers in the State. The Department has not conducted formal meetings or scheduled semi-annual reviews of the MOU to discuss capital needs, operations, maintenance, and budget as required by section 6 of the MOU.

- MOU with NH Department of Education (DOE) – this MOU covering a 4.5-year period (January 8, 2020 through June 30, 2024) renews the authorization for the DOE to provide vending services at the Safety Rest Areas and Welcome and Information Centers in the State. The Department is not listed as an additional insured party under DOE's liability insurance policy covering personal injuries and damages to the premises or products, as required by section 20 of the MOU.

MOUs communicate the mutually accepted expectations and responsibilities of all parties involved in an agreement and they help to prevent future unexpected disputes from occurring. Without periodic reviews, the roles and responsibilities of each party to a MOU may be misunderstood.

Recommendation:

We recommend the Department:

- **comply with State policy by seeking Governor and Executive Council approval for all interagency MOUs involving expenditures in the amount of $10,000 or more, as required by the DAS Manual of Procedures, MOP 150, section V.A.4.**
- **perform a thorough review of its interagency MOUs. At a minimum, the review should include procedures to ensure MOU provisions remain relevant, necessary, and include regular monitoring to ensure satisfactory compliance has been achieved by both parties.**

Auditee Response:

The Department concurs with the recommendations and will conduct a review of its MOUs and develop procedures to ensure MOU provisions remain relevant and applicable.

Observation No. 6

Controls Over Brochure Program Receipts Should Be Strengthened

Controls over receipts collected by the Department's Bureau of Visitor Services (BVS) are not as robust as they should be.

The BVS manages the application process for displaying publications and brochures in New Hampshire's Welcome and Information Centers (WICs) located on the interstates and primary state routes. Each WIC has the availability to display publications that promote tourism in New Hampshire and the BVS charges a rack space rental fee for these displays. Fees vary in price from $5 to $60 annually depending upon the type of business renting the rack space and whether the publications will occupy a single or double-size space on the rack.

The following areas where controls over the collection of BVS receipts needed strengthening were noted:

- The Department has not worked with the Department of Transportation (DOT) to establish administrative rules for charging rack space rental fees. RSA 230:52, II, states "advertising space and other traveler information services may be rented for a fee established by the commissioner of transportation, with the advice and cooperation of the division of travel and tourism development, by rules adopted under RSA 541-A". DOT has not adopted rules establishing rack space rental fees, contrary to statute. According to the BVS, the current fee structure, which has not changed in several years, may have been created prior to the July 1, 2017 date the Department was established. Reportedly, the Department and DOT have no plans to seek statutory authority to charge rack space rental fees or incorporate the BVS brochure program policy guidelines into administrative rules.

- The processing of brochure program checks received by the Department is not centralized in the Department's Business Office, increasing the risk of loss or misappropriation. Brochure program participants are directed to send checks to the Department's BVS and the checks are subsequently remitted to the Department's Business Office Accountant for further processing and deposit at the bank. This process is consistent with the Department's Cash Management and Receipt policy.

- As noted in Observation No. 8, the duties of related employees were not properly segregated as one employee in the Division of Travel and Tourism Development (Division) had permissions to approve brochure program receipts recorded in NHFirst by a family member from the same Division.

The BVS collected $15,315 in rack space rental fees during the audit period.

Recommendation:

We recommend the Department:

- **review the statutory language in RSA 230:52, II, regarding the adoption of rules for the rental of rack space related to its brochure program and consider whether an amendment is necessary due to the change in management responsibilities for the WICs from DOT to the Department.**

- **centralize the processing of brochure program checks in the Business Office to minimize the transfer of checks from person to person and reduce the risk of loss or misappropriation.**

- **implement policies and procedures to ensure permissions of related employees are appropriately segregated within NHFirst.**

Auditee Response:

The Department concurs. The Department will ensure that NHFirst policies and procedures regarding related employees are implemented. The Department will also review RSA 230:52 and other relevant statutes regarding the rental of rack space and possibly seek legislative changes to reflect present management realities.

Observation No. 7

Plans Critical To Financial Accounting And Reporting Processes Should Be Established

The Department has not established plans that are critical to its financial accounting and reporting processes. These include:

1. Information Technology Plan – as reported in Observation No. 12, in accordance with RSA 9:4-b, each executive department shall prepare an information technology plan and submit it to the information technology council. The plan is to be prepared on a biennial budget basis and shall define the capital and operating budgets necessary for implementing the plan, including new information technology initiatives and existing operations.

2. Disaster Recovery Plan – the purpose of a disaster recovery plan is to document plans and procedures in the event of a disaster, including disaster recovery strategies, essential resources, and procedures necessary to implement a recovery process.

3. Business Continuity Plan – the purpose of a business continuity plan is to document plans and procedures in the event of a significant change in the way a business conducts its daily business functions.

The Department, which was established by the Legislature in 2017, reported it had not prioritized the preparation of the aforementioned plans due to the sudden onset of the COVID-19 pandemic and its role as the lead agency for the State's emergency response plan.

Recommendation:

We recommend the Department:

- **establish an information technology plan in accordance with RSA 9:4-b to strengthen its financial accounting and reporting processes, and to ensure its technology needs are adequately coordinated and managed by the State's Department of Information Technology.**

- **establish disaster recovery and business continuity plans to document procedures specific to the Department's functions and to minimize business interruptions in the event of an unforeseen occurrence. The plans should be formally documented and distributed to employees with plan roles and responsibilities, and those employees should be appropriately trained. The Department should regularly test the plans to ensure the plans remain relevant and effective, and employees are practiced in implementing the plans.**

Auditee Response:

The Department concurs, a DOIT plan has already been established for FY24/FY25 and will formalize in writing disaster recovery and business continuity plans being utilized throughout the length of the pandemic.

Observation No. 8

NHFirst Access Permissions Should Be Periodically Reviewed

The Department has not established control procedures to periodically review NHFirst system access permissions.

During the audit period, there were 12 Department employees who had been granted access permissions within NHFirst. The following instances where employees had permissions that were outside the scope of their job responsibilities were noted:

- Four employees had permissions to view or modify data in the State's Capital Projects Fund even though the Department does not process transactions in the Capital Projects Fund.
- Two employees had permissions to view data, and one of these employees also had permission to modify data, in the Multi-Ledger module of NHFirst even though the Department does not use this module to process transactions.
- One employee in the Division of Travel and Tourism Development had permissions to approve brochure program receipts recorded in NHFirst by a family member also employed by the Division.

Recommendation:

We recommend the Department improve controls over NHFirst access permissions. Policies and procedures should be established for the maintenance, and periodic review, of employee access permissions to ensure the privileges granted to employees continue to remain relevant to current job responsibilities and that permissions granted to related employees are appropriately segregated.

Auditee Response:

The Department concurs, all changes have either already been made or will be completed shortly.

Observation No. 9

State Development Plan Should Be Established

The Department has not established a current, comprehensive State Development Plan for the State of New Hampshire in accordance with RSA 9-A:2. According to the Department, and as reported in Observation No. 12, the State Development Plan has not been finalized and transmitted to the General Court since the 2000 version was completed 22 years ago.

RSA 9-A:2 directs the Department's Office of Planning and Development to assist the Commissioner of the Department of Business and Economic Affairs in preparing, publishing, and revising the comprehensive State Development Plan established by RSA 9-A:1. In accordance with RSA 9-A:1, the plan shall provide a basis for identifying critical issues facing the state, determining state priorities, allocating limited state resources, and taking into account the plans of various state, regional, and local governmental units, as well as establish policies in areas related to the orderly physical, social, and economic growth and development of the state and maximize smart growth.

RSA 9-A:1, III (b) states the comprehensive development plan shall include the following topical areas:

- Vision – serves as the direction for other sections of the plan and articulates the desires of the public relative to the future.
- Land Use – examines the State's role in land development and in funding projects and programs which affect land uses.
- Transportation – considers all pertinent modes of transportation and provides a framework for policies and actions which will provide for a safe and adequate transportation system to serve the needs of the State.
- Public Facilities – examines the projected needs of State institutions and coordinates with other governmental units as to their needs as well.
- Housing – sets forth approaches to meeting the need for affordable housing.
- Economic Development – proposes actions and policies to suit the state's economic goals and needs, based on the current and projected economic strengths and weaknesses.
- Natural Resources – identifies trends in land protection, open space, farmland preservation and protection, and proposes policies and actions necessary at the State level to protect those resources.
- Natural Hazards – identifies actions to improve the ability of the state to minimize damages from future disasters that affect land and property subject to such disasters.
- Recreation – assesses current and future recreation needs within the foreseeable future.
- Utility and Public Service – details State level policies and actions necessary to assure adequate service to the citizens of the State.

- Regional Concerns – describes specific areas of the State with potentially unique concerns and identifies policies and actions which may be reasonably undertaken to assist in addressing those issues.
- Cultural and Historic Resources – identifies State policies and actions necessary to protect the resources of statewide significance and assist in their rehabilitation or preservation, and generally assure their availability for future generations.
- Implementation – long-range action program for assessing the effectiveness of each section of the plan.

The comprehensive development plan shall be renewed or revised every four years, beginning on October 1, 2003, and the plan transmitted to the General Court in accordance with RSA 9-A:1, V.

Recommendation:

We recommend the Department coordinate and collaborate with State partners to establish a current, comprehensive State Development Plan in accordance with RSA 9-A to ensure the State is adequately addressing economic disparities, maintaining a strong economy, developing a globally competitive workforce, investing in essential infrastructure, and preserving the quality of life.

If the Department determines that such a comprehensive plan is not deemed necessary or feasible, it should seek appropriate statutory revision.

Auditee Response:

The Department concurs it has an obligation to establish a current State Development Plan in collaboration with State partners. However, due to various challenges since the 2000 Plan including unsuccessful attempts to move drafts of the Plan forward, staff cuts and turnover, and a limited budget, the Office of Planning and Development has been unable to establish the Plan. The Department will seek ways to help address the challenges to establish the Plan in the future.

Observation No. 10

Administrative Rules Should Be Adopted

The Department has not adopted certain administrative rules required by statute. In addition, rules for the Joint Promotional Program were adopted more than four years late as noted below.

Statute	Description of Required Rule	Administrative Rule Cite	Date of Required Rule Adoption	Status
RSA 541-A:16, I (a)	Organizational Rules	None	Deadline Not Specified in Statute	Not Adopted

Statute	Description of Required Rule	Administrative Rule Cite	Date of Required Rule Adoption	Status
RSA 541-A:16, I (b)-(d)	Rules for Procedures, Rulemaking Petitions, & Declaratory Rulings	None	Deadline Not Specified in Statute	Not Adopted
RSA 12-O:17, VI	Joint Promotional Program	Bea 300	7/1/2017	Rules Adopted 9/30/2021, More Than Four Years Late
RSA 12-O:62, I	Broadband Matching Grant Initiative (BMGI)	None	7/1/2021	Not Adopted
RSA 162-N:8	Economic Revitalization Zone Tax Credits	None	7/1/2017	Not Adopted
RSA 162-O:4	State Jobs Grant Fund	None	7/1/2003	Department of Resources and Economic Development rules (Res 2600) to implement this chapter expired on 6/1/2012. These rules were not readopted after the reorganization of State agencies and transfer of this program to the Department of Business and Economic Affairs on 7/1/2017.

Recommendation:

We recommend the Department adopt statutorily required administrative rules in a timely manner. If the Department determines certain rules are not necessary, the Department should seek appropriate statutory revision.

Auditee Response:

The Department concurs and will take the recommended action. The Department notes that the BMGI rules are nearing completion and federal funds have been approved to deploy, and the State Jobs Grant Fund is apparently a holdover from the previous department and is no longer in operation.

Observation No. 11

Statements Of Financial Interests Should Be Filed

Nine of 33 individuals associated with the Department of Business and Economic Affairs and its related State Workforce Innovation Board did not file statements of financial interests with the Secretary of State for calendar year 2022 as required by RSA 15-A. Additionally, six of the 33 individuals filed the required statement late.

Certain members of the Department of Business and Economic Affairs and the State Workforce Innovation Board established under RSA 12-O:44 are required filers under RSA 15-A:3, I (c) as they represent public officials designated by the agency head to file the required statement or individuals appointed by the Governor to a Board whether regulatory, advisory, or administrative in nature.

Statements of financial interests are due annually by the third Friday in January, or within 14 days of assuming office or appointment. For calendar year 2022, statements of financial interests were required to be filed with the Secretary of State no later than January 21, 2022.

Review of statements of financial interest filings revealed the following:

- One of four Department employees filed late.
- Five of 29 members of the State Workforce Innovation Board filed late.
- Nine of 29 members of the State Workforce Innovation Board did not file.

Recommendation:

We recommend the Department and the State Workforce Innovation Board establish procedures to ensure members submit statements of financial interests by the required filing deadline in accordance with RSA 15-A.

The Department should send annual reminders to required filers to inform them of the filing requirements and encourage compliance.

Auditee Response:

The Department concurs and will continue its active efforts to ensure employees file the required disclosures.

Observation No. 12

Statutory Reports Should Be Filed As Required

The Department was not in full compliance with statutes requiring the filing of reports during the nine months ended March 31, 2022. Four of nine reports required to be filed in accordance with statutes had not been filed as described below:

Statute	Report Description	Due Date	Description of Noncompliance
RSA 9:4-b	Information Technology (IT) Plan	Every two years	Plan not filed – no formal IT plan has been established
RSA 9-A:1	State Development Plan	Every four years	Plan not filed – the plan has not been finalized and transmitted since the 2000 version was completed
RSA 9-B:6	Council on Resources and Development Progress Report	Every four years	Report not yet finalized and filed
RSA 20:7	Biennial Report of Department Operations	October 1, 2021	Report not filed

Recommendation:

We recommend the Department file statutorily required reports timely. If the Department determines the filing of certain statutorily required reports is no longer necessary, the Department should seek appropriate statutory revision.

Auditee Response:

The Department concurs. The IT plan has been completed for FY24/25.

The filing of the State Development Plan (RSA 9-A:1) is addressed under Observation No. 9.

The Council on Resources and Development Progress Report (RSA 9-B:6) was started in 2020 but due to the challenges and other priorities during the pandemic and staff turnover the report was not finalized. The Department will work towards finalizing and filing the report and ensuring that future reports will be filed as required in statute.

Observation No. 13

Broadband Matching Grant Initiative Should Be Established

The Department has not established the broadband matching grant initiative required by RSA 12-O:61.

RSA 12-O:61 established a broadband matching grant initiative (BMGI) within the Department of Business and Economic Affairs, effective July 1, 2021, to provide matching grants to broadband providers, political subdivisions, and communications districts in order to improve broadband availability across the state.

According to the Department, the delay in establishing the broadband matching grant program is primarily due to proposed legislative changes that have not yet been deliberated by the Legislature.

Recommendation:

We recommend the Department continue to work towards establishing the broadband matching grant initiative required by RSA 12-O:61 to expand, and improve, access to broadband in all areas of the State.

Auditee Response:

The Department concurs and the BMGI is underway. Joint Legislative Committee for Administrative Rules (JLCAR) meeting on this exact subject is scheduled for October 6, 2022. In addition, the Department formally filed the BMGI program plan to the U.S. Treasury (which allocated the funds for the program to be used by the BMGI) two days after the Governor signed SB 445. Approval for the program was announced on September 8, 2022.

Observation No. 14

Feasibility Of Implementing The NH College Graduate Retention Incentive Partnership Program Should Be Determined

The Department has not taken the necessary steps to implement the New Hampshire College Graduate Retention Incentive Partnership (NH GRIP) program to raise awareness of an incentive available to college graduates, established on July 1, 2019 under the following statutes:

- **RSA 12-O:47 New Hampshire College Graduate Retention Incentive Partnership Established.** – There is established the New Hampshire college graduate retention incentive partnership (NH GRIP) which shall be administered by the department.

- **RSA 12-O:50 Funding.** - For the biennium beginning July 1, 2021, and each biennium thereafter, the commissioner shall include any requests for appropriations related to NH GRIP in the biennial agency budget requests pursuant to RSA 9:4.

The NH GRIP program was established to help address the workforce shortage in New Hampshire by recruiting and retaining graduates from eligible institutions of higher education and providing incentives to those graduates to work in New Hampshire.

To participate in the program, employers enter into an agreement with the Department to provide eligible students an annual incentive of at least $1,000 for each of the first four years of employment.

The Department reported it did not request appropriations for the NH GRIP program in its FY2022-2023 biennial agency budget request, and no funds have ever been expended by the Department for the program.
According to the Department, no employers have sought certification under the program since the inception of the statute and the Department has no plans to commence or continue the program.

Recommendation:

We recommend the Department take steps to determine the feasibility of implementing the NH GRIP program established under RSA 12-O:47.

If the Department determines it is feasible to pursue efforts to administer the program, the Department should consider the following:

- **develop a strategy and take a more active role to raise awareness of the incentives available to college students under the program. In addition to using electronic media and social media to promote the program, advertisements should be displayed in the career services offices of all eligible colleges and universities, and in the human resources offices of participating employers throughout the State.**

- **include requests for program appropriations in its biennial agency budget requests in accordance with RSA 12-O:50.**

If the Department determines it is not feasible to pursue efforts to administer the program, the Department should seek appropriate statutory revision.

Auditee Response:

The Department concurs and will seek statutory change. The Department will note however that State statute sets forth a program in which an employer would voluntarily establish a program that would make incentive payments to recent graduates of at least $1,000 each year for four years. The Department's role in this program is to certify that any employer's use of this program meets the statutory requirements under RSA 12- O:48, then "upon certification," advertise the existence of employers offering these incentives in coordination with some named entities and keep a list. Since the inception of this program, no employers have sought certification, hence, keeping with fiscal conservative practices, the Department has not sought funding for the program.

Observation No. 15

Statute Establishing COVID-19 Micro Enterprise Relief Fund Should Be Reviewed

The Department has not administered the COVID-19 Micro Enterprise Relief Fund (Relief Fund), a dedicated fund, as required by statute.

The Relief Fund was established on June 25, 2021 by RSA 12-O:64 in the New Hampshire Office of the State Treasurer and is required to be administered by the Department in response to the COVID-19 pandemic to protect the economic health and sustainability of New Hampshire entities with 10 or fewer employees, also known as micro enterprises.

According to the Department, in 2020, the State disbursed a multitude of COVID-19 relief programs using Coronavirus Aid, Relief, and Economic Security Act (CARES Act) funding from the federal government to over 15,000 businesses across the State through the New Hampshire Governor's Office for Emergency Relief and Recovery.

The Department reports that a majority of the relief funding from the federal government had been disbursed and many businesses had already reopened prior to the June 25, 2021 effective date of the establishment of the COVID-19 Micro Enterprise Relief Fund and, as a result, the Department has no plans to use the Relief Fund.

Recommendation:

We recommend the Department establish the Relief Fund in accordance with statute or, if not deemed necessary, seek appropriate statutory revision.

Auditee Response:

The Department concurs and will seek statutory change. The Department notes that the State has disbursed in excess of $500 million in programmatic support for small employers using Coronavirus Aid, Relief, and Economic Security and American Rescue Plan Acts funding since 2020. This particular program represents an extremely small universe of employers, many of which likely have received the support described using the programs already deployed.

Observation No. 16

Statutes Should Be Reviewed For Alignment With Organizational, Accounting, And Reporting Structure

The statutes establishing the Department and its functional work units do not align with the Department's current organizational, accounting, and reporting structure as described below:

Office of Workforce Opportunity

- RSA 12-O:2, I, and RSA 12-O:9, establish a Bureau of Workforce Development within the Division of Economic Development (DED), under the direction of a Division Director. According to the Department, the Bureau's organizational structure and lines of reporting changed in 2021 when the Bureau became the Office of Workforce Opportunity (OWO), moved out of the DED, and the Director began reporting to the Commissioner. The OWO accounting structure in NHFirst did not change to align with the new organizational structure, as the OWO continues to be accounted for in the DED where it was originally situated.

- RSA 12-O:42 refers to the federal Workforce Investment Act of 1998 which was repealed and replaced by the federal Workforce Innovation and Opportunity Act in 2014. The statute has not been amended to reflect the change in federal law which occurred eight years ago.

Bureau of Visitor Service

RSA 12-O:2, I, and RSA 12-O:18, I, establishing the Bureau of Visitor Service are contradictory with respect to where the Bureau is situated in the Department's organizational structure. One statute establishes the Bureau in the Division of Travel and Tourism Development, and the other statute establishes the Bureau in the Commissioner's Office. The Bureau, which is situated in both locations on various slides of the Department's organizational chart, is accounted for in the Commissioner's Office accounting unit in NHFirst.

Office of Planning and Development

RSA 12-O:53, I, establishes an Office of Planning and Development within the Department. The Department's organizational chart and NHFirst identify the Office as a separate, independent Division of the Department. RSA 12-O:2, I, does not recognize the Office as a separate Division of the Department.

Recommendation:

We recommend the Department perform a thorough review of its enabling statutes, organizational chart, and chart of accounts to ensure its functional work units are properly aligned to meet its organizational objectives, and accounting and reporting needs. If the Department determines its statutes are outdated, it should seek appropriate statutory revision.

Auditee Response:

The Department concurs and will work with the legislature to make the appropriate changes as referenced.

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STATE OF NEW HAMPSHIRE
DEPARTMENT OF BUSINESS AND ECONOMIC AFFAIRS

AUDITED FINANCIAL STATEMENT
FOR THE NINE MONTHS ENDED MARCH 31, 2022

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STATE OF NEW HAMPSHIRE
DEPARTMENT OF BUSINESS AND ECONOMIC AFFAIRS

AUDITED FINANCIAL STATEMENT
FOR THE NINE MONTHS ENDED MARCH 31, 2022

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Independent Auditor's Report

To The Fiscal Committee Of The General Court:

Report on the Audit of the Financial Statement

Qualified Opinion

We have audited the financial statement of the New Hampshire Department of Business and Economic Affairs (Department), which comprises the Statement of Revenues and Expenditures – General Fund for the nine months ended March 31, 2022, and the related notes to the financial statement, which collectively comprise the Department's basic financial statement.

In our opinion, except for the matter described in the Basis For Qualified Opinion on the General Fund paragraph, the Statement of Revenues and Expenditures – General Fund referred to above presents fairly, in all material respects, the respective revenues and expenditures of the Department's portion of the State of New Hampshire's General Fund for the nine months ended March 31, 2022, in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion on the General Fund

As discussed in Note 1, the Statement of Revenues and Expenditures – General Fund referred to above does not purport to, and does not, constitute a complete financial statement presentation of the Department in the General Fund in conformity with accounting principles generally accepted in the United States of America.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matter

As discussed in Note 1, the Statement of Revenues and Expenditures – General Fund referred to above reports certain financial activity of the Department. It does not purport to, and does not, present fairly the financial activity of the State of New Hampshire in the General Fund as of March 31, 2022, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

We were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because management has omitted management's discussion and analysis information and the budget to actual schedule for the General Fund that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statement is not affected by this missing information.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for one year after the date the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2022 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, grant agreements, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

September 28, 2022

State of New Hampshire
Department of Business and Economic Affairs
Statement of Revenues and Expenditures – General Fund
For the Nine Months Ended March 31, 2022

Revenues	General Fund
Restricted Revenues	
Federal Funds	$ 5,399,009
Other	66,574
Total Restricted Revenues	**5,465,584**
Total Revenues	**5,465,584**
Expenditures	
Salaries And Benefits	4,182,455
Marketing	3,461,892
Federally-Funded Interagency Transfers	2,063,455
Contracts For Program Services	1,993,649
Grants	1,001,122
Rents And Leases	407,334
Transfers To Other State Agencies	248,383
Utilities	118,120
Maintenance	117,095
Current Expenses	89,977
Indirect Costs	65,499
Telecommunications	52,982
Travel Reimbursement	41,280
Other	28,099
Equipment	27,450
Total Expenditures	**13,898,791**
Excess (Deficiency) Of Revenues Over (Under) Expenditures	**(8,433,207)**
Other Financing Sources (Uses)	
Net Appropriations (Note 2)	8,433,207
Total Other Financing Sources (Uses)	**8,433,207**
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	**$ 0**

The notes to the financial statement are an integral part of this statement.

State of New Hampshire
Department of Business and Economic Affairs
Notes to the Financial Statement
For the Nine Months Ended March 31, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statement of the New Hampshire Department of Business and Economic Affairs (Department) has been prepared with the assistance of the Department of Administrative Services in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the standard-setting body for establishing governmental accounting and financial reporting principles.

A. REPORTING ENTITY

The financial activity of the Department is accounted for and reported in the State's General Fund in the State's Annual Comprehensive Financial Report (ACFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the ACFR. The Department, as an organization of the primary government, accounts for only a small portion of the General Fund and those assets, liabilities, and fund balances as reported in the ACFR that are attributable to the Department cannot be determined. Accordingly, the accompanying General Fund financial statement is not intended to show the financial position or fund balance of the Department in the General Fund.

B. FINANCIAL STATEMENT PRESENTATION

The State of New Hampshire and the Department use funds to report on their financial position and 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 Department reports its financial activity in the fund described below:

<u>Governmental Fund Type:</u>

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 the other funds are charged to the General Fund.

C. REPORTING PERIOD

The State's and the Department's fiscal year is the 12 months ended June 30. The accompanying financial statement of the Department is presented for the nine months ended March 31, 2022.

D. 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 liabilities of the current period. For this purpose, the State generally considers revenues to be available if they are collected within 60 days after year end. Receivables not expected to be collected within 60 days are offset by deferred inflows of resources. An exception to this policy is federal grant revenue, which generally is considered to be available if collection is expected within 12 months after year end. Taxes, grants, licenses, and fees associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period when available. However, funds received under the American Rescue Plan Act of 2021 during the nine months ended March 31, 2022 that went unexpended are recognized as unearned revenues.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service and other long-term obligations including compensated absences, other post-employment benefits, pollution remediation obligations and claims and judgments are recorded only when payment is due.

E. 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 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.

Unused restricted revenues at year end are either lapsed or generally recorded as committed or assigned fund balance. When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the State's general policy to use restricted resources first. In the governmental funds, when expenditures are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the State's general policy to spend committed resources first followed by assigned and unassigned resources, respectively.

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

F. BUDGET CONTROL AND REPORTING

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature for adoption. This budget, which includes a separate budget for each year of the biennium, consists of three parts: Part I is the Governor's program for meeting all expenditure needs and estimating revenues. There is no constitutional or statutory requirement that the

Governor propose, or 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 funds.

In addition to the enacted biennial operating budget, state departments may submit to the Legislature and Governor and Council, as required, supplemental budget requests necessary to meet expenditures during the current biennium. Appropriation transfers can be made within a department with the appropriate approvals; therefore, the legal level of budgetary control is generally at the expenditure class level within each accounting unit within each department.

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

G. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

H. UNEARNED REVENUE

In the governmental fund financial statements, unearned revenue is recognized when cash, receivables, or other assets are recorded prior to being earned, as described in Note 1.D. As of March 31, 2022, approximately $2.2 million of unearned revenue was recognized by the Department in the General Fund as a result of Coronavirus State and Local Fiscal Recovery Funds received from the U.S. Department of the Treasury under the American Rescue Plan Act of 2021.

2. OTHER FINANCING SOURCES

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

3. RISK MANAGEMENT AND INSURANCE

The State and the Department are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; and natural disasters. As a general operating rule, the State self-insures against all damages, losses and expenses except to the extent that provisions of law require the purchase of commercial insurance or a risk assessment has indicated that commercial insurance is economical and beneficial for the State or the general public. In such instances, the State may elect to purchase commercial insurance. There are approximately 26 such commercial insurance programs in effect. These include, but are not exclusive to, state owned real property insurance, fleet automobile liability, watercraft insurance, foster parent liability, ski area liability for Cannon Mountain, and a fidelity and faithful performance bond. In general, claims settled in the past three years under the insurance programs have not exceeded commercial insurance coverage. The State's exposure per claimant is limited by law to a total of $475 thousand under RSA 541-B:14 and the State's current fleet policy coverage is $250 thousand per claimant.

Claim liabilities not covered by commercial insurance are recorded by the State when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claim liabilities not covered by commercial insurance relate primarily to workers' compensation claims and health benefit claims.

4. EMPLOYEE BENEFIT PLANS

NEW HAMPSHIRE RETIREMENT SYSTEM

Plan Description: The New Hampshire Retirement System is the administrator of a cost-sharing multiple-employer Public Employee Retirement System ("NHRS") established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. NHRS is a contributory defined-benefit plan providing service, disability, death, and vested retirement benefits to members and beneficiaries. NHRS covers substantially all full-time State employees, public school teachers and administrators, permanent firefighters, and police officers within the State of New Hampshire. Full-time employees of political subdivisions, including counties, municipalities, and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation. NHRS 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 its members and beneficiaries.

Group I members at age 60 (age 65 for members beginning service on or after July 1, 2011) 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 (1.667%) of average final compensation multiplied by years of creditable service (1/66 of AFC times creditable service for members beginning service on or after July 1, 2011). AFC is defined as the average of the three highest salary years for members vested as of January 1, 2012 and five years for members not vested as of January 1, 2012. At age 65, the yearly pension amount is recalculated at 1/66 (1.515%) of AFC multiplied by years of creditable service.

Members in service with 10 or more years creditable service who are between age 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 a minimum of 20 years of creditable service (age 50 with a minimum of 25 years of creditable service or age 60 for members beginning service on or after July 1, 2011) can receive a retirement allowance at a rate of 2.5% of AFC for each year of service not to exceed 40 years (2% of AFC times creditable service up to 42.5 years for members beginning service on or after July 1, 2011). A member who began service on or after July 1, 2011 shall not receive a service retirement allowance until attaining age 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service. However, the allowance will be reduced by ¼ of one percent for each month prior to age 52.5 that the member receives the allowance.

Group II members hired prior to July 1, 2011 who have non-vested status as of January 1, 2012 are subject to graduated transition provisions for years of service required for regular service retirement, the minimum age for service retirement, and the multiplier used to calculate the retirement annuity, which shall be applicable on January 1, 2012.

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.

All covered Department employees are members of Group I.

Pursuant to RSA 100-A:52, RSA 100-A:52-a and RSA 100-A:52-b, NHRS also provides a postretirement medical premium subsidy for Group I employees and teachers and Group II police officers and firefighters.

NHRS issues publicly available financial reports that can be obtained by writing to them at 54 Regional Drive, Concord, NH 03301-8507 or from their web site at http://www.nhrs.org

Funding Policy: NHRS is financed by contributions from the members, the State and local employers, and investment earnings. By statute, Group I members contributed 7.0% of gross earnings. Group II firefighter members contributed 11.80% of gross earnings and group II police officers contributed 11.55% of gross earnings. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the NHRS actuary using the entry age normal funding method and are expressed as a percentage of gross payroll. The State contributed 14.53% of gross payroll for Group I employee members, 32.99% of gross payroll for Group II firefighter members, and 33.88% of gross payroll for Group II police officer members.

The Department's required and actual contributions for the nine months ended March 31, 2022 were $390,973, which included an amount for other postemployment benefits of $20,988.

OTHER POSTEMPLOYMENT BENEFITS

The State also participates in two other postemployment benefit (OPEB) plans - (1) a funded plan administered by NHRS, hereafter referred to as the Trusted OPEB Plan, and (2) a nonfunded plan, hereafter referred to as the Non Trusted OPEB Plan. The actuarial liabilities and expenses of the OPEB plans do not flow to the Department level financial statement.

General Information about the Trusted OPEB Plan

Plan Description: Pursuant to RSA 100-A:52, RSA 100-A:52-a and RSA 100-A:52-b, NHRS administers a cost-sharing multiple employer defined benefit postemployment medical subsidy healthcare plan designated in statute by membership type. This plan has been previously defined as the Trusted OPEB plan but is also commonly referred to as "medical subsidy plan". The membership groups are Group II Police Officers and Firefighters and Group I State Employees.

NHRS issues publicly available financial reports that can be obtained by writing to them at 54 Regional Drive, Concord, NH 03301-8507 or from their web site at http://www.nhrs.org

Benefits Provided: The Trusted OPEB Plan provides a medical insurance subsidy to qualified retired members. The medical subsidy is a payment made by NHRS to the former employers of its members, or their insurance administrator, toward the cost of health insurance for a qualified retiree, spouse, and certifiably dependent children with a disability who is living in the household and being cared for by the retiree. Under specific conditions, the qualified beneficiaries of members who die while in service may also be eligible for the medical subsidy. The eligibility requirements for receiving Trusted OPEB Plan benefits differ for Group I and Group II members. Eligibility for the medical subsidy payment is determined by the relevant RSA's, however, the medical subsidy plan is closed to new entrants. The State is a recipient of these medical subsidy payments on behalf of its former employees.

Contributions: Pursuant to RSA 100-A:16, III, and the biennial actuarial valuation, funding for the medical subsidy payment is via the employer contribution rates set forth by NHRS. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the NHRS actuary using the entry age normal funding method and are expressed as a percentage of gross payroll. The State contributed .78% of gross payroll for Group I employee members and 3.21% of gross payroll for Group II police officer and firefighter members. Employees are not required to contribute to the Trusted OPEB Plan.

The State Legislature has the authority to establish, amend and discontinue the contribution requirements of the medical subsidy plan. Employer contributions made by the State to NHRS for the medical subsidy component amounted to $20,988 for the nine months ended March 31, 2022.

General Information about the Non Trusted OPEB Plan

Plan Description: RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses through a single employer (primary government with component units) defined postemployment benefit plan, previously defined as the Non Trusted OPEB Plan. These benefits include group hospitalization, hospital medical care, surgical care and other medical 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 on or after July 1, 2003 to have 20 years of State service in order to qualify for health benefits. During fiscal year 2011, legislation was passed that requires Group II employees to have 20 years of State service to qualify for retiree health benefits. Additionally, during fiscal year 2012, legislation was passed requiring Group I employees hired after July 1, 2011 to have 25 years of State service and increased the normal retirement age for Group I and Group II employees hired after July 1, 2011. These and similar benefits for active employees and retirees are authorized by RSA 21-I:30 and provided through the Employee and Retiree Benefit Risk Management Fund, a single-employer group health fund, which is the state's self-insurance internal service fund for active state employees and retirees. The Fund covers the cost of medical and prescription drug claims by charging actuarially developed working rates to State agencies for participating employees, retirees, and eligible spouses. An additional major source of funding for retiree benefits is from the NHRS medical subsidy payment described earlier.

5. SUBSEQUENT EVENTS

State Small Business Credit Initiative

On June 9, 2022, the Department received $19.7 million in federal grant funds from the U.S. Department of the Treasury under the State Small Business Credit Initiative (SSBCI) Act of 2010, as amended by the American Rescue Plan Act of 2021 for the purpose of providing credit assistance to small businesses. The Department contracted the administration of the SSBCI grant program to the New Hampshire Business Finance Authority (BFA) and, on the same day the funds were received, the Department disbursed the funds to the BFA under the contract.

InvestNH Housing Recovery

On June 23, 2022, the Department received $100.1 million in State Fiscal Recovery Funds from the U.S. Department of the Treasury under the American Rescue Plan Act of 2021 for the purpose of funding the InvestNH housing recovery program to accelerate the availability of housing in the State. The Department spent $5 million of the funds on September 7, 2022 and the unspent portion of the funds is recognized as unearned revenues in the General Fund.