

**STATE OF NEW HAMPSHIRE
HIGHWAY SAFETY AGENCY**

**FINANCIAL AUDIT REPORT
FOR THE NINE MONTHS ENDED
MARCH 31, 2010**

**STATE OF NEW HAMPSHIRE
HIGHWAY SAFETY AGENCY**

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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
HIGHWAY SAFETY AGENCY**

Reporting Entity And Scope

The reporting entity of this audit and audit report is the New Hampshire Highway Safety Agency. The scope of this audit and audit report includes the financial activity of the Highway Safety Agency for the nine months ended March 31, 2010. Unless otherwise indicated, reference to the Agency or auditee refers to the Highway Safety Agency.

Organization

The State Highway Safety Agency is created in RSA 238:7. The statute also provides for the Governor, with the consent of the Council, to appoint a State Coordinator of Highway Safety, who shall be an unclassified employee and who shall hold office for a term of five years. The Coordinator is the Governor's liaison with the National Highway Traffic Safety Administration and aids the Governor in the coordination of interdepartmental activities and those of the various federal and State political subdivisions, including Federal Highway Administration, State, county, and local highway safety groups.

A 15-member Traffic Safety Commission is established in RSA 238:10. Pursuant to RSA 238:11, the Commission is authorized to act in an advisory capacity to the State Coordinator of Highway Safety.

The Highway Safety Coordinator oversees a staff of six full-time employees.

The Highway Safety Agency Office is located at 78 Regional Drive, Building 2, Concord, New Hampshire 03301-8530.

Responsibilities

Pursuant to RSA 238:1, it is the policy of the State and in the public interest to have a highway safety program designed to reduce traffic accidents and the deaths, injuries, and property damage resulting therefrom. Programs mentioned in the statute include improvement of driver and pedestrian performance, an accident record system, accident investigations, vehicle registration, operation and inspection, highway design and maintenance, traffic control, vehicle codes and laws, surveillance of traffic, and emergency services. The Highway Safety Agency is the agency responsible under the executive direction of the Governor to develop and implement a statewide program designed to reduce traffic crashes and the resulting deaths, injuries, and property damage.

Funding

The financial activity of the Highway Safety Agency is accounted for in the General Fund of the State of New Hampshire. A summary of revenues and expenditures for the nine months ended March 31, 2010 is shown in the following schedule.

**Highway Safety Agency
Summary Of Revenues And Expenditures
For The Nine Months Ended March 31, 2010**

	<u>General Fund</u>
Revenues	
Federal Operating Grants	\$ 1,974,432
Transfers From Department Of Transportation	<u>301,081</u>
Total Revenues	<u>2,275,513</u>
Total Expenditures	<u>2,275,513</u>
Excess (Deficiency) Of Revenues	
Over (Under) Expenditures	<u>\$ -0-</u>

Prior Audit

The most recent prior financial audit of the Highway Safety Agency was for the nine months ended March 31, 1999. The appendix to this report on page 37 contains a summary of the current status of the observations contained in that prior report. A copy of the prior audit report can be accessed on-line at www.gencourt.state.nh.us/lba/audit.html.

Audit Objectives And Scope

The primary objective of our audit was to express an opinion on the fairness of the presentation of the financial statement of the Highway Safety Agency for the nine months ended March 31, 2010. As part of our work, we considered the effectiveness of the internal controls in place at the Agency and tested its compliance with certain provisions of applicable State and federal laws, rules, regulations, and contracts.

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 statement, and supplementary information are contained in the report that follows.

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

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statement of the New Hampshire Highway Safety Agency (Agency) for the nine months ended March 31, 2010 and have issued our report thereon dated August 17, 2010, which was qualified as the financial statement does not constitute a complete financial presentation of the Agency 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 Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal controls over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in Observations No. 1 and No. 2, that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal

control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statement is free of material misstatement, we performed tests of the Agency'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 Observation No. 3 through No. 9.

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

We noted a certain other management issue, which we describe in Observation No. 10, that we reported to the management of the Agency in a separate letter dated August 17, 2010.

This report is intended solely for the information and use of the management of the Highway Safety Agency, others within the Agency, 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

August 17, 2010

Internal Control Comments
Significant Deficiencies

Observation No. 1: Risk Of Reliance On Key Employees Should Be Mitigated

Observation:

The Highway Safety Agency (Agency) reports that its relative small size has made cross training employees in critical agency operations difficult. While the Agency does have some policies and procedures documents supporting its operations, those documents may not prove sufficient to provide for an efficient transfer of employee responsibilities in the event of an unplanned transition. The lack of effective employee cross training and supporting policies and procedures manuals increases the risk that the Agency has become overly reliant upon the continued performance of incumbent employees to perform critical functions and exposes the Agency to increased risk due to the resultant lack of effective segregation of duties for significant financial activities.

For example, one employee performs most of the critical functions related to the Agency's accounting for its federal programs. This employee operates and posts transactions to the Agency's federal accounting system, New Hampshire Grants Inventory System (NHGIS), and calculates and draws federal program funds, including preparing documents and printing reports to support the recording of the draws in the State's accounting system (NHFirst). The employee is also responsible for reconciling the Agency's monthly financial activity to ensure that all transactions were accurately posted to NHFirst.

It is not clear whether other Agency employees are sufficiently trained to perform these essential functions in this employee's absence or whether other employees are sufficiently involved in the federal draw process to be able to recognize errors or omissions that might occur in a draw.

While an independent reviewer agrees each federal draw to NHGIS reports, the reviewer does not also review supporting documents to ensure that all relevant transactions have been input into, and properly reflected in, the NHGIS reports.

This same employee is also responsible for significant duties related to the processing of revenues and expenditures in NHFirst. While another employee assists with input of transactions into NHFirst, neither this second employee's input activity or the approval of the related paper documents by other Agency employees is an effective review and approval for the revenue and expenditure transactions entered into NHFirst.

A similar comment was issued during our audit of the Agency for the nine months ended March 31, 1999.

Recommendation:

The Agency should mitigate its risk of over reliance on key employees for the completion of critical functions, including federal accounting and draws. All critical functions should be supported by sufficiently detailed policies and procedures manuals to allow for efficient transitioning of employee responsibilities. Employees should be cross-trained in critical functions to provide for a reasonable assurance of continuity of undisrupted operations during periods of employee transition.

Where possible, effective segregation of duties should be implemented to promote the timely detection and correction of errors or frauds that may occur. While effective segregation of duties in a small business office can be difficult, other controls including clearly designed and understood policies and procedures and effective reviews and approvals of source as well as summary documents can mitigate some of that risk.

Auditee Response:

We concur in part. The Highway Safety Agency does have detailed documentation (policies and procedures), as well as an Agency Procedure's Manual (which has been commended by National Highway Traffic Safety Administration). Documentation developed by the accountant contains detailed instructions relating to: the State's payroll system (GHRS); the Agency's Grants Tracking System (GTS) and New Hampshire Grants Inventory System (NHGIS); the State's accounting system (NH First) and budget system (Affinity Budget); Disaster Recovery; and Accounting Procedures (which is being updated to include NH First).

In addition, the accountant and program manager utilize the "Highway Safety Grants Management Manual" governing the use of federal highway safety funds received from the National Highway Traffic Safety Administration, US Department of Transportation. The Agency's detailed Procedures Manuals include guidance on administering the State's highway safety program.

In response to the comment that "the reviewer does not also review supporting documents to ensure that all relevant transactions have been input into, and properly reflected in, the NHGIS reports", it is important to note that the preparer does double check all entries, compares reports (NHGIS to GTS), runs tapes, compared payment vouchers with NHGIS reports, etc.

With the implementation of NH First, efforts continue to cross-train the secretary and administrative supervisor. On-going is the sharing of information and training of staff relative to the administrative process to help insure the Agency will continue to function during emergency situations or periods of transition. However, with limited employees who each have a full slate of responsibilities and specific job descriptions, the goal of cross training is difficult to reach. It is also difficult to segregate duties while striving for efficient and timely processing of grants, payments, reimbursements, reports, etc. However, efforts will continue to cross train employees and effectively segregate duties.

Observation No. 2: Reporting Requirements For Subgrantees Should Be Enforced

Observation:

The Highway Safety Agency (Agency) does not enforce the reporting requirements contained in its subgrantee grant agreements by following up on late or missing reports.

All Agency awards require subgrantees to submit periodic reports documenting project activities. Depending on the type of project funded, a subgrantee is required to provide either a quarterly or a monthly report to the Agency. For example, overtime enforcement patrols, including sobriety checkpoints, require monthly reporting and subgrant awards for equipment purchases and State-agency personnel positions require quarterly reports to be submitted to the Agency.

- Agency form HS-4(a), *Addendum to the Application for Highway Safety Project Grant*, states, “It is agreed that quarterly reports will be made to the NH Highway Safety Agency for one year summarizing the progress being made in implementing the project and identifying any problems being encountered. A final report will be made upon completion of the project.”
- Agency *Fundable Program Areas* policy requires patrol activity to be recorded on form HS-200 and submitted with each reimbursement request. In addition, “monthly reports (HS-7b) must be submitted by the 15th of the month following the period covered.”

An Agency employee tracks the reporting requirements for each project in a Contract Logbook, documenting the due date of each required project report. When the required reports are received, the employee notes the receipt of the report in the Contract Logbook.

Although the Contract Logbook provides a reasonable report tracking mechanism, the Agency does not utilize this information to enforce its reporting requirements. A review of the Contract Logbook noted numerous reports that were not filed with no indications of efforts at follow up or noted consequences to the subgrantees. According to the Agency, timely and complete filing of reports by subgrantees is not considered critical to the Agency, as the Agency generally obtains sufficient project information to monitor projects through regular contact with the subgrantees.

By not requiring the timely submittal of required reports, the Agency may not be adequately informed of project progress and activities, including problems with the project that may have arisen. By allowing subgrantees to ignore reporting requirements without consequence, the Agency does not demonstrate an expectation and requirement for program and project compliance to its subgrantees.

A similar comment was issued during our audit of the Agency for the nine months ended March 31, 1999.

Recommendation:

The Agency should direct its subgrantees to comply with the reporting requirements contained in its subgrantee grant agreements. The Agency should develop policies and procedures to ensure that required subgrantee reports are submitted timely.

The Agency should review the form and content of its required reports to ensure the reported information remains relevant to the Agency's monitoring efforts and provides the Agency with the information necessary to determine and measure the efficiency and effectiveness of its supported programs. If, the Agency determines the reports no longer provide useful information, the Agency should revise the content of the reports or the reporting requirements as appropriate.

Auditee Response:

We concur. The Highway Safety Agency has revised the "Fundable Program Areas" (HS-13) document and the "Addendum to Application" (HS-4a) relative to monthly reporting.

- "Fundable Program Areas". Since the quarterly and final reports are not mentioned in this document, reference to the monthly reporting has been removed. Project reporting is part of the blanket language appearing in the Addendum (HS-4a).
- "Addendum to Application". The language pertaining to monthly reports has been revised to read: "Monthly reports will be submitted within 20 days of the project termination date." Our "Procedures for Reimbursement" (HS-12) requires that our Agency receive reimbursement requests "within 20 days of the end of the project period." The filing of the monthly reports now coincides with the reimbursement submission date.

The Agency, on an annual basis (or more frequently if needed) does review its forms for changes.

The Agency will take steps to review the contract logbook on a quarterly basis and request missing reports. During July 2010 the logbook was reviewed and a letter was sent to those grantees who had not submitted the monthly/quarterly/final reports.

Federal Compliance Comments

Observation No. 3: State And Federal Procurement Requirements Should Be Followed

Observation:

The Agency's issuance of a contract for the performance of a seat belt utilization survey was not subject to the State's normal purchasing control procedures and therefore was not in compliance with the federal standards for financial management systems, included in Title 49 Code of Federal Regulations, Part 18, Uniform Administrative Requirements For Grants and Cooperative Agreements to State and Local Governments (Common Rule), Subpart C, Section 20 (a). That section of the Common Rule provides, "A State must exp[e]nd and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds." Part 18, Section 36 (a) provides, "When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds."

RSA 4:15 requires the expenditures of any department of the State be subject to Governor and Council approval. To that end, the Department of Administrative Services, Administrative Handbook (Handbook) reflects Governor and Council's requirements for all State agencies to seek Governor and Council approval for any personal services contracts of \$2,500 or more and other services of \$5,000 or more.

In addition, the Handbook also notes that contracts of \$2,000 or more require the issuance of a request for proposals (RFP).

The Agency, in April 2009, issued a \$38,496 contract to the University of New Hampshire Survey Center (Center) to develop and update the seat belt survey methodology in accordance with criteria established by the U.S. Secretary of Transportation contained in Title 23 Code of Federal Regulations Part 1340, Uniform Criteria for State Observational Surveys of Seat Belt Use, and to perform an observational survey. The Agency made payment on the contract during the nine months ended March 31, 2010. This contract was documented by the Agency using its standard subgrantee contract template. The contract was not subject to the State's normal purchasing controls as the contract was not subject to an RFP or other competitive bid process or submitted to Governor and Council for approval.

Recommendation:

The Agency should establish policies and procedures to ensure that its federal program expenditures are compliant with State and federal requirements. Expenditures of federal program funds for services should be subject to all applicable State and federal expenditure controls.

The Agency should review with the Department of Administrative Services which grant expenditures are exempt from, and which expenditures are subject to, State requirements for review and approval by Governor and Council and other State expenditure controls.

The Agency should also review with the Department of Justice the scope of its December 13, 2000 opinion referred to in Observation No. 6, to ensure the advice remains current and the Agency continues to properly apply that advice.

Auditee Response:

We concur in part. Federal guidelines allow state highway safety offices to approve grants with educational institutions (as it does with state/county, and local government entities). Consequently, the Highway Safety Agency contracted with the UNH Survey Center to conduct the annual NHTSA seat belt survey. Since this is a NHTSA-required program element, the Agency did not consider this a 'service' to the Agency that would require adherence to the State procedures for Governor and Council review and approval. Starting in federal fiscal year 2011 the Highway Safety Agency will follow the State procedures to contract with an agency that will provide the service of conducting the annual seat belt use survey.

Please note that the Highway Safety Agency does follow applicable State guidelines for services provided directly to the Agency as demonstrated by Governor and Council approved contracts for Operation Lifesaver and for the annual Drunk and Drugged Driving law enforcement luncheon.

Contractual agreements for services between State agencies and consultants/personnel, private businesses, etc., require Governor and Council approval as they are providing a service directly to the State contracting agency. Again we point out that grants the Agency has with State, county, and local government entities are not service contracts. The Agency has a clear understanding of the December 13, 2000, opinion issued by the Attorney General's office which is based on the legislative intent of RSA 238 and our Agency's "long history of accepting and awarding funds". This letter/opinion further states "Adm 311.07 (a)(6) does not apply to these contractual agreements and grants, therefore, you (Highway Safety Agency) are not required to obtain approval by Governor and Council."

The letter further states: "Given the language of Adm 311.07, the specific statutory provisions regarding Governor and Council's role with these highway safety agency funds and the long history of accepting and awarding these funds without following the Adm 311.07(a)(6) as currently written was not designed for and has no application to the reimbursement of public funds to local government entities by the Highway Safety Agency where no services are being performed, no product is produced, the concept of competitive bidding is inapplicable and, therefore, Governor and Council review is not required."

The Highway Safety Agency has asked the Department of Justice to review their December 13, 2000 opinion.

Observation No. 4: Procedures To Ensure And Demonstrate Compliance With Maintenance Of Efforts Requirements Should Be Implemented

Observation:

The Highway Safety Agency (Agency) is not able to demonstrate compliance with the maintenance of efforts requirements of its federal programs.

According to the federal Office of Management and Budget, Circular A-133 Compliance Supplement, Part 4, Department of Transportation, Highway Safety Cluster, III. Compliance Requirements, G. Matching, Level of Effort, Earmarking, 2.1:

- b. For *Alcohol Traffic Safety and Drunk Driving Prevention [Impaired Driving Countermeasures] Incentive Grants* (CFDA 20.601), a State must maintain its aggregate expenditures from all other sources for alcohol traffic safety programs at or above the average level of such expenditures in fiscal years 2003 and 2004 (23 USC 410(a)(2)).
- d. For *State Traffic Safety Information System Improvements Grant* (CFDA 20.610), a State must maintain its aggregate expenditures from all other sources for highway safety data programs at or above the average level of such expenditures in fiscal years 2003 and 2004 (23 USC 408(e)(3)).

The Agency could not demonstrate or provide any data to support its compliance with the maintenance of effort compliance requirements of the federal programs it administers. The Agency did not have base year or subsequent fiscal year expenditures data related to the alcohol traffic safety program and highway safety data program expenditures. Without the ability to determine the base amount and subsequent fiscal year expenditures related to these program expenditures, the Agency cannot demonstrate its compliance with the maintenance of effort requirements of these federal programs.

Although the Agency has not determined the alcohol traffic safety program and highway safety data program expenditures incurred Statewide for any given period, the Agency reported it does review budgetary information for various State agencies (i.e., Department of Safety, Liquor Commission, Department of Justice) to ensure that those agencies' budgets are increasing from year to year. While the budgets for those agencies may have increased, the Agency cannot demonstrate these State agencies have maintained efforts in expenditures related to the Agency's federal programs.

Recommendation:

The Agency should develop and implement procedures to ensure and demonstrate it is in compliance with the federal maintenance of effort requirements. The Agency should work with the State agencies which incur expenditures related to alcohol traffic safety and highway safety data programs to determine how to identify and quantify the qualified expenditures. The Agency should retain documentation related to its monitoring and review of those qualified expenditures to evidence the Agency's and State's compliance with the maintenance of effort requirements during each federal grant period.

Auditee Response:

We concur. The Highway Safety Agency is now documenting expenditures of other State agencies as required by National Highway Traffic Safety Administration for the Section 410 Alcohol, Section 408 Traffic Records, and Section 2010 Motorcycle grants to demonstrate maintenance of efforts.

Observation No. 5: Procedures Related To Federal Suspension And Debarment Requirements Should Be Strengthened

Observation:

The Agency may not be making sufficient efforts to ensure that it is not awarding any federal program funds to suspended or debarred vendors and subgrantees.

Title 49, Code of Federal Regulations, Part 18, Uniform Administrative Requirements For Grants and Cooperative Agreements to State and Local Governments (Common Rule), Subpart C, Section 35 states, “Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, ‘Debarment and Suspension’.”

Federal Office of Management and Budget Circular A-102, Grants and Cooperative Agreements with State and Local Governments, Attachment Section 1.d., states “Federal agencies shall not award assistance to applicants that are debarred or suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549. Agencies shall establish procedures for the effective use of the List of Parties Excluded from Federal Procurement or Nonprocurement programs to assure that they do not award assistance to listed parties in violation of the Executive Order. Agencies shall also establish procedures to provide for effective use and/or dissemination of the list to assure that their grantees and subgrantees (including contractors) at any tier do not make awards in violation of the nonprocurement debarment and suspension common rule.”

While the Agency does include a subgrantee’s certification of nondebarment and suspension status in its subgrant award documents, the Agency does not include any similar certification on contracts supporting expenditures of federal program funds nor does the Agency make use of the List of Parties Excluded from Federal Procurement or Nonprocurement programs to ensure it does not award assistance to listed parties in violation of the Executive Order.

Recommendation:

The Agency should include federal suspension and debarment provisions in its standard contract documents used to support expenditures of federal program funds.

The Agency should also make use of the List of Parties Excluded from Federal Procurement or Nonprocurement programs to assure that it does not award assistance to listed parties in violation of the Executive Order.

Auditee Response:

We concur. Federal debarment/suspension language is being added to Exhibit C of the State's P-37 contract form, as well as to blanket language that will appear in Requests for Proposals (RFP). This language places responsibility on the applicant agency or contractor who certifies upon entering the grant or contract that "neither it nor its principals is presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in this transaction by any Federal department or agency. Where the applicant or contract agency is unable to certify to any of the statements in this certification, such prospective participants shall attach an explanation to the grant or contract." The Agency will utilize the List of Parties Excluded from Federal Procurement or Nonprocurement programs to assure it does not provide assistance to those in violation of the executive order.

State Compliance Comments

Observation No. 6: State Controls Should Be Utilized For Agency Contractual And Grant Agreements

Observation:

The Highway Safety Agency (Agency) does not avail itself of certain standard State contracting controls when establishing contractual and grant agreements between itself and other State agencies, local governments, and other organizations.

The Agency funds various projects that support the highway safety mission, such as sobriety checkpoints, speed enforcement patrols, seat belt utilization surveys, and the purchase of highway safety and related law enforcement equipment. In fulfilling this mission, the Agency establishes contractual agreements and grants with State and local government entities and makes purchases of services and products from vendors. Generally, State and local government entities complete an application for project funding in which they propose an activity to be funded by the Agency. If approved, the Agency completes a *Contractual Agreement for Highway Safety Project Grant*, form HS-4, which is signed by both parties. A schedule attached to the agreement provides a detail project description, specifies reporting requirements, and references contract addenda for any additional contract requirements. Those requirements identify applicable federal rules and regulations to be followed by the grantee. In addition, each grantee is required to demonstrate that the grantee's local Highway Safety Committee approved the project.

1. The form HS-4 used by the Agency to document its agreements granting federal highway safety funds to other State agencies, local governments, and other organizations has not been reviewed by the Department of Justice (DOJ) to ensure the form HS-4 contains appropriate terms and conditions such as insurance requirements, indemnification, and assignment of the contract provisions to protect the interests of the Agency, State, federal grantor agency, and other parties to the contract.
2. Pursuant to a DOJ opinion dated December 13, 2000, the Agency does not submit any of its grant agreements with other State agencies, local governments, and other organizations to Governor and Council for review and approval. While the opinion specifically spoke "to the reimbursement of public funds to local government entities by the Highway Safety Agency where no services are being performed, no product is produced, the concept of competitive bidding is inapplicable ... Governor and Council review is not required", the Agency has applied the opinion to exempt all of its highway safety agreements and grants from Governor and Council review and approval.

Recommendation:

The Agency should take advantage of available State controls when establishing contractual and grant agreements between itself and other State agencies, local governments, and other organizations.

1. The Agency should seek DOJ assistance in reviewing its *Contractual Agreement for Highway Safety Project Grant*, form HS-4, to ensure that the form conforms to State standards, contains adequate provisions and conditions to protect the Agency's and State's rights, and is appropriate for the circumstances.
2. As recommended in Observation No. 3, the Agency should review with the DOJ the scope of its December 13, 2000 opinion to ensure the advice remains current, given changes that may have occurred in State policy and practice since the date of that opinion.

Auditee Response:

We concur with the recommendation.

1. The Highway Safety Agency has requested the Department of Justice review its contractual agreement form (HS-4) and supporting addenda (HS-4 a and b) to assure it conforms to the necessary standards.
2. The Highway Safety Agency has asked the Department of Justice to review their December 13, 2000 opinion.

We offer the following points related to the observation:

- The Highway Safety Agency does utilize the State contract (P-37), seeks Governor and Council approval, and does abide by State procurement standards when securing services for the Agency (i.e., media contracts, railroad safety education, minor league baseball seat belt campaign, etc.) and when purchasing equipment, supplies, etc.
- Grant agreements approved with State, county, and local government entities do not provide services for the Highway Safety Agency and, therefore, do not utilize the P-37 or require implementation of the standard State contracting provisions. Please see auditee response to Observation No. 3 on page 10.
- Highway Safety funds are provided to government entities to enhance/augment their activity. The federal Common Rule (49 CFR, Part 18.36) clearly states that use of those funds shall follow local employee contracts, purchasing requirements, etc.
- State agencies utilizing Highway Safety Agency grants are responsible for seeking Governor and Council approval.

Observation No. 7: Procedures Should Be Established To Support The Timely Filing Of Statements Of Financial Interests

Observation:

The Highway Safety Agency (Agency), during the nine months ended March 31, 2010, did not have on file with the Secretary of State an organizational chart identifying the names, titles, and position numbers of Agency personnel required to file Statements of Financial Interests. The filing of such a chart is required by RSA 15-A:4.

In addition, while the head of the Agency had a current Statement of Financial Interests on file, four out of 15 (27%) Traffic Safety Commission members did not have current Statements of Financial Interests on file. The New Hampshire Traffic Safety Commission acts in an advisory role to the Agency.

RSA 15-A requires a Statement of Financial Interests to be filed with the Secretary of State for persons who perform official duties to ensure the duties do not give rise to a conflict of interest. Persons required to file are defined in RSA 15-A:3, I(c), as “every person appointed by the governor, governor and council,...to any board, commission, committee, board of directors, authority, or equivalent state entity whether regulatory, advisory, or administrative in nature.” Pursuant to RSA 15-A:3, I(e), any public official designated by the agency head is also required to file. The deadline to file Statements of Financial Interests is determined in RSA 15-A:6 as “annually no later than the third Friday in January.”

Recommendation:

The Agency should file an organizational chart with the Secretary of State, as required by RSA 15-A:4.

The Agency should reemphasize in its annual reminders to those Agency employees and members of its associated Traffic Safety Commission required to file a Statement of Financial Interests the filing requirement and deadline. The Agency should follow up on the filing status of those individuals required to file Statements.

Auditee Response:

We concur. In accordance with RSA 15-A:4 the Highway Safety Agency on July 28, 2010, filed with the Secretary of State its organization chart identifying the Coordinator, Peter Thomson, as the person required to file a Statement of Financial Interests.

The Agency does have established procedures whereby each year during the first week of November it sends to each Traffic Safety Commission member a copy of the Statement of Financial Interests form and a copy of RSA 15-A, along with a covering letter requesting the form be completed and returned to the Secretary of State by the third Friday in January (with a specific date). Starting in November 2010 we will also mention in the covering letter the penalty and emphasize members must file the form in order to be eligible to serve on the Commission. A few weeks following the January filing date, an Agency employee will check the State website (www.sos.nh.gov/15-Afilings2011.htm) to verify Commission member filing status and send a second notice where necessary.

Observation No. 8: Leave Applications Should Be Completed In Compliance With State Rules

Observation:

The Highway Safety Agency (Agency) has not required its employees to completely fill out an application for leave form to support sick leave taken. Of nine sick leave forms reviewed, one contained a certification, one contained a basis for the leave request, and seven contained neither a certification nor a basis for the leave request.

N.H. Admin. Rules, Per 1202.01 (c) [personnel rules] states, “The employee shall state the reason for leave and sign and date the certification. If the employee is requesting sick leave, the employee shall certify that due to illness, disability or reasons qualifying for sick leave benefits under Per 1202.01 (a) (4) j., k., l., or m., the employee was unable to attend to official duties for the time indicated.”

The Agency reported that it was unaware State personnel rules require all leave slips on which sick leave is requested to identify the basis for the request and contain an employee certification of inability to attend to official duties for cause noted.

Recommendation:

The Agency should review with employees the applicable State personnel rules criteria for the use of leave, including sick leave. The Agency should ensure that applications for leave are completed in accordance with State rules.

Auditee Response:

We concur. At staff meetings on March 29 and July 27, 2010, provisions of State personnel rules regarding the use of leave, including sick leave, were reviewed with Agency employees. Specific attention was given to sick leave applications and completion of the section titled “Certificate Required for Sick Leave”.

Observation No. 9: Biennial Report Should Be Issued

Observation:

The Highway Safety Agency (Agency) did not issue a biennial report for the biennium ended June 30, 2009. According to the Agency, it is not aware whether it has ever issued a biennial report.

Pursuant to RSA 20:6 and RSA 20:7, certain named State agencies are required to issue annual reports and all unnamed agencies are required to issue biennial reports. As an unnamed agency, the Agency is required to issue a biennial report covering periods ending on June 30 in odd-numbered years. The reports are due by the following October 1.

The Department of Administrative Services' Manual of Procedure, MOP 2500 *Preparation and Submission of Annual and Biennial Reports*, includes general requirements for the contents of the required reports.

The Agency reported it was unaware of this reporting requirement.

Recommendation:

The Agency should issue a biennial report as required by statute. The Agency should review MOP 2500 to ensure its report contains the required information.

Auditee Response:

We concur in part. For each federal fiscal year the Agency is required to submit to the National Highway Traffic Safety Administration (NHTSA) an annual performance report. Although the Coordinator has always sent the Governor a copy of the annual report, the Highway Safety Agency will continue to submit copies of this annual report to the Governor, as well as to the Executive Council, Speaker of the House, and the Senate President as required by RSA 20:7. The federal fiscal year 2009 annual report was submitted on July 28, 2010.

Auditor's Report On Management Issues

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statement of the New Hampshire Highway Safety Agency (Agency) for the nine months ended March 31, 2010 and have issued our report thereon dated August 17, 2010, which was qualified as the financial statement does not constitute a complete financial presentation of the Agency 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 statement of the Agency for the nine months ended March 31, 2010, we noted an issue related to the operation of the Agency that merits management consideration but does not meet the definition of a material weakness or significant deficiency, as defined by the American Institute of Certified Public Accountants, and was not an issue of noncompliance with laws, rules, regulations, contracts, or grant agreements.

That issue that we believe worthy of management consideration but does not meet the criteria of material weakness, significant deficiency, or noncompliance is included in Observation No. 10 of this report.

This report is intended solely for the information and use of the management of the Highway Safety Agency, others within the Agency, 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

August 17, 2010

Management Issues Comment

Observation No. 10: Efforts To Obligate And Expend Available Federal Program Funds Should Be Strengthened

Observation:

A significant amount of the Highway Safety Agency's (Agency) federal funding remains unspent from year to year. According to the March 4, 2010 National Highway Traffic Safety Administration (NHTSA) *Obligation Limitations Report for New Hampshire*, the Agency had approximately \$4.3 million of federal funding available to expend on highway safety projects. Although, as summarized in the following table, the Agency reported that some of the available funds were obligated during the period March 31, 2010 through July 27, 2010, the Agency reported a significant amount of federal funds remained unobligated at July 27, 2010.

<u>Federal Grant Category</u>	<u>Amount of Carry Forward</u>	<u>Federal Fiscal Year</u>	<u>Federal Fiscal Year 2010 Allocation</u>	<u>Total Carry Forward And 2010 Allocation</u>	<u>Federal Fiscal Year 2010 Obligations</u>	<u>Unobligated</u>
Section 402						
(State & Community)	\$ 958,842	2009	\$ 1,761,525	\$ 2,720,367	\$ 2,104,545	\$ 615,822
Section 408						
(System Improvements)	35,722	2007	-0-	35,722	35,722	-0-
	500,000	2008	-0-	500,000	369,129	130,871
	500,000	2009	-0-	500,000	-0-	500,000
Total Section 408	1,035,722		-0-	1,035,722	404,851	630,871
Section 410						
(Alcohol)	1,016,307	2008	-0-	1,016,307	807,124	209,183
	986,797	2009	-0-	986,797	-0-	986,797
Total Section 410	2,003,104		-0-	2,003,104	807,124	1,195,980
Section 2010						
(Motorcycle)	25,955	2006	-0-	25,955	25,955	-0-
	100,000	2007	-0-	100,000	56,061	43,939
	100,000	2008	-0-	100,000	-0-	100,000
	100,000	2009	-0-	100,000	-0-	100,000
Total Section 2010	325,955		-0-	325,955	82,016	243,939
Total	\$ 4,323,623		\$ 1,761,525	\$ 6,085,148	\$ 3,398,536	\$ 2,686,612

The effective utilization of available federal funds was also raised in a NHTSA management review of the Agency for federal fiscal years 2006, 2007, and 2008, dated June 3, 2009. NHTSA noted the Agency had made progress in reducing the amount of carry forward funds for the section 402 grant, however, per the NHTSA management review, the Agency “still has large amount of carry forward funds in SAFETEA-LU Section 410 and Section 2010 grants, with only 22 percent of available funds for SAFETEA-LU Section 410 and 20 percent of section 2010 funds being expended in FY 2008.”

Federal program guidelines allow the Agency to expend federal program funds during the original federal grant year and the following three federal fiscal years, unless NHTSA allows an extension beyond that period. While the Agency reports it has never lost any available funding, federal funds that are not expended timely are subject to reobligation by NHTSA to other state highway safety agencies or to other purposes.

Recommendation:

Recognizing the critical nature of the Agency's mission, and to maximize the effects of its highway safety programs, the Agency should make all reasonable efforts to expend its highway safety program funds as timely as possible.

The Agency should strengthen its efforts to obligate and expend available federal funding and, as recommended by NHTSA, focus its efforts to ensure program funds are timely committed and projects are promptly implemented.

Auditee Response:

We do not concur. Concerned with the level of available federal funds, the Highway Safety Agency is diligent in its efforts to develop highway safety programs dedicated to reducing motor vehicle fatalities and the resulting deaths and life-changing injuries and to subsequently expend federal funds in a timely fashion. However, the burden of available funds, in part, rests with Congress and the National Highway Traffic Safety Administration who are responsible for the award of the Section 402 funds, as well as the earmarked incentive funds (Section 408, 410, and 2010). For a number of years Section 402 funds have been released to the states through a series of Continuing Resolutions. This practice has taught states to reserve funds for the upcoming fiscal year. It should also be noted that the incentive funds are awarded to the states during the last six weeks of the federal fiscal year. Since federal accounts must close on September 30th, there is no time to approve, implement, and finalize grants before the end of the federal fiscal year on September 30th. These incentive funds must then be carried forward into the new fiscal year as prior year balances. Federal fiscal year 2009 incentive funds carried forward into federal fiscal year 2010 totaled \$1,586,797.

It must also be noted that two of the incentive grant funds (Section 2010 motorcycle and Section 408 traffic records [system improvements]) are dedicated to efforts that are administered by other State agencies.

In accordance with federal regulations, the Section 2010 funds are to be used for efforts that are administered by the Motorcycle Rider Training Program (MRTP) within the Division of Motor Vehicles. The Highway Safety Agency continues to work with the MRTP to develop programs that meet federal guidelines, as well as efforts of the MRTP at the State level. It must be recognized that budgetary cuts have impacted their efforts. Under new leadership at the Division of Motor Vehicles and the Department of Safety steps are being taken to utilize these funds.

In accordance with federal regulations Section 408 funds must be used to "improve the timeliness, accuracy, completeness, uniformity, integration, and accessibility" of the State's traffic records data. Through a multi-year effort involving the State's Traffic Records

Coordinating Committee (representing the Highway Safety Agency, Departments of Transportation and Safety, and other contributors and users of traffic records data), the State's crash reporting form has been redesigned. Training curriculum is being written and law enforcement agencies will be trained which will lead to statewide implementation. This is a multi-phased effort with implementation that spans several years. Unobligated funds will be used to cover this and other traffic records improvements as the process moves forward.

The Highway Safety Agency is dedicated to implementing programs in accordance with federal regulations and guidelines. However, budget reductions throughout State, county, and local governments are impacting our efforts to implement programs.

It should also be noted that the amount of Section 402 funds awarded to the State each year since 2005 has increased dramatically from \$768,800 in 2005 to \$1,761,525 in 2010 (129 percent increase). Furthermore, states are not aware of the yearly funding levels until the appropriation is issued (again, through continuing resolutions).

Fiscal Year	Section 402	Section 410	Section 408	Section 2010
2005	\$ 768,800	\$ 197,478	\$ -0-	\$ -0-
2006	1,073,507	530,578	-0-	100,000
2007	1,099,350	558,348	300,000	100,000
2008	1,686,525	1,059,561	500,000	100,000
2009	1,761,525	986,797	500,000	100,000
2010	1,761,525	To be awarded in August/September 2010		

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the Statement of Revenues and Expenditures - General Fund of the New Hampshire Highway Safety Agency (Agency) for the nine months ended March 31, 2010. This financial statement is the responsibility of the management of the Agency. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial 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 Agency'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 opinion.

As discussed in Note 1, the financial statement referred to above does not purport to and does not constitute a complete financial presentation of the Highway Safety Agency 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 statement referred to above presents fairly, in all material respects, certain financial activity of the Agency for the nine months ended March 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statement, referred to above, of the Agency. The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in

the audit of the financial statement. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 17, 2010 on our consideration of the Agency'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

August 17, 2010

**STATE OF NEW HAMPSHIRE
HIGHWAY SAFETY AGENCY
STATEMENT OF REVENUES AND EXPENDITURES – GENERAL FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2010**

Revenues

Restricted Revenues

Federal Operating Grants	\$ 1,974,432
Transfers From Department Of Transportation	<u>301,081</u>
Total Restricted Revenues	<u>2,275,513</u>
Total Revenues	<u>2,275,513</u>

Expenditures

Grants	1,675,312
Salaries And Benefits	389,089
Contracts For Program Services	98,018
Current Expenses	54,497
Rents And Leases	19,177
Indirect Costs	11,157
Department Of Information Technology	10,172
Out Of State Travel	9,275
Other	<u>8,816</u>
Total Expenditures	<u>2,275,513</u>

Excess (Deficiency) Of Revenues

Over (Under) Expenditures **-0-**

Other Financing Sources (Uses)

Net Appropriations (Note 2)	<u>-0-</u>
Total Other Financing Sources (Uses)	<u>-0-</u>

Excess (Deficiency) Of Revenues And

**Other Financing Sources Over (Under)
Expenditures And Other Financing Uses** **\$ -0-**

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

**STATE OF NEW HAMPSHIRE
HIGHWAY SAFETY AGENCY**

NOTES TO THE FINANCIAL STATEMENT
FOR THE NINE MONTHS ENDED MARCH 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

The Highway Safety Agency is an organization of the primary government of the State of New Hampshire. The accompanying financial statement reports certain financial activity of the Highway Safety Agency.

The financial activity of the Highway Safety Agency is accounted for and reported in the General Fund in the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the CAFR. The Agency, 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 Agency cannot be determined. Accordingly, the accompanying Statement of Revenues and Expenditures - General Fund is not intended to show the financial position or change in fund balance of the Agency in the General Fund.

B. Financial Statement Presentation

The State of New Hampshire and Highway Safety Agency 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 Highway Safety Agency reports its financial activity in the fund described below.

Governmental Fund Type:

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

C. Measurement Focus And Basis Of Accounting

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

D. Revenues And Expenditures

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either “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 type.

E. 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. 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. Fiduciary Funds are not budgeted.

In addition to the enacted biennial operating budget, the Governor may submit to the Legislature supplemental budget requests to meet expenditures during the current biennium. 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 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 lapse at year end to undesignated fund balance unless they have been encumbered or legally defined as non-lapsing, which means the balances are reported as 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. At March 31, 2010, the Agency's unliquidated encumbrance balance in the General Fund was \$61,239.

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

NOTE 2 – NET APPROPRIATIONS

Net appropriations reflect appropriations for expenditures in excess of restricted revenue not otherwise used (transferred to another Department or Fund).

NOTE 3 - EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The Highway Safety Agency, 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 Agency. 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 Agency employees are members of Group I.

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

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the nine months ended March 31, 2010, Group I State employee members whose employment began prior to July 1, 2009 were required to contribute 5% of gross earnings. Group I State employee members whose employment began on or after July 1, 2009 were required to contribute 7% of gross earnings. Group II members were required to contribute 9.3% of gross earnings. The State funds 100% of the employer cost for all of the Agency'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 Agency's payments for normal contributions for the nine months ended March 31, 2010 amounted to 9.09% of the covered payroll for its Group I employees. The Agency's normal contributions for the nine months ended March 31, 2010 were \$25,719.

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 Agency's Medical Subsidy normal contribution rate for the nine months ended March 31, 2010 was 1.96% of the covered payroll for its Group I employees. The Agency's normal contributions for the Medical Subsidy the nine months ended March 31, 2010 were \$5,545.

The cost of the health benefits for the Agency'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 Agency'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 Agency.

**STATE OF NEW HAMPSHIRE
HIGHWAY SAFETY AGENCY
BUDGET TO ACTUAL SCHEDULE - GENERAL FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2010**

Revenues	Original Budget	Actual	Favorable (Unfavorable) Variance
Restricted Revenues			
Federal Operating Grants	\$ 5,720,932	\$ 1,974,432	\$ (3,746,500)
Transfers From Department Of Transportation	477,851	301,081	(176,770)
Total Restricted Revenues	<u>6,198,783</u>	<u>2,275,513</u>	<u>(3,923,270)</u>
Total Revenues	<u>6,198,783</u>	<u>2,275,513</u>	<u>(3,923,270)</u>
 Expenditures			
Grants	4,804,422	1,675,312	3,129,110
Salaries And Benefits	579,197	389,089	190,108
Contracts For Program Services	373,784	98,018	275,766
Current Expenses	228,200	54,497	173,703
Rents And Leases	30,000	19,177	10,823
Indirect Costs	19,945	11,157	8,788
Department Of Information Technology	28,206	10,172	18,034
Out Of State Travel	41,370	9,275	32,095
Other	93,659	8,816	84,843
Total Expenditures	<u>6,198,783</u>	<u>2,275,513</u>	<u>3,923,270</u>
 Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
 Other Financing Sources (Uses)			
Net Appropriations (Note 2)	-0-	-0-	-0-
Total Other Financing Sources (Uses)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
 Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	<u><u>\$ -0-</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ -0-</u></u>

The accompanying notes are an integral part of this schedule.

Notes To The Budget To Actual Schedule - General Fund For The Nine Months Ended March 31, 2010

Note 1 - General Budget Policies

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

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

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

The budget, as reported in the Budget To Actual Schedule, reports the initial operating budget for fiscal year 2010 as passed by the Legislature in Chapter 143, Laws of 2009.

Budgetary control is at the department level. In accordance with RSA 9:16-a, notwithstanding any other provision of law, every department is authorized to transfer funds within and among all program appropriation units within said department, provided any transfer of \$2,500 or more shall require approval of the Joint Legislative Fiscal Committee and the Governor and Council. Additional fiscal control procedures are maintained by both the Executive and Legislative Branches of government. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State's financial system. The Legislative Branch, represented by the Joint Legislative Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

Unexpended balances of appropriations at year end will lapse to 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 for fiscal year 2010 and the actual revenues and expenditures for the nine months ended March 31, 2010. Actual revenues exceeding budget or actual expenditures

being less than budget generate a favorable variance. Actual revenues being less than budget or actual expenditures exceeding budget cause an unfavorable variance.

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

Note 2 - Net Appropriations

Net appropriations reflects appropriations for expenditures in excess of restricted revenue not other wise used (transferred to another Department or Fund).

**STATE OF NEW HAMPSHIRE
HIGHWAY SAFETY AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CASH BASIS)
FOR THE NINE MONTHS ENDED MARCH 31, 2010**

Federal Catalog Number	Federal Grantor Federal Program Title	Expenditures	Pass Thru Percent
<u>U.S. Department Of Transportation</u>			
<i>Highway Safety Cluster (Note 3)</i>			
20.600	State And Community Highway Safety	\$ 1,288,177	84%
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants	467,726	100%
20.610	State Traffic Safety Information System Improvement Grants	264,278	100%
20.612	Incentive Grant Program To Increase Motorcyclist Safety	11,219	100%
	<i>Highway Safety Cluster Total</i>	<u>\$ 2,031,400</u>	

The accompanying notes are an integral part of this schedule.

**Notes To The Schedule Of Expenditures Of Federal Awards (Cash Basis)
For The Nine Months Ended March 31, 2010**

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 Highway Safety Agency's (Agency) financial statement and is presented for purposes of additional analysis.

B. Reporting Entity

The reporting entity is defined in the Notes to the Agency's financial statement presented in this report. The accompanying Schedule includes all federal awards of the Agency for the nine months ended March 31, 2010.

C. Basis Of Presentation

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

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

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

D. Basis Of Accounting

Expenditures are presented in the Schedule on the cash basis of accounting. Expenditures are recorded when paid rather than when the obligation is incurred. The Schedule reflects expenditures for all programs that were active during the nine months ended March 31, 2010 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 December 2009.

Note 3 - 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."

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APPENDIX - CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of August 17, 2010, of the current status of the observations contained in the audit of the Highway Safety Agency for the nine months ended March 31, 1999. That report can be accessed at, and printed from, the Office of Legislative Budget Assistant website: www.gencourt.state.nh.us/lba/audit.html.

	<u>Status</u>		
<i>Internal Control Comments</i>			
1. Monitoring Of Grantee Procurement Should Be Improved	●	●	●
2. Monitoring Of Grantee Adherence To Project Budgets Should Be Improved	●	●	●
3. Grantee Reporting Requirements Should Be Reviewed (<i>See Current Observation No. 2</i>)	○	○	○
<i>State Compliance Comments</i>			
4. Annual Employee Evaluations Should Be Prepared	●	●	●
<i>Management Issues Comment</i>			
5. Determination Of Employee Or Independent Contractor Status Should Be Made	●	●	●
6. Manual Federal Grant Ledger Should Be Automated	●	●	●
7. Reporting Of Commuter Use Of State-Owned Motor Vehicles Should Be Improved	●	●	●
8. Cross Training In GTS Should Be Considered (<i>See Current Observation No. 1</i>)	●	○	○

<u>Status Key</u>	●	●	○	<u>Count</u>
Fully Resolved	●	●	●	6
Substantially Resolved	●	●	○	0
Partially Resolved	●	○	○	1
Unresolved	○	○	○	1

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