

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF STATE
AND
RELATED BOARDS AND COMMISSIONS**

**AUDIT REPORT
FOR THE TEN MONTHS ENDED
APRIL 30, 1996**

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF STATE
AND RELATED BOARDS AND COMMISSIONS**

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**STATE OF NEW HAMPSHIRE
DEPARTMENT OF STATE
AND RELATED BOARDS AND COMMISSIONS**

INTRODUCTION

REPORTING ENTITY

For the purpose of this audit report, the reporting entity is defined as the New Hampshire Department of State and the State boards and commissions that are related to the Department by statute. Included in the reporting entity are the following related boards and commissions.

- The Board of Auctioneers and the Board of Claims, which by the State Operating Budget are accounted for in the Department of State's organization and financial statements.
- The Real Estate Commission, the Real Estate Appraiser Board and the Commission on the Status of Women, which by statute are administratively attached to the Department.
- The Joint Board of Professional Engineers, Architects, Land Surveyors, Foresters and Natural Scientists (Joint Board), the Board of Accountancy, the Boxing and Wrestling Commission and the Ballot Law Commission, which by statute function within the Department.

BACKGROUND AND ORGANIZATION

The Department of State

The Department of State (the Department) was established by Chapter 5, part 4:1, Laws of 1950. The Department is directed by the secretary of state, a constitutional officer, who is elected biennially by joint ballot of the Senate and House of Representatives. The Constitution of the State of New Hampshire directs that the secretary of state shall have a deputy at all times. The deputy secretary of state is appointed by the secretary of state and, if the secretary was unable, would exercise all duties of the office of the secretary until another secretary was appointed.

The major duties and responsibilities of the Department are as follows.

- The Administrative Division is responsible for keeping the great seal, attesting to the governor's signature and affixing the great seal on all official documents, engrossing public acts, attending governor and council meetings, performing clerical duties for the Board of Claims and the Ballot Law Commission, and for preparing and issuing all notary public and justice of the peace commissions.

INTRODUCTION (Continued)

BACKGROUND AND ORGANIZATION (Continued)

The Department of State (Continued)

- The Elections/Legislative Division is responsible for administering state elections, printing ballots and election forms, and instructing local election officials. The Division also publishes the manual for the general court (the redbook), the New Hampshire election laws, and, with the approval of the attorney general, the political calendar and the elections procedure manual.
- The Corporate Division oversees the receipt of corporate returns and related fees, tracks delinquent corporations for dissolution purposes and records all filings under the Uniform Commercial Code.
- The Division of Records Management and Archives, established by N.H. Revised Statutes Annotated (RSA) 5:27, is responsible for establishing and maintaining programs for the storage, retention, and ultimate disposal of agency records, and for accepting, arranging, describing, and making available the public archives of permanent historical value.
- In accordance with RSA 421-B:21 the secretary of state is responsible for administering the state laws related to the sale of securities in the state. The Bureau of Securities Regulation handles the annual licensing of agents, broker-dealers and investment advisors as well as the licensing of securities sold in the state. The Bureau is responsible for examining each domestic broker-dealer every two years as well as the New Hampshire branches of any foreign broker-dealers.

The Department of State has 43 employees.

Board of Auctioneers

The five-member Board of Auctioneers was established by RSA 311-B:2. RSA 311-B:14 indicates that the Board's revenue is to be credited to the General Fund and appropriated to the secretary of state for the purposes of carrying out RSA 311-B. By statute, four auctioneers and one public member sit on the Board. The members of the Board are appointed by the governor with the advice of council to five-year terms. The Board is responsible for adopting rules, with the approval of the secretary of state, relative to the registration and renewal of auctioneers and the related fees, the procedures for the establishment of qualifications of applicants, the form and content of applications, ethical standards, the procedures for the conduct of hearings as well as the overall administration of RSA 311-B.

The Board of Auctioneers employs one part-time employee.

INTRODUCTION (Continued)

BACKGROUND AND ORGANIZATION (Continued)

Board of Claims

RSA 541-B:2 established the five-member Board of Claims. The Board is accounted for within the Department of State's organization and financial statements. The governor appoints two members of the Board of Claims, preferably members of the New Hampshire Bar Association. The chief justice of the New Hampshire Supreme Court appoints the chairman of the Board who shall be a judicial referee if available and, if not, a member of the New Hampshire Bar Association. The president of the Senate appoints one member of the Senate and the speaker of the House of Representatives appoints one member of the House to serve as Board members. Board members, except for the legislative members, serve six-year terms and the legislative members serve terms co-terminous with their terms as legislators.

The Board of Claims has original and exclusive jurisdiction to investigate, conduct hearings and make decisions, and render or deny awards on all claims not exceeding \$5,000 against any agency, with several exceptions. The Board has concurrent jurisdiction with the superior court on claims between \$5,000 and \$50,000.

The Board of Claims has no employees.

Real Estate Commission

The Real Estate Commission was established pursuant to RSA 331-A:5 to regulate the practice of real estate brokers and salespersons. It is administratively attached to the Department of State per RSA 5:13-a. There are five members of the Real Estate Commission: two licensed real estate brokers, one licensed real estate salesperson, one lawyer and one public member. The members serve five-year terms and are appointed by the governor with the approval of council.

The Real Estate Commission employs an executive director and seven additional employees to carry out its responsibilities.

Real Estate Appraiser Board

RSA 310-B:4 established the Real Estate Appraiser Board in 1990 to bring New Hampshire into compliance with Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. It is administratively attached to the Department of State per RSA 5:13-b. The Board consists of seven members: three real estate appraisers, one member from a New Hampshire lending institution, the banking commissioner or designee, one real estate broker and one member of the public not associated with banking, brokering, real estate appraisal, insurance or any other affected industry. All members are appointed by the governor with the consent of council and serve three-year terms.

INTRODUCTION (Continued)

BACKGROUND AND ORGANIZATION (Continued)

Real Estate Appraiser Board (Continued)

The Real Estate Appraiser Board has one full-time and one part-time employee.

Commission on the Status of Women

The Commission on the Status of Women was established by RSA 19-B:1 and is administratively attached to the Department of State per RSA 19-B:9. The Commission is charged with stimulating and encouraging revision of the statutes relative to women in this state, recommending methods of overcoming discrimination against women in employment and political rights, promoting more effective methods for enabling women to develop their skills and to secure appropriate recognition of women's accomplishments and contributions to the state.

There are 15 members of the Commission on the Status of Women appointed by the governor and council. The Commission has one full-time employee.

Joint Board

RSA 310-A:1 established the Joint Board of Professional Engineers, Architects, Land Surveyors, Foresters and Natural Scientists. The Joint Board consists of the Board members of each of the five named boards and employs four full-time individuals to carry out the licensing functions associated with the five named boards. In accordance with RSA 5:13 the Board functions within the Department of State as a separate organizational entity.

Board of Accountancy

The Board of Accountancy is governed by the terms of RSA 309-B, known as the Accountancy Act of 1994. Per RSA 5:13 the Board functions within the Department of State as a separate organizational entity. The Board is responsible for the licensing and regulation of accountants in the state. The Board has five members who are appointed by the governor with the approval of council. According to statute, three members shall hold certificates as certified public accountants, one member shall be a public accountant and one shall be a public member with no ties to the profession.

The Board has two full-time employees.

INTRODUCTION (Continued)

BACKGROUND AND ORGANIZATION (Continued)

Boxing and Wrestling Commission

The Boxing and Wrestling Commission was established by RSA 285:2 to oversee boxing bouts and wrestling competitions in the state. The Commission functions within the Department of State as a separate organizational entity per RSA 5:13. The Commission has three members appointed by the governor and council. The Commission collects a tax from promoters of boxing and wrestling events and licenses and collects a license fee from contestants.

The Boxing and Wrestling Commission employs one part-time deputy inspector.

Ballot Law Commission

The Ballot Law Commission, established by RSA 665:1, functions within the Department of State as a separate organizational entity per RSA 5:13. The Commission consists of three members who serve four-year terms unless reappointed. Members of the Commission include an attorney appointed by the New Hampshire Supreme Court and one member from each of the two major political parties appointed by the governor with the advice and consent of council. The secretary of state functions as the recording officer and clerk of the Commission but does not vote in its decisions.

The Ballot Law Commission is responsible for hearing and deciding objections raised relative to the filing of nomination papers for primary and general elections, primary and general elections recounts, alleged non-criminal violations of New Hampshire election laws, the form of names on ballots and other filing disputes.

The Ballot Law Commission did not meet and did not have any financial activity during the ten months ended April 30, 1996.

FUNDING

Department of State

The Department of State receives appropriations from the General Fund and the Capital Projects Fund. The Department of State's spending authority for the ten months ended April 30, 1996 in the General and Capital Projects Funds was \$3,039,783 and \$425,000, respectively. Actual expenditures for the ten months ended April 30, 1996 in the General and Capital Projects Funds were \$1,688,268 and \$1,680, respectively. Estimated restricted revenue combined with supplemental warrants and balances forward resulted in anticipated General Fund restricted revenue for the ten months ended April 30, 1996 of \$842,938 while actual restricted revenue totalled \$751,414. Estimated and actual General Fund unrestricted revenue for the same ten month period totalled \$19,111,790 and \$19,241,607, respectively.

INTRODUCTION (Continued)

FUNDING (Continued)

Related Boards and Commissions

The Related Boards and Commissions receive appropriations from the General Fund. Spending authority for the ten months ended April 30, 1996 totalled \$921,573 while actual expenditures totalled \$691,562. Estimated restricted and unrestricted revenue totalled \$82,700 and \$1,201,102, respectively and actual restricted and unrestricted revenue amounted to \$127,515 and \$932,203, respectively.

Actual revenues and expenditures for the Department of State and Related Boards and Commissions are illustrated on pages seven and eight.

PRIOR AUDITS

The most recent prior audits of the Department of State and Related Boards and Commissions are shown in the following table. The table includes a reference to a summary in this report of the current status of the observations contained in the prior audit reports.

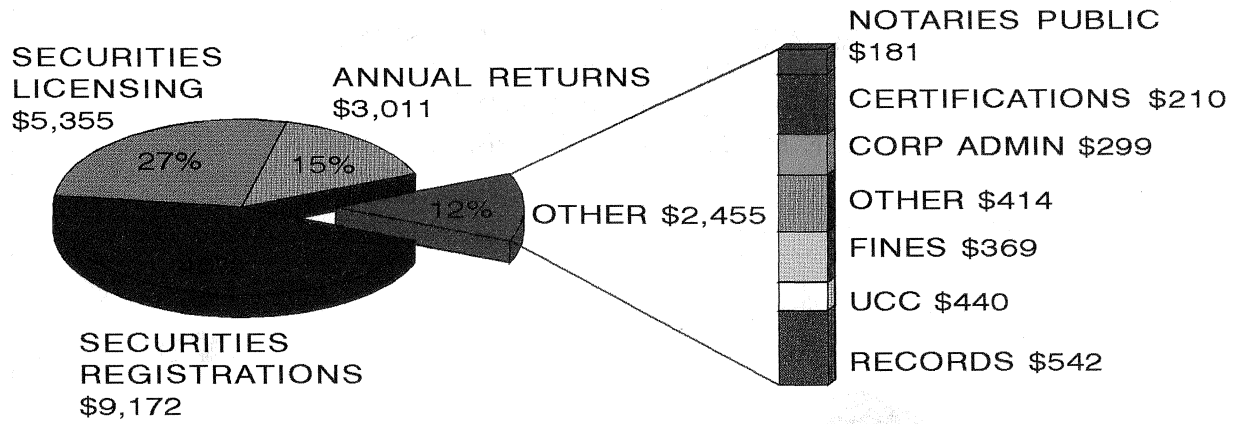
ORGANIZATION	AUDIT PERIOD	SUMMARY OF CURRENT STATUS OF PRIOR REPORT FINDINGS
Department of State	Year ended June 30, 1989	Page 53
Department of State	Year ended June 30, 1991 (audit of the Office of Securities Regulation, the predecessor to the Department's Bureau of Securities Regulation)	Page 53
Real Estate Commission	Year ended June 30, 1985	Page 64
Joint Board	18 months ended December 31, 1985	Page 72

Copies of these reports can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House, Room 102, Concord, NH 03301-4906.

There are no recent prior audits for the other boards and commissions included in this audit report.

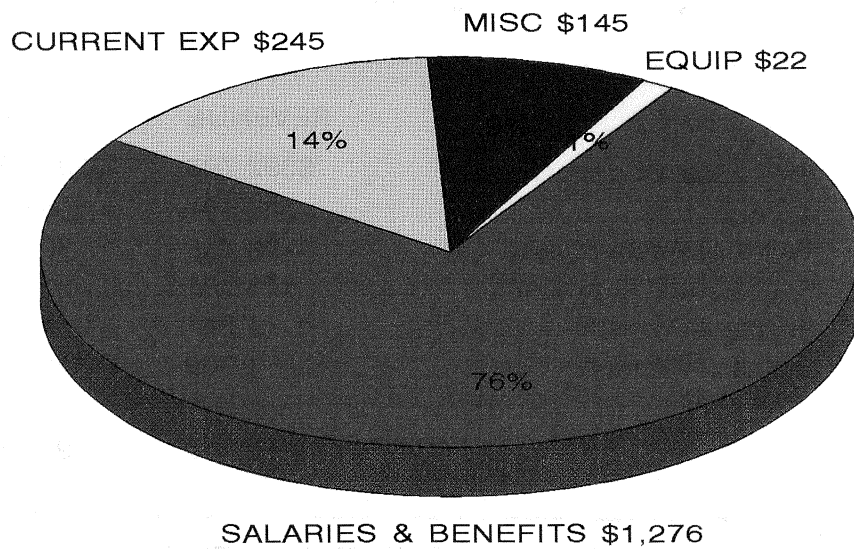
INTRODUCTION (Continued)

**DEPARTMENT OF STATE
TOTAL REVENUE - GENERAL FUND
TEN MONTHS ENDED APRIL 30, 1996**



TOTAL REVENUE \$19,993
(Amounts are shown in thousands)

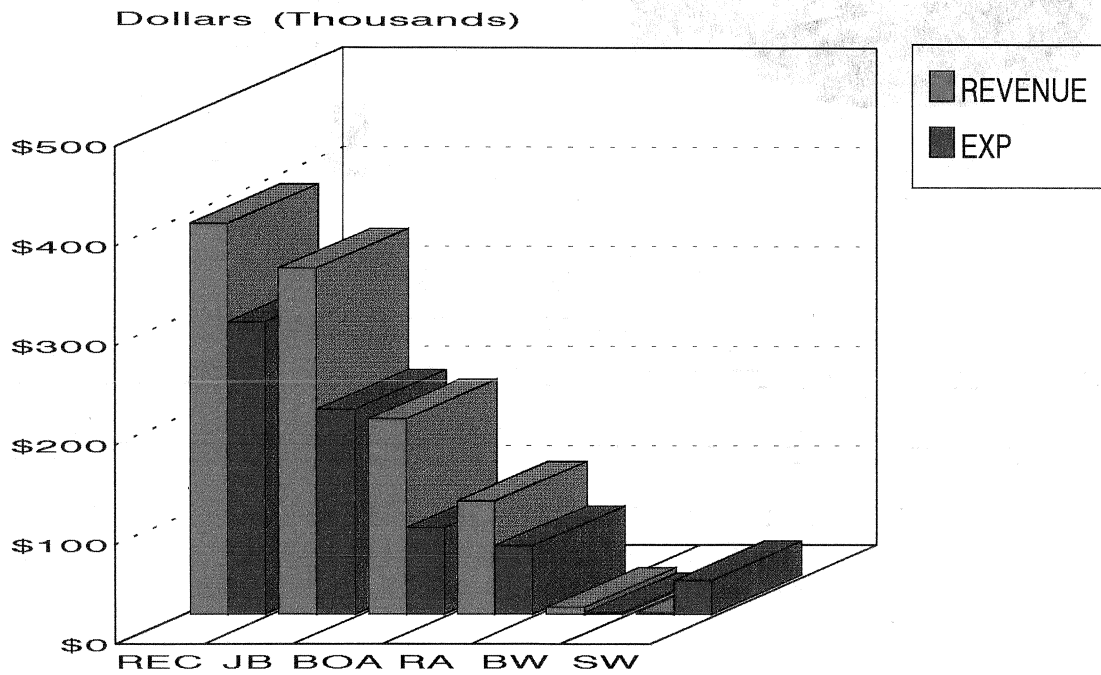
**DEPARTMENT OF STATE
EXPENDITURES - GENERAL FUND
TEN MONTHS ENDED APRIL 30, 1996**



TOTAL EXPENDITURES \$1,688
(Amounts are shown in thousands)

INTRODUCTION (Continued)

**RELATED BOARDS & COMMISSIONS
REVENUE & EXPENDITURES
GENERAL FUND
TEN MONTHS ENDED APRIL 30, 1996**



		REVENUE	EXP
REC	Real Estate Commission	\$392,723	\$293,868
JB	Joint Board	347,901	206,053
BOA	Board of Accountancy	196,456	86,992
RA	Real Estate Appraisers	113,691	69,070
BW	Boxing & Wrestling	7,247	1,642
SW	Status of Women	1,700	33,937
TOTALS		\$1,059,718	\$691,562

INDEPENDENT AUDITOR'S REPORT

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the accompanying financial statements of the Department of State and Related Boards and Commissions of the State of New Hampshire for the ten months ended April 30, 1996. The financial statements are the responsibility of the managements of the New Hampshire Department of State and Related Boards and Commissions. Our responsibility is to express an opinion on the financial statements based on our audit.

Except as discussed in the following 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 described in NOTE 2, the New Hampshire Department of State and Related Boards and Commissions do not have complete financial records to support the amounts included in the General Fixed Assets Account Group. Accordingly, we were unable to examine sufficient evidential matter to support such amounts.

As more fully discussed in NOTE 1, the financial statements referred to in the first paragraph are not intended to present the financial position of the New Hampshire Department of State and Related Boards and Commissions.

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 third paragraph and the matter discussed in the fourth

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF STATE
AND RELATED BOARDS AND COMMISSIONS**

AUDIT OBJECTIVES AND SCOPE

The primary objective of our audit is to express an opinion on the fairness of the presentation of the financial statements. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we considered the effectiveness of the internal control structure in place at the Department of State and Related Boards and Commissions and tested their compliance with certain provisions of applicable state laws and regulations. Major accounts or areas subject to our examination included, but were not limited to the following:

- Internal Control Structure
- Appropriations and Revenues
- Expenditures and Encumbrances
- Equipment
- State Compliance.

Our independent auditor's report, the financial statements, our reports on the internal control structure, state compliance, and management issues, and the related observations and recommendations are contained in the report that follows.

paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, certain financial activity of the New Hampshire Department of State and Related Boards and Commissions for the ten months ended April 30, 1996 in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph. The accompanying Schedules of Budgetary Components are presented on pages twenty-four through thirty-one for the purpose of additional analysis and are not required parts of the financial statements of the New Hampshire Department of State and Related Boards and Commissions. Such information has been subjected to the auditing procedures applied in our audit of the financial statements referred to in the first paragraph and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 16, 1996 on our consideration of the internal control structures of the New Hampshire Department of State and Related Boards and Commissions and a report dated August 16, 1996 on their compliance with laws and regulations.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

August 16, 1996

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF STATE
AND RELATED BOARDS AND COMMISSIONS**

**COMBINING STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE TEN MONTHS ENDED APRIL 30, 1996**

	DEPARTMENT OF STATE		
	BUDGET	ACTUAL	FAVORABLE/ (UNFAVORABLE) VARIANCE
<u>UNRESTRICTED REVENUES</u>			
SECURITIES REGISTRATIONS	\$ 9,932,130	\$ 9,172,163	\$(759,967)
SECURITIES LICENSING	4,061,500	5,354,793	1,293,293
ANNUAL RETURNS	3,150,000	3,011,243	(138,757)
RECORDS	650,000	541,869	(108,131)
UNIFORM COMMERCIAL CODE	438,600	440,291	1,691
CERTIFICATION FEES	194,000	209,950	15,950
NOTARIES PUBLIC	219,300	180,780	(38,520)
OTHER	466,260	330,518	(135,742)
REAL ESTATE COMMISSION FEES	-0-	-0-	-0-
JOINT BOARD FEES	-0-	-0-	-0-
BOARD OF ACCOUNTANCY FEES	-0-	-0-	-0-
REAL ESTATE APPRAISER BOARD FEES	-0-	-0-	-0-
BOXING & WRESTLING COMMISSION FEES	-0-	-0-	-0-
TOTAL UNRESTRICTED REVENUES	\$19,111,790	\$19,241,607	\$ 129,817
<u>RESTRICTED REVENUES</u>			
SECURITIES ADMINISTRATIVE FINES	\$ 464,831	\$ 368,950	\$(95,881)
CORPORATE ADMINISTRATION	273,158	299,225	26,067
SECURITIES EXAMINATION FEES	104,949	83,239	(21,710)
REAL ESTATE EXAM FEES	-0-	-0-	-0-
OTHER	-0-	-0-	-0-
TOTAL RESTRICTED REVENUES	\$ 842,938	\$ 751,414	\$(91,524)
TOTAL REVENUES	\$19,954,728	\$19,993,021	\$ 38,293
<u>EXPENDITURES</u>			
SALARIES AND BENEFITS	\$ 1,683,130	\$ 1,276,364	\$ 406,766
CURRENT EXPENSES	347,645	245,177	102,468
MISCELLANEOUS	171,525	135,680	35,845
EQUIPMENT	26,087	21,688	4,399
TRAVEL	21,180	9,359	11,821
EXAM/HEARING COSTS	-0-	-0-	-0-
FEDERAL REGISTRATION FEES	-0-	-0-	-0-
TRANSFER TO OTHER STATE AGENCIES	-0-	-0-	-0-
OTHER (Note 5)	790,216	-0-	790,216
TOTAL EXPENDITURES	\$ 3,039,783	\$ 1,688,268	\$ 1,351,515

The accompanying notes are an integral

RELATED BOARDS AND COMMISSIONS			TOTAL		
BUDGET	ACTUAL	FAVORABLE/ (UNFAVORABLE) VARIANCE	BUDGET	ACTUAL	FAVORABLE/ (UNFAVORABLE) VARIANCE
\$ -0-	\$ -0-	\$ -0-	\$ 9,932,130	\$ 9,172,163	\$ (759,967)
-0-	-0-	-0-	4,061,500	5,354,793	1,293,293
-0-	-0-	-0-	3,150,000	3,011,243	(138,757)
-0-	-0-	-0-	650,000	541,869	(108,131)
-0-	-0-	-0-	438,600	440,291	1,691
-0-	-0-	-0-	194,000	209,950	15,950
-0-	-0-	-0-	219,300	180,780	(38,520)
-0-	-0-	-0-	466,260	330,518	(135,742)
455,750	284,558	(171,192)	455,750	284,558	(171,192)
414,000	347,901	(66,099)	414,000	347,901	(66,099)
204,000	196,456	(7,544)	204,000	196,456	(7,544)
123,352	96,041	(27,311)	123,352	96,041	(27,311)
<u>4,000</u>	<u>7,247</u>	<u>3,247</u>	<u>4,000</u>	<u>7,247</u>	<u>3,247</u>
<u>\$1,201,102</u>	<u>\$932,203</u>	<u>\$ (268,899)</u>	<u>\$20,312,892</u>	<u>\$20,173,810</u>	<u>\$ (139,082)</u>
\$ -0-	\$ -0-	\$ -0-	\$ 464,831	\$ 368,950	\$ (95,881)
-0-	-0-	-0-	273,158	299,225	26,067
-0-	-0-	-0-	104,949	83,239	(21,710)
75,000	108,165	33,165	75,000	108,165	33,165
<u>7,700</u>	<u>19,350</u>	<u>11,650</u>	<u>7,700</u>	<u>19,350</u>	<u>11,650</u>
<u>\$ 82,700</u>	<u>\$ 127,515</u>	<u>\$ 44,815</u>	<u>\$ 925,638</u>	<u>\$ 878,929</u>	<u>\$ (46,709)</u>
<u>\$1,283,802</u>	<u>\$1,059,718</u>	<u>\$ (224,084)</u>	<u>\$21,238,530</u>	<u>\$21,052,739</u>	<u>\$ (185,791)</u>
\$ 531,735	\$429,527	\$ 102,208	\$ 2,214,865	\$ 1,705,891	\$ 508,974
194,174	125,297	68,877	541,819	370,474	171,345
17,562	8,006	9,556	189,087	143,686	45,401
36,117	24,811	11,306	62,204	46,499	15,705
30,185	15,260	14,925	51,365	24,619	26,746
76,850	53,936	22,914	76,850	53,936	22,914
21,450	21,225	225	21,450	21,225	225
13,500	13,500	-0-	13,500	13,500	-0-
-0-	-0-	-0-	790,216	-0-	790,216
<u>\$ 921,573</u>	<u>\$691,562</u>	<u>\$ 230,011</u>	<u>\$ 3,961,356</u>	<u>\$ 2,379,830</u>	<u>\$ 1,581,526</u>

part of these financial statements.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF STATE
AND RELATED BOARDS AND COMMISSIONS**

**DEPARTMENT OF STATE
STATEMENT OF CAPITAL PROJECTS FUND ACTIVITY
FOR THE TEN MONTHS ENDED APRIL 30, 1996**

Balance Forward July 1, 1995	\$ -0-
 <u>APPROPRIATIONS AND REVENUE</u>	
Appropriations	425,000
Less: Anticipated restricted revenue from sources other than the General Fund	<u>-0-</u>
Net Appropriations	425,000
Actual restricted revenue from sources other than the General Fund	-0-
Net Transfers In/(Out)	<u>-0-</u>
TOTAL AVAILABLE	\$425,000
 <u>EXPENDITURES</u>	
Addition to the Archives Building	\$ <u>1,680</u>
TOTAL EXPENDITURES	\$ 1,680
 Funds (lapsed to)/drawn from the General Fund	 <u>-0-</u>
Balance to be carried forward	\$423,320
Less: Unliquidated Encumbrances	<u>30,000</u>
 Available Balance April 30, 1996	 <u>\$393,320</u>

The accompanying notes are an integral
part of these financial statements.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF STATE
AND RELATED BOARDS AND COMMISSIONS**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FINANCIAL REPORTING ENTITY

The Department of State and Related Boards and Commissions are organizations of the primary government of the State of New Hampshire established under the following New Hampshire Revised Statutes Annotated (RSA).

Department of State	RSA 5:1
Board of Auctioneers	RSA 311-B:2
Board of Claims	RSA 541-B:2
Real Estate Commission	RSA 331-A:5
Joint Board	RSA 310-A:1
Board of Accountancy	RSA 309-B:3
Real Estate Appraiser Board	RSA 310-B:4
Boxing and Wrestling Commission	RSA 285:2
Commission on the Status of Women	RSA 19-B:1
Ballot Law Commission	RSA 665:1

The accompanying financial statements report certain financial activity of the Department of State and Related Boards and Commissions. The financial activity of the Department of State and Related Boards and Commissions is accounted for in the General and Capital Projects Funds of 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 of State and Related Boards and Commissions, as organizations of the primary government, account for only a small portion of the General and Capital Projects Funds and those assets, liabilities and fund balances as reported in the CAFR that are attributable to the Department of State and Related Boards and Commissions cannot be determined. Accordingly, the accompanying financial statements are not intended to show the financial position of the Department of State and Related Boards and Commissions in the General and Capital Projects Funds and the changes in these fund balances are not reported on the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF PRESENTATION - FUND ACCOUNTING

Financial Statements

The financial statements of the Department of State and Related Boards and Commissions have 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.

Fund Accounting

The State of New Hampshire and the Department of State and Related Boards and Commissions use funds and account groups to report on financial position and the results of 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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF PRESENTATION - FUND ACCOUNTING (Continued)

ACCOUNT GROUP

General Fixed Assets (Unaudited)

General fixed assets acquired by the Department of State and Related Boards and Commissions for the performance of their operations are reflected in the General Fixed Assets Account Group at the time of acquisition. As of April 30, 1996, the Department of State and Related Boards and Commissions 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. BASIS OF ACCOUNTING

The State of New Hampshire accounts for its financial transactions related to the General and Capital Projects Funds on the modified accrual basis of accounting, under which revenues are recognized when measurable and available to finance operations during the year. "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 obligations 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.

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. This budget consists of three parts: Part I is the governor's program for meeting all expenditure needs as well as estimating revenues to be received; 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 operations of the Department of State and Related Boards and Commissions are budgeted in the General Fund.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. BUDGETARY DATA (Continued)

General Budget Policies (Continued)

The New Hampshire biennial budget is composed of the initial operating budget and 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 twenty-four and the Schedules of Budgetary Components, Budget and Actual-General Fund on pages twenty-five through thirty-one, the final budgeted amount includes the initial operating budget plus supplemental appropriation warrants, balances brought forward, transfers and lapses.

A Combining Statement of Revenues and Expenditures-Budget and Actual-General Fund is presented on pages twelve and thirteen as part of the Department of State and Related Boards and Commissions' financial statements.

When statements are presented at an interim date, a date other than a June 30 fiscal year end, the variance reflects the difference between the twelve month budgeted amount and a partial year's actual revenue and expenditures. Thus, on the ten month financial statements dated April 30, 1996, unfavorable variances in revenues are expected, because ten months of actual receipts are compared to the amount of revenue expected to be collected in the twelve month period. Similarly, favorable expenditure variances are expected, as ten months of actual expenditures are compared to amounts expected to be expended in the twelve month budget period.

RSA 9:3-a requires the governor to submit a capital budget to the Legislature in each odd-numbered year. The enacted capital budget authorizes appropriations that are usually intended to be expended over several years.

A Statement of Capital Projects Fund Activity is presented on page fourteen as part of the Department of State and Related Boards and Commissions' financial statements.

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 of State and Related Boards and Commissions' unliquidated encumbrance balances at April 30, 1996 were \$34,075 and \$30,000 in the Department of State's General and Capital Project Funds, respectively, and \$15,740 in the Related Boards and Commissions' General Fund.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. FIXED ASSETS - GENERAL (Unaudited)

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition 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. Presently, the Department of State and Related Boards and Commissions do not have complete financial records to support the amounts included in the General Fixed Assets Account Group.

F. INTERFUND AND INTRAFUND TRANSACTIONS

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

Reimbursements - Various departments charge fees on a user basis 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.

NOTE 2 -- GENERAL FIXED ASSETS ACCOUNT GROUP (Unaudited)

The Department of State and Related Boards and Commissions account for property and equipment at historical cost, if known, estimated cost if historical cost is unknown, or fair market value at the date of acquisition if the asset is donated.

The following is a schedule of changes in equipment balances, as reported by the Department of State and Related Boards and Commissions, in the General Fixed Assets Account Group for the ten months ended April 30, 1996. Equipment purchases are funded through budgeted appropriations.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2 -- GENERAL FIXED ASSETS ACCOUNT GROUP (Unaudited) (Continued)

<u>ORGANIZATION</u>	<u>BALANCE 7/1/95</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE 4/30/96</u>
DEPARTMENT OF STATE	\$686,830	\$18,429	\$64,050	\$641,209
REAL ESTATE COMMISSION	61,262	395	1,908	59,749
JOINT BOARD	12,986	20,442	-0-	33,428
BOARD OF ACCOUNTANCY	11,416	-0-	-0-	11,416
REAL ESTATE APPRAISER BOARD	7,461	495	-0-	7,956
BOXING AND WRESTLING COMMISSION	-0-	-0-	-0-	-0-
STATUS OF WOMEN	4,067	225	-0-	4,292
TOTAL	<u>\$784,022</u>	<u>\$39,986</u>	<u>\$65,958</u>	<u>\$758,050</u>

Changes in the Department of State and Related Boards and Commissions' equipment balances are reported to the Department of Administrative Services at the end of each fiscal year for inclusion in the State's Comprehensive Annual Financial Report. Presently, the Department of State and Related Boards and Commissions do not have complete financial records to support the amounts reported in the General Fixed Assets Account Group.

NOTE 3 -- EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The Department of State and Related Boards and Commissions, as organizations of state government, participate in the New Hampshire Retirement System (the Plan). The Plan is a contributory defined benefit plan and covers substantially all full-time employees of the Department of State and Related Boards and Commissions. The Plan qualifies as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. New Hampshire Revised Statutes Annotated (RSA), Chapter 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 10 or more years of creditable service who are between age 50 and 60 are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 3 -- EMPLOYEE BENEFIT PLANS (Continued)

New Hampshire Retirement System (Continued)

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. All covered Department of State and Related Boards and Commissions 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 ten months ended April 30, 1996, 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 state employees enrolled in the Plan. The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years by the Plan's actuary.

The Department of State and Related Boards and Commissions' payments for normal contribution costs for the ten months ended April 30, 1996 amounted to 3.14% of the covered payroll for their Group I employees. The Plan does not make separate measurements of assets and pension benefit obligation for individual employers. 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, pension benefit obligation and ten-year historical trend data. The New Hampshire Retirement System operates on a fiscal year ending June 30.

Deferred Compensation Plan

The Department of State and Related Boards and Commissions, as organizations of state government, offer their employees a deferred compensation plan (the 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 3 -- EMPLOYEE BENEFIT PLANS (Continued)

Deferred Compensation Plan (Continued)

All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights, are (until paid or made available to the employees or other beneficiaries) solely the property and rights of the State (without being restricted to the provisions of benefits under the Plan), subject only to the claims of the State's general creditors. Participants' rights under the Plan are equal to those of general creditors of the State in an amount equal to the fair market value of the deferred account for each participant.

Postemployment Health Care Benefits

The Department of State and Related Boards and Commissions as organizations of state government provide 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 ten months ended April 30, 1996, 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 and related Boards and Commissions' 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 employees and spouses is not included in the accompanying financial statements.

NOTE 4 -- FEDERAL SECURITIES LEGISLATION

Federal legislation has been introduced that could affect the ability of the Department of State's Bureau of Securities Regulation to charge securities license and registration fees. The legislation seeks to reduce the filing requirements for organizations that must register with the federal government and all 50 states. The ultimate outcome of the legislation and its effect on the Department's revenue cannot be determined and, accordingly, no provision for it has been made in the financial statements.

In planning and performing our audit of the financial statements of the Department of State and Related Boards and Commissions for the ten months ended April 30, 1996, we obtained an understanding of their internal control structures. With respect to their internal control structures, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structures and their operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Those matters that we consider to be reportable conditions are referenced in the following table.

REPORTABLE CONDITIONS		
ORGANIZATION	OBSERVATION #	PAGES
Department of State	Observation Nos. 1-7	39 - 47
Real Estate Commission	Observation Nos. 13-18	55 - 61
Joint Board	Observation Nos. 22-27	65 - 70
Board of Accountancy	Observation Nos. 29-32	73 - 78
Real Estate Appraiser Board	Observation Nos. 36-40	81 - 86
Boxing and Wrestling Commission	Observation Nos. 45-46	90 - 92
Commission on The Status of Women	Observation Nos. 51-52	96 - 97

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined previously. However, we believe none of the reportable conditions referenced on the prior page is a material weakness.

This report is intended for the information of the managements of the New Hampshire Department of State and Related Boards and Commissions and the Fiscal Committee of the General Court. However, this report is a matter of public record upon acceptance by the Fiscal Committee, and its distribution is not limited.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

August 16, 1996

AUDITOR'S REPORT ON STATE COMPLIANCE

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the accompanying financial statements of the Department of State and Related Boards and Commissions of the State of New Hampshire for the ten months ended April 30, 1996, and have issued our qualified report thereon dated August 16, 1996, which was qualified with respect to the accounting for general fixed assets and the lack of presentation of the financial position of the Department of State and Related Boards and Commissions.

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.

Compliance with state laws, regulations, and contracts applicable to the New Hampshire Department of State and Related Boards and Commissions is the responsibility of the managements of the Department of State and Related Boards and Commissions. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the New Hampshire Department of State and Related Boards and Commissions' compliance with certain provisions of laws, regulations and contracts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we have noted instances of noncompliance with laws and regulations, while not material to the financial statements, we believe to be worthy of report mention. Instances of noncompliance are referenced in the table on the following page.

STATE COMPLIANCE FINDINGS		
ORGANIZATION	OBSERVATION #	PAGES
Department of State	Observation Nos. 8-12	48 - 52
Real Estate Commission	Observation Nos. 19-21	62 - 63
Joint Board	Observation No. 28	71
Board of Accountancy	Observation Nos. 33-35	79 - 80
Real Estate Appraiser Board	Observation Nos. 41-43	87 - 88
Boxing and Wrestling Commission	Observation Nos. 47-50	93 - 95
Commission on The Status of Women	Observation No. 53	98

This report is intended for the information of the managements of the New Hampshire Department of State and Related Boards and Commissions and the Fiscal Committee of the General Court. However, this report is a matter of public record upon acceptance by the Fiscal Committee, and its distribution is not limited.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

August 16, 1996

AUDITOR'S REPORT ON MANAGEMENT ISSUES

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the accompanying financial statements of the Department of State and Related Boards and Commissions of the State of New Hampshire for the ten months ended April 30, 1996, and have issued our qualified report thereon dated August 16, 1996, which was qualified with respect to the accounting for general fixed assets and the lack of presentation of the financial position of the Department of State and Related Boards and Commissions.

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.

In planning and performing our audit of the financial statements of the New Hampshire Department of State and Related Boards and Commissions for the ten months ended April 30, 1996 we noted a certain issue related to the operation of the Department of State and Related Boards and Commissions that merits managements' consideration but does not meet the definition of a reportable condition as defined by the American Institute of Certified Public Accountants, and was not an issue of noncompliance with laws, regulations and contracts.

That issue that we believe is worthy of managements' consideration but does not meet the criteria of reportable conditions or noncompliance is referenced in the following table.

MANAGEMENT ISSUE		
ORGANIZATION	OBSERVATION #	PAGE
Real Estate Appraiser Board	Observation No. 44	89

This report is intended for the information of the managements of the New Hampshire Department of State and Related Boards and Commissions and the Fiscal Committee of the General Court. This restriction is not intended to limit the distribution of this report, which upon its acceptance by the Fiscal Committee, is a matter of public record.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

August 16, 1996

**DEPARTMENT OF STATE
INTERNAL CONTROL STRUCTURE
REPORTABLE CONDITIONS**

OBSERVATION NO. 1: CONTROLS OVER REVENUE PROCESSING

OBSERVATION:

During the ten months ended April 30, 1996, the Department of State collected approximately \$20 million of revenue. Revenue received by the Department of State is usually accompanied by an application or some other supporting document. The Department's business office records the revenue information (check number, amount and date received) on the accompanying document, forwards the document to the respective division or bureau, and records and deposits the revenue. When we tested the Department's revenue procedures we noted the following areas where the Department's controls over revenue processing could be improved.

- A. When revenue is received it is important to establish accountability by immediately recording it, so that the chances of it being lost or stolen without detection are lessened. This initial record of accountability should be compared to the deposit to ensure that all funds received are deposited. The Department does not prepare an initial Record of Daily Receipt (A-15) form until the day after the revenue is received.
- B. There is a lack of appropriate segregation of duties over the Department's processing of revenue. One individual is responsible for essentially all aspects of the revenue process including opening the mail, recording the check information on the accompanying documentation, having custody of the revenue via access to the safe, preparing the A-15, the deposit slip and the Cash Receipt (A-17) form and also entering the revenue data into the state accounting system (NHIFS).
- C. The Department does not perform any reconciliation between the revenue deposited by the business office and the amount of license and fee activity recorded by the Department's Corporate Division and Bureau of Securities Regulation. As a result, errors or irregularities that may occur in either the recording and depositing of revenue or in the Corporate Division's and Bureau of Securities' recording of license and fee activity may not be detected in a timely manner.

DEPARTMENT OF STATE (Continued)

OBSERVATION NO. 1: CONTROLS OVER REVENUE PROCESSING (Continued)

RECOMMENDATION:

The Department should strengthen its controls over revenue processing. Specifically, the Department should address the following.

- A. Revenue should be recorded on an A-15 immediately upon receipt.
- B. Duties over revenue processing should be segregated so that no one individual is in a position to commit and conceal errors or irregularities. A copy of the A-15 should be forwarded to an employee who does not have any revenue recording or custody duties for reconciliation to the respective bank deposit slip and A-17 document to ensure that all receipts are deposited. The original A-15 should go to the employee who is responsible for preparing the A-17 and for entering the information into the state accounting system (NHIFS). The revenue should go to another employee who would be responsible for preparing the deposit. In this way no one person has access to revenue and responsibility for recording it.
- C. The Department should perform a periodic reconciliation between the amount of revenue recorded and the amount of license and fee activity recorded to ensure that the revenue deposited agrees to the revenue generating transactions recorded by the Corporate Division and the Bureau of Securities Regulation.

AUDITEE RESPONSE:

- A. We will do our best to record revenue immediately on an A-15. Checks are stamped for deposit as soon as removed from envelope.
- B. A copy of the A-15 will be forwarded for reconciliation to an employee other than the preparer.
- C. We will perform a reconciliation between revenue and license activity.

DEPARTMENT OF STATE (Continued)

OBSERVATION NO. 2: UNTIMELY DEPOSIT AND RECORDING OF REVENUE

OBSERVATION:

In order to establish accountability for revenue and to reduce the chance of it being lost or stolen, revenue should be initially recorded immediately upon receipt and deposited as soon as it is processed. In addition, RSA 6:11, II states that if more than \$100 is in the possession of any department, such funds shall be on deposit in the department's bank account or Treasury's bank account. This Treasury statute is regarded as generally requiring daily deposits.

We tested the number of business days it took the Department to deposit revenue and to record the revenue in the state accounting system (NHIFS) for a sample of 50 revenue items. We observed that the Department did not consistently deposit and record revenue in a timely manner. We considered timely to be within two business days of receipt.

- Of the 50 sample revenue items tested, 11 or 22% were deposited from three to six business days after receipt.
- Of the 50 sample revenue items tested, 47 or 94% were recorded in NHIFS from three to 12 business days after receipt.

RECOMMENDATION:

In order to reduce the chance of revenue being lost or stolen and to allow for effective cash management, the Department should record revenue the day it is received and should deposit revenue in accordance with RSA 6:11, II.

AUDITEE RESPONSE:

At certain times of the year when corporate, securities or election filings are due it is difficult to have large deposits completed quickly. We do, however, recognize that some of the sample items were not deposited daily during times of the year when filings were not due. We have made changes to insure that all deposits will be made within 3 days during "crunch" times and daily during the rest of the year.

DEPARTMENT OF STATE (Continued)

OBSERVATION NO. 3: CONTROLS OVER EQUIPMENT

OBSERVATION:

During our audit we noted several problems related to the Department's control over its equipment. (The Department reported that it owned \$641,209 of equipment at April 30, 1996.)

- The Department does not conduct annual physical equipment inventories as required by the Department of Administrative Services, Division of Plant and Property Management's Technical Assistance Manual PTM 605.01(a).
- Documentation is not maintained to support the recorded cost of Department equipment.
- The Department does not consistently inventory and tag items of equipment upon receipt. Thus accountability for the equipment is not immediately established.

RECOMMENDATION:

In order to safeguard equipment and to ensure that it is properly recorded and reported, the Department should perform the following.

- The Department should perform an annual physical equipment inventory. Any differences between the inventory and the Department's records should be investigated and resolved by an employee who is not involved with the equipment count or the equipment recordkeeping. Any necessary adjustments to the records should be made and documented. Any items without identifying tags should be tagged immediately.
- Documentation supporting the cost of the equipment should be maintained for as long as the item remains with the Department.

AUDITEE RESPONSE:

We agree with the observation and recommendation. The cost of existing equipment purchased between 1960-1990 is unavailable to record. We will work with Administrative Services to estimate a value for this equipment.

DEPARTMENT OF STATE (Continued)

OBSERVATION NO. 4: REPORTING EQUIPMENT

OBSERVATION:

The Department reports equipment additions and deletions on a Monthly Equipment Adjustment Report (P-21) and reports its year-end equipment inventory on a Year-End Equipment Inventory Report (P-16). These forms are completed and submitted to the Department of Administrative Services for the Administrative Division and the Corporate Division, the Bureau of Securities Regulation and the Division of Records Management and Archives. There is no single listing for the entire Department.

When we reviewed the Department's P-16s and P-21s we noted the following.

- The combined Administrative and Corporate Divisions' P-16 was not clerically accurate. The balance reported was \$85,901 greater than the total of the individual items.
- The Division of Records Management and Archives' P-16 did not report the cost of the individually listed items. The P-16 only reported a total cost for the equipment inventory. While individual item costs are reported on P-21s, the file of P-21s is incomplete and therefore we could not test the appropriateness of the total recorded cost on the P-16.
- The Bureau of Securities Regulation's P-16 was not clerically accurate. The balance reported was \$63 greater than the total of the individual items. Fifty-two of the 163 items listed on the P-16 did not have a reported cost. The P-16 reporting the Bureau's equipment was not submitted to the Department of Administrative Services, apparently due to confusion over reporting responsibilities between the Bureau and the Department's business office.
- Twelve filing cabinets transferred from other organizations were included on a Division of Records Management and Archives' P-21 during the audit period but the P-21 did not include a reported cost for these items.

RECOMMENDATION:

The Department should report all required information for the Department on its P-16s and P-21s submitted to the Department of Administrative Services. The Department should review these documents prior to submission to ensure that they are complete and accurate.

DEPARTMENT OF STATE (Continued)

OBSERVATION NO. 4: REPORTING EQUIPMENT (Continued)

AUDITEE RESPONSE:

We agree with the observation and recommendation and will include the cost of future equipment purchased. Cost of current equipment 1960-1990 is unavailable. We will work with Administrative Services to estimate a cost of this equipment.

OBSERVATION NO. 5: CAPITAL LEASE

OBSERVATION:

Generally accepted accounting principles require that equipment purchased through a capital lease be recorded in inventory at the present value of the minimum lease payments. The Department purchased equipment through a capital lease and recorded the equipment at a cost of \$40,929. The present value of the minimum lease payments appears to be \$62,435 resulting in an understatement of equipment of \$21,506.

RECOMMENDATION:

The Department should record its capital leased assets at the present value of the minimum lease payments. These and all other significant calculations performed by the Department should be routinely reviewed and checked for accuracy.

AUDITEE RESPONSE:

We agree with the observation and recommendation and we will report capital leased assets at their proper value.

DEPARTMENT OF STATE (Continued)

OBSERVATION NO. 6: SEGREGATION OF DUTIES - EXPENDITURES

OBSERVATION:

The duties of authorizing transactions, recording transactions and maintaining custody of assets should be segregated so that no one employee is in a position to commit, either intentionally or unintentionally, errors or irregularities and also be responsible for the detection of those errors or irregularities. During our testing we noted the following instances where duties related to expenditures were not segregated.

- One individual is responsible for virtually all aspects of the payroll process. This individual prepares the Personnel Action Form (the form used to add and delete full and part-time employees and to make pay scale adjustments) and also enters information from the form into the state payroll system (GHRIS). (Although approved by management, the Personnel Action Form was returned to the preparer thus creating the opportunity for it to be inappropriately altered.) The same individual also enters the hours worked for part-time employees into GHRIS and distributes the paychecks to some Department employees.
- One individual is responsible for ordering and receiving all goods, preparing the applicable payment vouchers, and reconciling the payment vouchers to the state accounting system (NHIFIS) reports. Although approved by management, the payment vouchers are returned to the preparer for posting to NHIFIS creating the opportunity for the vouchers to be inappropriately altered.

RECOMMENDATION:

The Department's control structure over expenditures should be strengthened by properly segregating incompatible accounting duties. The duties for processing expenditures should be segregated so that one person is not in a position to commit and conceal errors or irregularities in the normal course of business.

AUDITEE RESPONSE:

PAF [Personnel Action Form] and payment voucher forms will be returned by management to someone other than the preparer.

DEPARTMENT OF STATE (Continued)

OBSERVATION NO. 7: CONTROLS OVER ELECTRONIC DATA PROCESSING (EDP)

OBSERVATION:

The Department of State operates two record-keeping computer systems. One system is used by the Corporate Division to record information pertaining to annual registrations. The other system is used by the Bureau of Securities Regulation to record securities licenses and registrations. Since neither the Division nor the Bureau uses its systems to record revenue, the two systems do not directly affect the Department's financial transactions. However, because the systems track the status of registrations and licenses and are used to send out renewal notices, the systems affect financial transactions indirectly.

We noted the following areas where controls over the systems could be enhanced.

- There are only limited controls in place to ensure that the information entered into the systems is appropriate and correct.
- Passwords are not utilized on the Bureau's system to ensure that only authorized personnel have access to the system.
- There are no manuals that document how the systems operate. The lack of comprehensive documentation could make for a difficult transition if key data processing personnel left the Department's employment.

RECOMMENDATION:

The Department should implement controls to ensure the integrity of the data entered into both systems. As noted in Observation No.1, the Department should perform periodic reconciliations between the license and fee information entered into its computer databases and revenue recorded in the state accounting system (NHIFS). These reconciliations will help detect errors in posting to either the computer systems or NHIFS.

Passwords should be used to protect the Bureau's system from unauthorized use. If the system does not support the use of passwords, the Department should consider whether there are other available controls to limit access to only authorized individuals.

All EDP systems should be documented to ensure continuity of operations in the event that key employees left the Department's employment.

DEPARTMENT OF STATE (Continued)

OBSERVATION NO. 7: CONTROLS OVER ELECTRONIC DATA PROCESSING (EDP)
(Continued)

AUDITEE RESPONSE:

The current computer systems need to be integrated to foster the goal of closer working relationships between corporations and securities. We intend to take steps to integrate the two systems. As a result of the prior audit of the bureau of securities, the financial functions of the bureau were segregated and placed in the main office. The bureau agrees with the recommendation and will schedule periodic reconciliation between databases and revenue and implement password protection of the network. The bureau will also create a set of instructions explaining procedures to access files and data from the computer system. The manufacturer's software documentation is available in the bureau files.

DEPARTMENT OF STATE STATE COMPLIANCE

OBSERVATION NO. 8: RELATED BOARDS AND COMMISSIONS

OBSERVATION:

Three boards and commissions are administratively attached by statute to the Department of State: the Real Estate Commission, per RSA 5:13-a; the Commission on the Status of Women, per RSA 19-B:9; and the Real Estate Appraiser Board per, RSA 5:13-b. The Department has no contact with the Real Estate Commission and the Real Estate Appraiser Board but provides office space and limited administrative support for the Commission on the Status of Women. The budgets of the three administratively attached organizations are submitted with the Department's budget.

Per RSA 5:13, the Ballot Law Commission, the Boxing and Wrestling Commission, the Board of Accountancy and the Joint Board of Professional Engineers, Architects, Land Surveyors, [Foresters] and Natural Scientists each function within the Department of State as a separate organizational entity. The Department has no involvement with the Board of Accountancy and the Joint Board of Professional Engineers, Architects, Land Surveyors, Foresters and Natural Scientists. The Department does provide limited administrative support for the Ballot Law Commission and the Boxing and Wrestling Commission. All four entities submit their budgets with the Department's budget.

The Board of Auctioneers and the Board of Claims, while not mentioned in the statutes as being either administratively attached or functioning within the Department of State, as a practical matter operate as part of the Department. Their budgets are included as a part of the Department's budget.

The responsibilities between the Department of State and Related Boards and Commissions are unclear and are not consistently applied. The services provided to the boards and commissions vary even though the relationships are ostensibly the same. In addition, RSA 5:15 requires the secretary of state to prescribe uniform procedures for all secretarial and recording activities of the boards and commissions within the Department. To date, no procedures have been prescribed.

RECOMMENDATION:

The Department should seek to clarify the relationships between the Department and its related boards and commissions in order to establish responsibilities that are clear and consistent.

The Department should prescribe the uniform procedures for all secretarial and recording activities of the boards and commissions within the Department in accordance with RSA 5:15.

DEPARTMENT OF STATE (Continued)

OBSERVATION NO. 8: RELATED BOARDS AND COMMISSIONS (Continued)

AUDITEE RESPONSE:

We have tried to clarify the relationship in the past and will work with our business supervisor to establish uniform record keeping practices. We will also ask the Attorney General's office for clarification of the terminology of RSA 5:13 and 15.

OBSERVATION NO. 9: ADMINISTRATIVE RULES

OBSERVATIONS:

In reviewing the Department's administrative rules, we noted the following instances where the Department needs to readopt, clarify and/or adopt rules.

- A. RSAs 5:30, 5:31 and 5:40, require the director of the Division of Records Management and Archives, subject to the approval of the secretary of state, to establish standards, procedures and techniques for effective management of records, to adopt rules governing the records center and to establish a manual of uniform rules necessary to carry out the duties assigned to the Division.

Rules were adopted in 1982 and amended in 1984 pursuant to RSA 541-A relative to the Division of Records Management and Archives. The rules have since expired and have not been readopted.

- B. As we noted in our last audit, the Department's administrative rules relative to licensing an investment advisor, N.H. Admin. Rules, Atg-Se 307.02, state that an applicant must successfully complete all examinations required by N.H. Admin. Rules, Atg-Se 308, before the applicant is able to receive a license as an investment advisor. However, N.H. Admin. Rules, Atg-Se 308, do not mention any examinations required for a license as an investment advisor.
- C. As we noted in our last audit, RSA 598-A:4 requires the Department to adopt rules in accordance with RSA 541-A by which bail bondsmen shall be governed. The Department has not adopted the rules required by RSA 598-A:4.

DEPARTMENT OF STATE (Continued)

OBSERVATION NO. 9: ADMINISTRATIVE RULES (Continued)

RECOMMENDATIONS:

- A. The Department should readopt rules relative to the Division of Records Management and Archives to comply with RSAs 5:30, 5:31 and 5:40.
- B. The Department should clarify the references to examinations in N.H. Admin. Rules, Atg-Se 307.02 and 308.
- C. The Department should adopt rules governing bail bondsmen to comply with RSA 598-A:4.

AUDITEE RESPONSE:

- A. The new rules have been submitted and will be effective in May.
- B. RSA 421-B:26-a provides that RSA 541-A does not apply to Chapter 421-B. The department has requested an opinion of the attorney general on this matter. Should it be found that RSA 541-A does not apply to the securities statutes, the bureau will promulgate new rules that include this correction. If it is found that the administrative rules procedures do apply, the department will initiate procedures through the administrative rules process.
- C. The issue of bail bondsman rules arises because of an oversight in the legislation transferring the securities function to the Department of State. Since there are only 12 bail bondsmen in the state, we will comply in the most cost effective manner and in consultation with the legislature.

OBSERVATION NO. 10: REQUIRED EXAMINATIONS OF ISSUER-DEALERS

OBSERVATION:

RSA 421-B:9 requires the Department to examine each domestic broker-dealer or issuer-dealer and domestic branches of foreign broker-dealers or issuer-dealers at least once every four years. RSA 421-B:9, VII provides for the broker-dealer or other person examined pursuant to the section to bear the cost of the examination. However, domestic issuer-dealers are exempted by RSA 421-B:9, VII from bearing the cost of the examinations. The Bureau of Securities Regulation reports that because it cannot charge the issuer-dealers, examinations of issuer-dealers are not currently being performed.

DEPARTMENT OF STATE (Continued)

OBSERVATION NO. 10: REQUIRED EXAMINATIONS OF ISSUER-DEALERS (Continued)

RECOMMENDATION:

The Department should examine issuer-dealers in accordance with the statute.

AUDITEE RESPONSE:

Through restructuring of the bureau staff, the examination of issuer-dealers has begun and will be done to comply with RSA 421-B:9.

OBSERVATION NO. 11: ANNUAL FINANCIAL STATEMENTS

OBSERVATION:

RSA 421-B:15, II-a requires corporations and partnerships having securities registered in the state to file an audited annual financial statement with the secretary of state within 90 days of the close of its fiscal year and also to file interim reports, quarterly financial statements or, in the case of mutual funds, semi-annual financial statements within 60 days of the close of each interim period.

During testing we sampled seven securities registered in the state which were subject to the reporting requirements. Two of the sample of seven did not file annual or interim financial reports and another two did not file at least one of the required interim financial reports.

RECOMMENDATION:

The Department should ensure and evidence that corporations and partnerships file required reports in accordance with the RSA.

AUDITEE RESPONSE:

The issue with both the interim and the annual financial statements is twofold. First, there is insufficient staff time to adequately follow up on delinquent filings. Second, there is no penalty associated with late filing or lapsed filing of the statements. The department will recommend to the legislature that a \$25 per day penalty be imposed on late filings. This fee corresponds to similar late fees for other reports within the bureau purview. Our experience shows that, once a penalty is imposed, compliance is vastly improved. Thus, staff time on follow up of delinquent accounts will be minimized.

DEPARTMENT OF STATE (Continued)

OBSERVATION NO. 12: BOARD OF AUCTIONEERS - ADMINISTRATIVE RULES

OBSERVATION:

According to RSA 311-B:3, the Board of Auctioneers, with the approval of the secretary of state, shall adopt rules, pursuant to RSA 541-A, relative to, among other things:

- ethical and professional standards required to be met by each holder of an auctioneer's license and how disciplinary actions by the Board shall be implemented for violations of these standards, and
- procedures for the conduct of hearings consistent with the requirements of due process.

Administrative rules for these two areas have not been adopted.

RECOMMENDATION:

The Board should adopt the above mentioned rules.

AUDITEE RESPONSE:

We agree with the observation and recommendation. The board is currently involved in the official rulemaking process to expand the rules.

**REAL ESTATE COMMISSION
INTERNAL CONTROL STRUCTURE
REPORTABLE CONDITIONS**

OBSERVATION NO. 13: REVENUE - SEGREGATION OF DUTIES

OBSERVATION:

There is a lack of proper segregation of duties in the Real Estate Commission's revenue process. Although three people are involved in the revenue receipt, deposit preparation, and revenue recording process, the assigned duties of these individuals are not sufficiently segregated to promote the detection of intentional or unintentional errors or irregularities that might occur.

- The first Commission employee in the revenue process accepts cash receipts and also opens the mail. Although Receipts For Cash (A-14) documents are issued and a cash listing is prepared by this individual, the A-14 documents are not numerically controlled and the checks are not restrictively endorsed or listed on a Record of Daily Cash Receipts (A-15) document by this individual.
- The cash and checks are forwarded to a second employee who prepares the A-15 document, which is the first complete listing of all receipts.
- A third employee endorses the checks, prepares the deposit, prepares the Cash Receipt (A-17) document, makes the deposit at the bank, records the revenue in the state accounting system (NHIFS), and reconciles the A-17 documents to NHIFS on a periodic basis.

RECOMMENDATION:

The Commission should review its assignment of responsibilities for revenue processing to ensure that duties are properly segregated to provide for an appropriate level of controls. The Commission could improve the effectiveness of its internal control structure over revenue processing by properly segregating the following responsibilities.

- The sequence of the control copy of the A-14 documents should be numerically controlled and periodically reviewed to ensure that all cash receipts are accounted for.
- The initial recording of revenue, the A-15 document, should be completed by the employee who first receives cash and checks, either in person or through opening the mail. A copy of this initial recording should be given directly to the individual responsible for approving the A-17 document. All checks should be restrictively endorsed upon receipt.

REAL ESTATE COMMISSION (Continued)

OBSERVATION NO. 13: REVENUE - SEGREGATION OF DUTIES (Continued)

RECOMMENDATION (Continued):

- The A-15 document should be used to prepare the A-17 document and the accumulated receipts should be independently prepared into a deposit.
- An employee in a review position should compare and agree the deposit to the A-17 document and the control copy of the A-15 document to ensure that all amounts collected by the Commission are ultimately deposited and credited to the proper account.

AUDITEE RESPONSE:

The Commission has taken this observation very seriously and has moved to establish a more effective level of internal controls. We have implemented your suggestion of segregating responsibilities in this manner: Currently, the staff member who opens the mail and receives the cash and checks immediately endorses the checks and then records the checks and cash receipts on the A-15 form. The cash and checks are then given to the Counter Clerk II to deposit at the bank, and the A-15 form is given to the Account Clerk III to prepare the A-17 form. Both the A-17 form and the deposit slip are then given to the Executive Secretary for verification. The Administrative Assistant then records the revenue on the NHIFS System. Also, the Administrative Assistant will periodically review the A-14 documents to ensure that they are numerically controlled.

OBSERVATION NO. 14: UNTIMELY RECORDING OF REVENUE

OBSERVATION:

We tested a sample of ten licenses to determine whether license fees were recorded promptly by the Real Estate Commission in the state accounting system (NHIFS). Three of eleven payments received from the sample of ten licenses were not recorded in NHIFS by the Commission in a timely manner. We considered timely to be three business days. These three amounts were recorded in NHIFS four, six, and eight days after receipt by the Commission.

RECOMMENDATION:

The Commission should review its revenue recording procedures to ensure that revenue is being recorded in NHIFS as quickly as possible to strengthen its controls over revenue and to assist in state cash management practices.

REAL ESTATE COMMISSION (Continued)

OBSERVATION NO. 14: UNTIMELY RECORDING OF REVENUE (Continued)

AUDITEE RESPONSE:

Our past Account Clerk was in the habit of holding payments for days before recording them in NHIFS. Currently, our office staff has been recording payments onto NHIFS within two to three business days after receipt.

OBSERVATION NO. 15: EXPENDITURE PROCESSING

OBSERVATION:

In our prior audit of the Real Estate Commission, we noted that the Personnel Action Forms (PAF) and payment vouchers (PV) were returned after approval to the preparer of the documents for further processing. Returning an approved document to the original preparer for further processing is generally regarded as a weakness in internal control practices.

During our current audit work, we noted that the Commission continues to return approved PAF and PV documents to the preparers.

RECOMMENDATION:

The Commission should ensure that documents are not returned to the preparer but instead are forwarded to the intended destination by an individual who has no duties related to the document's preparation.

AUDITEE RESPONSE:

We understand the problems associated with returning an approved document to the person who originally prepared it, and we have put a stop to this practice. Now, our Administrative Assistant prepares all of the personnel forms, including the Personnel Action Forms, and then submits them to the Executive Director, who approves them and then gives them to our Account Clerk III to be entered in the GHRS system. The Account Clerk III is responsible for preparing the payment vouchers and submitting them to the Executive Director to be approved and then given to the Administrative Assistant to be entered into the NHIFS system.

REAL ESTATE COMMISSION (Continued)

OBSERVATION NO. 16: ACCOUNTING FOR EQUIPMENT

OBSERVATION:

The Department of Administrative Services (DAS) issues directives to all state organizations regarding how the organizations should account for state-owned equipment. The directives define equipment as items with an original cost of \$100 or more and a useful life of more than one year. Organizations are required by DAS to submit Monthly Equipment Adjustment Reports (P-21) and to maintain and annually submit copies of a complete Year-End Equipment Inventory Report (P-16). The following issues were noted when we tested the equipment records of the Real Estate Commission.

- The Commission's P-16 incorrectly included 23 items with a cost of less than \$100 which does not meet the DAS definition of equipment.
- Thirty items on the Commission's P-16 report did not have costs included.
- Two computer printers purchased during the audit period were not issued equipment inventory tags and were not recorded on a P-21 report.
- We were unable to specifically identify two of ten sample items (20%) selected for testing, as the equipment listing was not sufficiently descriptive to allow for identification.
- The Commission does not maintain documentation to support the recorded cost of equipment. (The Commission reported that it owned \$49,749 of equipment at April 30, 1996.)

RECOMMENDATION:

The Commission should take steps to improve its accounting for equipment.

- Only items of equipment that meet the DAS definition of equipment should be included on the Commission's P-16 report.
- All items included on the P-16 report should have a recorded cost. The Commission should research the cost of the items on the P-16 report that currently do not have a recorded cost.
- All equipment items should be identified with an inventory tag and should be included on the equipment records. New equipment should be reported on the monthly P-21 reports.
- The P-16 report should include a sufficient description to specifically identify each item of equipment included on the list.

REAL ESTATE COMMISSION (Continued)

OBSERVATION NO. 16: ACCOUNTING FOR EQUIPMENT (Continued)

RECOMMENDATION (Continued):

- The Commission should maintain supporting documentation for the recorded cost of equipment for as long as the equipment is held by the Commission.

AUDITEE RESPONSE:

Currently our Account Clerk III is working with the Department of Administrative Services to insure that we are completing the required forms correctly (P-16's and P-21's), that we maintain supporting documentation for the recorded cost of equipment, and that we are operating in line with all of the other appropriate Administrative Services directives.

OBSERVATION NO. 17: ANNUAL EQUIPMENT INVENTORY

OBSERVATION:

The Real Estate Commission performs an annual equipment inventory as required by the Department of Administrative Services, Division of Plant and Property Management's Technical Assistance Manual PTM 605.01(a). However, the inventory procedures used by the Commission do not provide the optimal control over the inventory process.

- The inventory observation and count is performed by the same individual who is also responsible for maintaining the inventory records. Having a person otherwise independent of the equipment inventory perform the annual inventory observation and count would provide for a more controlled inventory.
- The inventory observation and count is performed by comparing the list of equipment to the equipment in the Commission office. A more effective inventory procedure is to prepare a list of equipment based on the equipment in the Commission office and then to compare the list of equipment observed to the equipment records. A final step of the process is to resolve any differences between the observed equipment and the equipment records.

REAL ESTATE COMMISSION (Continued)

OBSERVATION NO. 17: ANNUAL EQUIPMENT INVENTORY (Continued)

RECOMMENDATION:

The Commission should revise its equipment inventory procedures to provide for a more controlled annual equipment inventory observation and count. A person otherwise independent of the equipment inventory should perform the annual inventory observation and count. The observation and count should be performed without reference to the inventory records. The results of the count should be reconciled to the records with all differences resolved.

AUDITEE RESPONSE:

In the past, both the actual equipment inventory and the inventory records were handled by our Account Clerk. In the future our Account Clerk will continue to maintain the records, but the actual annual observation and count will be performed by our Counter Clerk III. S/he will perform the inventory based on the equipment actually observed in the office, and then compare the results with past inventory records.

OBSERVATION NO. 18: DOCUMENTATION OF COMPUTER SYSTEMS

OBSERVATION:

The Real Estate Commission utilizes a computer system for database and spreadsheet applications. It is used primarily to update license information and to generate Record of Daily Cash Receipts (A-15) documents.

The Commission does not maintain procedure manuals or other documentation to support its computer operations. The Commission relies on the software vendor to maintain documentation of the system.

RECOMMENDATION:

The Commission should maintain documentation of its computer applications to ensure continuity of operations in the event of employee turnover or lack of support from the vendor.

REAL ESTATE COMMISSION (Continued)

OBSERVATION NO. 18: DOCUMENTATION OF COMPUTER SYSTEMS (Continued)

AUDITEE RESPONSE:

Even though we will (hopefully) be able to purchase a new computer system over the next biennium, we will be using the old system until we can get the new one on line. We will develop system documentation to support the old system during this interim period, and we will make certain that the new system is supported with adequate documentation as well.

REAL ESTATE COMMISSION STATE COMPLIANCE

OBSERVATION NO. 19: ADMINISTRATIVE RULES

OBSERVATION:

RSA 331-A:25, effective January 1, 1994, requires the Real Estate Commission to adopt a number of rules relative to the operation of the Commission. The following rules required by RSA 331-A:25 have not been adopted by the Commission.

- RSA 331-A:25, IV requires the Commission to adopt rules relative to fees charged by the Commission. The Commission charges a \$50 late renewal penalty fee, however the Commission has not adopted a rule relative to the late renewal penalty fee. Other fees charged by the Commission are covered by rules.
- RSA 331-A:25, VII requires the Commission to adopt rules relative to the form of license certificates and cards.

RECOMMENDATION:

The Commission should adopt rules as required by statute.

AUDITEE RESPONSE:

The Commission has already begun working on administrative rules which would formally establish a \$50.00 license renewal late fee, and describe the form of the license and pocket cards. We have already gotten the renewal late fee and some other proposed rules on the Rulemaking Register, and had a public hearing at the Commission meeting on January 21, 1997.

OBSERVATION NO. 20: ETHICS CODE

OBSERVATION:

RSAs 331-A:9 and 331-A:25, XII, effective January 1, 1994, require the Commission to adopt by rule under RSA 541-A an ethics code for commissioners and Commission employees. As of August 16, 1996, the Commission has not adopted an ethics code.

REAL ESTATE COMMISSION (Continued)

OBSERVATION NO. 20: ETHICS CODE (Continued)

RECOMMENDATION:

The Commission should adopt an ethics code as required by the statute.

AUDITEE RESPONSE:

To satisfy the requirements of the statute and adopt a code of ethics into our administrative rules, we had a public hearing on this matter on January 21, 1997, and are moving toward completion of the rulemaking process as soon as possible.

OBSERVATION NO. 21: BIENNIAL REPORT

OBSERVATION:

RSA 331-A:5, IX requires the Real Estate Commission to file a biennial report by September 1st of each odd-numbered year. The most recent biennial report submitted by the Commission was dated November 1, 1994.

RECOMMENDATION:

The Commission should submit a biennial report as required by statute.

AUDITEE RESPONSE:

The statute used to require a report by September 1st of each even numbered year, but in January 1994, the statute was changed to require the report on odd numbered years. The Commission didn't realize that the change had been made until the auditors brought it to our attention. The report will be submitted in a timely manner on the correct year in the future.

REAL ESTATE COMMISSION CURRENT STATUS OF PRIOR REPORT FINDINGS

The following is a listing of observations related to the Real Estate Commission contained in the audit report of *State Boards and Commissions For The Year Ended June 30, 1985*, dated March 5, 1986. Along with the listing is the August 16, 1996 status of these observations. 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.

STATUS

REPORTABLE CONDITIONS

- | | |
|--|-------|
| ● SEGREGATION OF DUTIES - PAYROLL | ● ● ● |
| ● SEGREGATION OF DUTIES - EXPENDITURES
(See Current Observation No. 15) | ● ● ○ |
| ● MISSING AND INCOMPLETE SOURCE DOCUMENTATION | ● ● ● |

STATE COMPLIANCE

- | | |
|---|-------|
| ● EQUIPMENT RECORDS
(See Current Observation No. 17) | ○ ○ ○ |
| ● COMMISSIONS DECISIONS NOT SIGNED AND
COMMUNICATED TIMELY | ● ● ● |

STATUS KEY

Fully resolved	● ● ●
Partially resolved	● ● ○
Unresolved	○ ○ ○

**JOINT BOARD OF PROFESSIONAL ENGINEERS, ARCHITECTS,
LAND SURVEYORS, FORESTERS AND NATURAL SCIENTISTS
INTERNAL CONTROL STRUCTURE
REPORTABLE CONDITIONS**

OBSERVATION NO. 22: REVENUE - SEGREGATION OF DUTIES

OBSERVATION:

There is a lack of appropriate segregation of duties over the Joint Board's processing of revenue. One person is responsible for the incompatible functions of opening the mail, recording revenue in a ledger, recording revenue in the state accounting system (NHIFS), and for preparing and holding the deposit until it is sent to Treasury.

RECOMMENDATION:

The Board should segregate the duties over revenue receipt processing so that no one individual is in a position to commit and conceal errors or irregularities in the normal course of business.

AUDITEE RESPONSE:

Duties of authorizing transactions, recording transactions and maintaining custody of assets have been segregated at the Joint Board. Incoming mail is opened by the Account Clerk II who then inputs the data into a Microsoft Excel spreadsheet. The Account Clerk II then prepares daily calculator tapes as well as a total of the data input to the Microsoft Excel spreadsheet. The revenue and supporting data is then given to the Secretary II who reconciles the tape with the revenue and prepares the cash receipt document and attaches supporting data. The Board Administrator reviews the cash receipt and supporting documentation prior to approval. The Secretary II inputs the deposit data into the NHIFS system.

OBSERVATION NO. 23: UNTIMELY DEPOSIT AND RECORDING OF REVENUE

OBSERVATION:

In order to establish accountability for revenue and to reduce the chance of it being lost or stolen, revenue should be initially recorded immediately upon receipt and deposited as soon as it is processed. In addition, RSA 6:11, II states that if more than \$100 is in the possession of any department, such funds shall be on deposit in the department's or Treasury's bank account. This statute is regarded as generally requiring daily deposits.

JOINT BOARD (Continued)

OBSERVATION NO. 23: UNTIMELY DEPOSIT AND RECORDING OF REVENUE (Continued)

OBSERVATION (Continued):

We tested a sample of 18 revenue items for the Joint Board and noted the following.

- In three out of the 18 (17%) items tested, revenue was not initially recorded on the day it was received, but was recorded the day after receipt.
- In each of the 18 (100%) items tested, the revenue was not deposited and recorded in the state accounting system (NHIFS) in a timely manner. The number of days elapsed between the receipt of revenue and its subsequent deposit and posting in NHIFS ranged between four to 20 days.

RECOMMENDATION:

In order to reduce the chance of revenue being lost or stolen and to allow for effective cash management, the Board should record revenue the day it is received and should deposit revenue daily in accordance with RSA 6:11, II.

AUDITEE RESPONSE:

In order to comply with RSA 6:11 the Joint Board is currently recording revenue as soon as it is received and making deposits on a daily basis.

OBSERVATION NO. 24: CONTROLS OVER REVENUE PROCESSING

OBSERVATION:

In the course of testing revenue we noted the following areas where internal controls over the Joint Board's revenue processing could be improved.

- Cash Receipt (A-17) documents are prepared by the account clerk II and forwarded to the board administrator for approval. Supporting information does not accompany the A-17 document, thus the board administrator approves the A-17 without reviewing the supporting information. Without review of the supporting information, the board administrator could approve A-17 documents in error.

JOINT BOARD (Continued)

OBSERVATION NO. 24: CONTROLS OVER REVENUE PROCESSING (Continued)

OBSERVATION (Continued):

- A prenumbered Receipt For Cash (A-14) form should be issued when cash is received by the Board in order to provide controls over the receiving and depositing of cash. We observed that the Board does not issue A-14 forms when cash is received.

RECOMMENDATION:

- The board administrator should review the information supporting A-17 documents prior to their approval. To provide additional control over the Board's revenue, the Board should periodically compare the amount of revenue received per the state accounting system (NHIFS) to the amount of revenue that should have been received based on the number of licenses issued. This periodic comparison of actual recorded revenue to expected revenue would act as a control over both the revenue process and the electronic filing system used to track the number of licenses issued.
- Prenumbered Receipt For Cash (A-14) forms should be issued when cash is received. The numeric sequence of issued A-14 forms should be monitored to ensure all cash received by the Board is recorded and deposited.

AUDITEE RESPONSE:

Prenumbered cash receipt forms are currently being used and monitored to ensure that all cash received is recorded and deposited. Incoming revenue is documented by the Account Clerk II by preparing daily calculator tapes as well as a total being determined upon input of the data into the Microsoft Excel spreadsheet. The revenue and supporting data is then given to the Secretary II who reconciles the tape with the revenue and prepares the cash receipt document and attaches supporting data. The Board Administrator reviews the cash receipt and supporting documentation prior to approval. A reasonableness test would not adequately determine if all revenues are being accounted for because licenses are not immediately issued upon receipt of the application fee.

JOINT BOARD (Continued)

OBSERVATION NO. 25: EXPENDITURES - SEGREGATION OF DUTIES

OBSERVATION:

The duties of authorizing transactions, recording transactions and maintaining custody of assets should be segregated so that one person is not in a position to commit and conceal errors or irregularities in the normal course of business. During our testing we noted the following instances where duties related to the Board's expenditure process were not properly segregated.

- Approved payment vouchers are returned to the preparer creating the opportunity for inappropriate alterations by the preparer subsequent to their approval.
- Payroll checks and per-diem checks are returned for disbursement to the employee who prepared the payroll reports which generate the checks.
- The employee who enters expenditure information into the state accounting system (NHIFS) has both entry and approval authority and therefore is responsible for approving his/her own work.

RECOMMENDATION:

- The Board should segregate the expenditure duties. Payment vouchers, payroll checks, and per-diem checks should not be returned or delivered to the employee who was initially involved in their generation.
- Employees should not approve their own work in NHIFS. A second employee should have the approval authority and the approval should be applied after the accuracy of the entered data has been checked.

AUDITEE RESPONSE:

Duties concerning expenditures have been segregated at the Joint Board. The Board Administrator picks up the per-diem and payroll checks at Treasury. The Secretary II who has not been involved in the check generation sends out the per-diem checks and distributes the payroll checks. The Account Clerk II no longer has final approval authority and does not approve her own work in NHIFS. The Board Administrator puts all final approvals on expenditures and payroll activities in the NHIFS system.

JOINT BOARD (Continued)

OBSERVATION NO. 26: EQUIPMENT

OBSERVATIONS:

According to state accounting policy, items of equipment that have an original cost of \$100 or more and a useful life of greater than one year are considered to be fixed assets and are required to be inventoried and reported annually in the state's accounting records. Equipment is reported at historical cost or, if donated, at the estimated fair market value at the time of donation. The Board reported that it owned \$33,428 of equipment at April 30, 1996.

- Equipment owned by the Joint Board should be identified with a number-controlled state equipment tag. The use of numeric equipment identification tags helps provide accountability and control over the equipment inventory. Not all of the equipment items at the Board had identification tags. In a sample of six items tested, two equipment items (33%) did not have tags.
- The Department of Administrative Services (DAS) requires all state government organizations, including the Board, to file Monthly Equipment Adjustment (P-21) forms. The Board did not file P-21 forms with DAS during the ten month audit period. During this period, the Board added \$20,442 of equipment.
- The Board does not maintain documentation to support the recorded cost of its equipment purchased prior to August 1995, therefore we could not test to determine if the equipment value was recorded correctly. (The Board reported that \$12,986 of its equipment had been purchased prior to August 1995.)
- The Board included approximately \$1,000 of items that cost less than \$100 each in its equipment inventory. Because these items did not meet the DAS definition of equipment, they should not have been reported as equipment.

RECOMMENDATIONS:

- The Board should tag all equipment items with number-controlled state equipment tags.
- The Board should file P-21 forms monthly regardless of whether there are changes in the Board's equipment inventory.
- Documentation for the cost of equipment should be maintained for as long as the Board maintains possession of the equipment.
- Only items that meet DAS's definition of equipment should be reported in the equipment inventory.

JOINT BOARD (Continued)

OBSERVATION NO. 26: EQUIPMENT (Continued)

AUDITEE RESPONSE:

All relevant equipment items have been tagged with number controlled state equipment tags. The attached equipment inventory has been updated. Items that cost less than \$100 that were on the previous equipment inventory have been deleted. The Board has and will continue to maintain documentation to support the recorded cost of all new equipment since I became Board Administrator in August of 1995. I cannot speak to past document retention methods. P-21's will be filed monthly.

OBSERVATION NO. 27: PER-DIEM PAYMENTS

OBSERVATION:

Members of the Board of Professional Engineers, the Board of Architects, and the Board of Land Surveyors are provided a \$25 per-diem for time spent on Board activity. We tested per-diem payments made to Board members for the months of July and August 1995 to determine whether there was documentation supporting the payments.

Twenty-two per-diem payments were made to members of the Board of Professional Engineers and the Board of Land Surveyors during this two month period. Seven payments totaling \$175 to members of the Board of Land Surveyors could not be traced to any supporting documentation such as mileage reimbursement forms or records of attendance at Board meetings. Because the Board could not provide supporting documentation for these expenditures, we could not determine if the payments were proper.

RECOMMENDATION:

Board expenditures, including per-diem payments, should not be approved for payment unless they are adequately supported by appropriate documentation indicating that the payment is proper in amount and payee.

AUDITEE RESPONSE:

The Board has instituted a per-diem request form that all Board members who receive per-diem payments are required to complete and sign in order to provide appropriate documentation for per-diem payments. The Board Administrator has to sign and approve the per-diem request form to indicate that the payment is proper in amount and payee.

JOINT BOARD STATE COMPLIANCE

OBSERVATION NO. 28: CREDITING BOARD REVENUE - ARCHITECTS FUND

OBSERVATION:

RSA 310-A:8, effective July 1, 1981, states that the revenue received by the Board of Professional Engineers shall be turned over to the state treasurer and the compensation for Board employees and the reasonable expenses of the Board shall be paid from the funds of the Board.

RSA 310-A:34, effective July 1, 1981, states that the revenue received by the Board of Architects shall be turned over to the state treasurer where it shall be kept in a separate fund known as the Architects Fund. The RSA states that the Fund shall be kept separate and apart from other money in the treasury and shall be disbursed only for the activities of the Board and that all moneys in the Fund are specifically appropriated for the use of the Board.

The state operating budgets since fiscal year 1982 have considered the revenue collected by the Board of Professional Engineers and the Board of Architects to be unrestricted General Fund revenue and have not been used to pay the expenses of either board. However, the above mentioned statutes have not been amended or repealed to reflect the current status of the recording of this revenue.

RECOMMENDATION:

The Boards should submit requests for legislation to amend RSA 310-A:8 and RSA 310-A:34 to reflect the historical and current treatment of these certain revenues and to remove the requirement for the unused Architects Fund.

AUDITEE RESPONSE:

The Board of Licensure for Architects has submitted House Bill 535 which addresses housekeeping matters which require revisions in their statute. Among the changes proposed, the Board intends to eliminate the language in RSA 310-A:34 to remove the requirement for the unused Architects Fund and to amend the current statute to comply with current budgetary guidelines. The Professional Engineers Board is considering proposing minor changes to their statute and will consider the recommendation to amend RSA 310-A:8. The five Boards under the umbrella of the Joint Board comply with the current status of the state operating budget.

**JOINT BOARD
CURRENT STATUS OF PRIOR REPORT FINDINGS**

The following is a listing of observations related to the Joint Board contained in the audit report of *Selected Boards and Commissions For The 18 Months Ended December 31, 1985*, dated May 5, 1986. Along with the listing is the August 16, 1996 status of these observations. 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.

STATUS

REPORTABLE CONDITION

- MISSING AND INCOMPLETE SOURCE DOCUMENTATION ● ● ○
(See Current Observation No. 27)

STATE COMPLIANCE

- EQUIPMENT RECORDS ○ ○ ○
(See Current Observation No. 26)

STATUS KEY

Fully resolved	● ● ●
Partially resolved	● ● ○
Unresolved	○ ○ ○

**BOARD OF ACCOUNTANCY
INTERNAL CONTROL STRUCTURE
REPORTABLE CONDITIONS**

OBSERVATION NO. 29: UNTIMELY DEPOSIT AND RECORDING OF REVENUE

OBSERVATION:

In order to establish accountability for revenue and to reduce the chance of it being lost or stolen, revenue should be initially recorded immediately upon receipt and deposited as soon as it is processed. Revenue should be immediately recorded on a Record of Daily Cash Receipts (A-15) form to establish an initial record of accountability and checks should be restrictively endorsed upon receipt so they cannot be negotiated to someone else's benefit. Revenue should be recorded on a Cash Receipts (A-17) document timely and deposited as soon as possible to reduce the chances that it could be lost or stolen and to provide for proper cash management. In addition, RSA 6:11, II states that if more than \$100 is in the possession of any department, such funds shall be on deposit in the department's or Treasury's bank account. This statute is regarded as generally requiring daily deposits.

When we reviewed the Board of Accountancy's revenue process, we noted that the Board does not process revenue in accordance with these internal control procedures. The Board does not restrictively endorse checks and post receipts to A-15 forms at the time of receipt. Also, revenue is not always deposited timely. When revenue is received it is placed in an unlocked desk drawer where, based on our tests as noted below, it remains up to three weeks. The checks are endorsed and the A-15 form and A-17 document are prepared when the Board deposits the revenue.

Our test of a sample of 16 revenue items revealed the following.

- One of the 16 checks (6%) had yet to be processed by the Board even though the check had been received by the Board 23 days earlier. At the time of our test, the check was not restrictively endorsed or recorded on an A-15 form or an A-17 document, and was being held awaiting processing in an unlocked desk drawer.
- Ten of the other 15 checks (67%) were also not recorded on an A-15 form in a timely manner. The number of business days between the date the checks were received and the date they were recorded on an A-15 form ranged from two to 14 days with the average being five days.
- The A-15 forms on which four of the 15 checks (27%) were recorded were not dated, therefore we could not determine the timeliness of the recording of the checks.
- Fourteen of 15 checks (93%) were not recorded on an A-17 document in a timely manner. The number of business days between the date the checks were received and the date they were recorded on an A-17 document ranged from two to 16 days with the average being six days.

BOARD OF ACCOUNTANCY (Continued)

OBSERVATION NO. 29: UNTIMELY DEPOSIT AND RECORDING OF REVENUE (Continued)

RECOMMENDATION:

The Board should take steps to improve its controls over the revenue process. Revenue should be recorded on a dated A-15 form and all checks should be restrictively endorsed immediately upon receipt. Revenue should be recorded and deposited daily in accordance with RSA 6:11.

AUDITEE RESPONSE:

This agency has taken the necessary steps to insure that the deposits are made in accordance with RSA 6:11. All checks are immediately restrictively endorsed and recorded on an A-15 which is dated.

OBSERVATION NO. 30: CONTROLS OVER EQUIPMENT

OBSERVATIONS:

According to state accounting policy, items of equipment that have an original cost of \$100 or more and a useful life of greater than one year are considered to be fixed assets and are required to be inventoried and reported annually in the state's accounting records. Proper internal control procedures require that each item of equipment be identified with a numerically controlled inventory tag that identifies the equipment as state owned. Equipment is reported at historical cost or, if donated, at the estimated fair market value at the time of donation. (The Board reported that it owned \$11,416 of equipment at April 30, 1996.)

The following issues were noted when we tested Board of Accountancy equipment.

- A. Equipment at the Board is not identified with equipment inventory control tags. Also, a desk and painting donated to the Board and two cabinets purchased for \$255 each were not included in the Board's equipment inventory.
- B. The Board does not maintain documentation to support the recorded cost of its equipment. We noted that there was no documentation to support seven of the nine (78%) items of equipment tested including a Sperry computer with a recorded cost of \$3,985 and six filing cabinets with a recorded cost of \$1,364.

BOARD OF ACCOUNTANCY (Continued)

OBSERVATION NO. 30: CONTROLS OVER EQUIPMENT (Continued)

OBSERVATIONS (Continued):

- C. We could not locate a Mita copier, listed on the equipment inventory (P-16) form at a cost of \$1,500, in the Board office. The Board indicated that the copier had been surplused and provided an undated P-11 form, the form used to surplus equipment with the Department of Administrative Services Bureau of Purchase & Property. We tried to confirm that the copier was surplused with the Bureau but they could not find any paperwork to document the transaction.

RECOMMENDATIONS:

- A. All Board equipment that meets the state's definition of fixed assets, including donated items, should be listed on the equipment inventory (P-16) form and identified with inventory control tags.
- B. The Board should maintain documentation supporting the recorded cost of its equipment for as long as it maintains the equipment.
- C. Documentation supporting accounting transactions including surplus equipment should be dated to ensure that the timing of transactions are properly reported in the accounting records and to help establish effective audit trails for the transactions.

AUDITEE RESPONSE:

- A. Equipment tags have been ordered through Correctional Industries and will be placed on all appropriate fixed asset items. All fixed asset items, (donated) not previously documented on the P-16 have been appropriately recorded on an inventory control sheet.
- B. The agency has made copies of all payment vouchers, invoices, purchase orders, and requisitions still in its possession for the fixed assets appearing on the agency's inventory report. The copies have been placed in a file indexed as "Fixed Asset Verification". This fixed asset file will be maintained as equipment is purchased or sent to surplus. The original invoice and copy of an invoice for the Sperry computer has been destroyed. In following administrative procedures, the original invoice for the computer was attached to the payment voucher and was then submitted for payment and a copy of the invoice was kept with the agency's copy of the payment voucher. Record destruction of the payment voucher took place, in accordance with Archive's procedures, for the computer and along with it the invoice. It is my understanding that prior to June 1996, no written procedure regarding the retention of verification of fixed assets existed.

BOARD OF ACCOUNTANCY (Continued)

OBSERVATION NO. 30: CONTROLS OVER EQUIPMENT (Continued)

AUDITEE RESPONSE (Continued):

I have been employed by this agency for eleven years and until recently was not aware of this procedure. The file cabinets in question were purchased in 1977 and 1979. No records exist in the office of that purchase. This agency suspects the reason for this is due to the same reason the Sperry computer lacked fixed asset documentation.

- C. The Mita copier was sent to surplus. If this agency suspected that surplus did not record the receipt of the copier, this agency would have requested verification of the transfer. In the future, when an item is deemed surplus, this agency will insure that the P-11 form is completed correctly and will obtain written verification that surplus has obtained the equipment.

OBSERVATION NO. 31: ANNUAL EQUIPMENT INVENTORY

OBSERVATION:

The Board performs an annual equipment inventory as required by the Department of Administrative Services, Division of Plant and Property Management's Technical Assistance Manual PTM 605.01(a). However, the inventory procedures used by the Board do not provide the optimal control over the inventory process.

The inventory observation and count performed by the Board compared the list of equipment to the equipment in the Board office. A more effective inventory procedure is to prepare a list of equipment based on the equipment observed in the Board office and then to compare the list of equipment observed to the equipment records. A final step of the process is to resolve any differences between the observed equipment and the equipment records.

The method used by the Board could result in items that were never put on the list being overlooked and not included on the inventory. This apparently occurred during the last inventory as we noted two cabinets that were purchased by the Board for \$255 each that were never recorded on the equipment records and were not detected by the Board's inventory procedures.

RECOMMENDATION:

The Board should conduct its annual equipment inventory observation and count independently of its equipment records. The results of the count should be reconciled to the records with all differences resolved.

BOARD OF ACCOUNTANCY (Continued)

OBSERVATION NO. 31: ANNUAL EQUIPMENT INVENTORY (Continued)

AUDITEE RESPONSE:

An updated inventory report has been filed with Purchase and Property, properly identifying each fixed asset. The inventory observation was conducted independently of its equipment records. The results of the count did reconcile with the records and all differences resolved.

OBSERVATION NO. 32: SEGREGATION OF DUTIES

OBSERVATION:

The duties of authorizing transactions, recording transactions and maintaining custody of assets should be segregated so that one person is not in a position to commit and conceal errors or irregularities in the normal course of business. We noted the following instances where the Board of Accountancy had not properly segregated duties.

- There is no independent review of the Board's payroll. The two Board employees do not prepare leave slips and leave is not approved in advance.
- Both Board employees have access to unrecorded revenue and to revenue records.

RECOMMENDATION:

With only two Board employees it is difficult to effectively segregate accounting responsibilities. The Board may want to consider having a Board member become involved in the review of payroll and revenue transactions, as is currently done with other expenditures. A Board member could review the payroll reports and leave documents to ensure that payroll is prepared and recorded properly. A Board member could also periodically review revenue reports to determine whether revenue that is deposited and recorded is reasonable based on the number of exams taken, licenses issued, or any other measure of revenue activity.

AUDITEE RESPONSE:

- 1) The Chairman of the Board now verifies monthly payroll statements with payroll verification forms and signs the monthly statement. This signed statement will be maintained in the office for future audit verification use.

BOARD OF ACCOUNTANCY (Continued)

OBSERVATION NO. 32: SEGREGATION OF DUTIES (Continued)

AUDITEE RESPONSE (Continued):

- 2) The Chairman of the Board now signs official leave slips as leave is granted. Monthly, the Chairman verifies the leave slips with the leave reports and signs the monthly statement. This statement will be maintained in the office for future audit verification use.
- 3) The Chairman of the Board now verifies revenue by reconciling the revenue receipts and deposits against the monthly revenue statements. The Chairman signs the monthly statement. The signed statement will be maintained for future audit verification use.

BOARD OF ACCOUNTANCY STATE COMPLIANCE

OBSERVATION NO. 33: CREDITING BOARD REVENUE

OBSERVATION:

RSA 309-B:3, IV states that the moneys collected by the Board of Accountancy "shall be deposited in the state treasury to the credit of the board, and shall not lapse." However, the state budget considers the revenue that would otherwise go to the credit of the Board as unrestricted general fund revenue. The RSA has not been amended to reflect the current status of the recording of this revenue collected by the Board.

RECOMMENDATION:

The Board should submit a request for legislation to amend RSA 309-B:3, IV to reflect the historical and current treatment of the Board's revenue.

AUDITEE RESPONSE:

The Board will adhere to the appropriate statute.

OBSERVATION NO. 34: ADMINISTRATIVE RULES

OBSERVATION:

RSA 309-B, effective July 1, 1994, repealed and replaced RSA 309-A as the Board of Accountancy's governing statute. RSA 309-B:4, VII and VIII, effective August 11, 1995, significantly changed the experience requirement for certification by the Board.

The Board has not updated its administrative rules to reflect the recent changes in statute. The Board's administrative rules continue to reference the outdated RSA 309-A.

RECOMMENDATION:

The Board should update its administrative rules. The rules should appropriately reflect the current RSA now governing Board activity.

BOARD OF ACCOUNTANCY (Continued)

OBSERVATION NO. 34: ADMINISTRATIVE RULES (Continued)

AUDITEE RESPONSE:

This agency has been working on redrafting the rules for several months and are presently in the last stage of drafting. We expect to submit an initial proposal into rulemaking within 2 months.

OBSERVATION NO. 35: ANNUAL REPORT

OBSERVATION:

RSA 309-B:3, V states, "the board shall file an annual report of its activities with the governor, the president of the senate, and the speaker of the house of representatives." As of August 16, 1996, the Board of Accountancy had not filed an annual report for fiscal year 1995.

RECOMMENDATION:

The Board should file the required annual report for fiscal year 1995.

AUDITEE RESPONSE:

The annual report will be filed for the fiscal year ending 6/30/95 and 6/30/96.

**REAL ESTATE APPRAISER BOARD
INTERNAL CONTROL STRUCTURE
REPORTABLE CONDITIONS**

OBSERVATION NO. 36: SEGREGATION OF DUTIES

OBSERVATION:

The duties of authorizing transactions, recording transactions and maintaining custody of assets should be segregated in order to prevent one person from being in a position to both commit and conceal errors or irregularities in the normal course of business.

During our testing we noted that all revenue collection, deposit and recording functions were performed by the Real Estate Appraiser Board's only full-time employee. This lack of proper segregation condition was partially mitigated by a Board member who reviews the cash receipt forms before they are processed and also reviews the Board's monthly NHIFS statements.

RECOMMENDATION:

The fact that there is only one full-time person at the Board limits the Board's ability to fully segregate duties. Therefore, we recommend that additional procedures be established to mitigate the segregation of duties problem. We recommend that a periodic analysis be performed by someone other than the one full-time employee that would compare the amount of revenue received and deposited to the amount of revenue expected based on the number of licenses or certifications issued. Such a test would help to determine that the proper fee revenue is collected and deposited.

AUDITEE RESPONSE:

The Chairman will audit receipts and monthly expenses other than payroll. Payroll is adequately handled. Cash has never been received. Part-timer will open mail and log in receipts.

OBSERVATION NO. 37: UNTIMELY DEPOSIT OF REVENUE

OBSERVATION:

RSA 6:11, II states that if more than \$100 is in the possession of any department, such funds shall be on deposit in the department's or Treasury's bank account. This statute is regarded as generally requiring daily deposits. Checks received by the Real Estate Appraiser Board are restrictively endorsed and placed in a desk drawer until they are deposited.

REAL ESTATE APPRAISER BOARD (Continued)

OBSERVATION NO. 37: UNTIMELY DEPOSIT OF REVENUE (Continued)

OBSERVATION (Continued):

The Board generally deposits accumulated receipts on a weekly basis, however, the time between receipt and deposit of checks has ranged up to two weeks. The length of time the receipts are held prior to deposit, and the fact that they are unsecured, increases the risk that the checks could be lost or stolen.

RECOMMENDATION:

The Board should deposit accumulated receipts when they equal or exceed \$100 in accordance with RSA 6:11, II. Prior to their deposit, the receipts should be held in a secure place to minimize the risk of the checks being lost or stolen.

AUDITEE RESPONSE:

It has been agreed that all checks amounting to \$100 or more will be deposited the day they are received.

OBSERVATION NO. 38: CONTROLS OVER ELECTRONIC DATA PROCESSING (EDP)

OBSERVATION:

Proper internal controls within an electronic data processing environment reduce the risk of damage to, loss of, and tampering with information required by an organization to perform its day-to-day activities.

We observed two EDP systems being utilized by the Real Estate Appraiser Board. The first is an R:BASE database program used to record all active-status licensed or certified real estate appraisers. The other database system, furnished by the Federal Appraisal Sub-Committee, tracks all licensed or certified appraisers, whether active or inactive. Our review of the internal control structure over EDP revealed several weaknesses.

- Passwords are not utilized to ensure that only authorized personnel are able to access and edit transactions.
- No systems documentation is available for the active-status computer system. Thus, there is no source of reference for questions regarding the operation or capabilities of this system. There is limited documentation for the other system.

REAL ESTATE APPRAISER BOARD (Continued)

OBSERVATION NO. 38: CONTROLS OVER ELECTRONIC DATA PROCESSING (EDP) (Continued)

OBSERVATION (Continued):

- Since the installation of new computer hardware in February 1996, information on the two systems has not been backed up to allow for the continuation of operations should the original be lost or destroyed. In addition, the backups that were made before the new hardware was installed are stored on-site in a generally accessible area. This puts the backup data in the same position as the original with regard to risk of loss. If the original was destroyed by mechanical failure, fire or tampering, the backup could be subject to loss also.

RECOMMENDATION:

We recommend that the Board take the following actions to address the weaknesses noted above.

- Passwords should be used to restrict access to both systems.
- The Board should attempt to accumulate or prepare documentation that supports the operation of the two computer systems. System documentation would provide a reference for computer operations for the current and future employees.
- Information should be backed up on a regular basis and stored in a safe and secure location, off-site if possible.

AUDITEE RESPONSE:

Presently, there is documentation for the Federal system and documentation for the R:Base is in the process of being completed. Password systems have been installed, and weekly backups are being stored at the Banking Department, 169 Manchester Street.

REAL ESTATE APPRAISER BOARD (Continued)

OBSERVATION NO. 39: EQUIPMENT

OBSERVATION:

Equipment is defined by the Department of Administrative Services (DAS) as those items with a cost of \$100 or more and with a useful life of more than one year. When an item of equipment is received it should have a prenumbered equipment identification tag affixed to it, one tag for each item. It should be entered into the Board's Year-End Equipment Inventory (P-16) report, and DAS should be informed via a Monthly Equipment Adjustment Report (P-21). (The Board reported that it owned \$7,956 of equipment at April 30, 1996.)

When we tested equipment for the Real Estate Appraiser Board we noted the following.

- Equipment items do not have affixed identification tags.
- P-21 reports required to be submitted to DAS were not filed during the audit period.
- Several similar equipment items were grouped under one identification number on the P-16 report making it difficult to identify individual items of equipment.
- Items that cost less than \$100 were included on the P-16 in error resulting in an overstatement of equipment of \$93.
- One item, a chair with a cost of \$350, was included twice on the list overstating equipment by that amount.
- Documentation supporting the recorded cost of the equipment is not maintained for equipment items. Therefore, there was no way to determine if the cost of the equipment items was properly recorded.
- It was reported to us that when the Board moved from Chenell Drive to the State House Annex it could not fit some of its equipment into its new office so it traded equipment, four armchairs and a conference table, to DAS in return for bookcases. There was no documentation to support the trade. The items traded to DAS have been taken off the equipment list, but the items received have not been put on the list.

RECOMMENDATION:

- The Board should tag all pieces of equipment with identification tags. Each equipment item should be listed separately on the P-16 report.
- The Board should prepare and submit P-21 reports monthly regardless of whether changes in equipment have occurred or not.

REAL ESTATE APPRAISER BOARD (Continued)

OBSERVATION NO. 39: EQUIPMENT (Continued)

RECOMMENDATION (Continued):

- Only items that meet the definition of equipment should be included on the equipment list. Care should be taken to list items only once.
- Documentation supporting the cost of equipment should be maintained by the Board for the life of the equipment.
- When items of equipment are transferred to another agency, information should be sent to the Department of Administrative Services, Surplus Distribution Section, to document the transfer. When items are received from another agency, they should be properly valued and added to the equipment inventory.

AUDITEE RESPONSE:

During the audit, it was stated that a conference table and four chairs were "traded for bookcases". This was a misunderstanding on the part of the Executive Secretary. The bookcases were built to accommodate the Board. The conference table and chairs are still in the possession of this Board, but are currently housed in Room 215C of the State House Annex. These items will be added to the physical inventory. All items will be tagged and a list of the equipment will be submitted on form P-21 this month and each month thereafter. Metal tags are being ordered from the Prison Industries and will be properly placed on equipment valued over \$100. A P-21 will be filed monthly whether or not the list changes.

OBSERVATION NO. 40: ACCOUNTS PAYABLE

OBSERVATION:

At the start of each fiscal year, the Department of Administrative Services (DAS) requests all state agencies, including the Real Estate Appraiser Board, to identify payment vouchers paid in the new fiscal year that represent payment for goods or services received in the prior fiscal year. These payments are accounts payable of the prior year and are accumulated by DAS to adjust the prior year financial statements.

The Board did not identify \$23,746 of accounts payable for the fiscal year ended June 30, 1995.

RECOMMENDATION:

The Board should review all payments made in the beginning of a new fiscal year in order to identify and accurately report accounts payable.

REAL ESTATE APPRAISER BOARD (Continued)

OBSERVATION NO. 40: ACCOUNTS PAYABLE (Continued)

AUDITEE RESPONSE:

This was an error and will not be repeated. These funds are in a revolving account and when the bill was paid, the ** [account payable identifier] were omitted.

**REAL ESTATE APPRAISER BOARD
STATE COMPLIANCE**

OBSERVATION NO. 41: CREDITING BOARD REVENUE - REAL ESTATE APPRAISERS FUND

OBSERVATION:

RSA 310-B:21,I states that revenue received by the Real Estate Appraiser Board shall be turned over to the state treasurer where it will be kept in a separate fund known as the Real Estate Appraisers Fund. The RSA states that the fund shall be kept separate and apart from other money in the treasury and shall be disbursed only for the activities of the Real Estate Appraiser Board. RSA 310-B:21,II states that the Board shall reimburse the General Fund for moneys appropriated. However, it appears that the Real Estate Appraisers Fund has not been used from the date it was established on April 27, 1990. Subsequent state operating budgets have considered the revenue that would otherwise go into this fund as unrestricted General Fund revenue. However, RSA 310-B:21 has not been amended or repealed to reflect the current status of this fund.

RECOMMENDATION:

The Board should submit a request for legislation to amend RSA 310-B:21 to reflect the historical and current treatment of these certain revenues and to remove the requirement for the unused Real Estate Appraisers Fund.

AUDITEE RESPONSE:

At its 13 November 1996 meeting, the Board has decided not to change the law.

OBSERVATION NO. 42: STATEMENTS OF FINANCIAL INTERESTS

OBSERVATION:

RSA 21-G:5-a requires every member of a board to file a statement of financial interests by July 1 of each year and that if a member fails to file the member shall be prohibited from entering into or continuing with the member's duties. We reviewed the statements filed by the Real Estate Appraiser Board members and found that five members of the seven-member Board did not file statements and yet were not prohibited from carrying out their duties.

REAL ESTATE APPRAISER BOARD (Continued)

OBSERVATION NO. 42: STATEMENTS OF FINANCIAL INTERESTS (Continued)

RECOMMENDATION:

The Board should establish procedures to ensure that all Board members file statements of financial interests as required by statute. Board members should be notified of the filing required by RSA 21-G:5-a.

AUDITEE RESPONSE:

All current members of the Board will be sent the appropriate forms and these forms will be submitted prior to the end of this year.

OBSERVATION NO. 43: REAL ESTATE APPRAISER ROSTER

OBSERVATION:

RSA 310-B:22 requires the Real Estate Appraiser Board to maintain a roster showing the names, classification and place of business of all licensed or certified real estate appraisers who have paid an annual federal registry fee. The Board is to send copies of the roster to the Appraisal Subcommittee, Federal Financial Institutions Examination Council pursuant to Title XI and to the secretary of state. According to the secretary of state's office, a copy of the roster has never been filed.

RECOMMENDATION:

The Board should file a copy of the roster with the secretary of state.

AUDITEE RESPONSE:

A current list of the New Hampshire licensed/certified appraisers has been sent to the Secretary of State.

REAL ESTATE APPRAISER BOARD MANAGEMENT ISSUE

OBSERVATION NO. 44: RECONCILIATION OF MANUAL LEDGER

OBSERVATION:

Revenue and expenditures are recorded by the Real Estate Appraiser Board in a manual ledger prior to being recorded into the state accounting system (NHIFS). The manual ledger is not an efficient way for the Board to record revenue and expenditures and appears redundant to NHIFS.

At the end of each month, the Board reconciles the manual ledger to NHIFS to ensure that the transactions have been processed by NHIFS correctly. However, the reconciliation is not documented to show when and by whom it was done.

RECOMMENDATION:

The Board should reconsider the need for the continued preparation of the manual ledger and determine whether the required information is available on NHIFS. If the Board determines that a separate ledger should be continued, the ledger should be maintained on a computerized spreadsheet to promote better efficiency and accuracy. All reconciliations performed as control procedures should be documented.

AUDITEE RESPONSE:

The Board wishes to maintain its present system, computer ledger as well as manual ledger.

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**BOXING AND WRESTLING COMMISSION
INTERNAL CONTROL STRUCTURE
REPORTABLE CONDITIONS**

**OBSERVATION NO. 45: SUPPORTING DOCUMENTATION FOR PERMITS AND LICENSE
FEES**

OBSERVATION:

The Boxing and Wrestling Commission does not maintain complete and comprehensive documentation of Commission regulated events and activities.

PERMITS AND PERMIT FEES

RSA 285:10 states that no promoter shall arrange a competition without a permit from the Commission, that the Commission may require a promoter to produce evidence of having a surety bond, that no promoter shall have any financial interest in a person competing in a bout arranged by the promoter, and that all promoters shall be residents of the state.

- The Commission does not require promoters to provide documentation or otherwise certify that they are aware of and meet all of the requirements set in the statute.
- The Commission issues a Receipt For Cash (A-14) form when it accepts permit revenue. The A-14 form does not indicate to whom the permit was issued and from whom the fee was collected.

LICENSE FEES

RSA 285:11 states that no person may participate in a boxing bout or wrestling match without a license from the Commission.

- The Commission does not maintain any documentation to show to whom licenses have been issued and from whom license fees have been received. As in the case of promoter permit fees, an A-14 form is used to record the license fees. No information about the contestants is indicated on the A-14 form and one A-14 form may be used to record fees for several contestants. The Commission could not provide an up-to-date list of contestants licensed with the Commission.

RECOMMENDATION:

The Commission should improve its documentation of Commission regulated events and activities.

BOXING AND WRESTLING COMMISSION (Continued)

OBSERVATION NO. 45: SUPPORTING DOCUMENTATION FOR PERMITS AND LICENSE FEES (Continued)

RECOMMENDATION (Continued):

- The Commission should develop a prenumbered multi-copy permit form. The forms should be issued in numeric order and a copy of each form should be maintained in the Commission office to evidence collection of fees and compliance with the statute. The forms could include provisions for promoter certification of compliance with statutes and Commission rules. Copies of surety bonds should be maintained on file with the Commission.
- The Commission should develop a prenumbered multi-copy license form. The forms should be issued in numeric order and a copy of each form should be maintained in the Commission office to evidence collection of the fees and the license status of all licensees.

AUDITEE RESPONSE:

The Commission is in the process of printing up forms for promoters permit fees that are numbered. The Commission will also develop a prenumbered permit form for all licenses and collection of fees.

OBSERVATION NO. 46: UNTIMELY DEPOSIT OF REVENUE

OBSERVATION:

The Boxing and Wrestling Commission collects a 5% gross receipts tax provided for in RSA 285:14 on the night a Commission regulated event is held. The cash is collected by one of the Commissioners and recorded on a Receipt for Cash (A-14) form. The cash is converted to a bank check and a Cash Receipt (A-17) document is prepared. The check, A-14 form, and A-17 document are taken to the State Treasury for deposit and recording into the state accounting system (NHIFS). We reviewed seven A-17 documents and found that for five (71%) of the test items the number of business days from receipt of the tax to deposit and recording at the State Treasury ranged from six to 31 days. The average time between receipt of the cash and deposit with the treasurer was 16 days, which appears excessive. We were unable to determine the timeliness of the deposit for the other two test items due to the lack of supporting documentation. State government organizations are required by RSA 6:11, II to deposit receipts of \$100 or more daily.

BOXING AND WRESTLING COMMISSION (Continued)

OBSERVATION NO. 46: UNTIMELY DEPOSIT OF REVENUE (Continued)

RECOMMENDATION:

The Commission should work with the State Treasury and its business supervisor to determine the most efficient way to expedite its deposit of revenue with the Treasury and the entry of the accounting records in NHIFS.

AUDITEE RESPONSE:

The Commission will deposit receipts daily or as soon as possible.

BOXING AND WRESTLING COMMISSION STATE COMPLIANCE

OBSERVATION NO. 47: TAX REPORTS

OBSERVATION:

RSA 285:14 requires promoters who sponsor a boxing bout or wrestling competition to file with the Boxing and Wrestling Commission, within 72 hours after the event, a written report including the number of tickets sold, the amount of gross receipts, and other facts as the Commission may require. In addition, the statute requires the promoter to pay by certified check a tax of 5% of gross receipts of paid admissions, after deduction of any federal taxes.

- The Commission does not require promoters to file the written report required by the statute. The Commission does not receive any written documentation from the promoters to support the amount of tax paid. In addition, as noted in Observation No. 46, the promoters pay the tax in cash to the Commission representative on the night of the event.
- The Commission does not charge the 5% tax to promoters of charitable events. The statute does not provide charitable events exemptions from the tax.

RECOMMENDATION:

The Commission should require promoters to file written reports to support the amount of tax paid. The tax should be assessed after federal taxes are deducted and should be paid with a certified check.

Promoters of charitable events should not be excluded from paying the tax required by statute.

AUDITEE RESPONSE:

The Commission has recently started to charge the 5% to the charitable events.

We will require filing of written reports.

We have been accepting cash dollars because that was the only means of paying and of being sure of getting the tax money the evening of the event.

BOXING AND WRESTLING COMMISSION (Continued)

OBSERVATION NO. 48: LICENSING

OBSERVATION:

RSA 285:11 precludes a person from participating in a boxing bout or wrestling competition as a contestant, manager, referee, second or timekeeper without a license from the Boxing and Wrestling Commission. However, the Commission only licenses contestants. The Commission does not license or charge a license fee for managers and referees. Also the Commission does not license seconds and timekeepers.

RECOMMENDATION:

The Commission should license and collect license fees from managers and referees. The Commission should also license seconds and timekeepers.

AUDITEE RESPONSE:

All professional bouts will be subject to a fee for managers, referees, and contestants. We will also license seconds and timekeepers.

Amateur bouts are subject to the resolution of the USABF [United States Amateur Boxing Federation] controversy.

OBSERVATION NO. 49: COMMISSION MINUTES

OBSERVATION:

RSA 91-A:2, II requires minutes to be promptly recorded and made available within 144 hours, or six days of a public meeting. There are no minutes available of Boxing and Wrestling Commission meetings prior to the Commission's March 1996 meeting.

RECOMMENDATION:

The Commission should record minutes of all meetings as required by RSA 91-A:2, II.

AUDITEE RESPONSE:

We have started to record minutes at all meetings.

BOXING AND WRESTLING COMMISSION (Continued)

OBSERVATION NO. 50: BIENNIAL REPORT

OBSERVATION:

RSA 285:8 requires the Boxing and Wrestling Commission to submit a biennial report to governor and council on or before October 1 of each year preceding a regular legislative session. The Commission has not filed a biennial report since the late 1980s.

RECOMMENDATION:

The Commission should file a biennial report on or before October 1 of each year preceding a regular legislative session as required by statute.

AUDITEE RESPONSE:

On November 20, 1996, we filed our 1994-1995 biennial report with Governor and Council.

**COMMISSION ON THE STATUS OF WOMEN
INTERNAL CONTROL STRUCTURE
REPORTABLE CONDITIONS**

OBSERVATION NO. 51: SEGREGATION OF DUTIES

OBSERVATION:

The duties of authorizing transactions, recording transactions and maintaining custody of assets should be segregated in order to prevent one person from being in a position to commit and conceal errors or irregularities in the normal course of his/her duties.

Because there is only one employee at the Commission on the Status of Women, it is not possible to effectively segregate duties without involving individuals outside the Commission office. This outside involvement is obtained by the Commission to provide controls over the Commission payroll function. The executive director receives assistance from the Department of State's business office and the Commission's business supervisor in reviewing and approving various payroll documents. There is no similar outside review and approval for other expenditure or revenue transactions.

RECOMMENDATION:

The Commission should work with its business supervisor to institute a control structure for the review and approval of Commission expenditures and revenues.

AUDITEE RESPONSE:

Since the Commission on the Status of Women is only a one person office, we are working with our business supervisor to institute a control structure for the review and approval of Commission expenditures and revenues.

OBSERVATION NO. 52: CONTROLS OVER EQUIPMENT

OBSERVATION:

According to state accounting policy, items of equipment that have an original cost of \$100 or more and a useful life of more than one year are considered to be fixed assets and are required to be inventoried and reported annually in the state's accounting records at historical cost.

COMMISSION ON THE STATUS OF WOMEN (Continued)

OBSERVATION NO. 52: CONTROLS OVER EQUIPMENT (Continued)

OBSERVATION (Continued):

Proper internal control procedures require that each item of state-owned equipment be identified with an inventory control tag, which includes a control number, that identifies the equipment as state owned.

- Equipment at the Commission on the Status of Women is not identified with equipment inventory control tags.

RECOMMENDATION:

All Commission equipment that meets the state's definition of fixed assets should be identified with inventory control tags.

AUDITEE RESPONSE:

The Commission on the Status of Women has since properly identified all equipment that meets the state's definition of fixed assets with inventory control tags.

**COMMISSION ON THE STATUS OF WOMEN
STATE COMPLIANCE**

OBSERVATION NO. 53: BIENNIAL REPORT

OBSERVATION:

RSA 19-B:6 states that the Commission on the Status of Women shall submit a biennial report of its activities to the governor and council and the secretary of state. Per the Executive Director for the Commission, the last report filed by the Commission was for the biennial period ending June 30, 1993 and was submitted in October of 1993. As of April 22, 1996, the report for the biennium ending June 30, 1995 has not been filed.

RECOMMENDATION:

The Commission should issue reports of its biennial activities in compliance with RSA 19-B:6.

AUDITEE RESPONSE:

The Commission on the Status of Women is in the process of compiling and completing a report on its biennial activities.

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