

**STATE OF NEW HAMPSHIRE
ADJUTANT GENERAL'S DEPARTMENT**

**AUDIT REPORT
FOR THE NINE MONTHS ENDED
MARCH 31, 1999**

**STATE OF NEW HAMPSHIRE
ADJUTANT GENERAL'S DEPARTMENT**

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY SECTION	
Organization	1
Responsibilities	1
Funding	2
Prior Audit	2
Audit Objectives And Scope	4
CONSTRUCTIVE SERVICE COMMENTS SECTION	
Auditor's Report On Compliance And On Internal Control Over Financial Reporting	5
<i>Internal Control Comments</i>	
<i>Reportable Conditions</i>	
1. Documentation To Support Real Property Valuations Should Be Improved	7
2. Controls In The Cash Receipt Process Need Improvement	8
3. Consumable Inventory Process Should Be Strengthened	10
4. Deficiencies In Accounting For Equipment Inventory Should Be Corrected.....	12
<i>Compliance Comments</i>	
<i>State Compliance</i>	
5. Written Policies And Procedures Needed For Kelly Days.....	15
6. Armory Administrative Rules Should Be Adopted	16
7. Veterans Cemetery Fee Schedule Should Be Completed	17
8. Clarification Needed For Purpose Of Veterans Cemetery Council.....	18
9. Statements Of Financial Interests Should Be Filed.....	18
<i>Federal Compliance</i>	
10. Suspension And Debarment Procedures For Federally Funded Construction Contracts Should Be Implemented.....	20
Auditor's Report On Management Issues	22
<i>Management Issues Comments</i>	
11. Strategic Business Plan Should Be Developed	23
FINANCIAL SECTION	
Independent Auditor's Report	24
Financial Statement	
Combined Statement Of Revenues And Expenditures - Budget And Actual General, Special, And Capital Projects Funds.....	26
Notes To The Financial Statement	28
Required Supplementary Information	
Year 2000 Compliance	36

TABLE OF CONTENTS (Continued)

FINANCIAL SECTION (Continued)

Supporting Schedules

Schedule Of Budgetary Components – General Fund.....	38
Schedule Of Budgetary Components – Special Fund	39
Schedule Of Budgetary Components – Capital Projects Fund.....	40
Schedule Of Expenditures Of Federal Awards (Cash Basis)	41

APPENDIX - Current Status Of Prior Audit Findings	43
--	-----------

**STATE OF NEW HAMPSHIRE
ADJUTANT GENERAL'S DEPARTMENT**

Organization

The Adjutant General's Department is currently established in state statute under RSA 110-B. While this statute became effective on August 22, 1981, the position of Adjutant General has been in existence since 1895. The Adjutant General serves as the Governor's military chief of staff and is the executive head of the Adjutant General's Department. He is appointed by the Governor and serves in office until the age of 65.

The Adjutant General's Department is organized into three divisions: Army National Guard, Air National Guard, and the New Hampshire State Veterans Cemetery. The Army National Guard is composed of 23 units assigned to the 19 armories around the State. The Air National Guard is composed of the units of the 157th Air Refueling Wing at the Pease Air National Guard Base in Newington. Both the Army and Air National Guard units are managed by the headquarters located at the State Military Reservation in Concord. The Veterans Cemetery is located on 104 acres in Boscawen.

Responsibilities

The Adjutant General is responsible for the State Militia, which is comprised of the Army and Air National Guards, the State Guard, and the Unorganized Militia. The National Guard is the active bureau of the State Militia. The mission of the Department, on the state level, is to protect life and property and to preserve peace and order during an emergency or disaster. Additionally, it assists the New Hampshire Fish and Game Department in search and rescue operations. On the federal level, the Department is charged with providing the United States Army and Air Force with trained individuals available for active duty in the event of a national emergency or war. It also provides support to federal and state law enforcement agencies with counterdrug operations.

On July 1, 1997, the Department was given the responsibility to administer the operation and maintenance of the New Hampshire State Veterans Cemetery, which opened in July 1998. It is the first State veterans cemetery. Eligible veterans and their spouses/dependents may be buried there. As of March 31, 1999, there have been 224 interments in the Veterans Cemetery.

The Department has 114 full-time state employees who work at either the Reservation in Concord, Pease in Newington, the State Armories, the training facility in Center Strafford, or the Veterans Cemetery.

The Adjutant General is also responsible for 1,765 federal employees associated with the Army National Guard and 950 federal employees associated with the Air National Guard. The vast majority of those employed by the federal government are also officers or enlisted personnel in the New Hampshire National Guard.

Funding

The Department is funded by appropriations in the General, Special, and Capital Projects Funds. The fiscal year 1999 appropriations combined with supplemental warrants, balances forward, and transfers resulted in spending authority of \$3,525,164 and \$4,427,154 in the General and Special Funds, respectively. Fiscal year 1999 Capital Projects Fund spending authority was \$373,072. Estimated restricted revenue combined with supplemental warrants and balances forward resulted in anticipated fiscal year 1999 restricted revenue of \$1,468,367 in the General Fund, \$4,424,385 in the Special Fund, and \$138,000 in the Capital Projects Fund. The financial activity of the Department, as reported in the General, Special, and Capital Projects Funds for the nine months ended March 31, 1999, is summarized in the following table.

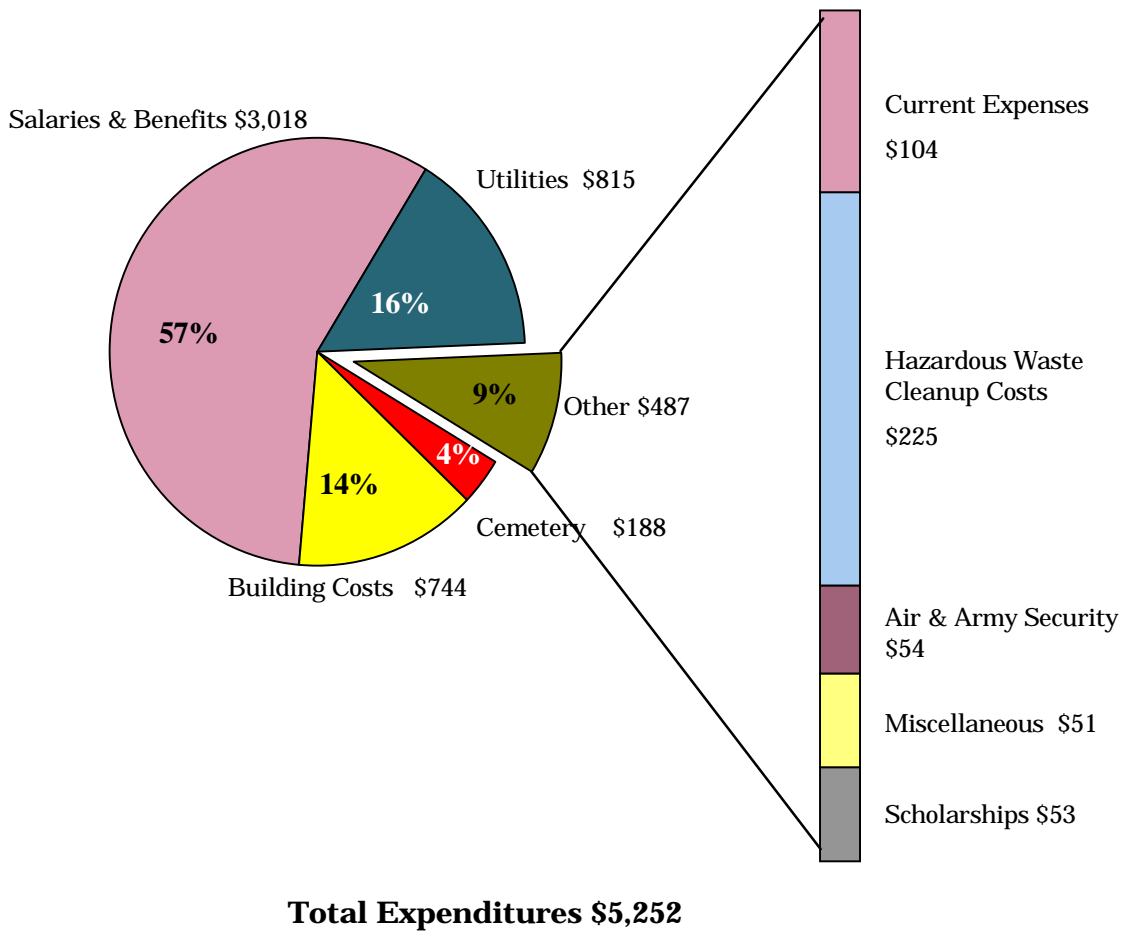
Summary Of Revenues And Expenditures				
Nine Months Ended March 31, 1999				
(in thousands)	General Fund	Special Fund	Capital Fund	Total
Restricted Revenues	\$ 764	\$ 2,464	\$ 5	\$ 3,233
Expenditures	\$ 2,333	\$ 2,816	\$ 103	\$ 5,252
Excess (Deficiency) Of Revenues Over (Under) Expenditures	\$ (1,569)	\$ (352)	\$ (98)	\$ (2,019)

Ninety-seven percent of the Department's total revenue was derived from federal grants. The Department's actual expenditures for the nine months ended March 31, 1999 are presented graphically on page three.

Prior Audit

The most recent prior financial and compliance audit of the Department was for fiscal year 1989. The appendix to this report on page 43 contains a summary of the current status of the observations contained in that prior report. Copies of the prior audit report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301.

**Adjutant General's Department
Total Expenditures (All Funds)
For The Nine Months Ended March 31, 1999**
(Amounts Shown In Thousands)



Audit Objectives And Scope

The primary objective of our audit is to express an opinion on the fairness of the presentation of the financial statement. As part of obtaining reasonable assurance about whether the financial statement is free from material misstatement, we considered the effectiveness of the internal controls in place at the Department and tested the Department's compliance with certain provisions of applicable state and federal laws, regulations, contracts, and grants. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Internal controls,
- Revenues and appropriations,
- Expenditures and encumbrances, and
- Real property and equipment.

Our reports on compliance and on internal control over financial reporting, and on management issues, the related observations and recommendations, our independent auditor's report, and the financial statement of the Adjutant General's Department are contained in the report that follows.

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

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statement of the Adjutant General's Department for the nine months ended March 31, 1999, and have issued our report thereon dated July 16, 1999, which was qualified with respect to the lack of presentation of the financial position of the Department in the General, Special, and Capital Projects Funds, the understatement of General and Special Fund revenues, and the lack of documentation to support fixed assets valuations. Except as discussed in the preceding sentence, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Adjutant General's Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance which are described in observations No. 5 through No. 10 of this report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Adjutant General's Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in observations No. 1 through No. 4 of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This auditor's report on compliance and on internal control over financial reporting is intended solely for the information of the management of the Adjutant General's Department and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

July 16, 1999

Internal Control Comments
Reportable Conditions

**Observation No. 1 – Documentation To Support Real Property Valuations
Should Be Improved**

Observation:

The Department does not have adequate documentation to support its reported \$37.2 million in real property held at March 31, 1999. The Department's real property balance is comprised of land, buildings, and related improvements made to the 19 armories located throughout the State, a motor vehicle storage site in Haverhill, the national guard training site in Center Strafford, and the Veterans Cemetery in Boscawen.

Specific concerns with proper documentation and reporting of real property follow:

- The real property figures reported by the Department at March 31, 1999 include amounts that are a combination of historical costs and market values. Generally accepted accounting principles require fixed assets to be reported at historical cost. In our fiscal year 1989 audit of the Department, we noted that the \$28 million real property balance at June 30, 1989 was based on estimated 1982 market values. As a result of that audit, the Department began reporting real property at historical cost. However, the Department has not corrected the valuation errors noted in the 1989 audit. The pre-1990 balance represents 75% of the current reported value. As a result of this issue, we were unable to determine whether the reported real property costs at March 31, 1999 were fairly stated.
- All real property accounting and reporting is done manually. There is no electronic recordkeeping mechanism for the numerous projects and locations the Department is responsible for. In fiscal year 1995, the Department began filing its real property documentation by project, rather than by location (i.e. one project/construction contract could involve making improvements to several armories). Recording real property costs solely by project does not appear to be the most effective or efficient way for the Department to track real property costs as this conflicts with the Department of Administrative Services (DAS) method of reporting real property costs. The State's Real Property Summary reports real property by location (i.e. Littleton armory, Portsmouth armory, etc.). The Department's current method of reporting real property costs requires a significant amount of time at year end sorting costs by location so that these costs can be reported to DAS.

Observation No. 1 – Documentation To Support Real Property Valuations Should Be Improved (Continued)

Recommendation:

We recommend the following:

- The Department should consult with the DAS for technical guidance in estimating the historical cost of its land and buildings in accordance with the methodology outlined in the DAS *Fixed Asset Policies and Procedures Manual*. All real property estimates should be adequately documented in the accounting records.
- The Department should adjust its recording methods to allow for real property to be tracked by location as well as by project in an electronic format, in order to improve the reporting to DAS.

Auditee Response:

The Adjutant General's Department concurs with the above-noted observation that the valuation errors noted in the 1989 LBA audit have not been resolved. The department will request assistance from the Department of Administrative Services for guidance in estimating historical costs of its real property in accordance with DAS *Fixed Asset Policies and Procedures Manual* and adjust the department's records accordingly.

The department also concurs that it would be beneficial to track projects primarily by location and not project. The department has reviewed the method currently instituted and has begun the process of adjusting the filing of permanent records. Processes for electronically capturing costs by location are being reviewed which would streamline the reporting requirements at year-end.

Observation No. 2 – Controls In The Cash Receipt Process Need Improvement

Observation:

The Department lacks adequate internal controls over the receipt of cash and checks from three primary sources: armory rental and custodial fees, interment fees, and donations.

Adequate internal controls lessen the risk that cash receipts could be lost or stolen prior to being deposited or that errors or fraud in the cash receipt process could be committed and concealed by employees in the normal course of business. Proper internal accounting controls over the revenue process require: 1) checks be initially recorded as received by the individual who either opens the mail or otherwise first receives the check, 2) checks be restrictively endorsed immediately upon receipt, 3) the responsibility for initially recording cash receipts be properly segregated from the responsibility for preparing invoices, and 4) prior to remittance to Treasury, cash receipts be subject to an independent review by

Observation No. 2 – Controls In The Cash Receipt Process Need Improvement (Continued)

Observation (Continued):

management or other individual that is not involved in the preparation of the cash receipt documents or posting to the state accounting system (NHIFS) and revenue ledgers.

The following procedures weaken internal controls over the processing and recording of revenue by the Department.

- 1) Armory rental checks received at the armories are not initially recorded as received. These checks are not recorded until they reach the Concord business office.
- 2) Checks for armory rental fees, armory custodial fees, interment fees, and donations to the Veterans Cemetery are not restrictively endorsed upon initial receipt. These checks are not restrictively endorsed until they reach the second or third person in the cash receipt process.
- 3) Cash receipt forms (A-17) and supporting documentation are not reviewed or approved by management prior to being posted to NHIFS and remitted to Treasury.
- 4) There is a lack of segregation of duties in the revenue process for interment fees received by the Cemetery. One individual is responsible for preparing and tracking invoices for interment fees, opening Cemetery mail and receiving the interment fee checks, and recording the initial receipt of the checks.

Recommendation:

We recommend the following:

- 1) To protect against the loss or misuse of armory rental checks, the Department should direct renters to make payment to the Concord business office instead of to the armories. The individual who opens the mail in the business office should record the armory rental checks upon initial receipt.
- 2) All checks should be restrictively endorsed upon initial receipt to protect against the unauthorized use of checks.
- 3) Cash receipt documents and supporting documentation should be reviewed and approved by management to ensure that revenue transactions are properly recorded and posted.
- 4) The Cemetery Superintendent or other appropriate individual should review and approve the monthly invoices that are submitted to the federal Department of Veterans Affairs and to the families of those interred in the Cemetery.

Observation No. 2 – Controls In The Cash Receipt Process Need Improvement (Continued)

Auditee Response:

We concur with the above noted four internal controls for revenue processing which have been standard procedure in the Adjutant General's Department. The following action has been or will be implemented:

- 1) A policy letter to the Officers In Charge (OIC) at the armories will be initiated instructing them to only accept application for rentals and instructing the prospective customer/vendor to forward the rental deposit directly to the Business Administrators' office in Concord at which time they will properly be recorded on a Record of Daily Receipt (A-15) and deposited. No funds will be received at armories.
- 2) All checks received into the Adjutant General's Department will be endorsed immediately upon opening at the secretary's work station and recorded on the A-15 before being forwarded to the second person handling the transaction.
- 3) All cash receipts (A-17) and supporting documentation are being reviewed by the chief accountant or the Business Administrator at which time they are initialing the A-17 form before being forwarded to the Treasury Department.
- 4) A meeting will be held with the State Veterans Cemetery staff to determine the segregation of duties in regards to billing and cash collections policies. It has not been determined at this time if the billing process for interments or the total cash collection process will be assumed by the Business Administrator's section of the department. At this time, the only change that has been implemented is the opening of the cemetery's mail. All mail is currently being opened at the secretary workstation in the Business Administration section and checks are being endorsed at that time.

Observation No. 3 – Consumable Inventory Process Should Be Strengthened

Observation:

The lack of proper segregation of duties of the consumable inventory process at the Department heightens the risk that items such as electrical, plumbing, automotive, and hardware supplies may be misplaced or misappropriated.

Proper internal accounting controls over the consumable inventory process require that the incompatible duties of authorizing transactions, recording and reporting of transactions, and maintaining custody of the inventory are properly segregated. Good accounting practice also dictates that subsidiary ledgers or other documentation be maintained to properly support recorded account balances.

Observation No. 3 – Consumable Inventory Process Should Be Strengthened (Continued)

Observation (Continued):

During our evaluation of the internal controls in place at the Department, we noted the following weaknesses in internal controls over the consumable inventory process.

- 1) There is a lack of segregation of duties in the consumable inventory process. One individual is responsible for purchasing, storing, and issuing consumable inventories. This individual also maintains the detailed consumable inventory records, updates the inventory database for purchases, issues, and adjustments, performs the annual physical inventory of consumables at year-end, and resolves discrepancies between the physical count and the detailed records.
- 2) There is a lack of expertise at the Department relating to the inventory database and its capabilities. For example:
 - Until the fall of 1998, consumable inventory issues were recorded at the original unit price of the item rather than at the average unit price as required by State accounting policy. Department staff had difficulty programming the database so that it would calculate average unit prices instead of original unit prices. We noted that seven out of 10 consumable inventory items tested (70%) were not recorded in the database at average unit prices. While the variances were not significant in amount, a 70% error rate appears to be excessive and warrants further investigation by the Department.
 - We requested a copy of a detailed report from the database listing the balance of consumable inventory at July 1, 1998. We were unable to obtain this report since Department staff lacked the expertise to generate a report with this information.

Recommendation:

We recommend the following:

- 1) The responsibilities for recording and reporting consumable inventory should be segregated from the responsibilities for maintaining physical custody of the inventory. The responsibilities for performing the annual physical inventory of consumables should also be segregated from the two responsibilities of recording and reporting the inventory and maintaining physical custody of the inventory. Additionally, the Department should institute management oversight over the consumable inventory responsibilities that are currently performed by one individual at the department.
- 2) The Department should seek training for employees responsible for recording and reporting consumable inventory to gain a thorough understanding of the database and its capabilities.

Observation No. 3 – Consumable Inventory Process Should Be Strengthened (Continued)

Auditee Response:

The Adjutant General's Department partially concurs with the above mentioned observation but wants the fact noted that the department began reporting consumable inventory in July 1998. The department is aware that there have been difficulties with implementing this procedure.

- 1) The department agrees that there needs to be a segregation of responsibilities for recording and reporting consumable inventory and the physical inventory of such. As a result of this observation, the department will institute a procedure of having personnel from another section of the organization perform the actual physical count of inventory. The department believes that there is adequate management oversight over the consumable inventory process and will establish procedures to document this control. The Plant Maintenance Engineer that directly supervises this section will sign documentation after reviewing for accuracy as will the Business Administrator continue to do so.
- 2) The department agrees that additional training is needed by personnel utilizing the Peachtree accounting system if the department plans on remaining with this software package. The department is working towards implementing a work order program which will encompass this function. The department is hoping to have this work order program in place before the end of fiscal year 2001. Included in the new work order software will be a formal training program.

Observation No. 4 – Deficiencies In Accounting For Equipment Inventory Should Be Corrected

Observation:

The Department's equipment inventory process and the related records disclosed deficiencies in internal controls. These deficiencies are discussed below.

- There is a lack of segregation of duties in the equipment process. One individual is responsible for maintaining the historical cost records, updating the detailed records to account for purchases, surpluses, or adjustments, preparing the monthly and annual equipment reports, performing the annual physical inventory for equipment items located at the Concord Reservation, and resolving discrepancies between the physical count and the equipment records.
- The Department purchased a Dodge Ram pick-up truck in July of 1998 valued at \$25,498 which was not reported to the Department of Administrative Services (DAS) on a monthly equipment adjustment report as of March 31, 1999.

Observation No. 4 – Deficiencies In Accounting For Equipment Inventory Should Be Corrected (Continued)

Observation (Continued):

- In May of 1998, the Department entered into an installment purchase agreement to acquire a backhoe for use at the Cemetery. The backhoe was recorded on the Department's equipment listing at the total cost of the installment purchase, \$60,972, instead of at the present value of the minimum installment payments, \$57,124, as required by State accounting policy.

The net understatement of equipment from the above noted errors totaled \$21,650 which represents 8% of the March 31, 1999 reported balance.

Recommendation:

- The Department should properly segregate the incompatible functions of recording or reporting equipment transactions and maintaining custody of the equipment at the Concord Reservation. Additionally, the Department should institute management oversight over the equipment inventory responsibilities that are currently performed by one individual at the department.
- The Department should research the errors noted in the observation, make the necessary adjustments to the equipment records, and report the adjustments to DAS.

Auditee Response:

The Adjutant General's Department concurs with the above mentioned observation regarding internal control weaknesses:

- 1) The department agrees that it should establish procedures to insure a segregation of duties in the procurement of equipment and the maintaining and reporting of inventory. Procedures will also be instituted at the Concord State Military Reservation to have an individual from another section of the department be responsible for the actual annual physical inventory of equipment. Management oversight will be expanded and documented in the area of equipment inventory.
- 2) The department agrees with the LBA's recommendation regarding the physical inventory and that the reconciling of differences in equipment should be performed independently from the recorded equipment list. Management is in the process of reviewing this recommendation to establish a standard policy to implement changes that may be accomplished readily throughout all our state facilities with the department's limited staff.

Observation No. 4 – Deficiencies In Accounting For Equipment Inventory Should Be Corrected (Continued)

Auditee Response (Continued):

The department agrees with all the noted errors in equipment inventory records referenced.

The department has made all adjusting entries to the equipment records and has reported these adjustments to DAS. It was the department's understanding that the backhoe purchased for the cemetery should have been recorded at the total cost of the installment payments, \$60,972 and not as a capital lease which resulted in the overstatement. Adjusting entry has been done and reported to DAS.

Compliance Comments
State Compliance

Observation No. 5 – Written Policies And Procedures Needed For Kelly Days

Observation:

The Department was unable to provide documentation supporting the establishment, approval, use, tracking, and overall mechanics of “Kelly days”, which are leave days used by firefighters in addition to other leave earned as state employees.

The Department employs 35 firefighters at Pease Air National Guard Base. These firefighters, as classified state employees, are entitled to overtime, holiday pay, and leave time in accordance with the Collective Bargaining Agreement. Based upon discussions with agency personnel, the firefighters are also entitled to Kelly days. These Kelly days are in addition to other time off such as compensatory time and annual leave.

We reviewed the Collective Bargaining Agreement and noted no provision relating to Kelly days. We also noted that Kelly days are not tracked through the state payroll system like annual, compensatory, and sick leave. The Department of Administrative Services is not aware of any state policies or procedures allowing Kelly days.

Firefighters at Pease work 24 hours on and 48 hours off which amounts to 212 hours worked in a 28 day period, or an average of 53 hours per week. The firefighters are paid based on an average (as opposed to an actual) work week of 53 hours. Kelly hours are earned when a firefighter works more than 53 hours per week, or 212 hours in a 28 day period. These Kelly hours are banked until a full shift of time has accumulated (24 hours). When a firefighter accumulates 24 hours, they are given a paid shift off. Firefighters earn approximately 7 Kelly days per year.

There are no written policies/provisions regarding Kelly days in the Collective Bargaining Agreement, State personnel rules, or Department policies/rules. Department personnel stated that the use of Kelly days has been common practice at Pease since the firefighter positions at Pease were established in 1990. It appears that management never questioned whether this practice is permitted or authorized by state policy.

Recommendation:

We recommend that the Department request the Division of Personnel establish written policies and procedures for Kelly days and, if deemed necessary, include a provision for Kelly days in the State’s Collective Bargaining Agreement.

**Observation No. 5 – Written Policies And Procedures Needed For Kelly Days
(Continued)**

Auditee Response:

We concur with the above-mentioned observation regarding written policies and tracking of “Kelly Days” for the departments state firefighters located at Pease Air National Guard Base (PANGB). Kelly days are a standard procedure at fire departments, in general, but no procedure or policy has been established for the state firefighters located at PANGB. The agency will work with the Department of Administrative Services, Division of Personnel, to establish written policies and procedures regarding Kelly days and will also work with Financial Data Management to track such days through the Government Human Resource System (GHRIS).

Observation No. 6 – Armory Administrative Rules Should Be Adopted

Observation:

Administrative rules related to the state armories expired in March of 1997 and have not been readopted.

As of July 16, 1999, the Department’s armory rules remain expired. While the Department has begun the administrative rules process, it has yet to submit revised rules to the Joint Legislative Committee on Administrative Rules for approval. The State military armories have continued to operate in the usual manner under expired administrative rules.

Recommendation:

The Department should seek approval for the updated rules from the Joint Legislative Committee on Administrative Rules as soon as possible.

Auditee Response:

The Adjutant General’s Department concurs with the above noted observation. The department was originally under the assumption that the statutory time limit was extended from six to eight years when RSA 541-A:17 was amended effective August 9, 1994, but it has become evident that this was a mistaken notion. Updated Armory Administrative Rules are nearly complete and ready to submit to the Joint Legislative Committee for approval.

Observation No. 7 – Veterans Cemetery Fee Schedule Should Be Completed

Observation:

The Department's schedule of fees for the Veterans Cemetery is incomplete with respect to disinterments and reinterments.

RSA 110-B:78 requires the Adjutant General to adopt regulations relative to the Veterans Cemetery, including regulations establishing fees for interment in the cemetery. These regulations are subject to the approval of the governor and council.

The regulations established by the Department pertaining to fees state "a schedule of fees for interment of eligible spouses and dependents and for disinterment or reinterment of eligible veterans shall be established and from time to time revised by the Adjutant General...." While the Department has established a schedule of fees for interments, the schedule is not complete.

The Department charges no fee for interment of eligible veterans and a \$350 fee for interment of eligible spouses or dependents. During revenue testing, we noted that the Department charged a \$350 fee for a veteran that was interred in October 1998. Based upon inquiry with Cemetery personnel, the \$350 fee was charged because the veteran was disinterred from one cemetery and reinterred in the Veterans Cemetery. We were unable to determine if this fee was appropriate since the Department has not included disinterment or reinterment fees in its schedule of fees.

Recommendation:

We recommend the Department comply with the provisions of RSA 110-B:78 by formally establishing a fee schedule that encompasses disinterments and reinterments as well as initial interments and bringing these regulations before governor and council for approval.

Auditee Response:

The Adjutant General's Department concurs with the above-noted observation noting that there is no fee schedule available for disinterments and reinterments of eligible veterans. The department will comply with the provisions of RSA 110-B:78 and formalize a fee schedule to encompass this segment.

Observation No. 8 – Clarification Needed For Purpose of Veterans Cemetery Council

Observation:

The purpose of the New Hampshire State Veterans Cemetery Council (the Council) is unclear. Based on discussions with the Adjutant General, the Council was established during fiscal year 1998 as an outreach effort to the various veterans organizations in the State. A draft of the Council charter indicates that, among other things, it is to assist the Adjutant General in the administration of the Veterans Cemetery. The Council is not established in the Veterans Cemetery rules, nor has it been approved by the Governor pursuant to RSA 21-G:11 related to the creation of advisory committees.

RSA 110-B:78 authorizes the Adjutant General to adopt regulations, subject to the approval of the Governor and Council (G&C), relative to the operation of the Veterans Cemetery. The Cemetery Council's role in the operation of the Cemetery is not addressed in its regulations. Whether the Council's purpose is to serve as an outreach program or in an advisory capacity, such purpose should be specified in Cemetery regulations. Additionally, if it is determined that the Council's purpose is to serve in an advisory capacity to the Adjutant General, it should be approved by the Governor and filed with the Secretary of State, pursuant to RSA 21-G:11.

Recommendation:

The Adjutant General should adopt regulations, with the approval of the G&C, clearly defining the purpose of the Cemetery Council and its role in the operation of the Cemetery. Additionally, if it is determined that the Council is advisory in nature, provisions of RSA 21-G:11 related to the creation of advisory committees should be followed.

Auditee Response:

The Adjutant General's Department concurs with the above mentioned recommendation and will seek Governor and Council approval in accordance with RSA 110-B:78 in relation to the Veterans Cemetery Council.

Observation No. 9 – Statements Of Financial Interests Should Be Filed

Observation:

None of the five members of the Adjutant General's Department Scholarship Committee filed the required statements of financial interests due by July 1, 1998.

RSA 21-G:5-a states, I. "Every member of every executive branch board, commission, advisory committee, board of directors, and authority, whether regulatory or administrative, shall file by July 1 of each year a verified written statement of financial interests in accordance with the provisions of this section,... II. No member shall be allowed to enter into

**Observation No. 9 – Statements Of Financial Interests Should Be Filed
(Continued)**

Observation (Continued):

or continue the member's duties, unless the member has filed a statement of financial interests with the secretary of state.”

The Adjutant General's Department has a Scholarship Committee that is required to file statements of financial interests in accordance with RSA 21-G:5-a. We noted that none of the five committee members filed the required statements of financial interests due by July 1, 1998.

Additionally, none of the members were prohibited from carrying out their duties. Serving as appointed members prior to filing a statement of financial interests has the potential to cause legal repercussions from challenges made on issues that these appointed members voted on prior to the filing of statements.

Recommendation:

The Department should establish procedures to ensure that all Committee members submit statements of financial interests by July 1 of each year, and newly appointed members file a statement of financial interests prior to entering into duties as members of the Committee.

Auditee Response:

The Adjutant General's Department concurs with the above mentioned observation. Procedures will be forthcoming to ensure that all newly appointed members will upon appointment be required to submit statements of financial interests and will do so by 1 July of each year.

Federal Compliance

Observation No. 10 – Suspension And Debarment Procedures For Federally Funded Construction Contracts Should Be Implemented

Observation:

The Department has no procedures in place to ensure that hired contractors have not been suspended or debarred from participation in federal assistance programs prior to the award of federally funded contracts to them.

Federal regulations state that non-federal entities, such as the State of New Hampshire, are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of \$100,000.

Contractors receiving individual awards for \$100,000 or more must certify that the organization and its principals are not suspended or debarred. The non-federal entities may rely upon the certification unless it knows that the certification is erroneous. Non-federal entities may, but are not required to, check for suspended and debarred parties which are listed in the *List of Parties Excluded From Federal Procurement or Nonprocurement Programs*, issued by the federal General Services Administration (GSA).

Requirements for suspension and debarment are contained in the federal agencies' codification of the government debarment and suspension common rule which implements Executive Orders 12549 and 12689, Debarment and Suspension, and the terms of the award. For the Adjutant General's Department, these requirements are codified in 32 CFR Part 33, section 35.

The Department currently has construction contracts that exceed the \$100,000 threshold. Per discussion with agency personnel, we noted that the Department has no procedures in place to ensure that hired contractors have not been suspended or debarred from participation in federal assistance programs. The Department neither requires contractors to submit a certification nor does it check the GSA *List of Parties Excluded From Federal Procurement or Nonprocurement Programs* prior to awarding contracts.

Recommendation:

We recommend the Department establish procedures to ensure that no construction contracts are entered into with parties that are suspended or debarred from participation in federal assistance programs.

Observation No. 10 – Suspension And Debarment Procedures For Federally Funded Construction Contracts Should Be Implemented (Continued)

Auditee Response:

The Adjutant General's Department concurs with the above mentioned observation and has instituted the following procedure: The department will now review the "List of Parties Excluded from Federal Procurement or Nonprocurement Programs" issued by GSA before awarding any contract over \$100,000. To insure this happens, it has been added to our "Construction Contract Checklist".

Auditor's Report On Management Issues

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statement of the Adjutant General's Department for the nine months ended March 31, 1999 and have issued our report thereon dated July 16, 1999 which was qualified with respect to the lack of presentation of the financial position of the Department in the General, Special, and Capital Projects Funds, the understatement of General and Special Fund revenues, and the lack of documentation to support fixed asset valuations. Except as discussed in the preceding sentence, we conducted our audit in accordance with generally accepted auditing standards 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 Adjutant General's Department for the nine months ended March 31, 1999, we noted certain issues related to the operation of the Department that merit management consideration but do not meet the definition of a reportable condition as defined by the American Institute of Certified Public Accountants, and were not issues of noncompliance with laws, rules, or regulations.

The issue that we believe is worthy of management consideration but does not meet the criteria of reportable internal control or compliance conditions is described in observation No. 11 of this report.

This auditor's report on management issues is intended for the information of the management of the Adjutant General's Department and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

July 16, 1999

Management Issues Comments

Observation No. 11 - Strategic Business Plan Should Be Developed

Observation:

A strategic business plan is a document that addresses many of the following areas: the types of services an entity will offer, to whom the services will be offered, how the services will be financed, what the entity's expected revenue projections will be, what technology will be needed to achieve the entity's goals and objectives, a detailed description of how the goals and objectives will be achieved, the timeframe for achieving these goals and objectives, and many other business decisions. An entity should determine its short and long-term goals and objectives, periodically evaluate its progress at meeting those goals and objectives, and take any necessary corrective action in a timely fashion in order to operate as efficiently and effectively as possible.

Based upon discussions with agency personnel and review of the strategic information technology plan (SITP) for the Adjutant General's Department, the Department does not have a strategic business plan. Although the Department has no formal business plan, it has established a basic framework for a strategic business plan in its SITP that was submitted to the Department of Administrative Services and approved by the Capital Budget Overview Committee on May 5, 1999. This framework briefly discusses the Department's mission, business functions, and program goals and objectives. However, it neither outlines a timeframe for meeting its goals and objectives nor does it specifically detail how the Department plans to meet these goals and objectives.

Recommendation:

We recommend the Department establish a strategic business plan using the framework outlined in the SITP. In order to accomplish this, the Department should continue to define its mission, business functions, and program goals and objectives in greater detail, establish a timeframe for meeting its goals and objectives, and determine how the Department plans to meet these goals and objectives in order to operate as efficiently and effectively as possible. The Department should also ensure that it addresses all the other components of a strategic business plan.

Auditee Response:

The Adjutant General's Department concurs with the above mentioned observation that the department does not have a formal business plan. The department will compile the necessary documentation to develop a strategic business plan that encompasses all the components of the department utilizing the guidelines as recommended.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statement of the Adjutant General's Department for nine months ended March 31, 1999. This financial statement is the responsibility of the Department's management. Our responsibility is to express an opinion on this financial statement based on our audit.

Except as discussed in the fifth paragraph, we conducted our audit in accordance with generally accepted auditing standards and *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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 more fully discussed in NOTE 1, the financial statement referred to above is not intended to present the financial position of the Adjutant General's Department in the General, Special, and Capital Projects Funds.

As discussed in NOTE 2, the Adjutant General's Department was not required by state accounting policies to, and therefore did not, record accounts receivable in accordance with generally accepted accounting principles, and thus understated General Fund revenue by \$101,000 and Special Fund revenue by \$367,000 for the nine months ended March 31, 1999.

As discussed in NOTE 3, the Department does not have complete financial records to support the amounts reported for fixed assets. Accordingly, we were unable to examine sufficient evidential matter to support such amounts.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had our audit not been limited in scope as discussed in the fifth paragraph and except for the matters discussed in the third and fourth paragraphs, the financial statement referred to above presents fairly, in all material respects, certain

financial activity of the Adjutant General's Department for the nine months ended March 31, 1999, in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statement referred to in the first paragraph. The accompanying required supplementary information and supporting schedules as listed in the Table of Contents are presented for the purpose of additional analysis and are not required parts of the financial statement of the Adjutant General's Department. Such information has been subjected to the auditing procedures applied in our audit of the financial statement referred to in the first paragraph and, in our opinion, is fairly presented in all material respects in relation to the financial statement taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 16, 1999 on our consideration of the Adjutant General's Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

July 16, 1999

**STATE OF NEW HAMPSHIRE
ADJUTANT GENERAL'S DEPARTMENT**

**COMBINED STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
GENERAL, SPECIAL, AND CAPITAL PROJECTS FUNDS
FOR THE NINE MONTHS ENDED MARCH 31, 1999**

	General Fund			Special	
	Budget	Actual	Favorable (Unfavorable) Variance	Budget	Actual
<u>Restricted Revenues</u>					
Air National Guard	\$ 993,189	\$ 536,141	\$ (457,048)	\$ 2,508,380	\$ 1,614,017
Army National Guard	305,971	149,734	(156,237)	1,869,055	845,009
NH State Veterans Cemetery	105,000	21,575	(83,425)	-0-	-0-
Armory Rentals	64,207	56,634	(7,573)	-0-	-0-
Miscellaneous	-0-	-0-	-0-	46,950	5,183
Total Restricted Revenues	<u>\$ 1,468,367</u>	<u>\$ 764,084</u>	<u>\$ (704,283)</u>	<u>\$ 4,424,385</u>	<u>\$ 2,464,209</u>
<u>Expenditures</u>					
Air National Guard:					
Pease Fire Department	\$ -0-	\$ -0-	\$ -0-	\$ 1,756,504	\$ 1,295,641
Operations & Maintenance	1,341,852	827,165	514,687	208,690	151,747
Security	-0-	-0-	-0-	409,728	248,296
Flight Simulator	-0-	-0-	-0-	133,458	87,628
Subtotal	<u>1,341,852</u>	<u>827,165</u>	<u>514,687</u>	<u>2,508,380</u>	<u>1,783,312</u>
Army National Guard:					
Operations & Maintenance	1,693,276	1,166,660	526,616	160,189	105,858
Construction	-0-	-0-	-0-	839,990	448,269
Environmental Resources	48,174	37,420	10,754	585,098	279,617
Training Academy	-0-	-0-	-0-	286,547	191,220
Subtotal	<u>1,741,450</u>	<u>1,204,080</u>	<u>537,370</u>	<u>1,871,824</u>	<u>1,024,964</u>
NH State Veterans Cemetery	276,931	188,776	88,155	-0-	-0-
Armory Rentals	129,431	70,896	58,535	-0-	-0-
Miscellaneous	35,500	41,893	(6,393)	46,950	8,237
Total Expenditures	<u>\$ 3,525,164</u>	<u>\$ 2,332,810</u>	<u>\$ 1,192,354</u>	<u>\$ 4,427,154</u>	<u>\$ 2,816,513</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>\$ (2,056,797)</u>	<u>\$ (1,568,726)</u>	<u>\$ 488,071</u>	<u>\$ (2,769)</u>	<u>\$ (352,304)</u>

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

<u>Fund</u>	<u>Capital Projects Fund</u>			<u>Totals (Memo Only)</u>		
	<u>Favorable (Unfavorable) Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>	<u>Budget</u>	<u>Actual</u>
\$ (894,363)	\$ -0-	\$ -0-	\$ -0-	\$ 3,501,569	\$ 2,150,158	\$ (1,351,411)
(1,024,046)	138,000	4,755	(133,245)	2,313,026	999,498	(1,313,528)
-0-	-0-	-0-	-0-	105,000	21,575	(83,425)
-0-	-0-	-0-	-0-	64,207	56,634	(7,573)
(41,767)	-0-	-0-	-0-	46,950	5,183	(41,767)
<u>\$ (1,960,176)</u>	<u>\$ 138,000</u>	<u>\$ 4,755</u>	<u>\$ (133,245)</u>	<u>\$ 6,030,752</u>	<u>\$ 3,233,048</u>	<u>\$ (2,797,704)</u>
\$ 460,863	\$ -0-	\$ -0-	\$ -0-	\$ 1,756,504	\$ 1,295,641	\$ 460,863
56,943	-0-	-0-	-0-	1,550,542	978,912	571,630
161,432	-0-	-0-	-0-	409,728	248,296	161,432
45,830	-0-	-0-	-0-	133,458	87,628	45,830
725,068	-0-	-0-	-0-	3,850,232	2,610,477	1,239,755
54,331	-0-	-0-	-0-	1,853,465	1,272,518	580,947
391,721	373,072	103,270	269,802	1,213,062	551,539	661,523
305,481	-0-	-0-	-0-	633,272	317,037	316,235
95,327	-0-	-0-	-0-	286,547	191,220	95,327
846,860	373,072	103,270	269,802	3,986,346	2,332,314	1,654,032
-0-	-0-	-0-	-0-	276,931	188,776	88,155
-0-	-0-	-0-	-0-	129,431	70,896	58,535
38,713	-0-	-0-	-0-	82,450	50,130	32,320
<u>\$ 1,610,641</u>	<u>\$ 373,072</u>	<u>\$ 103,270</u>	<u>\$ 269,802</u>	<u>\$ 8,325,390</u>	<u>\$ 5,252,593</u>	<u>\$ 3,072,797</u>
<u>\$ (349,535)</u>	<u>\$ (235,072)</u>	<u>\$ (98,515)</u>	<u>\$ 136,557</u>	<u>\$ (2,294,638)</u>	<u>\$ (2,019,545)</u>	<u>\$ 275,093</u>

**STATE OF NEW HAMPSHIRE
ADJUTANT GENERAL'S DEPARTMENT**

**NOTES TO THE FINANCIAL STATEMENT
FOR THE NINE MONTHS ENDED MARCH 31, 1999**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statement of the Adjutant General's Department has been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Financial Reporting Entity

The Adjutant General's Department is an organization of the primary government of the State of New Hampshire. The accompanying financial statement reports certain financial activity of the Department. The financial activity of the Department is accounted for in the General, Special, and Capital Projects Funds 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, Special, and Capital Projects Funds and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to the Department cannot be determined. Accordingly, the accompanying financial statement is not intended to show the financial position of the Department in the General, Special, and Capital Projects Funds and the changes in these fund balances are not reported on the accompanying financial statement.

B. Basis Of Presentation - Fund Accounting

The State of New Hampshire and the Department use funds and account groups 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. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis Of Presentation - Fund Accounting (Continued)

Governmental Fund Types

General Fund

The General Fund accounts for all financial transactions not specifically accounted for in any other fund. By law, and with certain exceptions, all revenues of governmental funds are paid daily into the State Treasury. All such revenues, 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.

Special Revenue Fund

The Special Fund, one of the State's Special Revenue Funds, is used to account for specific revenue sources that are legally restricted to expenditures for specific purposes.

Capital Projects Fund

The State records in the Capital Projects Fund certain capital improvement appropriations which are or will be primarily funded by the issuance of State bonds or notes, other than bonds and notes for highway or turnpike purposes, or by the application of certain federal matching grants.

Account Groups

General Fixed Assets

General fixed assets acquired for use by the Department for the performance of its operations are reflected in the General Fixed Assets Account Group at the time of acquisition. As of March 31, 1999, the Department had recorded in the General Fixed Assets Account Group the cost of general fixed assets based on available historical cost records. Donated fixed assets are recorded at fair market value at the time donated.

C. Measurement Focus And Basis Of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All government funds are accounted for using the flow of current financial resources measurement focus and reported on a modified accrual basis of accounting. Accordingly, the State of New Hampshire accounts for its financial transactions relating to the General, Special, and Capital Projects Funds on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when measurable and available to finance operations of the fiscal period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized in the period in which obligations are incurred as a result of the receipt of goods or services.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Data

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 Capital Projects Fund budget represents appropriations, which extend over several fiscal years, for individual projects. Fiduciary type funds are not budgeted.

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. As shown on the Schedule of Budgetary Components - General Fund on page 38, Special Fund on page 39, and Capital Projects Fund on page 40, the final budgeted amount includes the initial operating budget plus supplemental appropriation warrants, balances brought forward, and transfers.

Budgetary control is at the department level. All departments are authorized to transfer appropriations within their departments with the prior 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. Capital Projects Fund appropriations are scheduled to lapse two years from the date appropriated unless extended or designated as non-lapsing by law.

A Combined Statement Of Revenues And Expenditures - Budget And Actual - General, Special, And Capital Projects Funds is presented as the Department's financial statement. The Department has no activity in the Proprietary or Fiduciary Funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Data (Continued)

Variances - Favorable/(Unfavorable)

The variance column on the Combined Statement Of Revenues And Expenditures - Budget And Actual - General, Special, And Capital Projects Funds highlights differences between budget and actual revenue and expenditures. For revenue, these variances are caused by actual revenue exceeding budget generating a favorable variance or actual being less than budget generating an unfavorable variance. For expenditures, a favorable variance results from actual expenditures being less than the amount budgeted for the fiscal year. The favorable expenditure variances represent a combination of ending available balances and unliquidated encumbrances. Unfavorable expenditure variances represent actual expenditures for the reporting period exceeding the amounts budgeted for the fiscal year.

When a statement is presented at an interim date, a date other than a June 30 fiscal year end, the variance reflects the difference between the budget period amount, twelve months in the case of the General and Special Funds and twenty-four months in the case of the Capital Projects Fund, and a partial year's actual revenue and expenditures. Thus, on the nine month financial statement dated March 31, 1999, unfavorable variances in revenues are expected because nine months of actual revenues are compared to the amount of revenue expected to be collected in the twelve or twenty-four month budget period. Similarly, favorable expenditure variances are expected as nine months of expenditures are compared to amounts expected to be expended in the twelve or twenty-four month budget period.

Encumbrances

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 balances at March 31, 1999 in the General, Special, and Capital Projects Funds were \$55,346, \$212,746, and \$136,943, respectively.

E. Fixed Assets – General

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the General Fixed Assets Account Group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Assets in the General Fixed Assets Account Group are not depreciated.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Interfund And Intrafund Transactions

The State accounts for interfund and intrafund transactions as described below:

Reimbursements - Various departments charge user fees for such services as centralized data processing, accounting and auditing, purchasing, personnel, and maintenance. In addition, the Department of Administrative Services charges rent to those departments that are housed in state-owned buildings. These fees and rent are not considered material and are recorded as revenue by the servicing department and as expenditures by the user department.

G. Interpretation Of Totals (Memo Only) Columns

Total columns have been included in the Combined Statement Of Revenues And Expenditures – Budget And Actual – General, Special, And Capital Projects Funds. The total columns include interfund activity and are presented only to facilitate financial analysis. Data in these columns do not present financial activity in conformity with generally accepted accounting principles. Intra-agency eliminations have not been made in the aggregation of this data.

NOTE 2 – REVENUE RECOGNITION

The Department is required by State accounting policy to accrue revenue and record accounts receivable in the governmental funds at each June 30 fiscal year end. The Department is not required to, and therefore did not, accrue revenue and record accounts receivable at March 31 in the General and Special Funds. The effect of not accruing revenue and recording accounts receivable at March 31, 1999 was to understate General and Special Fund revenues in the amounts of \$101,000 and \$367,000, respectively, on the Combined Statement Of Revenues And Expenditures - Budget And Actual - General, Special, And Capital Projects Funds.

NOTE 3 – GENERAL FIXED ASSETS ACCOUNT GROUP (UNAUDITED)

Fixed assets are recorded at historical cost if known, estimated cost if historical cost is unknown, or fair market value at date of acquisition if the asset is donated.

On the following page is a schedule of fixed asset balances and activity for the nine months ended March 31, 1999. Equipment purchases are funded through budgeted appropriations. Land and buildings are generally funded through appropriations budgeted in the Capital Projects Fund. Presently, the Department does not have complete financial records to support the amounts included in its General Fixed Assets Account Group.

**NOTE 3 - GENERAL FIXED ASSETS ACCOUNT GROUP (UNAUDITED) -
(Continued)**

	<u>Balance July 1, 1998</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance March 31, 1999</u>
Building & Building Improvements	\$ 34,116,954	\$ -0-	\$ -0-	\$ 34,116,954
Land & Land Improvements	<u>3,122,351</u>	<u>-0-</u>	<u>-0-</u>	<u>3,122,351</u>
Total Real Property	37,239,305	-0-	-0-	37,239,305
Equipment	<u>276,093</u>	<u>16,824</u>	<u>6,119</u>	<u>286,798</u>
Total General Fixed Assets	<u>\$ 37,515,398</u>	<u>\$ 16,824</u>	<u>\$ 6,119</u>	<u>\$ 37,526,103</u>

NOTE 4 - INSTALLMENT PURCHASE

The Department is purchasing a backhoe for the New Hampshire State Veterans Cemetery through a four year installment purchase agreement. The payments are made annually on July 15, 1998 through July 15, 2001. The net present value of the installment purchase has been recorded as a fixed asset.

The future minimum obligations under the installment purchase and the present value of the net future minimum payments as of March 31, 1999 are as follows:

<u>For Fiscal Year Ending June 30,</u>	<u>Minimum Installment Payments</u>
2000	\$ 12,743
2001	12,743
2002	<u>12,743</u>
Total Future Minimum Payments	\$ 38,229
Less: Amount Representing Interest (5.5%)	<u>3,848</u>
Present Value of Net Future Minimum Payments	<u>\$ 34,381</u>

NOTE 5 – EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The Department, as an organization of the State government, participates in the New Hampshire Retirement System (Plan). The Plan is a defined benefit plan and covers substantially 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 employees and teachers. Group II consists of firefighters and police officers.

Group I - Members contributing through age 60 qualify for a normal service retirement allowance based on years of creditable service. The yearly pension amount is 1/60 (1.67%) of average final compensation (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 are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service. In addition, any Group I member who has completed at least 20 years of creditable service that, when combined with his or her age equals at least 70, is entitled to retire and have benefits commence immediately at a reduced service retirement allowance.

Group II - After attaining the age of 45, members with 20 years of creditable service qualify to receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members in service at age 60 qualify to receive a prorated retirement allowance.

Members of both groups are entitled to disability allowances and also death benefit allowances subject to various requirements and rates based on AFC or earnable compensation. Firefighters at Pease are members of Group II. All other covered Department employees are members of Group I.

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the nine months ended March 31, 1999, Group I and II members were required to contribute 5% and 9.3%, respectively, 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 contribution costs for the nine months ended March 31, 1999 amounted to 3.86% and 5.22% of the covered payroll for its Group I employees and Group II firefighters respectively. The Department's contributions for the nine months ended March 31, 1999 were \$171,475, equal to the required employer contributions for the period. For fiscal years 1998 and 1997, the contribution amounts for both groups combined were \$220,914 and \$182,198, respectively, which were equal to the required contributions for those years. The Plan does not make separate measurements of assets and pension benefit obligation for individual employers.

NOTE 5 – EMPLOYEE BENEFIT PLANS (Continued)

New Hampshire Retirement System (Continued)

The New Hampshire Retirement System Comprehensive Annual Financial Report contains detailed information regarding the Plan as a whole, including information on payroll, contributions, actuarial assumptions and funding method, and historical trend data. The New Hampshire Retirement System operates on a fiscal year ending June 30.

Deferred Compensation Plan

The Department, as an organization of the State government, offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all State employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the Plan, all property rights purchased with those amounts, and all income attributable to those amounts, property or rights, are held in trust for the exclusive benefit of participants and their beneficiaries. The Department and the State are not actively involved in managing the Plan's assets.

Postemployment Health Care Benefits

In addition to the benefits described above, the Department, as an organization of the State government, provides postemployment health care benefits, in accordance with RSA 21-I:30, to all retired employees and their spouses on a non-contributory basis, as authorized by State statute.

During the nine months ended March 31, 1999, the State paid for the full cost of health insurance premiums for the retired employees and spouses on a pay-as-you-go basis. The cost of the health insurance for the Department's employees and spouses is a budgeted amount and is paid from an appropriation made to the administrative organization of the New Hampshire Retirement System. Accordingly, the cost of health insurance benefits for the retired Department employees and spouses is not included in the Department's financial statement.

NOTE 6 – FEDERAL FUNDS

The Department is the recipient of two federal grants: the National Guard Military Operations and Maintenance (O&M) Projects grant and the Burial Expenses Allowance for Veterans grant. The federal grantor agencies are the U.S. Departments of Defense and Veterans Affairs, respectively. The National Guard Military O & M grant is accounted for in the General, Special, and Capital Projects Funds, whereas, the Burial Expenses Allowance for Veterans grant is accounted for in the General Fund.

REQUIRED SUPPLEMENTARY INFORMATION

YEAR 2000 COMPLIANCE

In October 1998, the Governmental Accounting Standards Board (GASB) issued Technical Bulletin 98-1 entitled, *Disclosures about Year 2000 Issues*. The provisions of the GASB Technical Bulletin, effective for financial statements on which the auditor's report is dated after October 31, 1998, require the State to make disclosures in the notes to the financial statements about its readiness in addressing year 2000 issues for its computer systems and other electronic equipment. In March 1999, GASB issued an amended Technical Bulletin, 99-1, allowing disclosure of year 2000 issues in required supplementary information or in the notes to the financial statements. Retroactive application was allowed.

The year 2000 issue is the result of shortcomings in electronic data-processing systems and other electronic equipment that may adversely affect operations in the year 1999 and beyond. State legislation (Chapter 255, Laws of 1998) requires State agencies to demonstrate adequate year 2000 compliance and to report their status on a quarterly basis. The Division of Information Technology Management within the Department of Administrative Services has provided guidance to agencies regarding industry accepted practices for completing their year 2000 projects.

The following stages have been identified as necessary to implement a year 2000 compliant system:

- 1) Awareness stage – encompasses establishing a budget and project plan for dealing with the year 2000 issue.
- 2) Assessment stage – when the organization begins the actual process of identifying all of its systems and individual components of the systems. An organization may decide to review all system components for year 2000 compliance or, through a risk analysis, identify only mission critical systems and equipment to check for compliance.
- 3) Remediation stage – when the organization actually makes changes to systems and equipment. This stage deals primarily with the technical issues of converting existing systems, or switching to compliant systems. During this stage, decisions are made on how to make the systems or processes year 2000 compliant and the required system changes are made.
- 4) Validation and Testing stage – when the organization validates and tests the changes made during the conversion process. The development of test data and test scripts, the running of test scripts, and the review of test results are crucial for this stage of the conversion process to be successful. If the testing results show anomalies, the tested area needs to be corrected and re-tested.

The Department maintains various computerized systems that are subject to year 2000 data processing compliance issues. The Department determined that the NH Army National Guard administration is a business function deemed critical to the health, safety, and well being of the people of the State of New Hampshire.

REQUIRED SUPPLEMENTARY INFORMATION (Continued)

YEAR 2000 COMPLIANCE (Continued)

In March 1999, the Department filed a required status update with the New Hampshire Division of Information Technology Management. The plan included identification of the project phase completed and the remaining steps towards compliance.

The Department has set a goal of September 1999 for full compliance of all internal systems and will continue to monitor the progress of each stage. However, because of the unprecedented nature of the year 2000 issue, its effect and the success of the related remediation efforts cannot be fully determined until the year 2000 and thereafter. Consequently, management cannot guarantee that the Department is or will be year 2000 ready, that the Department's remediation efforts will be successful in whole or in part, or that parties with whom the Department does business will be year 2000 ready.

**STATE OF NEW HAMPSHIRE
 ADJUTANT GENERAL'S DEPARTMENT
 SCHEDULE OF BUDGETARY COMPONENTS
 GENERAL FUND
 FOR THE NINE MONTHS ENDED MARCH 31, 1999**

	<u>Operating Budget</u>	<u>Supplemental Appropriation Warrants</u>	<u>Balances Brought Forward</u>	<u>Net Transfers In(Out)</u>	<u>Budget</u>
<u>Restricted Revenues</u>					
Air National Guard	\$ 979,215	\$ 13,974	\$ -0-	\$ -0-	\$ 993,189
Army National Guard	261,613	44,358	-0-	-0-	305,971
NH State Veterans Cemetery	-0-	105,000	-0-	-0-	105,000
Armory Rentals	62,339	1,868	-0-	-0-	64,207
Miscellaneous	-0-	-0-	-0-	-0-	-0-
Total Restricted Revenues	<u>\$ 1,303,167</u>	<u>\$ 165,200</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,468,367</u>
<u>Expenditures</u>					
Air National Guard:					
Pease Fire Department	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Operations & Maintenance	1,327,034	18,938	5,152	(9,272)	1,341,852
Security	-0-	-0-	-0-	-0-	-0-
Flight Simulator	-0-	-0-	-0-	-0-	-0-
Subtotal	<u>1,327,034</u>	<u>18,938</u>	<u>5,152</u>	<u>(9,272)</u>	<u>1,341,852</u>
Army National Guard:					
Operations & Maintenance	1,702,615	85,059	4,209	(98,607)	1,693,276
Construction	-0-	-0-	-0-	-0-	-0-
Environmental Resources	46,233	1,941	-0-	-0-	48,174
Training Academy	-0-	-0-	-0-	-0-	-0-
Subtotal	<u>1,748,848</u>	<u>87,000</u>	<u>4,209</u>	<u>(98,607)</u>	<u>1,741,450</u>
NH State Veterans Cemetery	-0-	224,000	52,931	-0-	276,931
Armory Rentals	40,189	1,217	88,025	-0-	129,431
Miscellaneous	35,500	-0-	-0-	-0-	35,500
Total Expenditures	<u>\$ 3,151,571</u>	<u>\$ 331,155</u>	<u>\$ 150,317</u>	<u>\$(107,879)</u>	<u>\$ 3,525,164</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>\$ (1,848,404)</u>	<u>\$ (165,955)</u>	<u>\$ (150,317)</u>	<u>\$ 107,879</u>	<u>\$ (2,056,797)</u>

**STATE OF NEW HAMPSHIRE
 ADJUTANT GENERAL'S DEPARTMENT
 SCHEDULE OF BUDGETARY COMPONENTS
 SPECIAL FUND
 FOR THE NINE MONTHS ENDED MARCH 31, 1999**

	<u>Operating Budget</u>	<u>Supplemental Appropriation Warrants</u>	<u>Balances Brought Forward</u>	<u>Net Transfers In(Out)</u>	<u>Budget</u>
<u>Restricted Revenues</u>					
Air National Guard	\$ 2,289,138	\$ 219,242	\$ -0-	\$ -0-	\$ 2,508,380
Army National Guard	305,197	955,497	608,361	-0-	1,869,055
NH State Veterans Cemetery	-0-	-0-	-0-	-0-	-0-
Armory Rentals	-0-	-0-	-0-	-0-	-0-
Miscellaneous	-0-	36,100	10,850	-0-	46,950
Total Restricted Revenues	<u>\$ 2,594,335</u>	<u>\$ 1,210,839</u>	<u>\$ 619,211</u>	<u>\$ -0-</u>	<u>\$ 4,424,385</u>
 <u>Expenditures</u>					
Air National Guard:					
Pease Fire Department	\$ 1,687,573	\$ 68,931	\$ -0-	\$ -0-	\$ 1,756,504
Operations & Maintenance	123,792	84,898	-0-	-0-	208,690
Security	393,350	16,378	-0-	-0-	409,728
Flight Simulator	84,423	49,035	-0-	-0-	133,458
Subtotal	<u>2,289,138</u>	<u>219,242</u>	<u>-0-</u>	<u>-0-</u>	<u>2,508,380</u>
Army National Guard:					
Operations & Maintenance	121,520	33,349	5,320	-0-	160,189
Construction	-0-	764,508	75,482	-0-	839,990
Environmental Resources	71,510	2,973	510,615	-0-	585,098
Training Academy	112,167	154,667	19,713	-0-	286,547
Subtotal	<u>305,197</u>	<u>955,497</u>	<u>611,130</u>	<u>-0-</u>	<u>1,871,824</u>
NH State Veterans Cemetery					
NH State Veterans Cemetery	-0-	-0-	-0-	-0-	-0-
Armory Rentals					
Armory Rentals	-0-	-0-	-0-	-0-	-0-
Miscellaneous					
Miscellaneous	-0-	36,100	10,850	-0-	46,950
Total Expenditures	<u>\$ 2,594,335</u>	<u>\$ 1,210,839</u>	<u>\$ 621,980</u>	<u>\$ -0-</u>	<u>\$ 4,427,154</u>
 Excess (Deficiency) Of Revenues Over (Under) Expenditures					
	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (2,769)</u>	<u>\$ -0-</u>	<u>\$ (2,769)</u>

**STATE OF NEW HAMPSHIRE
 ADJUTANT GENERAL'S DEPARTMENT
 SCHEDULE OF BUDGETARY COMPONENTS
 CAPITAL PROJECTS FUND
 FOR THE NINE MONTHS ENDED MARCH 31, 1999**

	<u>Operating Budget</u>	<u>Supplemental Appropriation Warrants</u>	<u>Balances Brought Forward</u>	<u>Net Transfers In(Out)</u>	<u>Budget</u>
<u>Restricted Revenues</u>					
Army National Guard	\$ -0-	\$ -0-	\$ 138,000	\$ -0-	\$ 138,000
Total Restricted Revenues	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 138,000</u>	<u>\$ -0-</u>	<u>\$ 138,000</u>
<u>Expenditures</u>					
Army National Guard: Construction	\$ -0-	\$ -0-	\$ 373,072	\$ -0-	\$ 373,072
Total Expenditures	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 373,072</u>	<u>\$ -0-</u>	<u>\$ 373,072</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (235,072)</u>	<u>\$ -0-</u>	<u>\$ (235,072)</u>

**STATE OF NEW HAMPSHIRE
ADJUTANT GENERAL'S DEPARTMENT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CASH BASIS)
FOR THE NINE MONTHS ENDED MARCH 31, 1999**

<u>Federal Catalog Number</u>	<u>Federal Grantor/Federal Program</u>	<u>Expenditures</u>
	<u>Department Of Defense</u>	
12.401	National Guard Military Operations and Maintenance (O&M) Projects	\$ 3,602,519
	<u>Department Of Veterans Affairs</u>	
64.101	Burial Expenses Allowance For Veterans	<u>16,800</u>
	Total	<u>\$ 3,619,319</u>

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX

CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of July 16, 1999, of the status of the observations contained in the audit report of the Department for the year ended June 30, 1989. A copy of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

	<u>Status</u>
Internal Control Structure	
<i>Reportable Conditions</i>	
1. Land And Building Costs (see current observation No. 1)	○ ○ ○
2. Equipment Inventory (see current observation No. 4)	● ○ ○
3. Collection Of Fines	● ● ●

Status Key

Fully Resolved	● ● ●
Substantially Resolved	● ● ○
Partially Resolved	● ○ ○
Unresolved	○ ○ ○

THIS PAGE INTENTIONALLY LEFT BLANK