

# **LBA Financial Audit Report Summary:**

State Treasury Audit Report For the Year Ended June 30, 2005

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## **Reporting Entity And Scope**

The reporting entity of this audit and audit report is the New Hampshire State Treasury (State Treasury or Treasury) as of and for the fiscal year ended June 30, 2005, excluding the custody and escheat of unclaimed and abandoned property pursuant to RSA 471-C.

## **Organization**

The Treasury operates under the executive direction of the State Treasurer, a constitutional officer elected biennially by a joint ballot of the Senate and House of Representatives. Assisting, and appointed by the Treasurer, is a chief deputy treasurer, a deputy treasurer, and two assistant treasurers, all of whom are unclassified State employees. The Treasury also employed 17 classified employees at June 30, 2005.

## **Responsibilities**

The Treasury's primary responsibility as provided in RSAs 6, 6-A, 6-B, 6-C, and 11, is the management of the State's cash, investments, debt, and trust funds, as detailed below. The Treasury is also responsible for the abandoned property program as provided in RSA 471-C.

## *Cash Management*

The Treasurer serves as custodian over the State's receipt of funds and is responsible for the payment of all State operating expenses. RSA 6:7 establishes the State's policy for depositing public monies. Part 2, Article 56 of the New Hampshire State Constitution requires all payments made from the Treasury, except debt obligations, to be authorized by warrant under the hand of the Governor, with the advice and consent of the Executive Council.

### *Investment Management*

The Treasury is responsible for maximizing the return on State funds while considering cash flows and liquidity requirements. The Treasury invests funds, above those necessary to meet operating expenses, in instruments set forth in RSA 6:8, including:

- Obligations of the U.S. government;
- All types of savings accounts; and
- Certificates of deposit of State or federally chartered banking institutions within New Hampshire.

### *Debt Management*

The Treasury is responsible for developing long-term debt plans, tracking the status of the State's debt, and making debt service payments on all State bonds and notes.

In accordance with RSA 6:13, the Treasury is authorized to borrow on the State's credit, under the direction of the Governor and Council, such sums as may be necessary when it is anticipated that there will not be sufficient general funds to meet current obligations. The total of this temporary borrowing for the General Fund may not exceed \$200 million. There were no temporary borrowings outstanding at June 30, 2005.

Bonds may be issued, when authorized by the Governor and Council, for specified projects or purposes. Bonds are not issued after every statutory authorization. Instead, the Treasury monitors the status of capital projects and then issues bonds to cover several authorizations. Except for revenue bonds, such borrowing usually constitutes general obligation debt of the State. The total balance of general obligation bonds issued for governmental activities outstanding at June 30, 2005 was approximately \$690.2 million.

### *Fiduciary Funds*

In accordance with RSA 11:1, all trust funds left to and accepted by the State shall be in the custody of the State Treasurer. The Treasury holds these funds as agency funds for other State government units and invests the funds as directed by those government units.

### **Funding**

The financial activity of the Treasury is accounted for in the Governmental and Fiduciary Funds of the State. A summary of the Treasury's General Fund and Capital Projects Fund revenues and expenditures for the fiscal year ended June 30, 2005 is shown in the following schedule.

#### **Summary Of Revenues And Expenditures Fiscal Year Ended June 30, 2005**

	<b>General Fund</b>	<b>Capital Projects Fund</b>	<b>Total Governmental Funds</b>
Total Revenues	\$ 7,209,713	\$ -0-	\$ 7,209,713
Total Expenditures	\$ 196,057,492	\$ 3,525,884	\$ 199,583,376
<b>Excess (Deficiency) Of Revenues Over (Under) Expenditures</b>	<b>\$ (188,847,779)</b>	<b>\$ (3,525,884)</b>	<b>\$ (192,373,663)</b>

The auditor's report on the Treasury's financial statements was qualified with respect to the lack of presentation of the financial position of the Treasury in the government-wide and governmental fund financial statements.

The audit report includes the auditor's report on internal control over financial reporting and on compliance and other matters and an auditor's report on other management issues. The following is a list of the comments in the report.

### ***Internal Control Comments***

#### ***Reportable Conditions***

- Business Continuity Plan Should Be Established
- Controls Over Information Technology Systems Should Be Improved
- Investment Accounts Should Be Reconciled Monthly
- Coordination With Bureau Of Financial Reporting Should Be Improved
- Transactions Initiated By Service Providers Should Be Subject To Review
- Contracts And Significant Service Provider Agreements Should Be Subject To Improved Controls
- Segregation Of Duties Controls Should Be Implemented
- Segregation Of Duties Over Certain Trust And Agency Funds Should Be Improved
- Communications Related To Contingent Debt Should Be Improved
- Coordination Of Responsibilities For Account Maintenance Should Be Improved
- Accountability Controls Over Cash Drawers Should Be Improved
- Abandoned Property Procedures Should Be Updated To Reflect Change In Statute And Process
- Allocation Of Abandoned Property Costs Should Be Based On Cost Analysis
- Formal Risk Assessment Policies And Procedures Should Be Established
- Formal Fraud Risk Mitigation Efforts Should Be Developed And Implemented
- Accounting And Reporting Treatment Of The Community Conservation Endowment Fund Should Be Reviewed

### ***Compliance Comments***

#### ***State Compliance***

- Land and Community Heritage Investment Program Administrative Fund Should Be Created
- Clear Language Of Statute Should Be Applied

#### ***Federal Compliance***

- Check-Payment Clearance Patterns Should Be Established

### ***Management Issues Comments***

- Bank Service Fees Could Be Reported Separately From Interest Income
- Current Status Of Foreign Escheated Estates Account Should Be Reviewed