

**LEGISLATIVE PERFORMANCE AUDIT AND OVERSIGHT COMMITTEE**

Legislative Office Building, Room 212

Concord, NH

Tuesday, October 2, 2012

**MEMBERS PRESENT:**

Sen. President Peter Bragdon (Chairman)

Sen. Sylvia Larsen

Sen. Lou D'Allesandro

Rep. John Reagan

Rep. Patricia Dowling

Rep. Randy Foose

Rep. Laurie Harding

Rep. Marshall Quandt

(It is 1:38 p.m.)

CHAIRMAN BRAGDON: Okay. We'll call the meeting of the Legislative Performance Audit and Oversight Committee. My goodness, full House.

REP. HARDING: Right on queue.

**1. Acceptance of minutes of the June 27, 2012 meeting.**

CHAIRMAN BRAGDON: I guess we are missing Senator Barnes. You kind of fill in for him. Meeting is called to order. The first order of business, I believe, is acceptance of the minutes of the June 27<sup>th</sup> meeting which should have been e-mailed to you.

REP. REAGAN: Move approval. No, I can't move. I wasn't here.

CHAIRMAN BRAGDON: Any discussion or corrections for the minutes? Seeing none; is there a motion to approve the minutes?

**\*\*** SEN. LARSEN: So moved.

SEN. D'ALLESANDRO: So moved.

CHAIRMAN BRAGDON: Moved by Senator Larsen, seconded by Senator D'Allesandro. Any discussion? Seeing none; all in favor say aye? Opposed no? The ayes have it and the minutes are approved.

\*\*\* {MOTION ADOPTED}

2. Old Business.

CHAIRMAN BRAGDON: Old Business we'll skip. That's on the table.

3. Current Status of Ongoing and Pending Performance Audits.

CHAIRMAN BRAGDON: Current status of ongoing and pending performance audits. Mr. Fox.

(Representative Foose enters the Committee Room.)

CHAIRMAN BRAGDON: Oh, my goodness. Another one; coming out of the woodwork.

STEPHEN P. FOX, Audit Supervisor, Audit Division, Office of Legislative Budget Assistant: Good afternoon, Mr. Chairman, Members of the Committee. For the record, my name is Stephen Fox, Performance Audit Supervisor for the LBA Audit Division. There are currently five ongoing or pending audits at this time. I'll start with the Department of Corrections Security Staffing. Excuse me.

This audit was approved by this Committee on December 20<sup>th</sup> of 2011, and by Fiscal Committee the following month, January 2012. The scope statements were approved by this Committee -- the scope statement was approved by this Committee in February of 2012. Current status of this audit report has been drafted. We have received responses to the Observations, and are pending an exit conference. Hopefully, that can be

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scheduled late this week or next. We anticipate presentation to the Fiscal Committee at the October 26<sup>th</sup> meeting.

The Non-Security Staffing Audit at the State Prison also was approved by this Committee December of 2011, the topic approved by the Fiscal Committee in January of 2012, and the scope statement approved by this Committee in February of this year. The report also has been drafted. We are -- just today received the Department's responses to this audit and, likewise, are awaiting an exit conference schedule. Hopefully, for late this week or next. And this audit will also be presented to the Fiscal Committee in its October meeting.

The Department of Revenue Uncollected State Taxes Audit, as you know, has been put on hold. The original entrance conference was held in January of -- July 28<sup>th</sup> of 2010, and we withdrew from the audit on October 6<sup>th</sup>, 2010, informed the Fiscal Committee on the 12<sup>th</sup> of that month. The Department was at that time concerned it did not have -- we did not have statutory authority to view certain confidential records.

HB 579 was passed by the House March of 2011 allowing us access, and we are still awaiting a time that the DRA is ready for us. Our understanding at this point that it is the Department's behind schedule in uploading its tax information from scanned documents.

On September 24<sup>th</sup>, the Department also reported they anticipate completing the uploading of the information through June 30<sup>th</sup>, 2012, by mid-November. They also anticipate obtaining additional personnel resources via contract on October 8<sup>th</sup> to assist in this process. So at this point, it looks doubtful we'll be able to begin this audit until December or maybe January, at least in some meaningful way to be able to get access to their data.

Juvenile Justice Audit was approved by this Committee at

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its June meeting, by the Fiscal Committee in July of 2012. You have the scope statement before you today pending your approval. We did have an entrance conference in September -- on September 6<sup>th</sup> with the Department of Health and Human Services with Assistant Commissioner Mary Ann Cooney, DCYF Director Maggie Bishop, and other HHS staff. We are, as I said, awaiting your approval of the scope statement so we can move forward. We have some -- we have made quite a -- a lot of headway in our planning, and we would anticipate starting our field work as soon as we get your approval with the scope statement.

The audit of employee versus contractors also approved by this Committee on June -- in June of 2012, the topic was approved by the Fiscal Committee on July 23<sup>rd</sup>, 2012. You also have that scope statement in front of you pending your approval. We did have an entrance conference on September 12<sup>th</sup> with DAS, Commissioner Linda Hodgdon and Assistant Commissioner Joe Bouchard. We have also made quite a bit of headway in planning for that audit, and we expect to continue and begin our field work pending your approval of the -- of that scope statement. That brings you up-to-date, I believe, Mr. Chairman.

CHAIRMAN BRAGDON: Thank you. Thanks, Stephen. Are there any questions regarding the status of current projects as outlined by Mr. Fox?

REP. DOWLING: If I could.

CHAIRMAN BRAGDON: Yes, Representative Dowling.

REP. DOWLING: Thank you. On the Juvenile Justice, what was the date that you met with Mary Ann Cooney because she no longer has that position?

MR. FOX: We met with Assistant Commissioner Cooney on September 6<sup>th</sup> of 2012.

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REP. DOWLING: Thank you.

CHAIRMAN BRAGDON: Thank you to whoever put our name tags together. Trying to think, who are these people?

REP. DOWLING: It's true.

CHAIRMAN BRAGDON: Further questions? Let's see, we don't need any motion on that. So thank you, Mr. Fox, for the update.

**4. Discussion and approval of Scope Statement for 1) State Decisions to Hire or Contract and 2) Juvenile Justice.**

CHAIRMAN BRAGDON: We now move to item four, discussion of approval of scope statements for -- let's take them in order -- hiring or contracting. Mr. Fox.

MR. FOX: Thank you, Mr. Chairman. On July 12<sup>th</sup>, 2000 -- in July of 2012, Fiscal Committee approved the recommendation by this Committee to conduct a performance audit of State Executive Branch Agencies' decisions to hire personnel versus contractors to provide certain public services. There is no single source of data that allows us or enumerates all State service contracts and contract expenditures. A number of our prior Audits have shown some Agencies enter into service contracts without Governor and Council approval or oversight, I should say. Let me change that. Oversight.

The Department of Administrative Services historically includes only aggregate value of its service contracts in its Warrant Articles presented to the Governor and Council. And then certain Agencies -- several Agencies, in fact, have unique class descriptions, class line descriptions for contracts making identification of those budgeted contract appropriations difficult.

2009, our Service Contract and Performance Audit found

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State laws and rules were fragmented and varied by State Agency and the type of contract. There's no statewide statute, rule, or policy requiring Agencies to conduct a cost benefit analysis of the process of contracting versus hiring personnel, or to justify a service contract need in writing. We did make recommendations regarding those facts in our 2009 Service Contracting Audit.

We are currently in the process of this Audit preparing a survey of State Agencies to send out to identify those Agencies which have contracts in place, what process they use to discern for their own needs, whether that -- those services should be contracted out or hired -- they should hire their own personnel. And so we hope that if this Committee approves the scope statement, which on Page 2 you'll see the audit scope, the question that we're looking at, did State Agencies determine whether it was more cost-effective to hire personnel or contract for services. With your approval, we would begin that effort with our survey.

You see the bulleted item, the bulleted list underneath the audit scope. First item is a survey of State Agencies. We would then sample from those Agencies and interview key Agency managers who are engaged in determining when to use employees or to seek contracts to provide services. We would review our prior audits, Governor and Council meeting minutes, again look at State Laws to see if any changes have been made since 2009, and also review public and private sector standards, practices and literature regarding the contracting for services. Right now, we are looking at sampling Agencies who have large contracts, as well as those with small and medium size contracts.

We expect to complete this project in January 2013, possibly submitting it for the January Fiscal Committee, but more likely it would be to the February Fiscal Committee.

CHAIRMAN BRAGDON: Thank you, Mr. Fox. Are there questions

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for Mr. Fox regarding this proposed audit scope? Mr. Foose.  
Representative Foose.

REP. FOOSE: Thank you, Mr. Chairman, and thank you for being here. Can I infer that within the group of contracts that are going to be reviewed there will be some from the Department of Transportation?

MR. FOX: There may be. What we're -- one of the filters that we're using is whether the Agency is explicitly allowed or directed by statute to contract. However, the Department of Transportation, as we know, has many, many contracts. So we would, pending that filter being satisfied and seeing additional contracts, there's certainly a possibility that we would be looking at Department of Transportation contracts.

REP. FOOSE: My recollection -- follow-up.

CHAIRMAN BRAGDON: Yes.

REP. FOOSE: My recollection was that one of the major issues in the budget discussion last time around was the contracting of work out by the Department of Transportation.

MR. FOX: Hm-hum.

REP. FOOSE: And I encourage you to do whatever you need to to make sure that filter does include DOT projects, because I think that's an issue that I would imagine will be front and center in the next budget.

MR. FOX: Okay. We will -- in terms of sampling, we will be taking a purposes sample. It won't be a sample that we draw at random. So we certainly can look at including those -- those Department of Transportation contracts. I should note that the second to last paragraph indicates the types of contracts we'll be looking at, those that involve use of individual skills,

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whether it's an individual company or corporation. We don't look -- speaking of Department of Transportation contracts, we're not anticipating looking at, for instance, paving contracts, those types of contracts or road building contracts because of the -- it's more than just an individual skill that we're looking at in those situations. It's a lot of material as well, and equipment, such as heavy equipment for building roads and paving roads. So we figured that would be something that kind of takes us outside of the realm of a personal service contract.

REP. FOOSE: Any way to reopen that door?

MR. FOX: We serve at your pleasure.

CHAIRMAN BRAGDON: You feel like building a road?

REP. FOOSE: It just -- it seems to me, again, that this was a central issue in the budget discussion. This is an opportunity to get some information that might inform budget deliberations going forward and from my perspective, it would be worth taking a look at.

CHAIRMAN BRAGDON: Mr. Fox, if that were a part of this or expand it a bit for larger projects, how would that impact your time lines?

MR. FOX: Kind of early to tell at this time. We do have a -- a couple people pending the approval of the Juvenile Justice Audit Scope Statement that we might be able to bring into this Audit. It would change, certainly, the way we anticipated conducting the Audit at this point. Again, as I said, the reason that we stayed away from those types of contracts is that it was our understanding that the Committee was looking for a decision to hire an individual with a certain skill set versus, you know, building a -- really a larger function, such as being able to pave or build roads.

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CHAIRMAN BRAGDON: Other comments with respect to that thing that Representative Foose brought up? Yes, Representative Harding.

REP. HARDING: Good for you. It's not even facing your direction. Thank you very much. And to my colleagues, it's nice to see you all in the frenzy of the fall. I'm wondering about the statement on Page 1 under background, and the comment that you make -- made about making numerous recommendations to address inconsistencies and inadequate controls that would service procurement, including a recommendation that the Legislature consider including in statute the need for justification requirements based on service type or contract value.

MR. FOX: Hm-hum.

REP. HARDING: So I'm -- I'm concerned that we might not have addressed some of the problems the first time around -

MR. FOX: Hm-hum.

REP. HARDING: -- from your 2009 contract -- 2009 Audit. Were there other recommendations that you made in that Audit? I can look it up in my laptop, but are you -- are you aware of other areas that we should have addressed but we didn't that might have some relevance to this topic now?

MR. FOX: At this point in time, I'd have to go back and review those specific recommendations which called for legislative action. I know there were several in that Audit, and I just don't have the information with me right at this point.

REP. HARDING: Okay.

MR. FOX: I'd be happy to get back to you with it.

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REP. HARDING: Mr. Chairman, I think it's a concern. Somehow, I think, we need to do some follow-up with it. No sense in having the Audits done if we are going to not have the follow-through that's required in terms of the legislative work that needs to be done to tighten up some of this. So I wonder, do we have any accountability? Does this Committee have any accountability?

CHAIRMAN BRAGDON: I do believe this Committee only makes the recommendations, but the Fiscal Committee does when the Audits are presented to them, then send copies to the Chairs of the respective committees in the House and the Senate, and they are supposed to follow-up on it and see if it's being done. I'm not sure to what degree that happens, and Chairman Weyler, is that correct?

REP. WEYLER: Seems like when I file the bills I'm the only one, even though I send out copies to all the other Committees. Once in awhile I call Chairmen and ask if anybody's doing anything. It's overlooked.

CHAIRMAN BRAGDON: The performance audits do go to the Chairs of the respective committees, so.

MR. FOX: Mr. Chairman, I think, if I may, the House rules call for the copies of the Audit Reports be sent to the policy committees as you indicated. Also, to the House ED&A Committee. We have appeared several times before that Committee and in joint session with the policy committee on several of our Audits. I can't at this time recall if this was an Audit that we also presented to that Committee.

CHAIRMAN BRAGDON: Thank you. Senator Larsen.

SEN. LARSEN: I actually had a similar interest as Representative Harding in that on the second page in the audit

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scope it appears in the paragraph, second to the end, it appears that there's a statement of fact which makes me think that the -- that your Audit Division has reached a conclusion, and I wondered if you wanted it to be such a statement saying deciding to engage in such a contract should be preceded by a cost-benefit analysis to establish the most cost-effective option. I would have assumed you would say we will examine whether this item should be preceded by a cost-benefit analysis, unless your 2009 Report recommended that, which I don't recall.

MR. FOX: It did, in fact --

SEN. LARSEN: It did.

MR. FOX: -- call for that. Also, best practices that we've reviewed in this area are also recommended.

SEN. LARSEN: And the other question I had was when you talk about establishing the most cost-effective option, but I think you might also include the word and timely, because I would assume that there are times when a consultant is hired because you're in an off cycle of the budget and there's a job that has to be done. And so there might be a reason why you're out -- running outside of the cost-effective but not hiring a full-time person, but you've got to get the job done.

MR. FOX: Hm-hum.

SEN. LARSEN: So I just notice that as well that those are topics to consider. Thanks.

MR. FOX: Thank you.

CHAIRMAN BRAGDON: I have a question, and we'll get back to Representative Foose's in a second as well, but I assume this does not necessarily go into the details of the -- the contracting process in that during a recent abatement project

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somewhere in the State House talking with the folks doing the sampling, the air sampling and stuff for whether or not there was asbestos present, talked about the bidding process. And this was a contractor, and they get some kind of a form from the Department requesting the bid for the contract for two years or whatever. And it says, you know, give a price for each of these services. And one of the services on there was so obscure it was never used by anybody. And so some firms bid real low on that, because they know they'll never have to do that. And, yet, when the Department analyzes the bids, they use this test that no one ever uses for anything as part of the calculation. Is that too much in the weeds for this type of an audit?

MR. FOX: Yes, we had not anticipated getting into that part of the process.

CHAIRMAN BRAGDON: Yes, it would seem to be a little bit too in-depth for that. The only open issue, I think, is Representative Foose had, at least, approached the idea of expanding this to be not just what I would call -- well, I guess has been called service type of contracts but to larger people as well. Mr. Fox, what is the time frame on this, you're expecting this to be complete?

MR. FOX: To be completed January 2013.

CHAIRMAN BRAGDON: Fiscal in January or probably February?

MR. FOX: If we can finish up our work and have our responses back and our exit conference with the Department in time, we would look for January, but more likely I would expect it to be going into February.

CHAIRMAN BRAGDON: Okay. And the other issue I thought of -- oh, the other thing that might affect this is at some point we'll be asked to look at future audit topics. If we expand this to a significant degree, it may relieve the need to do future

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audit topics if it's going to tie people up for a longer period of time so that's something to consider. Representative Foose, you still of the opinion that this should be expanded?

REP. FOOSE: I am.

CHAIRMAN BRAGDON: Others' thoughts on this matter? Senator Larsen.

SEN. LARSEN: I would only add if it's specifically the Department of Transportation, rather than adding all Executive Agencies, we target a look at the Department of Transportation policies.

REP. FOOSE: I'd be comfortable with that.

CHAIRMAN BRAGDON: Representative Foose, because of the particular focus on that during the budget is why you bring this up?

REP. FOOSE: That's right.

CHAIRMAN BRAGDON: Any thoughts on that? Any objections to that? Mr. Fox, you folks can find a way to do it?

MR. FOX: So my understanding we are shifting away from all Agencies and just looking at Department --

CHAIRMAN BRAGDON: All Agencies for what you have here, but on the larger projects just to focus on DOT things, given the last budget.

MR. FOX: Are there specific contracts that, Representative Foose, you'd like us to look at?

REP. FOOSE: I'd leave that to you. The interest that -- or the conversation that we had to a great extent focused on the

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paving and road maintenance; but there may be -- I should, but I don't know the details from DOT's budget well enough to say there may be a couple of other large -- large amounts to look at.

CHAIRMAN BRAGDON: Should the mowing and the plowing would probably be factors?

REP. FOOSE: Yeah.

SEN. D'ALLESANDRO: No money for mowing. We cut that.

CHAIRMAN BRAGDON: Any objections to select broadening of the scope? Mr. Fox, is that achievable?

MR. FOX: We will do our best. As I said, we are here to serve you folks.

CHAIRMAN BRAGDON: Good answer, I guess.

MR. FOX: What I'll do is we'll have our people get with the Budget Division folks, get -- obtain the records, the transcripts from those budget hearings, try to focus in on the contracts.

REP. FOOSE: Thank you.

MR. FOX: And then if the Committee is okay, we will look at -- we will send out a communication to the Committee Members proposing which specific contracts we look at.

REP. FOOSE: Great.

REP. HARDING: I'll follow-up with the Chair of ED&A and ask to see whether or not in 2011 any of this -- any of the concerns were addressed from this Audit and see if we can't work with Legislative Services and the LBA to see if we can at least tie

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that up so we're not left with a lot of open-ended concerns, legislative concerns from the previous Audit on contracting.

MR. FOX: Okay.

REP. HARDING: So I'll come back and see you.

MR. FOX: Okay. Thank you.

CHAIRMAN BRAGDON: So that Mr. Fox's staff has plenty of firm foundation laid, be good if we had a formal approval of this scope. Is there a motion to approve the scope as presented with the addition of larger contracts?

\*\* REP. DOWLING: Move approval.

REP. FOOSE: Move approval.

CHAIRMAN BRAGDON: Moved by Representative Dowling, second by Representative Foose. Any further discussion? All those in favor say aye? Opposed no? The ayes have it.

\*\*\* {MOTION ADOPTED}

CHAIRMAN BRAGDON: And we move on to the second proposed scope statement having to do with Juvenile Justice. Mr. Fox.

MR. FOX: Thank you, Mr. Chairman. Again, in July of 2012, the Fiscal Committee approved your -- this Committee's recommendation to conduct a Performance Audit of Juvenile Justice Services. This Audit came about as a recommendation from Senator Odell. And in building this scope statement and in trying to plan for this Audit, we worked exclusively off of the letter that he submitted and addressed the issues that he had outlined in that letter.

As you know, the Juvenile Justice System involves multiple

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agencies of the State, including Health and Human Services through its Division for Children, Youth, and Families, the Court System, the local law enforcement, service providers in the community. The Division of Children, Youth and Services -- excuse me, I'm sorry -- Children, Youth, and Families is responsible for providing supervision and rehabilitative services to youths who have been adjudicated as delinquent or as children in need of services; generally referred to as CHINS. Provides supervision, case management, and rehabilitative services through its staff of Juvenile Probation and Parole Officers. It's now worked with community-based providers, including residential shelters in Antrim, Jefferson, and Bradford. The DCYS is also responsible for institution services provided at the Sununu Youth Services Center in Manchester.

Senator Odell's letter to this Committee was focused primarily on Shelter Services. In 2011, Chapter 224 of the Laws of 2011 required DHHS to continue funding the three shelter care service providers. That has not necessarily occurred, I believe with the expectation -- consistent with the expectation of the Legislature. And so we are looking at what's going on there.

The audit period that we are going to be looking at is State Fiscal Years 2011 and 2012, and we are going to be looking at children who are pre-adjudicated in the sense that they have not yet had a court hearing which would possibly result in them being adjudicated as delinquent. Shelter Services generally do not come into play with children who have been adjudicated as delinquents. So that's the group of children that we are looking at, the children who have appeared before court, have been perhaps arrested or some -- in some other way taken into custody, but they have not yet had their trial, I guess, for lack of a better word. They had an initial appearance before court, in many cases a decision has been rendered by the judge in terms of placement whether they remain in their own home or they come into one of the residential providers that the State contracts with, including sheltered care. So we are looking at

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children in this situation, not those, as I said, that have been adjudicated as delinquents.

The four questions that we're looking at in this Audit would be the bulleted items on the bottom of Page 1.

Are children in the Juvenile Justice System, both CHINS and delinquents, placed in more restrictive placements than needed? If so, is this due to decisions made by the Department of Health and Human Services?

Is the Department continuing to fund the three sheltered care services consistent with the directives of Chapter 224:357, Laws of 2011?

Has Shelter Service utilization -- has shelter utilization declined? If so, what are the contributing factors to that?

And given the Sununu Center's low occupancy rate, would providing Shelter Care Services be an appropriate use of that facility?

To answer these questions, if you turn to Page 2 you see the bulleted list of methods that we intend to employ.

One is identifying the best practices in Juvenile Justice Services;

Surveying justices within the Court's Family Division regarding pre-adjudication placements.

Surveying the JPPOs regarding those placements.

Identifying State Programs in place to redirect juveniles from the courts or maintain juveniles in the communities.

Review the availability of and the occupancy rates for

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out-of-home pre-adjudication placement options.

Review overall trends in the Juvenile Justice System that would be both in our state and in other states.

Review the contracts with residential service providers, meet with child advocates and other stakeholders. I should note that we have already begun that process.

And to review the trends and the census numbers in the three Shelter Care Service providers and assess the cause of those trends.

Again, we anticipate completing this project in January 2013, and present the final report no later than February 2013.

CHAIRMAN BRAGDON: Thank you. I'll note that I did pass this by Senator Odell who said that this certainly addressed the issues that he brought up in his original concerns to the Board -- the Committee. Representative Dowling.

REP. DOWLING: Are we, in fact, still operating three shelter systems?

MR. FOX: The information we have is that both the Jefferson and the Bradford shelters, which are owned and operated by NFI-North, are still operating. One of those, I don't recall which one at this point, one of the shelters does have coed capability. The Antrim shelter from our understanding is not operational at this point in time.

REP. DOWLING: Really?

SEN. LARSEN: Yeah.

REP. HARDING: Didn't we give funding for that?

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CHAIRMAN BRAGDON: No. I think that's one of the things addressed here is what's happening, what we had said should happen. So I think the hunch is that no, it's not. It's my understanding. Senator D'Allesandro.

SEN. D'ALLESANDRO: I concur. Funding wasn't cut. That was Odell's concern that we didn't cut the funding, why weren't these things operating when we had appropriated the money to fund. May I ask a question?

CHAIRMAN BRAGDON: Senator D'Allesandro, yes.

SEN. D'ALLESANDRO: Thank you. On bullet number one where the changes in the CHINS Program took place early in the year, are you able to track that as effectively as, I think, Senator Odell would like? I have had conversations just yesterday with people in the school system and with Maggie Bishop about this.

MR. FOX: Hm-hum.

SEN. D'ALLESANDRO: There are many who are just being -- at this point in time, are just recognizing the fact that they're responsible for the CHINS and that there's no State support. So I just wondered how accurate your tracking would be if this is --

MR. FOX: That is going to be a problem for us, because the changes, Senator. Any time that we are dealing with legislative or statutory changes that are recently put in place, there is a issue in terms of being able to get information.

SEN. D'ALLESANDRO: Just wondered how we manage that information if, indeed, if it can't be as concrete as we want because of the nature of the timing. And would it be -- would it be advisable to talk to some of the major school districts that are witnessing this problem as we speak that are just being

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recognized by the systems. That might be a thought.

CHAIRMAN BRAGDON: Yeah, maybe a follow-up to that. So since our scope period is Fiscal Years 2011-2012, even though that's your official scope, Steve, are you able to include input from people just to provide some further context to those looking at the report?

MR. FOX: Certainly, we can do that.

CHAIRMAN BRAGDON: That makes sense.

SEN. D'ALLESANDRO: All right. Thank you.

CHAIRMAN BRAGDON: Other questions with respect to the proposed scope? None. Is there a motion to approve the proposed scope?

\*\* SEN. D'ALLESANDRO: So moved.

CHAIRMAN BRAGDON: Moved by Senator D'Allesandro, second by Representative Reagan. All in favor say aye? Opposed no? The ayes have it.

\*\*\* **{MOTION ADOPTED}**

## 5. Discussion of potential audit topics.

CHAIRMAN BRAGDON: That, I believe, brings us to the discussion of potential future audit topics. And before we do that, I have a question on a current audit topic, and that would be the Department of Revenue one. And I only mention it because I know it's been put off a couple times. In fact, I believe it was over two years ago that this Committee approved the scope for this audit.

MR. FOX: That's correct.

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CHAIRMAN BRAGDON: Which seems to keep getting put off for what appear to be valid reasons; but I am just -- again it's been two years. And I know Commissioner Clougherty is not here, but I kind of thought we were going to be starting this finally in July or so. Does the inability for them to scan in the forms that they want to scan in hinder our ability to audit or are we just being polite to them so they can continue doing important work?

MR. FOX: I think it's a little bit of both.

CHAIRMAN BRAGDON: How much of each?

MR. FOX: The -- our ability to conduct the audit, I think, would certainly be enhanced if the information were available to us in electronic format. That should help us speed up our process as well.

CHAIRMAN BRAGDON: Okay.

MR. FOX: The -- my understanding is that not only would performance audit be implemented, we also have the State-wide CAFR Audit ongoing. And they would be looking to access the information around the same time so we really have two audits ongoing.

CHAIRMAN BRAGDON: Okay. So despite the delay then, probably makes sense to continue with the delay.

MR. FOX: I mean, we'd love to be in there.

CHAIRMAN BRAGDON: We'd love you to be in there. I think from my notes here you anticipate being able to start that at the beginning of the year, if I read my notes correctly, which is about the time these other ones are wrapping up.

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MR. FOX: Correct.

CHAIRMAN BRAGDON: So it would fit in.

MR. FOX: It would be to provide a fairly seamless transition for some of our folks that would be looking at starting work on that audit.

CHAIRMAN BRAGDON: In the meantime, you still need at least one other thing to get in the queue to start working on?

MR. FOX: One or two would be ideal for us.

CHAIRMAN BRAGDON: Okay. When this Committee organized the beginning of the biennium, we made a list of the top five things to address, four of which we have addressed, and somehow I did not write down what the fifth one was. Various sources have various possibilities for what that fifth item was so I guess we'll call it an open issue right now. I think, Steve, you might have brought something.

MR. FOX: I do have in response to your e-mail earlier today, I do have the long list.

CHAIRMAN BRAGDON: Infamous long list.

MR. FOX: Infamous long list, yes. It has been updated as of today. I would also note, Mr. Chairman, that in response to your second e-mail regarding Risk Management --

CHAIRMAN BRAGDON: Yes.

MR. FOX: -- we have done two audits, performance audits of Risk Management; one in early '90s, the other one more recently in 2011.

CHAIRMAN BRAGDON: Nine or 11?

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MR. FOX: I'm sorry, I'm sorry. 2006 or seven. As part of our Insurance Procurement Audit, we dealt with the Department of Administrative Services Risk Management function. So those two are out there. And the other Audit that you mentioned came in medical claims. I'll go out on a limb here and say that I believe Representative Quandt had brought that forward. This would be reviewing medical claims for their accuracy, paid claims. We did do an Audit in 2011 of the State's Employee Health Benefits Program. We did not review the claims. However, we know that that function is performed by the Segal Corporation which is the contractor for that purpose to the Department of Administrative Services.

CHAIRMAN BRAGDON: And, yeah, the various notes I had mentioned a couple possibilities for that fifth item. One just said Risk Management with no description as to where that came from. I don't think it appears on this list. One was medical claims paid, which Representative Quandt had brought up at that meeting. And another one was inmate health care, although I believe the Corrections Department has probably seen enough of the LBA Performance Audit Division for the time being.

MR. FOX: Right.

CHAIRMAN BRAGDON: And another one, there was a written letter that we received, anonymous written letter calling attention to some issues with Community Development Finance Authority and the decision-making process there, and whether it is meeting the goals of the program as established. So -- and then this list you have here is an updated one that has been floating around for quite some time, basically listing in no particular order the various topics that have been put on hold. And I note, Mr. Fox, in looking at an older copy of this earlier today that a couple of them were actually approved. I think the DMV was one. Is that still on here?

MR. FOX: That's number four on the first page.

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CHAIRMAN BRAGDON: I notice that it was Performance Audit Committee received a pre-scope document from LBA in 2009, decided not to proceed. Do you recall why? I must have been there at the time.

MR. FOX: The reason why we did not proceed with that topic at that time was that the Division of Motor Vehicles was in the process of changing many of the customer service functions that it had. The way it dealt with licensing, for instance, going to issuing licenses through the mail or on-line.

CHAIRMAN BRAGDON: Oh, right.

MR. FOX: Delivery -- on mail delivery. The -- it was trying to initiate steps to reduce the wait time. Folks that were coming in for customer service, either to renew registration, renew their licenses, whatever. And we decided that we would bring that back to this Committee with those -- that information from the Department and see if you folks would want to delay that Audit. As you point out, that goes back now to 2009.

CHAIRMAN BRAGDON: You think three years will be enough time to probably get the new system up and a chance to look at it? It does seem it's something that touches a lot of people in the state, and probably a lot of money involved as well. So I just happened to notice that one as one that had kind of started and then stopped mid-stream. So if nothing else that would be -- might be a good one to think about. And then we can -- I assume this Committee will not meet until after the election organization of the Legislature and may be a good thing for the next iteration of this Committee to do is to make another top five or six list because we average about three per year. So if we have one meeting where we decide what the six are we are going to do, then the rest of them can probably be short.

MR. FOX: If I may, Mr. Chairman. Dick and I received an e-mail from Jeff Pattison yesterday with a suggestion for

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potential new topic, and that is regarding a number of questions and concerns regarding the enrollment and costs related to charter schools. I don't know if you two have spoken --

CHAIRMAN BRAGDON: I did. I spoke to him earlier today and jotted that down somewhere, the exact wording he used about the effectiveness and efficiency of the procedure we use for approval of charter schools. I believe the current biennial budget has \$18 million for it. The actual expense will be 25. The next budget will be \$60 million budgeted with no guarantee it doesn't go over that. I'm concerned about the financial impact, but I think those are probably more based on policy decisions that the Legislature has made basically saying we are going to approve everything that comes along and the State is going to do it, not the town. So I'm not sure if it's a performance audit issue. It seems they're being very efficient in approving the charter school applications. So that was my initial take on it. If the Committee wants to delve into that but that was my take on it. Representative Quandt.

REP. QUANDT: Are we discussing potential audit topics?

CHAIRMAN BRAGDON: We can discuss potential audit topics.

REP. QUANDT: A number of years ago, I don't think it was all that while ago, I think it was Representative Weyler, Matt Quandt, me, Bob Clegg, maybe one or two others sponsored a bill that allowed us to audit any agency or organization that took money from the State or also took pass-through money from the Feds through the State to that agency. And I'm getting very curious. I know nothing about hospital billing. I know a little bit about hospital business practices because I was on a Study Committee for almost a year looking at them. And I'm wondering if at some point we may not want to take a look at hospitals. They're claiming they're not getting enough money under the Medicaid Program. And whether it's 40-cents on the dollar or 60-cents on the dollar, is there any guarantee that they're not

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cost-shifting that over to the infamous \$16 Advil so there is no loss? It's something that I'm curious about. I think it's something that we may want to think about looking at down the road, and I think it would be quite telling and very interesting.

CHAIRMAN BRAGDON: I believe there was a study committee and may even still be, might have just finished within the last year or might still be in existence for a short time, looking at the issue of hospital billing practices. So might be good to review some of their work and try and refine a proposal that this Committee can consider. There was something going on with that. And Senator Cilley was involved at that time and I don't know if that Committee continued for another two years. I'm not sure. But yes, significant --

(A cell phone rings.)

SEN. LARSEN: Sorry.

REP. QUANDT: Want to dance now?

SEN. LARSEN: Yeah, I could.

REP. QUANDT: I like the music.

CHAIRMAN BRAGDON: Hum -- other ideas or go with DMV and then think about it for the start of the next year working on things more in-depth? Representative Harding.

REP. HARDING: Thank you.

CHAIRMAN BRAGDON: There's 400 of you.

REP. HARDING: I think at our last meeting I mentioned Mount Washington Commission as being a possible area that might be worthwhile to study. It's a private -- public/private

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partnership. And it is under DRED but the State Agency has not been very involved. And only in the last year did they have an official position on the DRED Commission which we, I believe, added this past spring. But I think there's not a lot of understanding about how the -- how the money comes in and out of that Commission. There's a lot of money that crosses hands, and it's a very important economic development area of the state. So that would be another possibility.

CHAIRMAN BRAGDON: Okay. Senator Larsen and then Representative Foose.

SEN. LARSEN: I had a conversation with someone who asked for me to bring up a topic which was the Department of Insurance. They audit insurance agencies in the state and the concern was the price of the audit, that it was dramatically higher than any other states in the surrounding area.

REP. FOOSE: It's passed over to the insurance company.

SEN. LARSEN: Yes. And they wanted us to examine the rationale, how other states charge. What, you know, what the basis for this was. So I would put that on the list. I've had some conversations with the Audit Division regarding this, but it might be one which would be useful to compare how we're doing compared to other states.

CHAIRMAN BRAGDON: Representative Foose.

REP. FOOSE: Thank you, Mr. Chairman. I was going to speak in favor of just wrapping up the motor vehicle effort and sort of setting the table for the next iteration of this Committee. It seems to me that the whole area of security represents a major expense to the State. The public rhetoric has been that there have been major improvements, major initiatives by the current leadership, and this would be a good way to test that and sort of tie it up in a box. So I'd support your

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recommendation that we address the motor vehicle.

CHAIRMAN BRAGDON: Let me suggest this. That we do that and then have people who have specific interest, Representative Quandt, Senator Larsen, Representative Harding, put together something in writing just to be able to bring, assuming we are all together again on the same Committee next time. That then we can develop that list for the next one and then have the DMV one a little simple because we have already approved it and I think we all pretty much interact with that to some degree, all of our constituents do. And then by then, next time we meet would probably be sometime January or February. And but then we could have a clean slate to work with so is that suggestion. Okay.

SEN. D'ALLESANDRO: Excellent.

REP. HARDING: Sounds like fun.

CHAIRMAN BRAGDON: Seeing no objection then. The DMV thing, Mr. Fox, is something that you should be able to pick up and the next thing you would do, if we approve it, is to bring it to Fiscal Committee; correct?

MR. FOX: Correct.

CHAIRMAN BRAGDON: Okay. Any objection to proceeding with DMV, recommend it to Fiscal Committee without objection? We'll consider that the will of the Committee and then we'll meet again, hopefully, all again next time and have our list of ideas.

**\*\*** REP. QUANDT: Motion to adjourn.

CHAIRMAN BRAGDON: Representative Quandt moves to adjourn. Is there a second?

SEN. D'ALLESANDRO: Second.

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REP. FOOSE: Second.

CHAIRMAN BRAGDON: All in favor? We are adjourned. Thank you.

**\*\*\* {MOTION ADOPTED}**

(Adjourned at 2:27 p.m.)

CERTIFICATION

I, Cecelia A. Trask, a Licensed Court Reporter-Shorthand, do hereby certify that the foregoing transcript is a true and accurate transcript from my shorthand notes taken on said date to the best of my ability, skill, knowledge and judgment.

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