

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF EMPLOYMENT SECURITY**

**FINANCIAL AUDIT REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2009**

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF EMPLOYMENT SECURITY**

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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
DEPARTMENT OF EMPLOYMENT SECURITY**

Reporting Entity And Scope

The reporting entity of this audit and audit report is the New Hampshire Department of Employment Security. The scope of this audit and audit report includes the financial activity of the Department of Employment Security for the fiscal year ended June 30, 2009. Unless otherwise indicated, reference to the Department or auditee refers to the Department of Employment Security.

Organization

The New Hampshire Department of Employment Security (Department) is a federally funded State agency. In 1933, the Wagner-Peyser Act passed leading to the creation of the State Employment Service, first known as the National Reemployment Service. In 1935, the Social Security Act passed. Title III and Title IX of the Social Security Act establish the framework for the states to pass laws setting up unemployment compensation systems. In November of 1935, New Hampshire Unemployment Law became effective.

The current enabling statute for the Department of Employment Security is RSA 282-A:107 which establishes the Department including an Unemployment Compensation Bureau, an Employment Service Bureau, and an Economic and Labor Market Information Bureau. Each bureau is responsible for the discharge of its distinct functions and is a separate administrative unit with respect to personnel, budget, and duties except so far as the Commissioner of the Department may find such separation is impractical.

The administrative operations of the Department are under the supervision and direction of the Commissioner who is appointed by the Governor, with the consent and advice of the Executive Council, to a five-year term. Each bureau is administered by a full-time administrator who is subject to the supervision and direction of the Commissioner.

RSA 282-A:128 established the Advisory Council on Unemployment Compensation, within the Unemployment Compensation Bureau, to aid the Commissioner in formulating policies and discussing problems related to the administration of the unemployment compensation statutes and in assuring impartiality and freedom from political influence in the solution of such problems.

RSA 282-A:62 established the Appellate Board. Its purpose is to hear appeals from parties to benefit claimant determinations. The Board is administratively attached to the Department for organizational purposes but operates independently of the Department.

The Department's headquarters is located at 32 South Main Street in Concord. The Department also operates a network of thirteen local offices located throughout the State. Each local office offers a range of services to employers and job seekers.

At June 30, 2009, the Department had five unclassified, 307 classified, and 87 temporary employees.

Responsibilities

The mission of the Department is to:

- Operate a free public employment service through a statewide network of job and information centers, providing a broad range of assisted and self-directed employment and career related services, and labor market information to all customers;
- Pay unemployment compensation benefits in a timely manner to eligible claimants and collect the tax which funds these payments; and
- Develop and disseminate labor market information and provide measurements of labor market outcome to assist local and state officials, private employers, educators and trainers, and the public in making decisions that promote economic development and the efficient use of state labor resources.

The Department's bureaus and their mission statements/purpose are listed below:

Unemployment Compensation Bureau (UCB)

The mission of the Unemployment Compensation Bureau is to:

- Pay benefits to eligible claimants temporarily unemployed or underemployed through no fault of their own. Benefits are paid to former employees of private industry, state and local governments.
- Collect taxes from employers to fund the benefit payments.

Employment Service Bureau and Operations (ESB)

The mission of the Employment Service Bureau and Operations is to: Operate a free public employment service which benefits the job seeker, the employer, and the economy, by helping people find work through work search programs, employment information and economic and labor market information; and by assisting employers with job openings, and economic and labor market information which benefits the employer in making informed decisions about their business, relative to the economy.

Economic and Labor Market Information (ELMI) Bureau

The Bureau develops and disseminates labor market information and measures labor market outcomes to assist public officials, private employers, educators and trainers, and the public in making decisions that promote economic opportunity and the efficient use of state labor resources. ELMI is the resource for employment statistics, demographics, and economic and labor market information in New Hampshire, including the unemployment rate.

Funding

The financial activity of the Department of Employment Security is accounted for in the General and Unemployment Compensation Funds of the State of New Hampshire. A summary of the

Department's revenues and expenditures/expenses for the fiscal year ended June 30, 2009 is shown in the following schedule.

**Summary Of Revenues And Expenditures/Expenses
Fiscal Year Ended June 30, 2009**

	<u>General Fund</u>	<u>Unemployment Compensation Fund</u>	<u>Combined Total</u>
Total Revenues	<u>\$ 35,472,559</u>	<u>\$ 165,895,781</u>	<u>\$ 201,368,340</u>
Total Expenditures/Expenses	<u>\$ 37,763,760</u>	<u>\$ 280,385,706</u>	<u>\$ 318,149,466</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures/Expenses	<u>\$ (2,291,201)</u>	<u>\$ (114,489,925)</u>	<u>\$ (116,781,126)</u>

Prior Audit

The most recent prior financial audit of the Department of Employment Security was for the fiscal year ended June 30, 1998. The appendix to this report on page 57 contains a summary of the current status of the observations contained in that report. The prior audit report can be accessed at, and printed from, the Office of Legislative Budget Assistant website, www.gencourt.state.nh.us/lba/audit.html.

Audit Objectives And Scope

The primary objective of our audit was to express opinions on the fairness of the presentation of the financial statements of the Department as of and for the fiscal year ended June 30, 2009. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we considered the effectiveness of the internal controls in place at the Department 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:

- Cash and Investments,
- Unemployment Claims,
- Employer and Federal Contributions,
- Revenues, and
- Expenditures/Expenses.

Our reports on internal control over financial reporting and on compliance and other matters, and on management issues, the related observations and recommendations, our independent auditor's report, the financial statements, 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 accompanying financial statements of the Department of Employment Security (Department) as of and for the fiscal year ended June 30, 2009 and have issued our report thereon dated March 16, 2010, which was qualified as the financial statements do not constitute a complete financial presentation of the Department in the General Fund. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the

entity's internal control. We consider the deficiencies described in Observations No. 1 through No. 13 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies identified above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted immaterial instances of noncompliance which are described in Observations No. 14 through No. 21.

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

We noted certain other management issues, which we described in Observations No. 22 through No. 24, that we reported to the management of the Department in a separate letter dated March 16, 2010.

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

Office Of Legislative Budget Assistant

March 16, 2010

Internal Control Comments
Significant Deficiencies

Observation No. 1: Financial Accounting And Reporting Policies And Procedures Should Be Established For The Unemployment Compensation Fund

Observation:

The Department does not have comprehensive policies and procedures for critical Unemployment Compensation Fund (UCF) financial accounting and reporting activities.

The Department's UCF Treasurer is currently responsible for choosing and applying UCF accounting policies, including methodologies for compiling estimates of year-end accounts receivable and accounts payable and other liabilities. The UCF accounting and reporting practices of the Department have largely been based upon the knowledge and experience of this long-standing Department employee and have not regularly been subject to a formal vetting process or review for continued appropriateness. Because policies and procedures are not fully documented, the Department has become somewhat reliant upon incumbent employees to perform critical Department responsibilities.

Examples of Department financial reporting errors that occurred that may have been avoided if comprehensive financial accounting and reporting policies and procedures were available and followed include:

- The Department's June 30, 2008 UCF financial statements understated accounts receivable and liabilities by \$1,333,161, as a result of not accurately accruing the effects of administrative contributions at June 30, 2008. The Department's UCF June 30, 2009 financial statements understated accounts receivable and revenue by \$1,347,309 as a result of misapplication of a journal entry in the Department's general ledger.

The Department's reliance on incumbent employees to perform critical financial accounting and reporting responsibilities without support from approved policies and procedures is a risk, as errors or frauds may not be detectable, and efficient and effective continuity of operations may be jeopardized if key employees unexpectedly terminate their employment or otherwise no longer perform the functions.

Recommendation:

The Department should establish comprehensive policies and procedures for all critical Unemployment Compensation Fund (UCF) financial accounting and reporting activities.

Policies and procedures should be vetted by management and sufficiently detailed to provide guidance for routine processes and activities and also provide guidance for accounting and reporting non-routine financial activity and transactions. The policies and procedures should be sufficiently developed and descriptive to allow employees involved in performing the functions

and those responsible for the review and approval of that activity to determine adherence to the policies and procedures.

Auditee Response:

The Department concurs with the recommendation to establish comprehensive policies and procedures for all critical Unemployment Compensation Fund (UCF) financial accounting and reporting activities. The Department recognizes the importance of establishing comprehensive written UCF policies and procedures. The Department does maintain informal written procedures on UCF financial accounting and reporting, much of which is governed by the United States Department of Labor (USDOL) via handbooks and program letters, and is enforced by the accounting principles included in the ACCPAC accounting software program utilized by the Department for UCF accounting and reporting. The development of comprehensive policies and procedures for UCF accounting and reporting has been an objective of the Department. With limited staff resources available in the area of UCF financial accounting and reporting, the primary focus has been on meeting strict cash management deadlines as well as USDOL reporting deadlines.

The Department's management, business office and legal staff will work collectively to review existing policies and procedures and to develop and maintain comprehensive policies and procedures for UCF financial accounting and reporting. The Department will evaluate the need for additional staff dedicated to the development and maintenance of comprehensive UCF financial accounting and reporting policies and procedures.

The process of combining existing informal documentation and guidance into preliminary comprehensive documentation will begin immediately with an expected completion date of June 30, 2010.

Observation No. 2: Controls Over Employer Refunds Should Be Improved

Observation:

Tax refund checks are routinely returned for mailing purposes to the employees who initially processed the refund transaction. The handling of checks by employees who initiate the production of the checks is a significant deficiency in design of the Department's controls, as it increases the risk that a check can be inappropriately generated and misdirected by a single employee.

Tax Unit employees, within the Unemployment Compensation Bureau, are responsible for posting payments and adjustments to employer accounts. An employer who has a credit balance may request a refund of all or part of the credit balance. An employee in the Tax Unit inputs refund requests in NHACTS (tax system). The refund checks are prepared and signed in the Fiscal Unit and forwarded to the Tax Unit to be placed in envelopes and mailed.

To take advantage of this design weakness, a Tax Unit employee with access to process adjustments to employer accounts could post a fraudulent adjustment to create a credit balance on an employer's account, request a refund of the adjustment amount, and intercept the check prior to mailing. The employer would not have any notice of the activity on its account.

During fiscal year 2009, the Department issued a total of 688 employer refund checks totaling approximately \$798,000.

Recommendation:

The Department should strengthen the design of its control over the employer credit refund process. Specifically, refund checks should not be accessible to the employees of the unit that initiated the production of the checks. Access to refund checks should be limited. Checks should be mailed as soon as practical after production and should not be unnecessarily transferred among employees prior to mailing.

The Department should consider whether it would be appropriate and feasible to notify employers whenever adjustments are made to their accounts.

Auditee Response:

We concur and have changed the controls in which the refund checks will no longer be mailed out from the Contributions Section. The refund checks are now mailed out by one of the clerical staff in the Fiscal Section.

Observation No. 3: Controls Over Adjustments To Taxpayer Records Should Be Improved

Observation:

A segregation of duties weakness in the assigned job responsibilities affecting the Department's tax system (NHACTS) presents a risk that inappropriate adjustments to tax transactions could be used to hide errors or frauds.

The Department has established a limited detection-control procedure whereby an employee reviews adjustments made to employer tax-related information (e.g. changes made to the amount of an employer's taxable wages, taxes due, penalty fee, interest due) subsequent to the initial posting of this information.

- During fiscal year 2009, the control value of this review function was compromised as the employee responsible for this control review also regularly posted transactions and adjustments to NHACTS. In addition, this employee, as part of their regular duties, also had physical access to the payments made by the taxpayers, prior to their deposit.
- The control value of this review function is further compromised by the lack of documented procedures for performing the review including: when, how, and how many adjustment

transactions are reviewed and how the performance of this control activity is monitored for compliance and effectiveness.

Recommendation:

The Department should improve its controls over adjustments to taxpayer records posted to the NHACTS.

- The Department should segregate the duties of posting and reviewing transactions posted to the NHACTS.
- The Department should establish policies and procedures for performing reviews of NHACTS adjustment transactions. The department should also monitor that review activity to ensure that it continues to operate as intended.

Auditee Response:

We concur that the controls over adjustments to taxpayer records should be improved. The adjustments done by the staff are all reviewed by a higher level person making sure that every adjustment was done correctly. They verify that the gross wages, excess wages and the taxable wages are done correctly. We concur that there needs to be a segregation of duties of posting and reviewing transactions. One of the improvements we plan to make is having the Supervisor of the Accounting Unit periodically checking the work of the person reviewing the adjustments.

Observation No. 4: Feasibility Of Identifying And Investigating Potential Reporting Errors On Employer Tax And Wage Reports Should Be Explored

Observation:

A relatively high apparent error rate in employer reporting of taxable wages indicates that a Department review of the cause of such errors may be warranted.

During our testing of employer contributions revenues, we identified four employers out of 58 tested, or 7%, where information on the tax and wage reports indicated the employers likely made errors in amounts reported as net taxable wages. Based on information on the tax and wage reports, it appears these employers did not accurately identify and utilize the correct taxable wage base in the tax form calculations. The apparent net understatement of taxable wages and taxes paid by these employers totaled \$7,564, and \$150, respectively, for the period reported on the tax and wage report.

According to the Department, it does not have a method for detecting employer reporting errors with net taxable wages other than audits performed by the Department's audit unit, which audits approximately 2% of all employers annually. The Department's processes have no exception reporting to identify those employers that may have made errors based on wage and tax report information, and no procedures to follow-up with employers to determine if a reporting error was made. Possibly contributing to employer reporting errors is the Department's tax and wage report

which directs employers to report “Total Gross Wages Paid This Quarter”. Certain reporting errors may be avoided if the form made clear the employer needed to report “Total Gross Wages Earned In New Hampshire Paid This Quarter”.

Recommendation:

The Department should explore the feasibility, including cost effectiveness, of implementing procedures to identify and investigate potential employer reporting errors apparent from filed tax and wage report information.

The Department should review and revise for clarity, as appropriate, its Employer Quarterly Tax And Wage Reports. The tax and wage reports should be designed to promote complete and accurate reporting.

Auditee Response:

We concur in part. The feasibility of identifying and investigating potential reporting errors on employer tax and wage reports should be explored. However, we do not believe that there is a high error rate of employers misreporting taxable wages on the tax and wage report. The taxable wage base for 2010 has increased from \$8,000 to \$10,000. We have requested our DoIT staff to produce a report that would match the total excess wages that is calculated off the system to what the employer actually reported on their tax report. This will allow the department to identify those employers who may still be using the \$8,000 taxable wage base rather than the \$10,000 currently in place. We have asked for the report to be sorted by largest differences. Employers that are identified on this list will have their accounts reviewed. If it is then determined that the employer miscalculated their excess and taxable wages manual adjustments will be made on the employer’s account to correct the reporting error and a bill along with a letter of explanation will be sent to the employer. We plan to continue using this report when the taxable wage base increases to \$12,000 and \$14,000 and to also continue using it each quarter as part of the internal control. We also are planning on advising the employers on the instruction sheet on the tax and wage report of the excess calculator that is available on our website for those employers who still have difficulty in computing the excess and the taxable wages.

Observation No. 5: Formal And Authorized Policies And Procedures Manual Should Be Established For The Department’s Contributions Unit

Observation:

The Department’s Contributions Unit (Unit or Section), within the Unemployment Compensation Bureau, has established an informal and unapproved manual of Unit policies and procedures which is used by the Unit both as a source for reference to current procedures for Unit employees and also as a training manual for new employees.

The manual covers many topics important to the Unit’s responsibilities. Sections of the manual include: Reportable Wages, Cashier/Mail, Payroll Service Electronic Filing, Adjustments,

Refunds, Tax Rates, Wage Procedures, FUTA [Federal Unemployment Tax Act] Recertification, Reimbursable Accounts, Legal, Status Account Activity Checklists, and Miscellaneous. The manual is an informal document that has not been submitted for review by the Unit's or Department's management. And while the manual resides on the Department's network, there is no formal process for updating the manual. A Unit employee updates the manual as she sees fit, without supervisory knowledge or approval.

The fact that Unit employees took it upon themselves to establish a manual would indicate a manual or other resource for policies and procedures is needed within the Unit.

Recommendation:

The Department and Unit should establish a formal and authorized policies and procedures manual for the Department's Contributions Unit. The Unit's current unauthorized manual should be used as a resource for determining subjects and areas that need to be addressed in a Department manual. The manual should include procedures for the maintenance and updating of the manual, including encouraging employees to suggest changes to the manual when they see opportunities for improving Unit operations.

Auditee Response:

We concur that a formal and authorized policies and procedures manual should be established. Three years ago a procedures manual in the accounting unit was put together to be a training tool for current staff and new staff entering the Section. This has also been used by those being cross-trained to perform back-up to other positions in the Section. Since the manual was produced there have been updates made at the request of the supervisor but these updates had not been verified by the supervisor. The Section will make yearly if not more frequent updates to the manual as needed. The manual had previously been reviewed by the Tax Unit Supervisor when first produced but will now be reviewed by both the Supervisor and the Assistant Director - Contributions on a more consistent basis.

Observation No. 6: Policies And Procedures Should Be Expanded For Delinquent Employer Accounts

Observation:

According to the Department, policies and procedures for the Department's employer tax collection processes do not include a timeline for collection activities to be performed, including when a delinquent employer account should be turned over to the field auditor section, legal section, or specific dates for when notices and demand letters should be sent. While a Work Standards memo states a field auditor is to make "a minimum of 3 documented contacts, each quarter, on all delinquent employers on the Field Auditor Control Listing (FAQCL)", during fiscal year 2009, the Department was not actively monitoring to ensure this work standard was being met.

For example, one employer (2.5%) out of 40 employers in a random sample selected for employer contributions testing purposes was noted as being delinquent in the submission of Employer Quarterly Tax and Wage Reports. As of October 10, 2009, the employer had not submitted any fiscal year 2009 reports or tax payments. According to the Department, the tax system, NHACTS, generated notices that were sent to the employer and the account had been turned over to field auditors for collection. However, the responsible field auditor did not make three documented contacts in each quarter of delinquency, contrary to the Work Standards memo. According to the Department, much of the field auditors' time has been devoted to other responsibilities including resolving blocked claims (claims for benefits with no reported wages). The Department reports the collection attempts made to date relative to this delinquent account consist of field card/notifications sent to the employer in April and August 2009.

In September 2009, at the time this issue was discussed with the Department, the Department reported the amount of weekly benefit payments was approximately \$6 million and the amount of taxes outstanding from filed but unpaid reports was approximately \$2.1 million. The amount outstanding from delinquent/non-filed reports was unknown.

Recommendation:

The Department should expand its policies and procedures for pursuing delinquent employer accounts. The policies and procedures should include timelines for specific collection activities on delinquent employer accounts and monitoring controls to reasonably ensure that the intended collection activities are being performed on an approved schedule.

Auditee Response:

We concur that policies and procedures should be expanded for delinquent employer accounts. There are currently existing policies and procedures in place for delinquent employer accounts. The problem exists because of the workload placed upon the Field Auditors over the past years. Over the last two to three years there has been a significant spike in the number of blocked benefit claims. The number of blocked benefit claims increased from an average of around 100 per month to a high of 300 in a month. These have always been priority assignments and have taken time away that would have been spent on audits and collections. The work standards for Field Agent collections has always been to make at least three documented contacts per quarter on each of their delinquent employers in their territory. We are hoping that once the claim load subsides that they will all be able to again have time to spend more time on their collection activity.

Observation No. 7: Verification Control Over Receipts Should Be Improved

Observation:

The Department's control for verifying the accuracy of batched receipts is not consistently documented as completed. A weakness in the control's design and operation does not allow for a reasonable monitoring of the control's effectiveness.

The Department's controls include a verification by a second employee to ensure tax receipts are processed accurately in the Department's tax system (NHACTS). The control process includes having an employee verify the accuracy of the batch input and initial the first page of the batch ticket as evidence that the batch has been reviewed for accuracy and completeness. The verification process is described in the Department's draft Contributions Manual, section "Verifying Keyed Batches". The employee performing verification is to "Initial first page of batch ticket". (Observation No. 5 recommends the manual be subject to a management review and approval.)

In four (10%) of a random sample of 40 Batch Detailed Tickets tested, there was no evidence to establish the batches had been verified. None of the four noted Batch Detailed Tickets were initialed to evidence batch verification having been performed. Also, as NHACTS does not maintain evidence of who processed a batched receipt in the system (the processor's identity is overwritten when the cashier further processes the batch), the identification of the initial batch processor is not retained compounding the difficulty in monitoring the control even when the verifier's initials are on a batch ticket. Without this information, it is not possible to monitor compliance with the intended control activity.

Recommendation:

The Department should improve the design of its control for verifying the accuracy of batch receipt input by including a control activity to monitor for evidence of the verification control being consistently applied.

In order to monitor the batch verification control activity, it will be essential for the identity of the batch processor to be documented. If NHACTS cannot be revised to retain the processor's identity, it may be sufficient for the processor to also initial the batch document to evidence the employee responsible for performing the data input.

Auditee Response:

We concur that verification control over tax receipts should be improved. Even though certain batches were missing initials of the reviewer it has always been the procedure for a second person to review each batch. Each batch is now signed off by both the reviewer and the original person processing the batch.

Observation No. 8: Procedures Should Be Implemented To Identify All Fiscal Year End Accounts Receivable

Observation:

The Department did not have procedures in place to identify and accrue all General Fund revenue amounts that should be recognized as accounts receivable at fiscal year end. While the Department typically accrues amounts earned but not received from federal and other sources, the Department did not regularly recognize and report administrative contributions due to the

General Fund from the Unemployment Compensation Fund at each June 30 fiscal year end. The Department did record an administrative contributions accounts receivable in the General Fund at June 30, 2009, after auditors brought the issue to the Department's attention.

The Department recorded \$51,746 in administrative contribution amounts known as due from taxpayers at June 30, 2009 but did not consider a subsequent review of the Unemployment Compensation Fund performed by the Department that identified more funds due to the General Fund. The amount of the administrative contributions due to the General Fund from the Unemployment Compensation Fund at June 30, 2008 was \$1,333,161 and at June 30, 2009 was \$1,397,909.

The Department reported that its failure to accrue administrative contributions due to the General Fund at fiscal year end was an oversight.

Recommendation:

The Department should implement procedures to ensure all revenue accounts subject to accrual are identified and revenues and accounts receivable are recorded.

Auditee Response:

We concur. The Department has implemented appropriate procedures to properly identify and report year end accounts receivables in order to avoid such an oversight from occurring in the future. Due to the timing of certain receivable information, the Department has coordinated with the Bureau of Financial Reporting to insure inclusion of appropriate receivable information in the year end financial reporting processes.

Observation No. 9: Proper Business Ethics And Controls Should Be Emphasized

Observation:

Department employees, in an apparent attempt to avoid an audit comment, inappropriately and without authorization used a Department official's signature stamp to apply a signature to certain payroll documents requested by the auditors for review. The stamped signature was intended to evidence the documents as having received prior review and approval by the Department official. The unauthorized use of a signature stamp and the intentional misrepresentation of documents requested as part of an audit are serious breaches of controls.

Recommendation:

The Department should review with its employees the need to maintain proper business ethics and controls. The Department should consider the misuse of the signature as a serious breach of the Department's control environment and react with appropriate direction and training for its employees.

The Department should review the need for, and security over, signature stamps. If signature stamps of Department officials are to be retained, the stamps should be secured from inappropriate and unauthorized use.

Auditee Response:

We concur. Once management discovered the improper use of a signature stamp, the stamp was immediately confiscated and destroyed to avoid any possibility of misuse in the future. The misuse of the signature stamp was not in any way an attempt to hide or cover-up fraud or errors with the stamped payroll documents.

Observation No. 10: Monitoring Of Changes In Employee Health Benefit Enrollments Should Be Improved

Observation:

The Department did not adhere to State policy directing agencies to monitor for changes in employee life events that would affect the amount it pays for employee health benefits.

State policy directs agencies to monitor employee life event changes reported on the State's health benefits enrollment service monthly and to obtain documentation to support those reported life event changes. The Department did not perform this monitoring during fiscal year 2009.

The State policy does not require agencies to obtain documentation supporting employee benefits enrollment at the time of hire. The policy only requires obtaining documentation of changes in enrollment since the time of first employment. Life event changes include birth or adoption of a child, marriage, divorce, and death of a child or spouse. Each of these events likely has an effect on the amount of health benefits ultimately charged to the Department and to the federal programs administered by the Department.

The State of New Hampshire offers health benefits to all full-time state employees, including those who work for the Department. The Department makes monthly payments to the Department of Administrative Services (DAS) for the difference between the monthly working rate established by the DAS for the plan and the employee share of those costs.

The Department's administrative expenditures, including health benefit expenditures, are 100% reimbursable from the federal government through the Unemployment Insurance (UI) and Employment Services (ES) program grants. To be allowable for federal reimbursement, expenditures must be for purposes necessary for the proper and efficient administration of the UI program or related to providing employment services to unemployed individuals and job seekers for the ES program. The lack of adherence to State controls over health benefits expenditures raises the risk that the Department and the UI and ES programs may be charged for health benefit costs that are not in compliance with the State's health benefits program.

Recommendation:

The Department should comply with State policy directing the review of employee enrollment information and obtaining documentation to support changes in employee enrollment.

The State may want to consider requiring agencies to obtain documentation supporting employee benefits enrollment information at the time of hire.

Auditee Response:

We concur. Choicelinx is our vendor who provides the Human Resources section with employee insurance coverage information. Employees utilize a self service model where changes are made by them directly online. The monthly report currently provided by Choicelinx and monitored by the section only includes the following information:

- Window of enrollment for new hires
- Employees who have dependents who have reached 19 years of age requiring proof of attendance at a post secondary institution.

We have implemented a procedure to request monthly online reports from Choicelinx with all employees who have entered qualifying events (birth of a child, marriage, divorce, etc) and are requiring a copy of all documentation associated with the change. This will insure that we have documentation in the employee's benefits file which provides evidence of the qualifying event.

Until the policy at the Division of Personnel which requires this documentation is changed, we will only be requesting it upon an employee's change in coverage.

Department of Administrative Services Response:

We concur.

The Department of Administrative Services (Department) administers the State's Employee and Retiree Health and Dental Benefits Program (Program). The Program utilizes human resource representatives located within each agency to assist in the administration of certain aspects of the Program including verification of eligibility for health and dental benefits based on qualifying events throughout the year.

The Department communicates with agency representatives in various ways. Policies and procedures relating specifically to eligibility verification are posted on the State's intranet (Sunspot). Enrollment policies and procedures are also discussed with agency representatives annually during the open enrollment process and periodically during monthly meetings convened by the Director of Personnel for agency representatives. The Department relies on agency representatives to obtain and verify appropriate documents in support of employees' enrollment changes throughout the year.

The Program's eligibility verification policies and procedures are limited to qualifying events. The Program acknowledges that current policies and procedures need to be updated to reflect current vendor information and certain administrative process issues. Furthermore, moving forward, it would be appropriate for the Program to develop policies and procedures relating to eligibility verification for new hire spouses and dependents.

Observation No. 11: Monitoring Of Payroll Control Activities Should Be Improved

Observation:

Instances noted during the audit of the Department's inconsistent enforcement of payroll control activities indicate certain of the Department's payroll controls may not have been effective during fiscal year 2009.

1. The Department's policy directive no. 2070-2 describes procedures for reporting time and attendance for all full-time employees. The directive requires Attendance and Overtime Reports be signed by the immediate supervisor/manager and approved by his/her immediate supervisor.
 - Payroll testing revealed 16 of 43 or 37% of a random sample of timesheets did not contain a second supervisor's signature to evidence compliance with the directive. According to the Department, time constraints often result in the secondary review and approval being added months after the pay period, however, any issues related to this review can be addressed at that time and applied retroactively.
 - In addition, based on observation and discussions with the Department, the timesheets of 13 local office supervisors were generally not subject to a secondary review and approval during fiscal year 2009.
2. The Department's policy directive no. 2040-4 describes procedures for requesting and approving overtime. The directive requires authorization for overtime, not associated with a meeting or training, be obtained in advance. Evidence of the overtime authorization is required to accompany the biweekly Attendance and Overtime Report. The Department's payroll personnel reported overtime is processed to pay even in cases when the required approvals are absent. Payroll personnel report they subsequently request evidence of the overtime approval. During fiscal year 2009, the Department's overtime expenditures totaled \$466,888.

Recommendation:

The Department should review its payroll directives, including directives 2070-2 and 2040-4, to ensure the directives remain in concert with the Department's intended controls. The Department should also review whether its current payroll systems and process allow for the application of the timely reviews and approvals required by its payroll directives.

If the Department is to continue with the control activities provided by directives 2070-2 and 2040-4, the Department should reestablish the effectiveness of the control activities by training employees in the application of the controls and establishing effective monitoring of the employees' compliance with the controls. Noncompliance with controls should not be ignored but should result in actions intended to increase compliance.

Auditee Response:

We concur. The Department had previously determined the second supervisor's signature requirement on bi-weekly timesheets was ineffective and inefficient. The Department believes the supervisor's approval is an adequate control. It is the responsibility of the immediate supervisor to certify and ensure their staff's time reporting is appropriate and accurate. Agency Directive 2070-2 will be updated to reflect changes in procedures and controls. Updated Directives 2070-2 and 2040-4 will be disseminated to all staff and require certification of compliance by all Department staff.

Management is always aware of staff overtime needs in advance; however, there are times when verbal approval is given initially and written approval is obtained subsequently. Therefore, there may be times when Payroll processes the payment of overtime without the written overtime approval attached to the bi-weekly Attendance and Overtime Report but only after confirming with the supervisor that appropriate approval was obtained and the documentation is forthcoming.

Observation No. 12: Controls Over Pay Rates In Federal Cost Accounting System Should Be Implemented

Observation:

Timing and other errors in employee pay rates posted to the Department's federal cost allocation system (FCAS) result in the Department having to post monthly adjustments to the FCAS to distribute the effect of the uncorrected errors across the Department's federal programs.

As part of payroll testing, we compared posted pay rates in the State's payroll system to FCAS for a random sample of 58 Department employees. Errors in posting consistent pay rates were noted for three (5%) of the 58 employees, as bulleted below.

- GHRs hourly pay rate was \$17.64 while the FCAS pay rate was \$14.34.
- GHRs hourly pay rate was \$18.61 while the FCAS pay rate was \$19.41.
- GHRs hourly pay rate was \$22.84 while the FCAS pay rate was \$21.92.

While the differences between the pay rates and pay amounts recorded in GHRs and FCAS are not material and are reasonably accounted for during the Department's monthly payroll clearing process, these errors are indicative of a lack of data maintenance in the FCAS.

Recommendation:

The Department should implement controls to ensure that employee rates of pay in FCAS are correct. While posting adjustments as part of the Departments' payroll clearing process is a reasonable manner in which to correct for the timing differences between GHRIS and FCAS payroll expenditures, it should not be relied upon as the primary control over the accurate recording of salary expenditures in FCAS.

Auditee Response:

We concur. Data entry errors were made in the Human Resources section which cause discrepancies between GHRIS and FCAS. The section completes a journal which captures all relevant employee information including rate of pay. We have established a cross check procedure where journals are verified for accuracy by a member of the HR staff. This will improve the accuracy of the information entered into the GHRIS and FCAS systems.

Observation No. 13: Controls Over The Purchase, Receipt, And Use Of Supplies Should Be Improved

Observation:

The Department did not have documentation to support the receipt and use of \$3,750 of electrical supplies purchased from an electrical contractor during fiscal year 2009.

In a transaction judgmentally selected by the auditors for documentation review purposes, the Department had purchased electrical supplies. A requisition was completed and properly approved authorizing the purchase of the supplies. The expenditure was coded as a class 047 Maintenance "Own Forces" expenditure on the requisition indicating that work would be completed by Department employees. The vendor invoice requesting payment from the Department included a one-line item description and a total that was \$118 more than the requisition total. The lack of detail on the invoice makes it impossible to determine if the increase was due to a change in price, quantity, or types of supplies purchased. The Department could not produce a receiving report to evidence receipt of the supplies or documentation, such as a job slip, to evidence the use of those supplies. The Department also could not describe why the expenditure coding was changed from class 047 to 048 "Contractual Maintenance" on the payment voucher. The Department reported the oversight was likely due to the purchase of these supplies from the vendor being an unusual, non routine transaction.

The lack of documentation supporting the details of the purchase and the receipt and use of the purchased supplies noted in this example transaction can be indicative of a significant control deficiency in the Departments' purchasing of supplies.

These supplies were purchased with federal funds.

Recommendation:

The Department should prepare and maintain documentation supporting the purchase, receipt and use of purchased supplies sufficient to allow for subsequent review of the accuracy and propriety of the transaction.

- The Department should prepare and maintain receiving reports evidencing the receipt of goods prior to the payment of an invoice.
- The Department should require detailed invoices from suppliers which evidence items, quantities, and costs of items purchased.
- The Department should document the applied use of purchased supplies to evidence the supplies support the Department's operations.

The Department should review its policies and procedures and employee training programs to ensure that both routine and non routine transactions are adequately addressed.

Auditee Response:

We concur with the observation and will apply the following corrective action.

There are four types of receiving that could be done at New Hampshire Employment Security.

1. Using the Lawson System. Receiving reports are and will continue to be completed by our receiving department for all approved purchase orders issued in the Lawson System.
2. Field purchase orders. These will continue to be processed through our receiving department at which time a receiving report is completed. A copy is kept in receiving and other copies are sent to Purchasing to be verified against the approved requisition. Once verified, these documents are sent to Fiscal.
3. DoIT approved purchase orders for NHES computer related items. These will continue to be processed through our receiving department at which time a receiving report is completed. A copy is maintained in receiving and other copies are sent to Purchasing to be verified against the approved requisition. Once verified, these documents along with the RID document (from A&E) are sent to Fiscal for processing.
4. Other approved purchases. This will be added to the receiving process and should cover the issue cited in Observation No. 13. We will add a two (2) part receiving form to this process. All items will be received/documented on this receiving form by the maintenance supervisor or designee. One copy of the receiving report will be sent to Purchasing with the receipt/invoice document to be verified against the approved requisition/PO. Once verified, these documents are sent to Fiscal for processing. The other copy will be kept by the Supervisor. This was implemented on February 16, 2010.

All contract-related requisitions are reviewed in advance by an accountant in the Fiscal Office to verify and/or update state/federal coding assignments effective September 2009.

Federal Compliance Comments

Observation No. 14: Employment Services Controls Should Be Reestablished

Observation:

The Department's employment services (ES) employees did not perform their typical functions for approximately half of fiscal year 2009 due to temporary reassignments to help process the increased number of filed claims and to assist in the Department's transition to a new information system. ES employees are generally responsible to: 1) ensure claimants are complying with the unemployment benefits requirements including searching for work while claiming benefits, and 2) assist clients to find suitable work. The requirement that a claimant be able and available to work in order to receive unemployment compensation benefits is based in Title 20 *Code of Federal Regulations*, Part 604.3. A claimant's registration in the Department's Job Match System indicates the claimant is able and available to work.

According to N.H. Admin. Rule, Emp 501.02, claimants should be registered in the Department's Job Match System by the end of the first two weeks of claims or the passing of their anticipated return to work date in order to continue receiving benefits. According to the Department, some Department local offices did not monitor claimants' status in the Job Match System during fiscal year 2009 due to workloads, especially during the second half of the fiscal year.

Audit tests of benefit payments noted six instances or 11% out of a random sample of 54 claimants selected for testing where part or all of the benefits claimed by and paid to the claimant for the period tested should not have been paid, as the claimant was not properly registered in the Job Match System. The errors noted resulted in the following overpayments.

- Overpayment of unemployment insurance benefits: \$47,267
- Overpayment of Federal Additional Compensation (FAC) benefits: \$1,925

The FAC benefits are 100% federally funded under the American Recovery and Reinvestment Act (ARRA) of 2009 and provide a \$25 weekly increase in regular unemployment benefits. Due to the federal nature of the benefits, the \$1,925 identified above is a questioned cost for federal compliance purposes.

The \$47,267 overpayment of unemployment insurance benefits may not be subject to recovery based on RSA 282-A:165 which supports non-recovery in cases where benefits were received through the Department's error or inadvertence.

Also, according to the Department, the weekly "Long Term Claimant List" generated by the New Hampshire Unemployment System (NHUS), which provides claimant data for those claiming benefits for longer than 13 weeks had not been monitored since January of 2009 when ES was preparing for the implementation of the new Job Match System in March 2009. Starting

in mid-April, ES employees were tasked to “clean” claims prior to the implementation of the new Unemployment Insurance (UI) system in August 2009.

Recommendation:

The Department should reestablish its employment services controls as soon as practical to reduce the risk of claimant errors and frauds. While the Department reacted with a reallocation of employee efforts in response to the increase in claims during fiscal year 2009, loosening controls during a period of increased activity increases the risk of errors and frauds not being detected and corrected in a timely manner.

The Department should consider whether there are alternative controls that could be implemented to provide some risk mitigation during the period that ES controls are not in place.

Auditee Response:

We concur with the above mentioned finding and the resultant effect of some inappropriate unemployment compensation benefit payments. The economic conditions during calendar year 2009 increased the agency’s workload considerably. The implementation of two new computer applications, one for Employment Service (Job Match System) and one for Unemployment Compensation, required some of the staff of the agency to be reassigned to other than their regular duties for part of the calendar year. These two items led to the N.H. Admin. Rule, Emp 501.02 not being administered as it had been in the past.

The corrective action plan for this finding is the implementation of an automated registration system that is as follows. The new Unemployment Compensation application is collecting the information needed, from the potential claimant, to complete a registration in our new Job Match System. The computer programmers are working on an interface application that will transfer the appropriate data elements from the unemployment system to the Job Match System on a daily basis creating an active registration. This interface is expected to be operational by late May/early June 2010. Once implemented, the agency will be in compliance with Emp 501.02, as new claimants without a return to work date will have an active registration.

For claimants who continue to collect benefits beyond their return to work date, the agency is working with the programming staff for the new unemployment system to produce a “Claimants Paid List”. This report will indicate the needed data elements to track those claimants who are continuing to file for benefits beyond their return to work date. Staff in the offices will then track these claimants and take appropriate action, up to and including stopping the payment of benefits until the claimant complies with the regulations.

Observation No. 15: Benefit Payment And Fraud Control Unit Should Be On Task

Observation:

The Department did not have its Benefit Payment Control (BPC) Unit following up on fraud and non-fraud overpayment indicators during approximately one quarter of fiscal year 2009 and during the first quarter of fiscal year 2010.

The Department re-tasked BPC Unit employees from control activities designed to prevent, detect, and recover unemployment benefit overpayments to other Department responsibilities during the period December 2008 through mid-April 2009 and again from July 2009 through mid-October 2009. During these periods, the BPC Unit employees were assigned to temporarily assist with claim-taking and adjudicating responsibilities to respond to the increasing number of unemployment claims being filed by individuals.

The Department reports it operates a BPC Unit to ensure and demonstrate the Department reasonably calculates and makes full payment of unemployment compensation when due. The BPC Unit is responsible for investigating cases referred to them that may indicate the existence of fraudulent or non-fraudulent overpayments and receives and responds to several fraud or non-fraud overpayments indicators identified by Department systems. The Department reports this control function is required by Title III, Section 303 of the Social Security Act [42 *U.S. Code*, Sec. 503] which directs that “(a) The Secretary of Labor shall make no certification for payment to any State unless he finds that the law of such State, approved by the Secretary of Labor under the Federal Unemployment Tax Act, includes provision for—

(1) Such methods of administration ... as are found by the Secretary of Labor to be reasonably calculated to insure full payment of unemployment compensation when due...”.

Recommendation:

The Department should ensure the BPC Unit remains on task and is able to perform its control responsibilities.

Auditee Response:

We concur. A primary mission of the Department is to provide for the accurate and timely payment of benefits to eligible claimants. Many factors challenged our ability to reach this goal during the past year including major shifts in the unemployment claims levels due to uncontrollable economic factors and a series of federal mandates to incorporate supplemental payment programs such as Emergency Unemployment Compensation and Federal Additional Compensation. In an effort to reduce the rising backlog of UI claims pending adjudication, Benefit Payment Control (BPC) investigative activities were suspended and experienced staff was reassigned to assist with the adjudication workload.

Fraud detection and Overpayment Management and Recovery Program activities remained in effect, however issuance of decisions was delayed.

The BPC Unit resumed fraud detection and investigative activities on October 19, 2009, and staff is currently working overtime to address the backlog of cases pending investigation. Investigators have been working through their caseloads based on priority, with current claimants and claims involving protests from chargeable employers receiving the highest priority. Efforts are also underway to supplement our current BPC staff with three additional positions (two full-time temporary Fraud Investigators and one full-time temporary clerical support worker) to assist the Unit with meeting its federally mandated fraud prevention and detection activities.

Observation No. 16: Benefit Accuracy Measurement Program Should Be Resumed

Observation:

The Department's Quality Control (QC) Unit was performing quality control reviews during 16 of the 39 weeks (41% of the time) between January 5 and October 2, 2009. During the remainder of the period, the QC Unit was assigned to adjudicating benefit claims.

Title 20 *Code of Federal Regulation*, Part 602.11(d) requires the Department to operate a Benefit Accuracy Measurement (BAM) program to assess the accuracy of Unemployment Insurance (UI) benefit payments and denied claims. The QC Unit operates the BAM program and is required to draw a weekly sample of payments and denied claims and conduct a review of the records as well as new "fact finding" to determine whether the claims were correct, overpaid, underpaid, or erroneously denied. Unlike the UI fraud investigator who tries to identify specific cases of fraud and recapture any overpayments, the BAM investigator looks at a sample of cases to produce statistics for the UI program in general. The primary purpose of the BAM program is to identify system-wide problems so future errors can be prevented.

Federal requirements dictate the prompt completion of investigations to ensure the integrity of the information being collected by the questioning of claimants and employers is not adversely affected by the passage of time.

The federal Benefit Accuracy Management State Operations Handbook requires each BAM program be organizationally independent of, and not accountable to, any unit performing functions subject to evaluation by the BAM program. The program must be organizationally positioned to maintain its objectivity, have access to necessary information, and minimize organizational conflict of interest. The QC Unit's adjudication of claims would appear to be an organizational conflict of interest.

The Department requested and received permission from the U.S. Department of Labor (USDOL) to reduce the annual sample of 360 paid claims down to 270 for Calendar Year 2009. There was no waiver on the sample of denied claims granted and USDOL explicitly indicated that all other BAM requirements remain in place.

During the 39 weeks between January 5, 2009 and October 2, 2009, the QC Unit was adjudicating claims 59% of the time for a total of 23 weeks and performing BAM case reviews

41% of the time for 16 weeks. During this 39 week period, the QC Unit last performed a BAM case review on June 25, 2009.

The Department is at increased risk that a systematic error will go undetected resulting in a material misstatement to the Unemployment Compensation Fund. The risk is further aggravated by the implementation of a new benefit computer system that significantly changed the way claims are processed and how claimants interact with the Department. Although the Department is in compliance with BAM requirements for the timely completion of cases during calendar year 2008, the Department will not meet all requirements related to the timely completion of BAM cases for calendar year 2009. Upon resumption of BAM reviews, the QC Unit is at risk of reviewing a BAM sample item that was adjudicated by a member of the QC Unit.

Recommendation:

The Department should resume the performance of BAM case reviews by the Quality Control Unit. Controls required by federal programs should not be paused to improve the efficiency of the program they were designed to control. The Department should direct the Quality Control Unit to resume BAM case reviews and maintain compliance with federal requirements related to the timeliness of case completion. The Quality Control Unit should establish controls to ensure that cases adjudicated by the Unit are not subsequently reviewed by the Unit for BAM purposes.

Auditee Response:

We concur. In 2008 and 2009, the state experienced a significant increase in our UI claims workload, particularly in the area of adjudication. The Department's Quality Control (QC) Unit currently includes four BAM Program Investigators. These investigators are former adjudicators with extensive UI Program knowledge and many years of experience taking and adjudicating claims. Because of this experience, the Unit is frequently called upon for assistance during periods of peak workload.

In addition to the increased workload caused by the economic downturn, the Department was challenged by the implementation of a new UI Benefit System in August 2009. All UI program staff, including the BAM investigators, were called upon to process and adjudicate as many claims as possible in the weeks leading up to the implementation of the new system in an effort to ease the transition from the old system to the new system. As a result, BAM investigators processed and adjudicated unemployment compensation claims for 23 out of the first 39 weeks in 2009. With this in mind, the Department anticipates the BAM Unit will not meet its time lapse requirements for calendar year 2009.

The BAM Unit returned to its duties of auditing paid and denied UI benefit claims on November 2, 2009 and is currently working overtime to address the backlog of cases pending investigation. The Unit has controls in place to mitigate the risk that a QC Investigator will be reviewing a BAM sample case that was adjudicated by the QC Unit. The QC Unit's staff includes one Tax Performance System (TPS) Investigator, who is responsible for examining the quality of state procedures for collecting and processing Unemployment Insurance (UI) taxes. This individual

has prior BAM Program experience and will be called upon to investigate any cases that were adjudicated by the QC Unit.

The BAM Unit returned to full operation effective November 2, 2009.

Observation No. 17: Benefit Accuracy Measurement Files Should Be Complete

Observation:

The Department did not consistently complete all associated work within a case file reviewed by its Benefit Accuracy Measurement (BAM) program prior to reporting the case as closed to the U.S. Department of Labor (USDOL).

In three cases (8%) out of a random sample of 37 cases reviewed, significant documentation of the BAM review was completed after the date the case was reviewed by a BAM manager and submitted to USDOL as complete. In one other sample case reviewed, an arguably important document was not completed, even after the case was reviewed by a BAM manager and submitted as complete.

When the issue of the dating of the documents and the missing document was discussed with employees in the BAM program, it became apparent there was some question as to what documents were required to be completed and filed as part of the BAM review.

Recommendation:

The Department should resolve questions related to the completion and filing of BAM documentation with the USDOL to ensure that the Department's BAM program is operating as intended by the federal program. Department employees responsible for the BAM program should be knowledgeable of and trained in all pertinent aspects of the USDOL BAM program requirements.

Cases that are not complete should not be reported as closed.

Auditee Response:

We concur. In December 2008 and January 2009, the Department's Quality Control (QC) Investigators were reassigned to assist with the adjudication of Unemployment Insurance benefit claims in response to the rising workload. At that time, all of 2008 BAM Program sample cases had been pulled and assigned and the investigations were in various stages of completion. The Unit was well on track to meet the USDOL BAM Program time-lapse requirements of 60 and 90 days. The USDOL also requires that 98% of 2008 cases be completed within 120 days of the ending date of the calendar year.

After the QC Investigators were reassigned to assist with adjudication, the BAM Manager made a good faith effort to assist the QC Unit with meeting its BAM Program time-lapse requirements

by reviewing each investigator's case load to identify cases in which the investigations were complete and the parties had returned all of the information requested. The BAM manager pulled these cases, completed the required coding sheet based on the information in the case file and entered the data into the SUN system as a completed case. The only document that was not included in the case file at that time was a completed Summary of Investigation. After entering the data into the SUN System, the BAM Manager returned the case files to the individual investigators with written instructions to complete a Summary of Investigation at their earliest convenience as soon as they returned to their BAM Program duties.

It had been the BAM Manager's understanding that narrative summaries were not a program requirement as previous USDOL Regional BAM Reviewers had commented that NH was one of the few states that actually completed narrative summaries of its cases.

When the question regarding the Summary of Investigation documentation was raised during the October 2009 meeting with the auditors, the BAM Manager reviewed Handbook 395 and contacted the USDOL Regional Office for clarification. The BAM Manager agrees with the findings and understands that summaries are indeed a required document in every completed investigation file. This information has been communicated to all of the Quality Control Investigators.

New Hampshire's BAM Program cases will not be considered complete without all required documentation in the case file.

After consulting with the USDOL Regional Office, the Quality Control Unit's BAM Program staff was immediately notified that a BAM Program case file must include all required documentation, including the Summary of Investigation, to be considered complete. As it had been the Unit's standard practice to include a Summary of Investigation with each completed case prior to the suspension of BAM Program activities to assist with adjudication, effective with their return to their BAM Program duties on November 2, 2009, QC Investigators are once again completing a Summary of Investigation for each BAM Program case file.

Observation No. 18: Federal Audit Requirement Should Be Met

Observation:

The Department is not in compliance with the U.S. Department of Labor's (USDOL) employer audit requirements which state, "The number of audits to be conducted each calendar year (CY) represents (2) percent of contributory employers at the end of the immediately preceding September". For calendar years 2007 and 2008, the Department audited 1.8% and 1.7%, respectively, of contributory employers.

Audit requirements are described in the USDOL Employment Security Manual, Appendix E Field Audits, Part V, 3677. The Department reports that other responsibilities assigned to field agents have taken precedence over the employer audits.

Recommendation:

The Department should comply with the U.S. Department of Labor's audit requirements. If the Department determines it is unable to comply with the audit requirement, the Department employees responsible for the audit function should document its communication of that planned noncompliance with Department management and the USDOL as soon as that expected noncompliance becomes evident to ensure that the audit effort can be as productive as reasonably possible.

Auditee Response:

We concur that the Department has not met the U.S. Department of Labor audit penetration rate of 2 percent of contributory employers for calendar years 2007 and 2008. There are several reasons why this 2 percent was not met. This department has moved away from conducting random audits to targeting employers from the 1099 Extract we now receive from the Internal Revenue Service. This has produced a greater audit yield to the department as we are finding more misclassified workers than had we continued doing random audits. These 1099 target audits take the Field Auditor a greater amount of time to perform each audit.

The Field Auditors over the last three years have also seen a significant spike in the number of blocked benefit claims. The number of blocked benefit claims increased from an average of around 100 per month to a high of 300 in a month. These have always been priority assignments and have taken time away that would have been spent on audits and collections.

The U.S. Department of Labor is currently evaluating the 2 percent audit penetration figure as the national average is at around 1.7 percent. At the National Tax Conference that we attended last August a presentation was given by the Tax Chief at the National Office that would possibly lower the penetration rate from 2 percent to 1 percent as long as the states met a certain percentage of total wage changes from the audits.

We will continue to strive to meet the current 2 percent penetration level. However, it appears that the National Office will soon be changing the level to allow states to concentrate in conducting more audits that produce a greater audit yield and auditing employers who are more likely misclassifying their workers.

Observation No. 19: Policies And Procedures Should Be Established For Identifying Suspended Or Debarred Parties

Observation:

A lack of complete understanding of federal program requirements resulted in an incomplete corrective action plan and Department response to a fiscal year 2008 audit comment.

The State's fiscal year 2008 Single Audit report contained a finding related to the Department's lack of policies and procedures to prevent contractors and vendors that are suspended or debarred

from participating in federal programs managed by the Department. The Department's corrective action plan in response to the comment added a provision requiring a suspension and debarment certification to be completed by program contractors. The certification was added to contracts beginning January 2009.

In September of 2009, the Department received notification from the U.S. Department of Labor (USDOL) that a certification within the contract by itself was not sufficient verification that the contractor or vendor was not suspended or debarred. Subsequent to that notice, the Department verifies federal program contractors and vendors have not been suspended or debarred by checking the federal Excluded Parties List System (EPLS).

Recommendation:

The Department should establish policies and procedures to document and support its new practice of reviewing the EPLS for contractors and vendors that may be suspended or debarred from participating in the federal program.

Policies and procedures should include searching the EPLS for the contractor or vendor and principals of those firms, evidence that is to be retained from the search, frequency and timing of the EPLS reviews, and how to ensure that all federal program contractors and vendors, including those contracting with the Department of Information Technology or other related organizations that provide direct services to the Department, are included in the suspension and debarment process.

Auditee Response:

We concur. The Department responded immediately to the above-mentioned notice from USDOL. Approval was received by the Department from the assigned USDOL Audit Resolution Specialist to continue our current practice of querying the Excluded Parties List System (EPLS) website prior to entering into a contract as well as requiring the vendor to certify: (1) they are not currently suspended, debarred, proposed for debarment, declared ineligible or voluntarily excluded from covered transactions by any Federal department or agency, and (2) they will inform the Department if their status changes. The Department will also include printed evidence of our query of EPLS website in our contract files. Furthermore, the Department will query EPLS at least once per year for multi-year contracts.

State Compliance Comments

Observation No. 20: Administrative Rules Should Be Adopted

Observation:

The Department has not adopted the following administrative rules required by statute.

RSA 541-A:16, I(a), requires the adoption of a rule that describes the nature of the organization, the general course and method of its operations, and the methods by which the public may obtain information or make submissions or requests.

RSA 541-A:16, I(b)(3), requires the adoption of rules governing public comment hearings for rulemaking.

RSA 282-A:51 requires an individual be given the opportunity to appear in person at a designated office in accordance with the commissioner's rules to be heard relative to his continued entitlement to benefits as a condition precedent to the cessation of benefits.

RSA 282-A:66, I, requires the Appellate Board to adopt rules of procedure. The Appellate Board is responsible for hearing appeals on benefit claimant determinations and employer liability determinations.

Similar comments were issued during the fiscal year 1998 audit of the Department regarding the absence of administrative rules required under RSA 541-A:16, I(a), RSA 541-A:16, I(b)(3), and RSA 282-A:66, I.

Recommendation:

The Department should adopt all administrative rules required by statute. If the Department determines rules are not necessary, it should request legislation to remove the requirement from statute.

Auditee Response:

We concur with the finding related to RSA 541-A:16, I(a). The Department will draft and file a proposed rule describing the nature of the organization, the general course and method of its operations, and the methods by which the public may obtain information or make submissions or requests. Anticipated completion date for promulgation of a final rule is August 20, 2010.

We concur with the finding related to RSA 541-A:16, I(b)(3). The Department will draft and file proposed rules governing public comment hearings for rulemaking. Anticipated completion date for promulgation of a final rule is August 20, 2010.

We concur with the finding related to RSA 282-A:51. The Department will draft and file a proposed rule regarding an individual's opportunity to appear in person at a designated office to be heard relative to his continued entitlement to benefits as a condition precedent to the cessation of benefits. Anticipated completion date for promulgation of a final rule is August 20, 2010.

We do not concur with the finding that the responsibility related to RSA 282-A:66 belongs to the Department. The authority and obligation to adopt rules of procedure belong to the Appellate Board which operates independently of the Department. The Department stands ready to assist the Appellate Board in the development of these rules. We renew our invitation to the Appellate Board to assist them in the process of drafting and adopting the rules required.

Observation No. 21: Procedures Should Be Established To Support The Timely Filing Of Statements Of Financial Interests

Observation:

Seventeen of the 27 individuals (63%) required to file a Statement of Financial Interests in accordance with RSA 15-A:3 filed subsequent to the January 16, 2009 filing deadline.

Ten Department employees and seven of the nine Advisory Council members filed Statements of Financial Interests late.

Recommendation:

The Department should establish procedures to annually notify those individuals required to file a Statement of Financial Interests of the filing requirement and deadline.

Auditee Response:

We concur. The Department recognized the oversight in February 2009 and required employees and Council members submitted the required Statements of Financial Interests by late March 2009. The annual submission for 2010 was completed before the deadline as a result of a reminder that was forwarded by the Commissioner's Office. It is expected that a reminder will be forwarded to the effected employees at the beginning of each calendar year.

Auditor's Report On Management Issues

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the Department of Employment Security (Department) as of and for the fiscal year ended June 30, 2009 and have issued our report thereon dated March 16, 2010, which was qualified as the financial statements do not constitute a complete financial presentation of the Department in the General Fund. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing our audit of the financial statements of the Department as of and for the fiscal year ended June 30, 2009, we noted issues related to the operation of the Department that merit management consideration but do not meet the definition of a significant deficiency as defined by the American Institute of Certified Public Accountants, and were not issues of noncompliance with laws, rules, regulations, contracts, or grant agreements.

Those issues that we believe are worthy of management consideration but do not meet the criteria of significant deficiency or noncompliance are included in Observations No. 22 through No. 24 of this report.

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

Office Of Legislative Budget Assistant

March 16, 2010

Management Issues

Observation No. 22: Unemployment Insurance System Reporting Issues Should Be Resolved

Observation:

Unresolved reporting and other post implementation problems have prevented the Department from fully accounting for and reporting Unemployment Compensation Fund financial activity since the Department's implementation of its new New Hampshire Unemployment Insurance System (NHUIS), which went live on August 17, 2009. The Department's inability to generate certain critical reports from the NHUIS has prevented the Department from posting certain Unemployment Compensation Fund (UCF) financial transactions, reporting UCF financial activity, and reconciling the Department's UCF bank accounts since the new NHUIS went live.

The Department's continuing inability to generate sufficient financial information and reports from the NHUIS to allow for the complete and accurate accounting of the UCF, including the essential control of regular reconciliations of the UCF bank accounts more than five months after implementation, presents a critical risk to the Department's controlled financial operations.

During fiscal year 2007, the Department entered into an \$11.4 million agreement for consulting and software implementation services for a new unemployment insurance system. On August 17, 2009, the Department's new NHUIS online system went live replacing the approximately 20 year old predecessor system. The Department reports the NHUIS will have advantages for the Department, employers, and benefit claimants that include increased efficiency for processing unemployment insurance claims; easier access to information in a secure environment; faster correspondence exchange; availability of direct deposit of benefit checks; access to more claim information online; and the ability of employers to manage their unemployment insurance claim accounts online. However, unresolved financial reporting and other issues have severely compromised the Department's ability to control the financial information processed and reported by the system since the implementation of the NHUIS.

The Department reports it has been working with the contractor to remedy reporting issues since the new system went live. The Department reports it will continue to work with the contractor until all new-system issues are resolved.

Recommendation:

The Department must immediately take the necessary steps to allow the Department to accurately determine and report the financial activity in the UCF, including a complete reconciliation of the UCF bank accounts.

The Department should continue to work with the contractor to resolve the NHUIS reporting issues preventing the Department from realizing the efficiencies and effectiveness planned for the new system. The Department should review with the contractor and the Department of

Information Technology staff assisting with the NHUIS implementation the circumstances that have allowed critical reporting issues to remain unresolved for several months and determine how to resolve these issues in the most timely and effective manner going forward.

Auditee Response:

We concur. On August 17, 2009, our new online unemployment benefit system, NHUIS, went live offering many advantages to the Department, employers and unemployment claimants through increased efficiency in processing unemployment insurance claims; easier and expanded access to information in a secure environment; faster correspondence exchange; availability of direct deposit of benefit checks; and the ability for employers to manage their unemployment insurance claim accounts online.

The Department has been working with the contractor to resolve reporting issues since the first set of reports were produced by NHUIS back in late August 2009. Bi-weekly meetings as well as daily communication occurred between Department and contractor staff during that critical period; and regular weekly meetings including information technology (IT) staff continue to occur to this date. Until the past month, progress had been slow due to apparent data issues and a necessary reassignment of programmer staff to accommodate system updates required by changes in state law and numerous federal mandates.

As part of our contract, knowledge transfer to Department IT staff has enabled in-house IT staff to assist with resolving reporting issues. Therefore, significant progress has been made as a result of dedicating Department, IT and contractor resources to resolve and test data and reporting issues. Per the terms of our contract, the warranty phase will continue and the maintenance phase will not begin until such time all UCF treasurer report defects are fixed.

Observation No. 23: Banking Agreements Should Be Reviewed

Observation:

The Department has not periodically reviewed its cash account service agreement with its bank to determine that the agreement continues to provide the Department with the most cost effective fee and service arrangement for its benefit and clearing cash accounts.

The Department operates its cash accounts using a compensating balance agreement with its bank originally established in 1991. The agreement states, "DES will cover costs for both accounts by maintaining adequate compensating balances in the accounts so as to not cause the analyzed charges to be greater than earnings due". Earnings value per the bank agreement is calculated at the Treasury Bill rate, which ranged from 0.127% to 1.777% during fiscal year 2009, applied to the average daily balance net of float and reserves, referred to as the average daily loanable balance.

Under a compensating balance arrangement, no fees are directly charged and no earnings are directly credited to the accounts, rather the Department maintains a balance in the account such

that if interest was credited to the account, the interest posted would be sufficient to offset the fees that would have been charged.

- During fiscal year 2009, the Department's monthly income and expense analyses prepared by its bank indicated the Department maintained an average daily loanable balance of approximately \$18.6 million across the cash accounts. That average daily balance earned approximately \$57,000 which was insufficient to cover the bank service costs of approximately \$133,000. In cases where earnings are insufficient to offset costs, the agreement with the bank requires the Department to increase its compensating balances to the level necessary to offset the service costs. Amounts held as compensating balances in the cash accounts would otherwise be available for deposit in the Trust Fund which earned 4.627% during fiscal year 2009, or approximately \$860,000 of lost interest on an average daily loanable balance of \$18.6 million. It is also unclear whether using a compensating balance arrangement for the Department's cash accounts is in strict compliance with RSA 282-A:104, II, which requires that, after clearance, moneys in the clearing account be immediately transferred to the Unemployment Trust Fund account. The effect of using compensating balances in this situation is to use what otherwise would be earnings to the Trust Fund to support the cost of administrative operations.

The Department's compensating balance agreement has been in place since 1991 with no changes to the fees or earnings benchmark. According to the Department, it has not formally reviewed and analyzed the terms of the agreement with the current economic conditions or compared the agreement to services and cost for services that might be available from other banks.

Recommendation:

The Department should periodically review its banking agreements to make certain the agreements remain efficient and effective for the Department. The Department should consult with the State Treasury to remain current with governmental banking practices and opportunities. Based on that review, the Department may want to issue a request for proposals for banking services to ensure the Department obtains market competitive services and costs.

The Department should review with legal counsel the requirements of RSA 282-A:104, with regard to transferring money to the Unemployment Trust Fund, to ensure that its banking practices do not run counter to the statute.

Auditee Response:

We concur. The Department had contacted the State Treasury in early 2009 in an attempt to link up to a statewide banking agreement; however, our attempt was not successful. The Department will begin preparing a request for proposal to update its banking agreement.

State Treasury Response:

Treasury did have discussions with DES prompted by the service cost exceeding earnings credit rate issue experienced by DES. Treasury in fact was encountering the same challenges with its major banking partners (DES' partner included) in that fees exceeded interest earnings or credits in most cases given the historically low interest rates. As an entity that also has significant service requirements of our banks as does DES, periodically analyzing benefits of paying for bank fees either through compensating balances or hard dollars is an exercise our cost levels and changing economic factors demand from time to time. Treasury is certainly willing at any time to share our experience in this area and offer any value we can provide.

Observation No. 24: Use Of Manual Leave Card Should Be Reviewed

Observation:

The Department's completion of leave cards to track employee leave usage appears inefficient as it is redundant to information available in the State's payroll system (GHRIS).

GHRIS is the official record of State employee work time. GHRIS is used by all State agencies to record employee work hours and leave hours and balances. Leave usage and balances are reported to all entitled employees on each biweekly pay stub.

The Department also enters employee leave onto a leave card which accumulates the employee's leave used and monthly leave balances for the entire fiscal year. The Department maintains a leave card for each of the Department's classified employees. At June 30, 2009, the department employed 307 classified employees. The Department does not consider the leave card an official record and does not regularly reconcile the balances on the cards to information in GHRIS.

The leave card record of employee leave usage and balances was used by many state agencies prior to the implementation of GHRIS. As the data on the leave card is also available within GHRIS, most agencies have discontinued the use of the leave card system.

Recommendation:

The Department should review the need for its continued preparation of leave cards. The Department should not prepare and maintain unnecessary, inefficient, and redundant information systems.

Auditee Response:

We concur. We will be eliminating the use of the manual leave card as it duplicates existing reports available on the GHRIS system. Additionally, we will be looking to automate many of the manual payroll processes in the next fiscal year.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the New Hampshire Department of Employment Security (Department) as of and for the fiscal year ended June 30, 2009, which comprise the Department's financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Department. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements referred to above do not purport to and do not constitute a complete financial presentation of the New Hampshire Department of Employment Security in the General Fund 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 statements referred to above present fairly, in all material respects, certain financial activity of the Department as of and for the fiscal year ended June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements, referred to above, of the Department. 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 statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 16, 2010 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, and 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 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

March 16, 2010

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF EMPLOYMENT SECURITY**

**STATEMENT OF REVENUES AND EXPENDITURES – GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Revenues

Restricted Revenues

Federal Funds	\$ 22,359,341
Contingent Fund (Note 2)	9,656,297
Other Sources	2,471,913
Training Fund (Note 3)	<u>985,008</u>
Total Restricted Revenues	<u>35,472,559</u>

Expenditures

Salaries And Benefits	21,613,155
Equipment	4,348,344
Department Of Information Technology	4,344,208
Current Expenses	3,718,071
Maintenance	1,350,746
Training Fund (Note 3)	970,024
Utilities	520,784
Other	333,707
Travel	296,997
Leases	<u>267,724</u>
Total Expenditures	<u>37,763,760</u>

Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>(2,291,201)</u>
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Other Financing Sources (Uses)	
Contingent Fund (Note 2)	<u>2,291,201</u>
Total Other Financing Sources (Uses)	<u>2,291,201</u>

Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	<u>\$ -0-</u>
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The accompanying notes are an integral part of this financial statement.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF EMPLOYMENT SECURITY
UNEMPLOYMENT COMPENSATION FUND
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2009**

Assets

Current Assets

Cash And Investments (Note 4)	\$ 94,127,921
Receivables (Net Of Allowances For Uncollectibles): (Note 5)	
Employer Contributions	16,179,045
Benefits Reimbursements:	
Federal Funds Receivable	4,251,257
Combined Wage Credits Due From Other States	1,950,908
Non Profits Benefits	1,134,894
Political Subdivisions Benefits	420,859
Recovery Of Benefit Overpayments	219,068
State Workers Benefits	<u>194,375</u>
Total Benefits Reimbursements Receivable	<u>8,171,361</u>
Fees, Fines, Interest And Administrative Contributions Receivable	<u>2,294,499</u>
Total Receivables (Net Of Allowances For Uncollectibles)	<u>26,644,905</u>
Total Current Assets	<u>120,772,826</u>

Liabilities

Current Liabilities

Combined Wage Credit Benefits Due To Other States	5,121,332
Accrued Unemployment Benefits	3,439,500
Due To Contingent Fund	2,315,637
Due To General Fund - Special Administrative Distribution	2,242,944
Employer Overpayments	1,595,001
Federal Income Taxes Payable	120,015
Advances From Federal Government	<u>5,661</u>
Total Current Liabilities	<u>14,840,090</u>

Total Net Assets - Restricted For Unemployment Benefits **\$ 105,932,736**

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

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF EMPLOYMENT SECURITY
UNEMPLOYMENT COMPENSATION FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Operating Revenues

Employer Contributions	\$ 74,516,427
Federal Contributions	49,771,249
Reimbursing Employer Contributions	13,062,131
Unemployment Insurance Modernization Incentive Distribution	10,467,073
Fees, Fines, Interest, And Administrative Contributions (Note 2)	8,908,318
Special Administrative Distribution	2,242,944

Total Operating Revenues **158,968,142**

Operating Expenses

Unemployment Insurance Benefits	203,451,740
Federally Funded Unemployment Insurance Benefits	49,771,249
Reimbursing Employers Unemployment Insurance Benefits	13,062,131
Fees, Fines, Interest And Administrative Contributions (Note 2)	8,908,318
Special Administrative Distribution	2,242,944
Reed Act Distribution Funds (Note 7)	1,538,655
Provision For Doubtful Receivables	1,410,669

Total Operating Expenses **280,385,706**

Operating Income (Loss) **(121,417,564)**

Nonoperating Revenues (Expenses)

Investment Income	6,927,639
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Total Nonoperating Revenues (Expenses) **6,927,639**

Change In Net Assets **(114,489,925)**

Net Assets July 1, 2008 220,422,661

Net Assets June 30, 2009 **\$ 105,932,736**

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

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF EMPLOYMENT SECURITY
UNEMPLOYMENT COMPENSATION FUND
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

<u>Cash Flows From Operating Activities</u>	
Receipts From Contributing Employers	\$ 65,491,716
Receipts From Federal Government	45,546,855
Receipts From Reimbursing Employers	10,878,835
Receipts From UI Modernization Incentive	10,467,073
Receipts From Fees, Fines, And Interest	8,799,363
Receipts From Special Administrative Distribution	2,242,944
Receipts For Court Costs For State Treasurer, Net	(26,229)
Payments For Unemployment Claims	(263,149,872)
Payments To Contingent Fund	(8,794,901)
Reed Act Withdrawal (Note 7)	(1,539,182)
Net Cash Provided By (Used In) Operating Activities	<u>(130,083,398)</u>
 <u>Cash Flows From Investing Activities</u>	
Interest	6,927,639
Net Cash Provided By (Used In) Investing Activities	<u>6,927,639</u>
 Net Increase (Decrease) In Cash	 (123,155,759)
Cash - July 1, 2008	<u>217,283,680</u>
Cash - June 30, 2009	<u>\$ 94,127,921</u>
 Reconciliation Of Operating Income (Loss) To Net	
Cash Provided By (Used In) Operating Activities:	
Operating Income (Loss)	\$ (121,417,564)
Adjustments To Reconcile Operating Income (Loss) To	
Net Cash Provided By (Used In) Operating Activities:	
Change In Operating Assets And Liabilities:	
Change In Accounts Receivable	(17,020,090)
Change In Accounts Payable And Other Accruals	8,354,256
Net Cash Provided By (Used In) Operating Activities	<u>\$ (130,083,398)</u>

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

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF EMPLOYMENT SECURITY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

The Department of Employment Security (Department) with its administratively attached Appellate Board is an organization of the primary government of the State of New Hampshire.

The financial activities of the Department are accounted for and reported in the General Fund and the Unemployment Compensation 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 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 CAFR 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 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 Department reports its financial activity in the funds 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.

Proprietary Fund Type:

Enterprise Fund: The New Hampshire Unemployment Compensation Fund receives contributions from employers and provides benefits to eligible unemployed workers.

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.

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. In reporting proprietary activities, the State only applies applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, for its business-type activities and enterprise funds, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

D. Revenues And Expenditures/Expenses

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either “general purpose” or “restricted”. General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction (e.g. federal grants), available only for specified purposes. Unused restricted revenues at year end are recorded as reservations of fund balance. When both 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.

Revenues and expenses of proprietary funds are classified as operating or nonoperating and subclassified by source and function, respectively. Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating.

E. Other Financing Sources (Uses)

These additions to and reductions from governmental resources in fund financial statements normally result from transfers from/to other funds.

F. Budget Control And Reporting

General Budget Policies

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

The operating budget 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 and the Unemployment Compensation Fund. The Capital Projects Fund budget represents individual projects that extend over several fiscal years. Since the Capital Projects Fund comprises appropriations for multi-year projects, it is not included in the budget and actual comparison schedule in the State of New Hampshire CAFR. The Unemployment Compensation Fund and the Fiduciary Funds are not budgeted.

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 Department's unliquidated encumbrance balance in the General Fund at June 30, 2009 was \$6,556,292.

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

NOTE 2 - CONTINGENT FUND

In accordance with RSA 282-A:140, I and RSA 282-A:87, IV(a)(2) all interest, fines, late-filing fees, and penalties related to employer tax contributions and a portion of employer administrative contributions are paid into the Contingent Fund. In accordance with RSA 282-A:140, III, moneys in this fund shall not lapse to any other fund. The Contingent Fund is used to cover administrative costs for which federal funds have been requested but not yet received and in cases where federal funding is insufficient.

The Contingent Fund is invested by the State Treasurer and the investment earnings remain in the fund to be used for the purposes described previously.

NOTE 3 - TRAINING FUND

In accordance with RSA 282-A:138-a, I and RSA 282-A:87, IV(a)(2), a portion of employer administrative contributions is paid into the Training Fund for the purpose of funding training under the job training program for economic growth administered by the New Hampshire Department of Resources and Economic Development. The Department of Employment Security acts as the fiscal agent for moneys deposited in the fund. In accordance with RSA 282-A:138-a, IV, any moneys paid into the Training Fund during a calendar year, which are either not obligated by June 30 of the following year or spent by June 30 of the year thereafter, shall lapse and be deposited in the Contingent Fund.

The Training Fund is invested by the State Treasurer and the investment earnings are deposited in the Contingent Fund.

Chapter 144:93, Laws of 2009, transferred the duties of fiscal agent from the Department of Employment Security to the Department of Resources and Economic Development, removed the provision for moneys to lapse, and changed where Training Fund interest earnings will be deposited, effective October 1, 2009.

NOTE 4 - CASH AND INVESTMENTS

Deposits

As required by RSA 282-A:104, the Department maintains three separate accounts within the Unemployment Compensation Fund, a clearing account, an unemployment trust fund account, and a benefit account. All moneys payable to the fund, upon receipt, are immediately deposited in the clearing account. After clearance, moneys in the clearing account are to be immediately deposited with the Secretary of the Treasury of the United States of America to the credit of the account of the State in the unemployment trust fund established and maintained pursuant to section 904 of the Social Security Act. The benefit account consists of all moneys requisitioned from the State's unemployment trust fund account. Benefit payments are solely made from the benefit account.

Demand Deposits: As of June 30, 2009, the Department's carrying value for deposits in the clearing and benefit accounts was \$13,570,978 and the bank balance was \$21,993,346.

Custodial Credit Risk: The custodial credit risk for deposits is the risk that in the event of a bank failure, the state's deposits may not be recovered. As of June 30, 2009 all moneys held in the clearing and benefit accounts were federally insured.

Foreign Currency Risk: Whereas all payments made to the Department are to be in U.S. dollars, foreign currency risk is essentially nonexistent on Department deposits.

Investments

Debt Securities: The Department, through its participation in the unemployment trust fund, invests in debt securities issued by the U.S. Treasury. The debt securities are special issue bonds that are not marketable, but are special obligations of the federal government issued for the Unemployment Trust Fund. As of June 30, 2009, the fair value of the Department's portion of the Unemployment Trust Fund was \$80,556,943.

The Department's Contingent and Training Funds are invested by the State Treasurer. During fiscal year 2009, the Contingent and Training Funds were invested in open ended money market mutual funds. At June 30, 2009 the fair values of the Contingent Fund and Training Fund investment balances were \$26,567 and \$1,454,755, respectively.

Credit Risk: Credit risk is the risk that the issuer will not fulfill its obligations. The State invests in grade securities which are defined as those with a grade of B or higher. Obligations of the U.S. Government or obligations backed by the U.S. Government are not considered to have credit risk.

Interest Rate Risk: Interest rate risk is the risk changes in interest rates will adversely affect the fair value of the investments. Interest rate risk is primarily measured and monitored by defining or limiting the maturity of any investment or weighted average maturity of a group of investments. The special issue bonds in the Unemployment Trust Fund as of June 30, 2009 contained maturities of either one or two years with a weighted average maturity of 1.94 years. Due to the liquidity of money market funds, the interest rate risk related to the Contingent Fund and Training Fund investments is minimal.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investments that are in possession of an outside party. The Unemployment Trust Fund investments are not exposed to custodial credit risk because the federal government is the custodian. The Contingent Fund and Training Fund investments are also not exposed to custodial credit risk because the existence of an open ended mutual fund is not evidenced by securities that exist in physical or book entry form.

NOTE 5 - RECEIVABLES

The following is a breakdown of receivables at June 30, 2009:

<u>Receivables</u>	
Employer Contributions	\$ 17,032,384
Benefit Reimbursements:	
Recovery of Benefit Overpayments	7,523,473
Federal Funds Receivable	4,251,257
Combined Wage Credits Due From Other States	1,950,908
Non Profits Benefits	1,136,847
Political Subdivisions Benefits	420,859
State Workers Benefits	194,375
Fees, Fines, Interest And Administrative Contributions Receivable	<u>2,294,499</u>
Total Receivables, Gross	34,804,602
Allowance For Uncollectibles	<u>(8,159,697)</u>
Total Receivables, Net	<u>\$ 26,644,905</u>

NOTE 6 - EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

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

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 Department 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 fiscal year ended June 30, 2009, Group I members were required to contribute 5% 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 Department'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 Department's payments for normal contributions for the fiscal year ended June 30, 2009 amounted to 8.74% of the covered payroll for its Group I employees. The Department's normal contributions for the fiscal year ended June 30, 2009 were \$1,174,130.

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 cost of the health benefits for the Department's retired employees and spouses is a budgeted amount paid from an appropriation made to the administrative organization of the New Hampshire Retirement System and is not included in the Department's financial statement.

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 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 Department.

NOTE 7 – REED ACT FUNDS

The term "Reed Act" refers to a part of the Employment Security Financing Act of 1954. This legislation amended Titles IX and XII of the Social Security Act (SSA) and established the basic structure of the Unemployment Trust Fund (UTF). The amendments to Title IX, among other things, provided, under certain conditions, for the transfer of excess funds in the Employment Security Administration Account in the UTF to the individual State accounts in the UTF (Section 903(a)(1), SSA). These transferred funds are commonly referred to as "Reed Act "funds.

State law, Chapter 195, Laws of 2005, appropriated \$11.9 million of Reed Act funds available to the State to fund technology improvements at the Department of Employment Security. During fiscal year 2007, the Department entered into an \$11.4 million contract for consulting and software implementation services for a new unemployment insurance system. Reed Act withdrawals during fiscal year 2009 served to fund costs related to the development and implementation of the Department's new unemployment insurance system.

NOTE 8 - SUBSEQUENT EVENT

Continuing high levels of unemployment benefit claims payments resulted in the depletion of the State's Unemployment Trust Fund balance during March 2010. Section 1201 of the Social Security Act provides for temporary loans from the Federal Unemployment Account in the Unemployment Trust Fund to those states whose trust funds are depleted to ensure continuation of benefit payments to eligible claimants. Loans are repayable from future employer contributions. The American Recovery and Reinvestment Act of 2009 temporarily suspended interest on these loans through December 31, 2010.

The State has submitted requests to the U.S. Department of Labor to advance up to \$93.1 million from the Federal Unemployment Account to ensure continuation of benefit payments during the months of March, April, and May 2010. In accordance with section 1201 of the Social Security Act, requests for advances are to cover 3-month periods. The State's first borrowing occurred on March 3, 2010. As of March 16, 2010, the State had borrowed \$14 million and repaid \$3.4 million. The outstanding loan balance at March 16, 2010 was \$10.6 million.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF EMPLOYMENT SECURITY
BUDGET TO ACTUAL SCHEDULE - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Original Budget</u>	<u>Actual</u>	Favorable/ (Unfavorable) <u>Variance</u>
<u>Revenues</u>			
<u>Restricted Revenues</u>			
Federal Operating Grants	\$ 22,874,093	\$ 22,359,341	\$ (514,752)
Contingent Fund	9,934,666	9,656,297	(278,369)
Other Sources	2,510,602	2,471,913	(38,689)
Training Fund	-0-	985,008	985,008
Total Restricted Revenues	<u>35,319,361</u>	<u>35,472,559</u>	<u>153,198</u>
<u>Expenditures</u>			
Salaries And Benefits	20,682,868	21,613,155	(930,287)
Equipment	3,662,820	4,348,344	(685,524)
Department Of Information Technology	4,462,777	4,344,208	118,569
Current Expenses	4,110,795	3,718,071	392,724
Maintenance	1,162,904	1,350,746	(187,842)
Training Fund	9,750	970,024	(960,274)
Utilities	443,750	520,784	(77,034)
Other	310,337	333,707	(23,370)
Travel	217,130	296,997	(79,867)
Leases	256,230	267,724	(11,494)
Total Expenditures	<u>35,319,361</u>	<u>37,763,760</u>	<u>(2,444,399)</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>-0-</u>	<u>(2,291,201)</u>	<u>(2,291,201)</u>
Other Financing Sources (Uses)			
Contingent Fund (Note 2)	-0-	2,291,201	(2,291,201)
Total Other Financing Sources (Uses)	<u>-0-</u>	<u>2,291,201</u>	<u>(2,291,201)</u>
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

The accompanying notes are an integral part of this schedule.

Notes To The Budget To Actual Schedule - General Fund For The Fiscal Year Ended June 30, 2009

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 and the Unemployment Compensation 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 original operating budget for fiscal year 2009 as passed by the Legislature in Chapter 262, Laws of 2007.

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 undesignated 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 fiscal year ended June 30, 2009. 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.

The unfavorable expenditure variances shown in the Budget To Actual Schedule represent the difference between the actual expenditures incurred during fiscal year 2009 and the original budget in place at the beginning of fiscal year 2009. These unfavorable variances do not represent expenditures incurred in excess of appropriations because the original budget amounts do not include supplemental appropriations. The State and the Department use supplemental appropriations to add appropriations to original budget amounts to reflect changes in levels of operations not provided for in the original budget. During fiscal year 2009, the Department's original expenditure budget amounts were supplemented by \$11.9 million of additional appropriations.

Note 2 - Funding Sources

The Department of Employment Security is not funded by General Fund appropriations. The Department's operations are funded by federal funds, fees for services or office space provided to partner agencies, and the Contingent Fund.

Contingent Fund

In accordance with RSA 282-A:140, I, and RSA 282-A:87, IV(a)(2), all interest, fines, late-filing fees, and penalties related to employer tax contributions and a portion of employer administrative contributions are paid into the Contingent Fund. In accordance with RSA 282-A:140, III, moneys in this fund shall not lapse to any other fund. The Contingent Fund is used to cover administrative costs for which federal funds have been requested but not yet received and in cases where federal funding is insufficient.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF EMPLOYMENT SECURITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CASH BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Federal Catalog Number	Federal Grantor <i>Federal Program Title</i>	Expenditures	Pass Thru Percent
	<u>U.S. Department Of Justice</u>		
16.202	<i>Prisoner Reentry Initiative Demonstration (Offender Reentry)</i>	\$ 82,659	0%
	<u>U.S. Department Of Labor</u>		
17.002	<i>Labor Force Statistics</i>	759,377	0%
17.207	<i>Employment Service/Wagner-Peyser Funded Activities</i>	4,016,722	0%
17.225	<i>Unemployment Insurance</i>	274,264,266	0%
17.245	<i>Trade Adjustment Assistance</i>	1,256,915	0%
17.258	<i>Workforce Investment Act (WIA) Adult Program</i>	78,467	0%
17.259	<i>WIA Youth Activities</i>	78,467	0%
17.260	<i>WIA Dislocated Workers</i>	93,989	0%
17.271	<i>Work Opportunity Tax Credit Program</i>	64,995	0%
17.273	<i>Temporary Labor Certification For Foreign Workers</i>	23,819	0%
17.801	<i>Disabled Veterans' Outreach Program</i>	312,564	0%
17.804	<i>Local Veterans' Employment Representative Program</i>	401,982	0%
17.805	<i>Homeless Veterans' Reintegration Program</i>	4,799	0%
	<u>U.S. Department Of Health And Human Services</u>		
93.563	<i>Child Support Enforcement</i>	3,858	0%
	Total	<u>\$ 281,442,879</u>	

The accompanying notes are an integral part of this schedule.

**Notes To The Schedule Of Expenditures Of Federal Awards (Cash Basis)
For The Fiscal Year Ended June 30, 2009**

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 Department of Employment Security's (Department) financial statements and is presented for purposes of additional analysis.

B. Reporting Entity

The reporting entity is defined in the Notes to the Department's financial statements presented in this report. The accompanying Schedule includes all federal awards of the Department for the fiscal year ended June 30, 2009.

C. Basis Of Presentation

The information in the Schedule presents the Department's federal award activity, federally funded unemployment compensation payments, as well as unemployment compensation payments funded by New Hampshire employer contributions.

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 fiscal year ended June 30, 2009 and are net of program refunds.

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 June 2009.

Note 3 - Unemployment Insurance

The Department administers the Unemployment Insurance program (CFDA No. 17.225). The acronym ARRA used below indicates funds expended under the American Recovery and Reinvestment Act of 2009. The negative amounts presented below represent overpayments recovered on inactive programs. The reported expenditures are comprised of the following:

Unemployment Insurance - State Contribution	\$ 208,966,225
Emergency Unemployment Compensation 2008	21,120,518
Unemployment Insurance - Administrative Grant	15,472,328
Emergency Unemployment Compensation 2008 (ARRA)	14,985,170
Federal Additional Compensation (ARRA)	11,007,816
Unemployment Compensation For Ex-servicemen	1,004,824
Unemployment Compensation For Federal Employees	690,737
Alternative Trade Adjustment Assistance	629,684
Unemployment Insurance - Administrative Grant (ARRA)	281,277
Trade Adjustment Assistance	126,327
Temporary Extended Unemployment Compensation	(20,386)
Disaster Unemployment Assistance	(254)
Total	<u>\$ 274,264,266</u>

Note 4 - Clustered Programs

Office of Management and Budget (OMB) Circular A-133 defines a “cluster” as “a grouping of closely related programs that share common compliance requirements.” The table below details the federal programs included in the Schedule that are required by OMB Circular A-133 to be “clustered” for purposes of testing federal requirements.

Federal Catalog Number	Program Title	Expenditures
<i>Employment Services Cluster</i>		
17.207	Employment Service/Wagner-Peyser Funded Activities	\$ 4,016,722
17.801	Disabled Veterans' Outreach Program	312,564
17.804	Local Veterans' Employment Representative Program	<u>401,982</u>
	<i>Employment Services Cluster Total</i>	<u>\$ 4,731,268</u>
 <i>Workforce Investment Act (WIA) Cluster</i>		
17.258	WIA Adult Program	\$ 78,467
17.259	WIA Youth Activities	78,467
17.260	WIA Dislocated Workers	<u>93,989</u>
	<i>WIA Cluster Total</i>	<u>\$ 250,923</u>

APPENDIX - CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of March 16, 2010, of the current status of the observations contained in the audit report of the Department of Employment Security for the year ended June 30, 1998. A copy of the prior report can be accessed and printed from the Office of Legislative Budget Assistant, Audit Division, website at www.gencourt.state.nh.us/lba/audit.html.

	<u>Status</u>		
<i>Internal Control Comments</i>			
<i>Reportable Conditions</i>			
1. Procedures For Requesting Funds From The Unemployment Trust Fund Account Should Be Documented	●	●	●
2. Benefit Accuracy Measurement (BAM) System Should Be Tested	●	●	●
3. Procedure Needed To Resolve Combined Wage Claim Payable Accounting Disagreement	●	●	●
4. Use Of Intragovernmental Payment Vouchers Should Be Considered	●	●	●
5. Timing Of Revolving Account Reimbursements Should Be Evaluated	●	●	●
 <i>Compliance Comments</i>			
<i>State Compliance</i>			
6. Administrative Rules Required By RSA 541-A:16 Should Be Adopted (See Current Observation No. 20)	○	○	○
7. Annual Audit Requirement Should Be Clarified	●	●	●
8. Administrative Rules For Appellate Board Procedures Should Be Adopted (See Current Observation No. 20)	○	○	○
9. Agreement With Appellate Board Should Be Documented	●	●	●
<i>Federal Compliance</i>			
10. Procedures Needed To Enable Aging Of Benefit Overpayment Accounts Receivable	●	●	●
 <i>Management Issues Comments</i>			
11. Disaster Recovery Plan Needed	●	●	○
12. Year 2000 Compliance Status	●	●	●
13. Amendments To Compensating Balance Account Contract Should Be In Writing	●	●	●

<u>Status Key</u>	●	●	○	<u>Count</u>
Fully Resolved	●	●	●	10
Substantially Resolved	●	●	○	1
Partially Resolved	●	○	○	0
Unresolved	○	○	○	2

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