

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF ENVIRONMENTAL SERVICES
WATER DIVISION**

**INTERNAL CONTROL REVIEW
AGENCY-INCOME REVENUES**

OCTOBER 2015

To The Fiscal Committee Of The General Court:

This report presents the results of our assessment of the internal controls in place over the receipt, deposit, recording, and reporting of agency-income revenue of the Water Division (Division) of the Department of Environmental Services (Department) in agency-income accounts during the nine months ended March 31, 2015.

We conducted our work in accordance with auditing standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings.

The work performed was for the purpose of meeting the audit objectives described on page 3 of this report and did not constitute an audit of financial statements in accordance with GAGAS. The work performed also was not designed for the purpose of expressing an opinion on the effectiveness of the Department's or Division's internal controls. Accordingly, we do not express an opinion on the effectiveness of the Department's or Division's internal controls.

The Division's response is included with each finding in this report. We did not audit the Division's responses.

Office of Legislative Budget Assistant
Office Of Legislative Budget Assistant

October 2015

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This report can be accessed in its entirety on-line at:
<http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>

* Comment suggests legislative action may be required.

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EXECUTIVE SUMMARY

Agency management is responsible for establishing and maintaining effective internal controls, including controls over financial reporting, and controls over compliance with the laws, administrative rules, regulations, contracts, and grant agreements applicable to the agency's activities. The Department of Administrative Services has developed an *Internal Control Guide* to help State agency personnel understand the concepts of internal control. It explains the purpose of internal control and also explains its five components: control environment, risk assessment, control activities, information and communication, and monitoring. In addition, the Department of Administrative Services also maintains a *Manual of Procedures* (Manual), approved by the Governor and Council, for use by all State agencies. The Manual contains guidance in a number of areas, including the use of the State's central accounting system, known as NHFirst. The *State Treasury Policy on Cash Receipts* directs that receipts must be processed in an environment of strong internal controls including adequate segregation of duties, reconciliations to independent sources, supervisory review and approval, and control monitoring.

The objective of this audit was to evaluate whether the Water Division (Division) of the Department of Environmental Services (Department) has established and implemented suitable internal controls over the receipt, deposit, recording, and reporting of agency-income revenues reported in the State budget and accounting systems. Criteria used in the evaluation included State statute, administrative rule, and policies and procedures including the *Internal Control Guide*, the Manual, Department internal policies, *State Treasury Policy on Cash Receipts*, and accepted State business practice. The purpose of this audit was not to render an opinion on the Division's or Department's financial statements, internal control, or compliance.

Our audit was performed using auditing standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings.

SUMMARY OF RESULTS

We found the Water Division's controls over the receipt, deposit, recording, and reporting of revenue in agency-income accounts were generally suitably designed to provide reasonable assurance that the specified internal control objectives would be achieved. The Department's controls over receipts processed within the Land Resources Management's Application, Receipt and Processing Center (ARC) were more robust than the Department's controls for receipts

processed outside of ARC. We noted the Department and Division need to better document their policies and procedures supporting critical aspects of their financial operations, especially the operation of their controls.

We found certain of the Department and Division's controls over the receipt, deposit, recording, and reporting of revenue in agency-income accounts did not consistently operate as designed during the audit period. Especially concerning, we noted reconciliations were not preformed between the issuance of licenses, permits, registrations, and other sources to revenue recorded in applicable databases and in NHFirst.

We found that while the Division was largely in compliance with statutes, rules, and policies and procedures related to the audit objectives, the Division did not consistently record and report agency-income revenues in the statutorily-directed dedicated fund or account. The fact that the revenue account structure in NHFirst is not at a level of specificity and detail necessary to support statutory compliance likely contributed to the noted noncompliance.

BACKGROUND

The Department of Environmental Services was legislatively created in July 1986 by RSA 21-O, through the consolidation and reorganization of four previously separate agencies: the Air Resources Agency, the Office of Waste Management, the Water Supply and Pollution Control Commission, and the Water Resources Board. The Water Division of the Department of Environmental Services (Department) is under the direction of an unclassified director. The Division consists of several bureaus, each headed by a supervisor.

All Water Division financial accounting activities subject to this audit are processed at the Department of Environmental Services located at 29 Hazen Drive in Concord. The Water Division is responsible for initially accepting and processing checks and other revenue items related to its financial and program activities prior to delivering them to the Department's accounting department for inclusion in a daily deposit.

During the nine months ended March 31, 2015, the Water Division reported that approximately \$4.7 million, or 70%, of its agency-income revenue was processed through the Department's Application Receipt and Processing Center (ARC), including subsurface fees, terrain alteration fees, wetlands and shoreline protection fees, in-lieu wetland management fees, and septage management fees. The Water Division maintains detailed policies and procedures for processing these revenues through ARC. However, the Division does not have similar, current documented policies and procedures for agency-income revenues processed outside of ARC, including revenues processed by the Dam Bureau, Drinking Water and Groundwater Bureau, Wastewater Engineering, and Watershed Management areas of the Division. Agency-income revenues processed outside of ARC comprised 30% of Water Division agency-income revenues reported during the nine months ended March 31, 2015.

The Division's revenues are recorded in the State's General Fund, across several accounting units, and multiple designated accounts and funds.

The Department and Division reported the following agency-income revenues in the State's accounting system during the nine months ended March 31, 2015.

Agency-Income Revenues Nine Months Ended March 31, 2015 (UNAUDITED)

ACCOUNTING UNIT	ACCOUNT	ACCOUNT DESCRIPTION	REVENUE
Dam Registration Fund	407387	Dam Registration Fees	\$ 510,615
Wetlands Fees	407430	Board Fees	754,546
Water Planning	403688	Subsurface Fees	71,868
Subsurface Systems	403688	Subsurface Fees	1,428,620
Operator Certification	405299	Water Treatment Plant	11,750
Operational Permits	407329	Fees	4,461
Operational Permits	407392	Operational Permit Fees	2,979
Sludge Analysis Fund	407589	Sludge Quality Certifications	7,500
Terrain Alteration Program	407142	Terrain Alteration Fee	332,716
Rivers/Lakes Mgt/Protect Fund	406936	Income from Outside Sources	10,000
Recreation & Youth Skill Camp	403570	Recreation & Youth Skill Camp	6,425
Shoreland Protection	407143	Shoreline Protection	365,345
Dam Maintenance Program	407531	Budgeted Maintenance Income	1,289,747
Dam Construction Projects	407634	Dam Projects	51,775
In-Lieu Fee Wetland Mitigation	407329	Fees	1,742,260
Septage Management Fund	407329	Fees	32,800
Coastal Scientists	407004	Coastal Program	24,762
			\$ 6,648,169

Source: *Revenue Source Summary of Restricted Revenues Recognized vs Budgets for Budget Fiscal Year 2015 as of March 31, 2015.*

OBJECTIVES, SCOPE, AND METHODOLOGY

Audit Objectives

- Assess the control environment, including management's policies and procedures for establishment and maintenance of an effective control system over the receipt, deposit, recording, and reporting of agency-income revenue.
 - Assess the adequacy of the design of internal controls over the receipt, deposit, recording, and reporting of agency-income revenue.
3. Assess establishment/implementation of controls as designed.
 4. Assess the operation of the controls, including:

- Functional compliance with written policies and procedures, laws, and rules related to revenue activities including permitting, registration, licensing, collecting fees, administrative assessments, and calculating in-lieu compensatory mitigation payments.
- Functional compliance with stated (but not necessarily documented) policies and procedures related to the receipt, deposit, recording and reporting of agency-income revenues.
- Adequacy of separation of duties and reporting, reconciliations, and reviews of cash handling and credit card activities,
- Safeguarding of cash and check receipts, and
- Timely recording and timely deposit of cash and check and credit card receipts.

Audit Scope

The scope of our audit included the adequacy of internal controls at the Water Division of the Department of Environmental Services relating to the processing cash, checks, and electronic revenue transactions reported as agency-income revenues in its systems, including NHFirst.

The audit period was July 1, 2014 through March 31, 2015.

Audit Methodology

1. Interview Department and Division personnel.
2. Review Department and Division documentation, including:
 - Policies and procedures,
 - Documentation of receipt, deposit, and recording of agency-income revenues, and
 - Documentation of applications, forms, invoices, and reports related to agency-income revenues.
3. Review State laws, rules, policies and procedures, and records, including:
 - Revised Statutes Annotated,
 - Administrative rules,
 - State policies and procedures,
 - Internal Department policies and procedures, and
 - State accounting system records.
4. Observe revenue processes.
5. Review the design and operation of internal controls through tests of transactions.

PRIOR AUDIT

There are no prior audits that specifically addressed controls over the Water Division's or Department of Environmental Services' (Department's) processing of agency-income revenues. The Office of Legislative Budget Assistant (LBAO) issued a financial and compliance audit of the Department of Environmental Services for the year ended June 30, 2004. Appendix A on page 21 of this report presents the current status of the comments in that report that specifically address the Division's controls over its agency-income revenues as they existed at the time of this report. The LBAO also issued a performance audit report on the Alteration of Terrain and Wetlands Permitting, dated August 2007. Appendix B on page 23 of this report addresses the current status of comments that appeared in this report. Copies of the prior reports can be accessed at:

<http://www.gencourt.state.nh.us/lba/default.aspx>.

FINDINGS AND RECOMMENDATIONS

Observation No. 1: Update Policies And Procedures For All Significant Financial Activities

Observation:

The Department and Division have not updated certain policies and procedures to support critical aspects of the Division's financial operations. While the Division has current detailed policies and procedures for permits and revenue processed through the Application, Receipt, and Processing Center (ARC), documented policies and procedures covering the financial activity that is not processed through ARC have not been updated to reflect changes required by the State's implementation of the NHFirst accounting system (July 2009) and other changes.

The lack of current financial policies likely contributed to the weaknesses and financial reporting errors described in the accompanying observations.

Recommendation:

The Department and Division should update, and establish where necessary, comprehensive policies and procedures to support Department and Division employees in performing significant financial accounting and reporting activities, including performing and reviewing the receipt, deposit, recording, and reporting of agency-income revenue. Financial policies and procedures should be based on an understanding of the operational and financial objectives and an appropriate assessment of the risks in meeting those objectives. Policies and procedures should be compiled in a generally accessible and indexed manual or form, employees should be trained in the application of the policies and procedures, and management should monitor to ensure that the controls provided by the policies and procedures are consistently applied and remain effective.

Audited Response:

We concur.

The Department does have comprehensive accounting policies and procedures in place to control all financial activity of the department. While we acknowledge that some of the procedures are out-dated, the Department is in the process of completing new written procedures. With the introduction of the NHFirst General Ledger module and then the Payroll and Human Resources modules, the Department has spent considerable time revising its procedures. The Department set a priority on updating procedures involving the NHFirst system as well as training staff in the new system to ensure good financial controls. The updating of procedures has been delayed in part by staffing constraints caused by budget reductions.

Observation No. 2: Establish Revenue Reconciliation Controls

Observation:

The Department and Division have not established effective reconciliation controls between the Division's permitting, licensing, and other activity and the revenue generated from that activity.

The Division collects revenue from the issuance of a number of licenses, permits, and other activities. The revenues from these activities are deposited and recorded in a number of revenue accounts within Department databases and the State's accounting system.

A generally-recognized primary control activity for a revenue process is a reconciliation between the revenue-generating activity and the financial result of that activity. Differences between amounts expected to be collected from business activity and actual amounts recorded as deposited could represent errors in activity data, or errors or frauds in revenue. In addition, the *State Treasury Policy on Cash Receipts* states: "there should be reconciliations performed at the agency level between the type of revenue received and what is ultimately recorded to the agency's various revenue sources."

The Division does not have a process in place to effectively compare or reconcile licenses and permits issued by the bureaus to the related revenue recorded in its accounting systems including NHFirst. The Division reported that revenues recorded in NHFirst are informally reviewed for reasonableness by obtaining information from the various bureaus regarding the number of permits or licenses issued, and determining whether the revenue recorded in NHFirst appears appropriate based on the supplied figures. However, this process is usually completed through informal inquiry and not a documented analysis or comparison. While the Division described a reconciliation that is performed between the Department's "Ledger" system and NHFirst on a monthly basis, the revenues reported by Ledger are populated via a download of NHFirst data, making that reconciliation ineffective as it is a comparison of information from the same source.

The lack of an effective revenue reconciliation process significantly increases the risk that errors that occur in the collection and recording of revenue will not be detected and corrected in a timely manner.

Recommendation:

The Department and Division should design, implement, and document a control process with appropriate supporting policies and procedures for the regular reconciliation of financial activity to the revenues collected, deposited, and recorded from that activity. The control process should be at the appropriate level of detail and include review and approval controls to ensure the reconciliations are complete, timely, and properly address any noted differences.

Auditee Response:

We concur.

This reconciliation process was a responsibility of a position within the Accounting Unit. As the result of various biennial budget reductions, staffing reductions in this Unit have resulted in the loss of this position and this procedure was unable to be assumed by the remaining staff. We will try to develop a process to resume this reconciliation but it cannot be accomplished without an increase in Accounting Unit staff. It should be noted that the Land Resources Management group does perform daily reconciliations of revenue between NHFirst and their database.

Observation No. 3: Expand Revenue Account Structure

Observation:

The Division's revenue account structure in NHFirst, the State accounting system, does not promote the recording and reporting of agency-income revenues at a level of specificity and detail necessary to support statutory compliance.

The Division is responsible for collecting, depositing, recording, and reporting numerous agency-income revenue streams, which are reported within 11 different statutorily-established dedicated funds and accounts. During the nine months ended March 31, 2015, the Division recorded this revenue into 17 different accounting unit and revenue source account combinations. In doing so, several revenue streams were comingled into NHFirst revenue accounts, necessitating the Division's use of spreadsheets to separately track the revenue streams and balances required to be recorded or reported separately by statute. Individuals without access to the spreadsheets are not able to identify the financial activity in the statutorily-designated accounts.

The following are examples of revenues being comingled within one revenue account in one accounting unit:

1. One revenue account is used to record dam registration fees, permit application fees for the construction or reconstruction of dams, and penalties specified by RSA 482:89, III through V.
2. One revenue account is used to record revenues related to leases of state owned dams for hydroelectric purposes, stream gaging fees, and revenue related to force-account work completed by the Department.
3. One revenue account is used to record revenues deposited in the Subsurface Systems Fund, including permits for subsurface system construction and subdivisions of land, and subsurface system designer and installer permits.

4. One revenue account is used for wetlands permit, shoreland structures, dredging permits, and for trail notification fees. This same revenue account is used to record administrative assessments related to “in-lieu fees” via a transfer from the aquatic resources compensatory mitigation fund.

Recording multiple revenue streams to one revenue account makes it difficult to segregate and identify revenues related to the different revenue streams, which may be required by statute to be used for different purposes, increasing the risk that revenues will not be reported in the correct dedicated fund or account.

Maintaining a chart of accounts that is not sufficiently detailed inhibits transparency and complicates the revenue budgeting, recording, and reporting processes, increasing the risk that revenues will not be reported in the correct dedicated account and likelihood that errors in each of these processes may occur without being timely detected and corrected by management.

Recommendation:

The Division, with the assistance of the Department and Department of Administrative Services, should expand its current chart of account structure to provide sufficient revenue accounts to allow it to record, report, and evaluate agency-income revenue information at an appropriate level of detail, and in accordance with the various applicable statutes requiring the use of dedicated funds and accounts.

Auditee Response:

We do not concur.

The audit finding states that the Department does not record revenue in a way that promotes the “reporting of agency-income revenues at a level of specificity and detail necessary to support statutory compliance”. We disagree with that statement and their underlying statutory interpretation. Our various statutes require that fees be credited to specific funds which we do by establishing unique accounts within NHFirst. For example, the Subsurface Fund is located in Account 03-44-44-442010-1200 and all fees collected related to the Subsurface Fund are credited to that account. However, we understand the value of transparency and will work with the Department of Administrative Services to determine a methodology of providing further details within the NHFirst system in a manner consistent with our statutes. Any significant changes to the chart of account structure would impose additional accounting costs on the department that are unbudgeted.

Department of Administrative Services’ Response:

We concur in part.

This response to this audit finding from the Department of Administrative Services (DAS) perspective does concur and support the recommendation that where ever possible unique

revenue source codes should be assigned to the complete accounting string for each restricted revenue class being utilized in NHFIRST.

NHFIRST reporting tracks information utilizing the complete and unique full accounting string for the all restricted revenue. From a historical reporting and transparency perspective, keeping the accounting string unique was a major consideration in the development of the current chart of accounts. The protocol for assignment of uniquely numbered accounting units and revenue source codes has been utilized by the Bureau of Accounts and Comptroller's office for reporting since the new NHFIRST system was introduced in fiscal year 2009.

There are however, limitations of the assignment of unique numbers over the course of the life of an accounting system. One of those limitations is that if constant attention is not paid in prudent number assignment, the system will run out of numbers. To get the longest return of our investment in the NHFIRST system, DAS tries to remain selective in the area of assignment of restricted revenue class revenue source codes which can be for programs of short duration.

Aside from this information, if it is the opinion that RSA 6:12 sets in statute that the account structure must include unique revenue source codes, as stated in this finding, DAS will explore how the NHFIRST system might be modified, or other chart of account expansion options reviewed, that may be available to accommodate that reporting detail level.

Observation No. 4: Establish A Formal Risk Assessment Process

Observation:

The Department and Division reported they did not have a formal risk assessment process in place during the nine months ended March 31, 2015. According to the Department, while there was no formal written risk assessment process in place, issues affecting the operation of the Department and Division, including identified risks, were regularly considered.

The lack of formal policies and procedures for actively reviewing for and considering risk places the Department and Division in a largely reactive mode where it responds to disruptive events as they may occur.

The purpose of an entity's risk assessment efforts is to identify, analyze, and where appropriate, respond to risks and thereby manage risks that could affect the entity's ability to reach its objectives. An effective and documented risk assessment process should be a core element of management's controls.

Recommendation:

The Department and Division should establish a formal risk assessment process supported by policies and procedures for recognizing, evaluating, and responding to risks that could affect their ability to reach their objectives.

The Department and Division should regularly review their financial and operational activities for indicators of risk exposure, and establish and monitor controls that appropriately address those risks. Department employees with particular areas of expertise and knowledge of Department and Division operations should participate in the review to ensure that details of operations that may not be obvious to management are appropriately considered.

Auditee Response:

We concur.

The Department is in the process of developing a formal risk assessment process. We are working with several other agencies to design a template and instructions for all departments to use statewide.

Observation No. 5: Budget And Record Revenue In The Appropriate Account

Observation:

During the nine months ended March 31, 2015, the Department recorded approximately \$72,000 of federal Environmental Protection Agency (EPA) revenues in an agency-income account, reportedly to close out a revenue account that had been erroneously budgeted.

The Department reported that federal revenues were erroneously budgeted to the agency-income “subsurface fees” revenue account in the budgets for fiscal years 2014 and 2015. The Department explained it recorded a journal entry transaction to move the revenue, initially recorded as federal revenue in the appropriate federal revenue account, to the “subsurface” fees account to “close out” the agency-income revenue class where the budget error occurred.

Recommendation:

The Department should implement and document policies and procedures to ensure revenue is budgeted and recorded to the appropriate account.

Errors should be corrected in a deliberate and documented manner that provides transparency and accountability for the transactions.

Auditee Response:

We concur.

When budget errors occur, most are unintentional posting mistakes that happen during the extended budgetary process. For the errors that happen during the governor’s and legislative phases, agencies do not have access in Affinity to view posting mistakes to wrong revenue source codes. Since these posting errors happen across all agencies, we will work with the

Department of Administrative Services to develop a system to correct these types of errors on a statewide basis.

Observation No. 6: Account For, And Report, Receipts In The Dedicated Funds And Accounts

Observation:

The Division does not consistently record and report certain agency-income revenues in the statutorily-directed dedicated fund or account. We noted the following instances where the Division recorded and reported agency-income revenues in funds or accounts contrary to statutory direction.

- In accordance with RSA 482-A:29, the Division collects Aquatic Resources Compensatory Mitigation (ARM) revenues as compensation for unavoidable impacts to wetlands and surface water resources resulting from wetlands and shorelands permitting activities. RSA 482-A:29, II requires that the 10% administrative fee associated with the ARM revenues, collected under RSA 482-A:30, III, wetland mitigation; and RSA 482-A:30-a, II, shoreland mitigations, be deposited into a separate, non-lapsing account established within the ARM Fund.

The Division does not have a separate non-lapsing account in the ARM Fund to account for the administrative assessment. Instead, the administrative assessment is deposited in a general ARM Fund account and subsequently transferred to the Wetlands and Shorelands Review Fund (RSA 482-A:3, III) account. Because the assessment is not recorded in a separate account, the administrative assessment financial activity is not evident in the State accounting system.

ARM fees are deposited in the general “DES Receiving” bank account, which is also the deposit account used for other revenues for various permits, registrations, certifications and other fees issued by the Department. Depositing the fees in this general account is in apparent conflict with 33 CFR 332.8, (i)(1); which directs “those funds must be kept in separate accounts...at a financial institution that is a member of the Federal Deposit Insurance Corporation...and earnings accruing to the program account must remain in that account...”

- RSA 482:55-a establishes the Dam Maintenance Revolving Loan Fund to provide low interest loans for the maintenance, repair, removal, or improvement of any non-State-owned dams, when such maintenance, repair, removal, or improvement is required by statute. This fund is nonlapsing and continually appropriated to the Department. While RSA 482:89, IV directs certain penalties to be deposited into the Dam Maintenance Revolving Loan Fund (RSA 482:55-a), the Division records those penalties in the Dam Maintenance Fund (RSA 482:55).

The Division does not maintain separate accounts within the statewide accounting system for the Dam Maintenance Revolving Loan Fund and the Dam Maintenance Fund, but does

maintain an electronic spreadsheet to separately account for activity pertaining to the Dam Maintenance Revolving Loan Fund.

A review of the Division's spreadsheet indicated approximately \$76,000 in revenues pertaining to the Dam Maintenance Revolving Loan Fund were received during the period of fiscal years 2010 through 2015. However, the Division's fiscal year 2013 and 2014 dedicated funds and accounts submissions to the Department of Administrative Services, reported no beginning and ending balances, or activity, in the Dam Maintenance Revolving Loan Fund. It appears the balances and activity in the fund were comingled and reported in the Dam Maintenance Fund, contrary to the statute.

Recommendation:

The Division should comply with RSA 482-A:29, II and with 33 CFR 332.8, (i)(1) and deposit fees in distinct revenue accounts that would allow for the separate identification of the balances and financial activity in the separate accounts and promote the accurate posting of interest.

The Division should evaluate its current chart of account structure, and make changes as necessary, in order to comply with the various dedicated funds requirements.

If the Department determines that the statutorily directed accounts are not required, the Department should request that the statutes be appropriately amended.

Auditee Response:

We concur in part.

ARM assessment fees are initially credited to the ARM Fund. The administrative assessment fee reimburses the Wetlands/Shoreland Fund for administrative expenses related to the management of the ARM fund.

While the Dam Maintenance Revolving Loan Fund is located within the Dam Maintenance Fund account, it is tracked separately within that account.

The Department will review the wording in these statutes and determine whether the statutory language should be revised to reflect current practice.

Regarding 33 CFR 332.8, we contacted the Army Corp of Engineers (ACOE) for clarification of this CFR. In conversation with the Project manager, we were informed that the ACOE did not expect the State to have a separate bank account for the ARM fund but for the State to ensure that it used FDIC insured banks to hold such funds. We have requested a written confirmation of this interpretation from the ACOE on this issue.

Observation No. 7: Improve Cash Receipt Processing Controls

Observation:

Weaknesses in the Water Division's processes for handling checks received in payment increase the risk that funds may be lost, stolen, or improperly reported without timely detection and correction in the normal course of business.

1. The Water Division (Division) does not follow procedures to ensure that all checks received in payment are deposited and recorded into the State's accounting system (NHFirst), or returned to the payer if it, or the associated documentation, is determined to be incomplete.

Checks received with permit and other applications, certifications, and registrations that are processed outside of the Land Resources Management's Application, Receipt and Processing Center (ARC) are forwarded, without restrictive endorsement, to the respective bureau staff for a review of the completeness and accuracy of the checks and documents, and for initial recording in NHFirst. Incomplete or inaccurate checks and documents are returned to the applicant without an initial recording being made. Misdirected checks are returned to the mail room for delivery to the correct bureau. Failure to document an initial record of receipt of checks prior to their distribution increases the risk that checks may be lost or misappropriated without detection.

2. The Division does not consistently safeguard checks in one bureau pending deposit. Checks forwarded to staff for review are placed in employees' unsecured in-boxes, located in an open walkway area.

Management reported it had policies and procedures for the preparation of initial records of receipt for funds processed within the various divisions, and the reconciliation of revenues recorded per NHFirst to applicable source documentation, however it did not monitor to ensure its policies were in operation.

Recommendation:

The Division should strengthen its processes for handling checks received in payment to lessen the risk that funds may be lost, stolen, or improperly reported without timely detection and correction in the normal course of business.

1. The Division should review its current cash receipt processing policies and procedures to determine whether creating and maintaining an initial record of receipt of funds received and processed by the various bureaus is feasible to ensure that all checks received are ultimately deposited and credited to the correct account, or returned to the sender. If not deemed feasible, the Division should implement policies and procedures to mitigate the risk of lost or misappropriated revenue items. Policies and procedures should be formally documented and made available to appropriate staff.

2. Checks should be properly secured pending deposit. Checks should not be accessible to employees or others not involved in the deposit process.

Auditee Response:

We concur.

The Department has spoken with the bureaus noted in paragraph no. 1 and reminded staff of the proper procedures for the handling and initial recording of checks. We have also spoken with the bureau administrator and staff noted in paragraph no. 2 and made adjustments to that bureau's process. Checks are no longer forwarded to other staff with the applicable paperwork. Instead, a copy of the check is made and stamped with a "COPY" stamp and that copy is transmitted with the applicable paperwork.

Observation No. 8: Improve Controls Over The Dam Bureau's Invoicing Processes

Observation:

The Division has not established sufficient review and approval controls, including adequate segregation of duties, over certain of its fee determination and invoicing activities to allow for an effective review and approval process.

The Dam Bureau (Bureau) generates invoices and collects revenue from dam registration fees pursuant to RSA 482:8-a; stream gaging fees, and hydroelectric-lease fees for state-owned dams pursuant to RSA 481:3, VI; and revenues for force account work pursuant to RSA 482:57.

1. Dam registration fees, stream gaging fees, and hydroelectric-lease fees are invoiced by the Bureau without an independent review and approval of the accuracy of the invoiced amount. In accumulating documentation for the auditors, the Bureau recognized a \$1,900 overbilling error on a previously issued fiscal year 2015 stream gaging invoice. The Bureau reported it planned to credit the entity for the over-payment in the Bureau's fiscal year 2016 stream gaging fee invoice.
2. Bureau invoices for force account work, while signed by an administrator, do not appear to be effectively reviewed for accuracy. We reviewed the largest force account invoice related to the period of July 1, 2014 to March 31, 2015, and noted the Bureau was unable to support the daily and hourly equipment charge rates for certain equipment identified on the invoice. Additionally, there were several apparent clerical-type errors on the spreadsheet supporting the invoice. The errors resulted in approximately \$1,400 of overpayment to the Dam Maintenance Program Account, which is reported as part of the Dam Maintenance Fund established by RSA 482:55. The corresponding over-charge was paid by the Division's dam project capital account.

The errors identified are indicative of a process that could be improved with additional emphasis on maintaining effective controls.

Recommendation:

The Division and Bureau should improve controls over the Bureau's invoicing processes to ensure that invoicing duties are appropriately segregated, and include an effective review and approval process.

Auditee Response:

We concur.

There are currently no reviews by a separate person of the streamgaging, hydrolease, or dam registration fee invoices. This work was performed in the past, but due to position cuts and reorganization, the reviews were dropped when responsibilities were re-distributed to other remaining staff. We have spoken with the Dam Bureau and they have re-instituted having a separate, knowledgeable person review the invoices after preparation.

Observation No. 9: Improve Oversight Of The Streamflow Gaging Agreements

Observation:

The Department and Division do not have current written agreements to support the amounts charged to, and paid by, certain of the entities that reimburse the State for the cost of streamflow gaging. Some documents provided by the Division to support the agreements date back more than 20 years.

The State has an agreement with the U.S. Geological Survey (USGS) for the State to partially fund the USGS' maintenance and operation of 26 streamflow gages, and the collection and publishing of data on the flows of rivers and streams in the State. The data is used by numerous State and federal programs, as well as municipalities and private industry. Historically, certain municipal and private entities have reimbursed the State for the costs of gages and information that specifically benefit those entities.

Recommendation:

The Department and Division should improve oversight of the streamflow gaging agreements with third party users of the information.

The Department and Division should establish policies and procedures for maintaining current third party agreements, and for regularly reviewing for, and communicating with, other potential users of the streamflow data.

Auditee Response:

We concur.

RSA 482:85 requires the Department of Environmental Services (DES) to “cooperate with the United States Geologic Survey in the establishment and maintenance of stream flow gauging stations on streams in this state for the purpose of providing the people and industries of this state with information which will assist them in the determination of plans for flood prevention and the conservation of natural water resources of the state for water supply, recreation, sanitation, and power production”. Pursuant to this statute, DES or its predecessor agency has entered into an annual Cooperative Streamgaging Agreement with the USGS for the past 90 years. The USGS funds approximately half the cost of the Streamgaging Program.

Currently, the program consists of 26 streamflow gages. Twenty-one of these gages, scattered across the state, are of state-wide interest, as the data from them are used in state-wide hydrologic studies, planning activities, permitting, hydraulic structure design, water management and flood response. As such, the portion of the costs of these gages which is not funded by the USGS is funded by the state through DES with contributions from the New Hampshire Department of Transportation. The non-USGS funded costs of the other five gages are funded by municipalities or private entities that benefit directly from the data from these five gages, and who have requested that they be included in the Cooperative Program, either by letter or formal agreement. DES concurs that these agreements for these five gages generally date back several years and should be updated. The agreements with USGS and DOT are current.

Observation No. 10: Support All Significant Information-Technology System Developments With An Approved, Standard Development Process

Observation:

The Department did not use a standard formal system development process in the development of its E-permitting system, an online application for subsurface permits that was designed and built in-house and placed into operation in February 2015.

A formal computer application (system) development process is intended to provide a common and uniform standard of system design, creation, testing, and implementation that leads to consistent and compatible software applications and information technology systems that meet described business needs and plans for systems, and allow for integrated designs and testing strategies that prove developed systems meet expectations. A formal systems development process is especially critical for complex systems that require the involvement of a number of people over a significant period of time, such as the Department’s E-permitting system.

The development of systems without the structure of a standard development process increases the risk of implementing inefficient and ineffective systems that require frequent software fixes and workarounds to operate and meet user needs.

The Department implemented the E-permit system, for subsurface permits, in February 2015. Planning for the E-permit system began in July of 2011, three and one-half years prior to its implementation, and six months prior to the adoption of a formal systems development policy, SOP #109. According to the Department, SOP #109 was not retroactively implemented for the

project, nor was the States' Department of Information Technology's system development standard followed. The Department reported documentation for the development of the E-permit system consists primarily of a business process-flow diagram, and there was no formal testing plan or documentation supporting the completion of system design and user-acceptance testing. The Department anticipates that, in the future, it will use the E-permit system for several additional permit types.

The Department reports that it was satisfied with the operation of the E-permit process.

Recommendation:

The Department should support all significant information-technology system developments with an approved, standard development process.

The Department should review its current system development efforts, including its planned modification and use of the E-permitting system for other permitting applications, to ensure that a reasonable and responsive system development process is in place at the start of each project and rigorously maintained through the completion of the project, including documented design and user acceptance testing. Any revisions to the standard development process that may occur over the life of the project should be incorporated as appropriate.

Auditee Response:

We concur.

With regard to the Subsurface E-Permit development process, the Department made the decision to not retroactively apply the SOP to this project. It should be noted that the Subsurface E-Permit system was extensively tested by both in-house and outside user groups prior to its deployment and met Payment Card Industry (PCI) compliance standards. Every IT project since the passage of SOP 109 has followed the development protocol.

Observation No. 11: Revise Employee Identifier In Time Management System

Observation:

The Department's time management system uses employees' social security numbers as employee identifiers. Access to the time management system does not appear to be sufficiently limited or safeguarded to reasonably ensure this employee personally identifiable information (PII) is secure from unintended disclosure.

The Department reports that access to the time management system is controlled by requiring usernames and passwords; however, the system does not require complex passwords and periodic password changes are not forced. Access to the system is reportedly "permission based".

The Department's current controls do not appropriately safeguard sensitive personal data and increase the risk that such information could be accessed and used inappropriately, exposing the Department to potential liability for the possible unintentional disclosure of employee PII.

Recommendation:

The Department should revise its time management system to use a non-PII employee identifier. The Department should review its payroll, and payroll-derived, documentation that may contain employee PII to ensure that employee PII is appropriately secured and safeguarded against inadvertent disclosure, loss, and misuse.

Auditee Response:

We concur.

The Department has continued to use the old GHRS employee identifier in its time management system and it is time to adopt a new employee identifier numbering system. We have already instructed our information technology staff to modify the employee identifier to a new seven digit code. We take our responsibility to protect our employees' personal information very seriously.

Observation No. 12: Submit Statutorily-Required Reports

Observation:

The Department did not submit certain statutorily-required reports related to agency-income revenues of the Water Division.

The Department did not submit:

- The fiscal year 2014 annual report to the Wetlands Council. The report, required by RSA 482-A:15-a, is intended to provide the status of the wetlands program performance, rules and funding status of the Clean Water Act section 404 program in New Hampshire.
- The quarters ending September 30, 2014, December 31, 2014, and March 31, 2015 Alteration of Terrain reports to various committees. The reports, required by RSA 485-A:17, II-c, are intended to provide information on the administration of the program. The most recent report submitted was the fiscal year 2014 Final Report.
- The fiscal year 2014 Aquatic Resource Compensatory Mitigation Program annual report to the Fiscal Committee, and others required by RSA 482-A:33. While the Department prepared a report, the report was incomplete as it did not discuss the status of the Administrative Assessment Account, and the report was not submitted. Chapter 259:11 of the Laws 2015, effective July 1, 2015, requires a biennial report to be filed 60 days after the close of each odd-numbered year.

The Department also did not include the Rivers Management and Protection Fund on its fiscal year 2013 or 2014 annual report submissions to the Department of Administrative Services.

Recommendation:

The Department should submit statutorily-required reports. If the Department determines the reports no longer serve a purpose, the Department should seek legislation to have the statutory requirements amended.

Auditee Response:

We concur.

The Department will work with the bureaus to ensure that the required statutory reporting is done timely.

APPENDIX A - CURRENT STATUS OF PRIOR FINANCIAL AUDIT FINDINGS

The following is a summary, as of October 2015, of the current status of the observations contained in the fiscal year 2004 financial and compliance audit report of the Department of Environmental Services that are relevant to the scope of this audit. The prior audit report can be accessed on-line at:

http://www.gencourt.state.nh.us/LBA/AuditReports/FinancialReports/pdf/DES_2004_full.pdf.

	<u>Status</u>		
<i>Internal Control Comments</i>			
<i>Other Reportable Conditions</i>			
6. System Documentation Should Be Improved (<i>See Current Observation No. 10</i>)	●	○	○
8. Controls Over Cash Receipt Process Should Be Improved (<i>See Current Observation No. 7</i>)	●	○	○
10. Formal Fraud Risk Mitigation Efforts Should Be Developed And Implemented (<i>See Current Observation No. 4</i>)	●	○	○
12. The Department's Ledger Should Be Periodically Reconciled To The State's Accounting System (<i>See Current Observation No. 2</i>)	●	●	○
17. A Formal Disaster Recovery Plan Should Be Developed	●	●	○

<u>Status Key</u>	●	●	●	<u>Count</u>
Fully Resolved	●	●	●	0
Substantially Resolved	●	●	○	2
Partially Resolved	●	○	○	3
Unresolved	○	○	○	0

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APPENDIX B - CURRENT STATUS OF PRIOR PERFORMANCE AUDIT FINDINGS

The following is the Department of Environmental Services’ assessment, as of October 2015, of the current status of the observations contained performance audit report of the Department of Environmental Services Alteration of Terrain and Wetlands Permitting, dated August 2007. The prior audit report can be accessed on-line at:
http://www.gencourt.state.nh.us/LBA/AuditReports/PerformanceReports/DES_2007p_full.pdf.

	<u>Status</u>		
1. Write Rules For Expediting Permits	●	●	○
2. Amend Or Implement Statute That Automatically Approves Permits	●	●	○
3. Clarify And Comply With MIE Time Limits	●	○	○
4. Rules Needed On Issuing Requests For More Information	●	○	○
5. Change Time Limits When Conservation Commissions Intervene	●	●	●
6. Amend Statutory And Rule-Based Time Limits To Account For Modified Applications	●	●	○
7. Rules Needed For Amending Permits	●	●	○
8. Establish Comprehensive Policies And Procedures	●	●	○
9. Reduce Backlog Of AoT Applications	●	●	●
10. Clarify SDF Fees For Applicants	●	●	●
11. Ensure Disputed Permit Decisions Are Adequately Reviewed	●	●	●
12. Maintain Appropriate Balance Between Public Safety And Mitigation Requirements	●	●	●
13. Change PBN Rules And Improve Procedures	●	●	○
14. Adhere To PBN Time Limit For Information Requests	●	●	○
15. Reclassify PBNs Consistently	●	●	○
16. Improve Wetlands Bureau Database	●	○	○
17. Improve Permit Tracking And Reporting Data	●	○	○
18. Document Changes To Application Type Consistently	●	●	○
19. Continue Improving AoT Management Information Systems	●	○	○

<u>Status Key</u>				<u>Count</u>
Fully Resolved	●	●	●	5
Substantially Resolved	●	●	○	9
Partially Resolved	●	○	○	5
Unresolved	○	○	○	0

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